



Audit Quality Report

2020–21

The Australian National Audit Office (ANAO) Corporate Plan is the ANAO's key strategic planning document. It guides our operating environment and sets out how we will deliver on our purpose.

The Quality Assurance Framework and Plan complements the Corporate Plan. The ANAO Quality Assurance Framework is the system of quality control that the ANAO has established to provide the Auditor-General with reasonable assurance that the ANAO complies with the ANAO standards and applicable legal and regulatory requirements and reports issued by the ANAO are appropriate in the circumstances.

This Audit Quality Report demonstrates the ANAO assessment of the implementation and operating effectiveness of the elements of the ANAO Quality Assurance Framework. The report provides transparency in respect of the processes, policies, and procedures that support each element of the ANAO Quality Assurance Framework, and reports audit quality indicators measuring ANAO performance against target benchmarks.

This report also includes the achievement of the quality assurance strategy and deliverables set out in the [ANAO Quality Assurance Framework and Plan 2020–21](#).

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1. Introduction

Audit Quality Reporting

1.1 The purpose of the Australian National Audit Office (ANAO) is to support accountability and transparency in the Australian Government sector through independent reporting to the Parliament, and thereby contribute to improved public sector performance.

1.2 The ANAO maintains its quality framework as a core business investment. A sound quality framework supports delivery of high-quality audit work and enables the Auditor-General to have confidence in the opinions and conclusions in the reports prepared for the Parliament. This facilitates Parliament's confidence that the ANAO operates with independence and that the audit approach meets the auditing standards set by the Auditor-General.

Framework for quality

1.3 The ANAO is established under the [Auditor-General Act 1997](#) (the Act). Section 24 of the Act requires the Auditor-General to set auditing standards that are to be complied with by persons performing functions under the Act. The [ANAO Auditing Standards](#) set under this provision, incorporate standards issued by the Auditing and Assurance Standards Board (AUASB) and relevant auditing and assurance standards issued by standard-setting bodies other than the AUASB as appropriate. Specific to quality assurance, this includes AUASB Auditing Standard [ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements](#) (ASQC 1).

1.4 The ANAO defines audit quality as the provision of timely, accurate and relevant audits, performed independently in accordance with the Auditor-General Act, ANAO Auditing Standards and methodologies, which are valued by the Parliament. Delivering quality audits results in improved public sector performance through accountability and transparency.

Purpose of the audit quality report

1.5 Under ASQC 1 the ANAO is required to establish and maintain a system of quality control designed to provide it with reasonable assurance that the ANAO complies with the ANAO Auditing standards and applicable legal and regulatory requirements and reports issued by the ANAO are appropriate in the circumstances. This system of quality control is detailed in the [ANAO Quality Assurance Framework](#).

1.6 This Quality Report provides transparency in respect of the processes, policies, and procedures that support each element of audit quality as described in the [ANAO Quality Assurance Framework](#), and reports on the 2020–21 audit quality indicators which assess ANAO performance against target benchmarks and activities conducted throughout 2020–21.

2. Executive Summary

2.1 The ANAO employs approximately 330 staff. ANAO staff come from a range of disciplines including commerce, accounting, finance, economics, public policy, law, social sciences, and information technology.

2.2 The ANAO tabled 49 reports in Parliament in 2020–21. These reports included 41 performance audits¹, two reports on the financial statements of Australian Government entities, the major projects review and five assurance reviews. In 2020–21 the ANAO issued 246 opinions on mandated financial statements audits and conducted a further 38 audits by arrangement. A summary of the financial results of the ANAO audits of the Australian Government's Consolidated Financial Statements and the financial statements of Australian Government entities for the period ended 30 June 2020 is provided in the [Auditor-General Report No.25 of 2020–21 Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020](#).

2020–21 Audit quality indicator results

2.3 Audit quality indicators (AQIs) are reliable quantitative measures, for both individual audits and organisations that perform audits that, taken together with qualitative context, inform discussions regarding auditing processes, and lead to strengthened audit planning, execution, and communication. Further detail regarding the development of the ANAO AQIs and benchmarks is provided in Appendix 1.

2.4 The ANAO measures 11 quantitative AQIs. The 2020–21 ANAO results against the following four of the AQIs were within expectations or exceeded the benchmark:

- training hours per audit professional (Human Resources);
- staffing leverage (Human Resources);
- technical accounting and auditing resources (Human Resources);
- internal quality review coverage (Monitoring);

2.5 For the following seven AQIs the 2020–21 ANAO results were not within expectations, indicating areas for the ANAO to further understand and assess the impact on audit quality:

- compliance with independence requirements (Relevant ethical requirements);
- turnover of audit personnel (Human Resources);
- Engagement Executive and manager audit workload;
- staff audit workload (Human Resources);
- number and percentage of restatements of financial statements resulting from a prior period error (Audit Performance);
- number of audit files rated as 'Unsatisfactory' in the ANAO Annual Inspection Program (Monitoring); and
- results of JCPAA 2020–21 survey.

1 41 performance audit reports were tabled in the Parliament for 42 performance audits completed. Auditor General Report No.11 *Indigenous Advancement Strategy Children and Schooling program and Safety and Wellbeing Program* was completed as two separate audits but was tabled as a single audit report.

2.6 The 2020–21 AQI results related to human resources were largely driven by budget constraints impacting the resources and workload of performance auditors. The average hours charged to audits and learning and development increased for performance audit staff, with a decrease in time charged to administration tasks. There were no unsatisfactory performance audits identified in monitoring activities or findings related to the sufficiency of audit evidence obtained supporting performance audit reports, therefore the ANAO is confident that the AQI results do not indicate deficiencies in audit quality. In 2021–22, as the ANAO rebuilds performance audit capacity through recruitment actions, training and developing the experience and competence of new starters will be a focus to ensure that the ANAO maintains audit quality.

2.7 The restatements in financial statements did not indicate systemic deficiencies in quality across financial statements audits. In response to the unsatisfactory financial statements audit detected in quality assurance monitoring activities, the ANAO delivered training to contractor firms in May 2021. The JCPAA survey results decreased due to an increase in neutral responses rather than negative responses. The areas for improvement identified by the JCPAA members such as the understandability of audit reports do not indicate areas of concern for audit quality. Chapter 3 outlines the results of the 2020–21 audit quality indicators under each element of the ANAO Quality Assurance Framework.

Quality assurance strategy and deliverables for 2020–21

2.8 The [ANAO Quality Assurance Framework and Plan 2020–21](#) set out 17 key deliverables for completion in 2020–21. Progress against these deliverables as at 30 June 2021 was:

- 12 deliverables completed;
- 4 deliverables in progress; and
- 1 deliverable deferred until 2021–22 due to impacts of COVID-19.

2.9 In addition to these deliverables, in 2020–21 the ANAO also completed a number of activities under the AASG Quality and Staff Engagement and Wellbeing Improvement Plan. This plan was developed in response to the 2020–21 root cause analysis and dialogue sessions conducted by the Auditor-General with AASG staff.

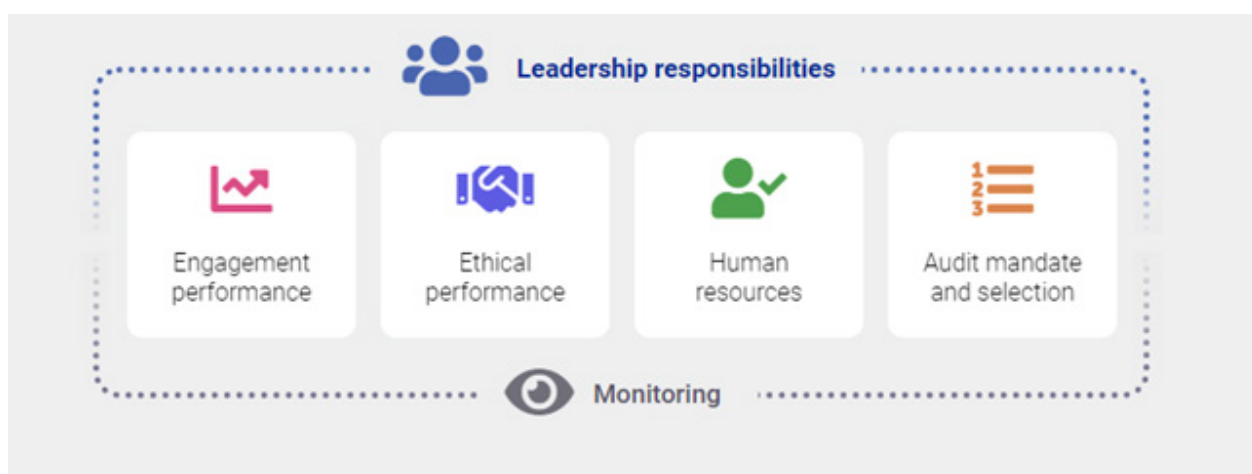
2.10 [Chapter 4](#) outlines the achievement and status of the strategy and deliverables as at 30 June 2021 and includes the completion dates of the four deliverables in progress.

2.11 The ANAO is satisfied that the ANAO Quality Assurance Framework is implemented and operating effectively in 2020–21. As set out in the [ANAO Corporate Plan 2021–22](#) the ANAO will continue its focus on the implementation of the quality assurance plan and make further enhancements to the quality framework with particular emphasis on:

- expanding its root cause analysis program;
- refining the performance statements audit methodology and continuing to pilot various approaches to completing the performance statements audits;
- including good practice recommendations from external reviews and changes in auditing standards; and
- preparing for the implementation of ASQM 1 – *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* by December 2022.

3. Elements of the ANAO Quality Assurance Framework

3.1 This chapter demonstrates the activities conducted by the ANAO in 2020–21 under each element of the ANAO Quality Assurance Framework as set out in the [ANAO Quality Assurance Framework 2020-21](#) and includes the results of the 2020–21 audit quality indicators against target benchmarks.



Leadership responsibilities for quality in the ANAO

Leadership and governance

3.2 The Auditor-General is ultimately responsible for the system of quality control in place for all assurance and related activities undertaken by the ANAO. As the accountable authority of the ANAO, the Auditor-General has a duty under s16 of the [Public Governance, Performance and Accountability Act 2013](#) (PGPA Act) to establish and maintain systems relating to risk and control.

3.3 In fulfilling this duty, the Auditor-General sets the tone at the top and demonstrates a leadership commitment to audit quality and culture by promoting and implementing effective quality control systems, engaging in regular staff communications on audit quality and publishing the annual Audit Quality Report to provide transparency regarding the implementation and operating effectiveness of the ANAO Quality Assurance Framework and Plan. The quality assurance framework is made up of controls to address the ANAO’s key strategic risk relating to compliance with the ANAO Auditing Standards, policies and methodology.

3.4 From an operational perspective, the Deputy Auditor-General is responsible for ensuring that the system of quality control satisfies the requirements of the ANAO Auditing Standards. In 2020–21 the Deputy Auditor-General was assisted with this role by the Group Executive Directors (GEDs) and Senior Executive Directors (SEDs) from the ANAO’s five business groups:

- Assurance Audit Services Group (AASG);
- Performance Audit Services Group (PASG);
- Systems Assurance and Data Analytics Group (SADA);
- Professional Services and Relationships Group (PSRG); and
- Corporate Management Group (CMG).

3.5 GED and SED leaders in each group reinforce the Auditor-General’s expectations and focus on audit quality through group staff meetings, cohort forums and communications. Engagement Executives support quality in their portfolio of audits through providing direction to audit teams, review of audit work and involvement in critical areas of judgement or significant risks and difficult or contentious matters.

3.6 The ANAO Corporate Plan 2020–21 set the focus of ANAO leadership, governance, operational goals and strategies. To achieve the ANAO’s priorities, and operationalise and support the Corporate Plan, each service group of the ANAO develops a group plan. Quality is one of the three key capability areas that the ANAO invests in to support the ANAO in achieving its purpose. Audit quality is a shared responsibility for all staff and each group plan includes the ‘quality’ capability and outlines the activities, and measures of success, that each group is responsible to lead or support.

3.7 The importance of audit quality is reinforced in ANAO Executive discussions, monthly Executive Board of Management (EBOM) meetings, and all staff communications, including town hall meetings and the Auditor-General’s monthly messages to staff. Through this communication the Auditor-General sets the expectation that all ANAO staff take a shared responsibility for quality and view the monitoring activities as an opportunity to continuously improve.

3.8 Figure 1 describes the ANAO corporate governance structure. Further details regarding the ANAO governance structure are provided in the [2021–22 Corporate Plan](#).

Figure 1: ANAO Corporate Governance Structure



Quality Committee

3.9 The ANAO has established governance for audit quality through the ANAO Quality Committee. The role of the Quality Committee includes the monitoring of the implementation of the ANAO Quality Framework and Plan and reporting to EBOM. The Quality Committee is comprised of representatives from all ANAO business groups, and is chaired by the PSRG GED.

3.10 The Quality Committee met four times during 2020–21. Four quarterly Quality Committee reports were tabled at EBOM meetings in 2020–21 reporting on the committee’s activities. Key matters considered by the Quality Committee in 2020–21 related to:

- reviewing the findings of external and internal reviews in relation to quality as reported to EBOM;
- monitoring the ANAO’s progress in addressing the findings and recommendations made in external or internal reviews;
- monitoring the operating effectiveness and efficiency of the quality framework against the audit quality indicators;
- monitoring the strategic and operational risks associated with quality;
- reporting to EBOM on the implementation of the quality framework; and
- considering proposed amendments to the [ANAO Audit Manual](#) that substantially impact the conduct of an audit and making a recommendation to the Auditor-General for approval.

3.11 A summary of the Quality Committee membership and meetings attended in 2020–21 is provided in Table 1.

Table 1: Quality Committee membership and meetings attended in 2020–21

Member	September 2020	December 2020	March 2021	June 2021
PSRG GED (Chair)	✓	✓	✓	✓
PASG GED	✓	✓	✓	✓
AASG SED	-	✓	✓	✓
CMG SED	P*	P*	✓	-
SADA SED	✓	✓	✓	P*
PASG Executive Director (ED)	-	✓	✓	✓
AASG ED	P*	✓	✓	✓

* P = Proxy, the quality committee member was unable to attend the Committee meeting; a nominated proxy attended on their behalf.

Independent consultation

The ANAO’s leadership obtains independent views on audit quality

3.12 The ANAO Executive obtains independent views on audit quality from the ANAO Audit Committee, the Independent Auditor, external and peer reviews.

3.13 The Audit Committee provides independent assurance and advice to the Auditor-General, including reviewing the appropriateness of the ANAO’s financial and performance reporting, systems of risk oversight and management, and systems of internal control. The committee is comprised of an independent chair and members, with appropriate qualifications, knowledge, skills and experience to assist the committee to perform its functions. The PSRG GED presents on quality activities at the quarterly Audit Committee meeting. The Audit Committee reviews reports from all internal and external quality assurance reviews and internal audits, and monitors the progress of ANAO action items to address recommendations from external reviews.

3.14 The *Auditor-General Act, 1997* (the Act) establishes the position of the Independent Auditor, who may conduct a performance audit of the ANAO at any time. The most recent Independent Auditor report, [Performance Audit of Internal Budgeting and Forecasting Processes and Practices](#), was tabled in Parliament on 24 September 2020.

3.15 ASIC provides additional external oversight and scrutiny over the quality framework through reviews of the framework and completed financial statements audits. The reports from the ASIC annual review are published on the [ANAO website](#).

3.16 The 2020–21 ASIC review included:

- (a) reviews of key areas in three audits of financial reports for the year ended 30 June 2020;
- (b) a review of the ANAO’s policies and processes for evaluating independence threats and safeguards where non-audit services are provided by a firm contracted to provide audit services on behalf of the ANAO; and
- (c) a review of outcomes from the ANAO’s second year of conducting a program of root cause analysis in response to internal monitoring findings.

3.17 The ANAO and the New Zealand Office of the Auditor-General (NZ OAG) have a long-standing arrangement to conduct reciprocal biennial performance audit peer reviews, on a rotating basis. This peer review seeks to strengthen audit quality, through the provision of constructive feedback and sharing of better practices. The last peer review of ANAO audits was conducted in 2018–19 when the NZ OAG peer reviewed two performance audits tabled by the ANAO. The peer review planned for completion in 2020–21 was deferred to 2021–22 as a result of the COVID-19 pandemic. The reports on the results of previous NZ OAG peer reviews are published on the [ANAO website](#).

3.18 In 2020–21 the ANAO continued the performance statements audits pilot commenced in 2019–20, as requested by the Minister for Finance. The ANAO established a governance committee to oversee the performance statements audit pilot, with independent members including Chair Lyn Provost, former Controller and Auditor-General of New Zealand, and representation from auditees. The role of the Performance Statements Governance Committee was to provide advice to the Auditor-General as to: the appropriateness of the methodology for performance statements audits; options to maximise efficiency during scale up to full implementation; and an assessment of the success of the pilot program to inform advice to the Joint Committee of Public Accounts and Audit (JCPAA). The governance committee met for the final time in November 2020 at the time of the finalisation of the 2019–20 performance statements audit reports.

Relevant ethical requirements

3.19 ANAO staff act in accordance with the [Australian Public Service \(APS\) values](#) and the [Code of Conduct](#) as set out in the [Public Service Act 1999](#). The ANAO core values are respect, integrity and excellence – values that align with the APS values and address the unique aspects of the ANAO’s business and operating environment. The ANAO’s values guide ANAO staff in performing their role objectively, with impartiality, in the best interests of the Parliament and are consistent with behaviour promoting audit quality. The ANAO holds itself to high standards to ensure independence and accountability across all levels of the organisation.

Independence

3.20 In audit engagements, it is in the public interest and required by the ANAO Auditing Standards that auditors are independent of the entity subject to audit. Independence comprises

both independence of mind and independence in appearance and is fundamental to the ANAO’s ability to act with integrity, to be objective and to maintain an attitude of professional scepticism. The Auditor-General emphasises the importance of maintaining the independence and integrity of the ANAO in all staff communications, including town hall meetings and the Auditor-General’s monthly messages to staff.

3.21 The ANAO’s integrity framework, controls system and processes include good governance practices, publishing of the [ANAo gifts and benefits register](#), and an ongoing focus on independence in the delivery of our work. Beyond its control system, the ANAO maintains an enduring focus on promoting integrity as an organisational value that is embedded in its culture.

3.22 The ANAO Independence policy applies to all staff and contractors of the ANAO and is based on the requirements of [APES 110 Code of Ethics for Professional Accountants \(including Independence Requirements\)](#) (APES 110), to the extent there is not a conflict with the ANAO’s legislated mandate and responsibilities.

3.23 Under the ANAO Independence Policy, suspected or actual contraventions of the independence requirements of legislation, APES 110 or ANAO policy requirements must be reported immediately to the responsible GED.

Table 2: Audit Quality Indicator 1 – Compliance with independence requirements

Compliance with independence requirements - Breaches of independence requirements (excluding documentation deficiencies)		
Benchmark	2020–21	2019–20
0	1	0

3.24 During 2020–21 one instance was identified where a firm who was contracted by the ANAO to undertake a financial statements audit breached the ANAO Audit Manual policies that require firms to obtain ANAO approval to provide other services to ANAO auditees. The firm had tendered for an ANAO audit contract and failed to declare a conflict of interest for services the firm was conducting for the auditee and did not obtain ANAO approval prior to undertaking further non-audit services to the auditee during the tender evaluation period. The firm did not comply with the ANAO policy requirement to obtain prior approval from the ANAO to conduct other services where the value of the other services exceeds the value of the ANAO contract with the firm. The ANAO assessed that the breach of the ANAO Audit Manual policies did not cause the ANAO to breach APES 110 as safeguards were able to be put in place to mitigate any potential threat to independence arising.

3.25 As part of our quality assurance program, the ANAO monitors compliance with independence policies, including documentation requirements. In 2020–21 an internal audit also reviewed compliance with independence policy requirements as part of its audit of compliance with the ANAO Audit Manual. The 2020–21 review results are provided in the [monitoring](#) section of this report.

Rotation of key audit personnel

3.26 The ANAO Independence Policy sets key audit personnel rotation requirements for financial statements audits to safeguard against the threat to independence that may arise from a long association with an auditee. This policy specifies the length of time that key audit personnel can be

assigned to the financial statements audit of an entity, before rotation of key audit personnel or approval to extend involvement is required. Monitoring of the assignment and rotation of key audit personnel is performed by the AASG SED responsible for Resourcing and Budgeting.

3.27 In accordance with the ANAO Independence policy, all Engagement Executives and Engagement Quality Control Reviewers that had been assigned to financial statements audits for the maximum years allowed under the policy, and required rotation for the 2020–21 audit cycle, were rotated or approval was obtained where an extension was required. In the 2020–21 audit cycle the Engagement Executives on 26 audits were rotated as the maximum allowed years was reached and one approval was obtained to extend due to security clearance requirements of an audit.

3.28 The ANAO also monitors potential conflicts of interest through:

- Declaration of personal interests policy - requires all ANAO SES to submit, at least annually, a written declaration of their, and their immediate family's, financial and other interests, that could involve a real or apparent conflict of interest.
- ANAO employment manual - requires ANAO employees to seek prior approval to engage in outside activities or employment. In the approval process, the Deputy Auditor-General considers if the outside activities or employment create a real or perceived conflict of interest.
- Procurement policies and procedures - require the declaration of conflicts of interest.

Other services

3.29 The ANAO contracts private sector firms to undertake some audits on behalf of the Auditor-General. The Audit Manual requires contracted firms to request approval from the ANAO to provide other services.

3.30 In 2020–21 the ANAO approved 38 requests from contracted firms to provide other services to ANAO auditees. Two requests to provide other services and one component of another request was not approved as the services were not consistent with ANAO Audit Manual policies and the requirements of APES 110. As noted in the AQI above, there was one instance in 2020–21 where a firm did not obtain approval for other services as required by ANAO Audit Manual policies.

3.31 ASIC conduct a review of the ANAO quality assurance framework annually. In 2020–21, the scope of the review completed by ASIC included a review of the policies and approvals in place regarding other services conducted by contracted firms. ASIC provided the ANAO with one good practice recommendation to ensure that the documentation regarding approvals of other services sufficiently captures the evaluation and conclusion reached.

Gifts and benefits monitoring

3.32 The ANAO must meet public expectations of integrity, accountability, independence, transparency and professionalism. This requires that staff not be influenced, or perceived to be influenced, by gifts, benefits or inducements. The Auditor-General's Instructions and supporting Financial Management Procedures require staff to report any offered gift or benefit (whether accepted or refused), within 10 business days of the offer being made, in the gifts and benefits register. In limited circumstances, staff may retain the gift, after following the appropriate approval processes.

3.33 The data collected through the internal gifts and benefits register is reported to the ANAO's EBOM, and a subset of the data is reported publicly on the [ANAO website](#) to promote transparency.

Audit mandate and selection

3.34 Financial statements and performance audits must be carried out consistent with the Auditor-General's mandate under the Act. The Auditor-General is responsible for financial and performance audits of all Commonwealth entities, companies and subsidiaries, with the exception that performance audits and audits of performance measures of Government Business Entities, can only be undertaken if they are requested by the JCPAA. In addition, a performance audit of a Commonwealth partner that is part of, or controlled by, a state or territory government cannot be undertaken unless it is requested by the responsible minister or the JCPAA.

3.35 The Auditor-General may also conduct audits by arrangement under section 20 of the Act. The ANAO audit manual policy contains requirements for acceptance of a section 20 engagement.

3.36 The Auditor-General publishes an [annual audit work program](#) (AAWP) in July each year, which outlines the proposed audit activities to be undertaken in the financial year. The AAWP includes potential performance audit and assurance review topics, as well as the annual program of mandated financial statements audits. Throughout the year, the Auditor-General determines which audits will commence, based on a risk assessment, identified Parliamentary priorities, and breadth and depth of coverage across the government sector. The Auditor-General also considers any recent developments in the public sector and areas of public concern, opportunities to demonstrate good practice in public administration and accountability, requests for audit, and resourcing. Approaches by Parliamentarians, parliamentary committees and others with suggestions for audits are also considered by the Auditor-General for potential audit activity.

3.37 In August 2019, the Finance Minister requested that the ANAO conduct a pilot program of audits of performance statements of Commonwealth entities subject to the PGPA Act, in consultation with the Joint Committee of Public Accounts and Audit. The Auditor-General accepted the request under section 40 of the PGPA Act as the mechanism by which these audits can be carried out under section 15 of the *Auditor-General Act 1997*. In December 2020 the ANAO issued audit opinions on three entities' 2019–20 performance statements examined under the pilot program. As a continuation of the Finance Minister's request to conduct the pilot, in 2021 the ANAO is conducting audits of the same three entities' 2020–21 performance statements.

Human resources

Qualified personnel

3.38 The ANAO's human resources policies and procedures aid in the selection of employees who have the necessary integrity, capability and competence to perform the work required.

3.39 The ANAO is committed to the continuing capability and competence of its staff through its performance and career development program. To further support continuing capability and competence, the ANAO provides comprehensive learning and development and talent management programs. In addition, the ANAO has developed a strategic workforce plan to ensure the future competencies required for the ANAO are met.

3.40 The degree and nature of the changes in an audit team from year to year are an input in measuring the readiness and ability of the team to perform a quality audit. Some level of attrition

is expected but a comparatively high rate of turnover or auditor transfer within the office may adversely affect audit quality. The benefit of retaining an audit team's experience with a particular auditee needs to be carefully balanced with the benefit of adding new auditors who may provide a fresh look at audit issues.

Table 3: Audit Quality Indicator 2 – Turnover of audit personnel

Turnover of audit personnel (average annual turnover rate expressed in percentages)		
Benchmark	2020–21	2019–20
15-20%	AASG staff: 14.4% PASG staff: 28.2% SADA staff: 13.6%	AASG staff: 20.1% PASG staff: 25.2% SADA staff: 23.7%

3.41 The turnover rate for AASG and SADA has decreased from prior year and is below the benchmark target. The PASG turnover rate increased from the prior year and is above the benchmark target. In 2020–21 budget constraints resulted in a reduction in performance audit capacity. A reduction in PASG headcount was necessary for resources to be redirected across the office to deliver mandated financial statements audits and the higher turnover rate reflects PASG attrition. The ANAO’s 2021–22 budget has increased to restore performance audit capacity and deliver performance statements audits. As set out in the [ANAO Corporate Plan 2021–22](#), recruitment and retention are major priorities for the ANAO to increase performance audit resources and build performance statements audit capability. The ANAO is focused on attracting the talented, skilled and professional people required to produce quality audits and retaining them.

Performance and career development

3.42 Performance management at the ANAO is an ongoing process of communication between employees and their direct supervisor with a view to improve organisational effectiveness and individual performance. The ANAO’s Performance and Career Development Policy and Procedures have been designed to facilitate high performance across the ANAO, which in turn supports the ANAO to achieve its business and quality objectives.

3.43 The service group plans that operationalise the strategies and priorities from the ANAO Corporate Plan inform individual performance agreements of staff. This provides a link from the corporate plan to staff performance and assists all ANAO staff to understand the importance of their work in achieving the ANAO's outcomes, including supporting high audit quality. Supervisors also consider the results of each quality assurance review in reviewing staff performance. The policy also details procedures to support staff in improving their performance when required.

3.44 The ANAO performance assessment cycle is from 1 November to 31 October. The results for the performance cycle ending 31 October 2020 are reported in the ANAO Annual Report in Appendix D and 98 per cent of our staff were rated as meeting expectations or higher (31 October 2019: 99 per cent).

Learning and development

3.45 The ANAO is a learning organisation, with the ANAO supporting, and our staff committed to, continuous learning, growth and development. Mandatory training requirements facilitate and

support this commitment, including annual continuous professional development (CPD) and e-learning training courses.

3.46 The ANAO offers staff a blended curriculum of classroom training, comprising both technical and non-technical courses and a library of e-learning modules. ANAO courses have been designed and developed in consultation with the service groups and are aligned to the six core capabilities contained in the [ANAO Capability Framework](#).

3.47 PSRG provides regular technical update training sessions to AASG and in 2019–20 introduced regular technical update training sessions to PASG. Technical updates cover new auditing and accounting standard requirements, financial reporting framework developments and changes in audit policy and methodology. In 2020–21 ten technical update sessions were held for AASG staff and five technical update sessions were held for PASG staff.

3.48 In 2020–21 the ANAO delivered appropriations training for contractors in response to repetitive QA findings arising in appropriations testing in contracted-out audits.

3.49 The ANAO exceeded the benchmark training hours per audit professional in 2020–21.

Table 4: Audit Quality Indicator 3 – Training hours per audit professional

Training hours per audit professional (average annual hours of continuing professional education by audit service group)		
Benchmark	2020–21	2019–20
20 hours	AASG staff: 86 hours PASG staff: 103 hours	AASG staff: 83 hours PASG staff: 69 hours

3.50 Both service groups’ average hours per staff member met the minimum 20 hours of professional development as required by the [ANAO Audit Manual](#). The benchmark and policy requirement of 20 hours is the minimum training hours that all ANAO staff are expected to complete annually, including non-audit professionals. Many ANAO audit staff are members of professional bodies that have higher continuing professional development requirements. The training hours captured in this AQI include all forms of learning and development including mandatory training and technical updates, as well as informal ‘learning lunch’ sessions and time audit staff spend preparing and presenting internally developed training materials. The training hours for performance audit staff increased from prior year as additional internal training was delivered in 2020–21 targeted to performance auditors.

3.51 The suite of e-learning courses includes courses the ANAO requires staff to complete within four weeks of induction and then on an annual basis. The ANAO promotes the completion of annual e-learning courses for all staff through monitoring of completion rates of annual e-learning courses and through the ANAO Learning Management System automatic enrolment function with set due dates for completion. As part of the ANAO annual performance assessment process staff include a declaration confirming the completion of all corporate mandatory training requirements. A summary of the completion of mandatory courses at 30 June 2021 is provided in Table 5.

Table 5: Staff completion of mandatory e-learning courses

2020–21	2019–20
AASG staff: 99%	AASG staff: 87%
PASG staff: 99%	PASG staff: 82%
SADA staff: 97%	
PSRG staff: 100%	
CMG staff: 98%	
Total ANAO staff: 99%	

3.52 Information on the completion of mandatory e-Learning courses is regularly reported to the EBOM and GEDs. The increase in the completion rates across the ANAO in 2020–21 followed an emphasis on the importance of completing this training and refined the reporting and monitoring of completion. The 2019–20 figure included contractors who were not required to complete the training. This has affected the comparability between years.

Staff workload

3.53 The ANAO uses resourcing and time charging tools to report and monitor the workload of each individual staff member.

3.54 ANAO polices for the allocation of engagement executives and staff to audits ensures the engagement team has the appropriate level of expertise and time to perform its role. Under these policies the workload and availability of engagement executives is monitored to ensure they have sufficient time to adequately discharge their responsibilities. The following audit quality indicators are considered in assessing performance in this area.

Table 6: Audit Quality Indicator 4 – Staffing leverage

Staffing leverage (ratio of engagement leader hours charged to in-house financial statements audit work to lower level audit staff hours)		
Benchmark	2020–21	2019–20
0.08	0.08	0.07

3.55 The engagement leader is the Engagement Executive who has direct responsibility for the conduct of an audit and who is either the signing officer or who makes recommendations to the signing officer in respect of the audit opinion.

3.56 Engagement leaders are responsible for oversight of the audit and the audit team, which will include less experienced staff. Sufficient time to oversee the work of the audit staff is critical to quality.

3.57 In 2020–21 the ratio of engagement leader hours met the benchmark set by the ANAO.

Table 7: Audit Quality Indicator 5 – Engagement Executive and manager audit workload

Engagement Executive and manager audit workload (hours charged by audit staff who are classified as an Engagement Leader, Manager, Engagement Quality Control Review executive or higher as a percentage of total hours charged to audits)		
Benchmark	2020–21	2019–20
AASG: 27%	25%	25%
PASG: 44%	31%	31% ^a

Note a: The 2019–20 result has been restated using the consistent methodology as the 2020–21 measure. In the 2019–20 Audit Quality Report, the result reported was 39%. EL1 audit managers have been excluded from the calculation of senior staff in 2020–21 reducing the AQI result in 2019–20 to 31%.

3.58 Excessive workloads could prevent an engagement executive and audit managers from giving adequate and focused attention to an audit engagement. This measure can provide perspective on the involvement of senior personnel in audits. The lower the amount of senior time, the greater the risk that senior staff may not have sufficient time to supervise and review staff work and evaluate audit judgments. Less extensive supervision raises the risk of less effective audit procedures and a reduction in audit quality.

3.59 In 2020–21 the ANAO results for the measure for financial statements audit is slightly lower than the target benchmark and for performance audit is considerably lower than the target benchmark. As noted in the staff turnover measure, in 2020–21 PASG had a significant reduction in staffing levels due to budget constraints, including a decrease in the number of Engagement Executives and audit managers. In 2020–21, for consistency with AASG, the ANAO changed the methodology to exclude EL1 audit managers from the calculation of the PASG measure.

Table 8: Audit Quality Indicator 6 – Staff audit workload

Staff audit workload (chargeable hours per full-time equivalent professional)		
Benchmark	2020–21	2019–20
AASG: 1,200 hrs	1,300	1,250
PASG: 1,050 hrs	1,097	1,026

3.60 An excessive workload increases the risk that staff may have insufficient time to appropriately perform the necessary audit procedures and steps that deliver a quality audit. Staff may become less effective when working long hours.

3.61 The 2020–21 staff workload results for both financial statements and performance audit staff are above the benchmark. This increase is largely driven by the reduction in staff levels in 2020–21. Despite the staffing decrease the ANAO delivered all financial statements audits and tabled 42 performance audits in 2020–21. Staff at all levels worked more hours than expected and spent a higher proportion of time on audits with a reduction in non-audit related activities. With increased budget funding and staffing levels in 2021–22, the approach to allocation of resources to audits will continue to be a focus area for the ANAO. The intention is to ensure that staff have sufficient capacity to undertake a quality audit, and Engagement Executives and audit managers have sufficient time to not only undertake appropriate review and supervision, but also to coach and mentor staff to improve staff capability and development.

Internal and external specialists and technical resources

3.62 PSRG provides internal professional services such as technical accounting and audit support, quality assurance and legal services. Technical accounting and auditing resources enable audit teams to deal with complex questions during an audit. Table 9 shows the ANAO expenditure on technical accounting and auditing resources is consistent with the prior year and the ACAG benchmark.

Table 9: Audit Quality Indicator 7 – Technical accounting and auditing resources

Technical accounting and auditing resources (percentage of total office expenditure allocated to technical resources)		
Benchmark	2020–21	2019–20
3%	3%	3%

3.63 To further support the delivery of quality audits, the ANAO also uses external subject matter and technical experts where a specific need has been identified, including:

- the engagement of audit firms to conduct financial statements audits when specialist industry knowledge is not readily available in-house;
- the engagement of auditor experts in both financial statements and performance audits as required;
- the engagement of audit firms to assist in the conduct of quality assurance reviews; and
- the purchase of audit methodology and training.

Audit performance

Methodology, technology and tools

3.64 ANAO auditors apply a robust methodology which includes the ANAO Audit Manual and standardised tools and templates to assist in the consistent application and documentation of audit procedures. Application of this methodology ensures compliance with the ANAO Auditing Standards and provides for consistent quality across audits.

3.65 The ANAO Audit Manual, methodology and supporting tools and templates are reviewed on an annual basis to incorporate any improvements or amendments arising from changes in the ANAO auditing standards, responses to findings from quality monitoring processes and audit staff consultation. In 2020-21, key updates to the methodology included:

- revision to the audit policy related to use of information-gathering powers;
- implementation of the revised financial statement auditing standard ASA 540 Auditing Accounting Estimates and Related Disclosures; and
- continued development of performance statements audit policy and methodology supporting the ANAO's ongoing performance statements audit activity.

3.66 The ANAO SADA group supports audit evidence gathering and analysis through providing Information Technology (IT) specialists with audit capability for analysing the IT environment, IT general and application controls and system-generated reports. In 2019-20 SADA increased the use of data analytics to improve the efficiency of audit procedures, while enhancing audit quality in

financial statements audits by piloting standardised solutions that are intended for widespread use by multiple audit teams. In 2020-21 the solutions that were piloted in the previous cycle were deployed more broadly, with an additional solution developed and piloted including:

- A solution for employee entitlements (wages and salaries) deployed to 38 audits;
- A solution for the risk assessment of journals was used by more than 35 audit teams;
- A solution to support the testing of leave provisions was developed and used by more than 20 audit teams; and
- A solution for the testing of appropriations is being piloted in 2020-21 and is expected to be used more broadly in 2021-22.

3.67 The deployment of standardised solutions is expected to improve the quality of audits by efficiently using relevant data, increasing the consistency of procedures across teams, and simplifying training and the review of audit files. The solutions have been designed to support teams in executing the procedures by providing standardised data requests, templates and test selections. This allows teams to spend more time focusing on judgements and conclusions rather than developing their own processes. PSRG reviews and approves the solutions to ensure alignment with the ANAO's audit methodology.

Consultation

3.68 The [ANAO Audit Manual](#) includes policies requiring consultation on difficult or contentious matters. Depending on the nature of the matter, consultation is required with either the engagement quality control reviewer (EQCR), the relevant GED or with relevant specialists in PSRG.

3.69 The ANAO has a Qualifications and Technical Advisory Committee (QTAC), which provides a forum for engagement executives to consult on difficult or contentious matters and, where necessary, resolve differences of opinion on audit related matters. ANAO policy identifies the matters that must be referred to QTAC, and QTAC meets as required to make recommendations to the Auditor-General. In 2020–21 QTAC was consulted on 20 matters.

3.70 There is also a requirement within the ANAO Audit Manual to consult with the AASG GED and PSRG when material errors or misstatements are detected that relate to prior year financial statements on which the ANAO has issued an unqualified auditor's report. The number and impact of restatements for errors are generally considered a signal of potential difficulties in at least part of an auditor's practice and approach to auditing. This indicator places restatements in context by focusing on their magnitude and overall impact to the financial statements. The restatements are assessed for materiality at the individual engagement level. The measure includes all financial statements audits, including non-mandated audits.² Restatements that were below materiality or related to reclassifications or disclosures with no net impact on the financial result or position have not been included in the totals.

² The ANAO conducts audits by arrangement under section 20 of the Auditor-General Act.

Table 10: Audit Quality Indicator 8: Material misstatements resulting from a prior period

Number and percentage of material restatements of financial statements resulting from a prior period error ^a		
Benchmark	2020–21	2019–20
Number and % of material restatements: 0	7 (2.5%) out of 284 engagements Errors range from \$84,595 to \$269m net impact on the individual financial statements	8 (2.8%) out of 287 engagements Errors range from \$867,000 to \$46m net impact on the individual financial statements

Note a: The financial statements audit cycle for 30 June year end reports is 1 October to 30 September. Therefore the 2020–21 results in the table above record the number of restatements identified in 2019–20 financial statements audits which are finalised within the 2020–21 reporting period.

3.71 The number of restatements of financial statements resulting from prior period errors decreased from the prior year. The range of prior period errors expanded at the higher and lower end. The largest prior period errors related to:

- the incorrect application of discount rates to calculate the present value of a provision resulting in an understatement of the provision – the entity used a single rate when the discount rate used should have been more closely aligned to the time pattern of the projected cash flows;
- the identification of significant write-downs and impairment of assets that should have been recorded in prior periods; and
- the identification of a number of employees that had not been included in actuarial calculations for the provision for defined benefits obligations.

3.72 The cause of material restatements is assessed by the ANAO to identify if there are indicators of deficiencies in audit quality. The largest material restatement was detected in a QA review of a 2019–20 contract-out audit. The audit file was rated as unsatisfactory and the audit team had not challenged the discount rate used. The ANAO ensured that the incorrect application of discount rates had not occurred in other audits and was satisfied that the causes of the material restatements reported for 2020–21 do not indicate that there were systemic deficiencies in audit processes.

Risk assessment process

3.73 Engagement risk is the risk of expressing an inappropriate audit conclusion based on evidence that is not soundly based. This may include evidence that is improper or incomplete as a result of inadequacies in the evidence gathering process, misrepresentation or fraud. In all ANAO audits and engagements an engagement risk rating is assigned at planning. Engagement risk is monitored throughout the engagement and updated for changes in circumstances

Engagement quality control review policies and monitoring of compliance

3.74 An EQCR is required under ANAO Audit Manual policy to be appointed to:

- all high-risk performance audits;
- all high risk mandated financial statements audits of entities that are material to the Commonwealth's Consolidated Financial Statements;
- all AASG audits of entities determined to be public interest entities (PIEs); and
- any other audit at the discretion of the relevant GED, the Deputy Auditor-General or the Auditor-General.

3.75 In the case of financial statements audits of non-material entities that are assessed as high risk, the engagement executive considers the appropriate response to that risk assessment, which may result in the appointment of an EQCR. The EQCR provides an objective evaluation of the significant judgements made by the audit team and conclusions reached in formulating the audit report.

3.76 The ANAO Quality Assurance Program reviews compliance with the EQCR policy including: an assessment of whether an EQCR was required to be appointed; if an appointed EQCR met the eligibility criteria; and if the documentation of that involvement throughout the audit was in accordance with the [ANAO Audit Manual](#) policy requirements.

3.77 One performance audit tabled in 2020–21 was rated as a high engagement risk. This audit was selected for review in the 2020–21 PASG QA program. The QA review identified that an EQCR had not been assigned to this audit as required by the policy.

3.78 In 2020–21, eight financial statements engagements were rated as high risk and an EQCR was appointed. In 2020–21, nine financial statements audit were assessed as PIEs, three of these audits were assessed as high-risk engagements. EQCRs were appointed to all PIE audits, with the exception of one audit where approval was obtained by the Auditor-General to appoint a second reviewer rather than an EQCR. This exception was made as the Auditor-General was the signing officer and the GED was the responsible Engagement Executive on the audit.

Monitoring

Internal and external quality assurance reviews

3.79 A key element of the ANAO Quality Assurance Framework is monitoring of compliance with policies and procedures that comprise the system of quality control. The monitoring program comprises internal and external quality assurance (QA) reviews of the ANAO's audit and other assurance engagements. The program is designed to provide the Auditor-General with assurance that engagements comply with the ANAO Auditing Standards, relevant regulatory and legal requirements and ANAO policies, and that reports issued are appropriate in the circumstances. Monitoring activity is the responsibility of PSRG. PSRG report to EBOM, the Quality Committee and the ANAO Audit Committee on the results of each quality assurance review and other monitoring activities. The ANAO Quality Committee is responsible for monitoring the ANAO's progress in addressing the findings and recommendations arising from the monitoring programs.

3.80 Monitoring activities conducted in 2020–21 were:

- annual quality assurance reviews of completed audits (nine financial statements audits reviewed, four performance audits reviewed);
- real time quality reviews of in-process financial statements audits (four financial statements audits reviewed including three focused reviews conducted over areas with risks arising from COVID-19); and
- ASIC review of the quality framework and completed audits (three financial statements audits reviewed).

3.81 In addition to the formal monitoring activities conducted as part of the ANAO annual inspection program, a real time review of the performance statements audit pilot was conducted and the Auditor-General requested the review of certain aspects of audit files.

3.82 The ANAO selects audits and other engagements in accordance with the [ANAO Audit Manual](#) QA review selection policy, which provides sufficient coverage of all responsible Engagement Executives on a cyclical basis. In August 2020 the ANAO amended the QA review selection policy. This change in policy impacts the AQI benchmarks which were modified from 2019–20. The revised policy sets out that the annual QA review program for financial audit includes the selection of at least one in-house assurance engagement for each Engagement Executive over a three-year cycle; and at least one project managed assurance engagement for each firm engaged by the ANAO to conduct project managed assurance engagements every three years. The annual QA review program for performance audit includes at least one completed engagement for each Engagement Executive over a three-year cycle. This measure covers internal quality assurance reviews, including complete real-time reviews and external reviews conducted by ASIC but does not include focused real-time reviews and internal audit compliance reviews. The 2020–21 results of the quality assurance reviews are provided in Table 14.

Table 11: Audit Quality Indicator 9 – Quality assurance review coverage

Quality assurance review coverage (percentage of Engagement Executives and contracted firms subject to review annually)		
Benchmark	2020–21	2019–20 ^a
Financial audit – in house: 33%	33%	41%
Financial audit – contracted firm: 33%	36%	40%
Performance audit: 33%	50%	50%

Note a: The 2019-20 AQI was recalculated for comparative purposes. The 2019–20 report combined the in-house and contract-out audits selected for each financial audit Engagement Executive. The AQI measure was revised in the 2020–21 Quality Assurance Framework and Plan in line with the revised QA selection policy for contract-out financial statements audits in the ANAO Audit Manual.

3.83 In 2020–21 the coverage of Engagement Executives and firms for financial statements audits was in line with the policy requirements which forms the basis of the AQI benchmark. In 2020–21 the QA reviews for performance audit exceeded the benchmark as the program included one additional Engagement Executive than required under the QA selection.

3.84 As part of our quality assurance program, the ANAO monitors compliance with independence policies, including documentation requirements. ANAO Internal Audit also monitor compliance with independence documentation requirements in an ANAO Audit Manual Compliance internal audit. Table 13 provides the results from the monitoring of compliance with the ANAO independence documentation requirements.

Table 12: Compliance with ANAO independence documentation requirements

	2020–21	2019–20
Number of audits selected for internal independence reviews annually.	29 AASG audits reviewed 24 PASG audits reviewed	24 AASG audits reviewed 19 PASG audits reviewed
Number of instances identified where independence declarations were not completed	2 instances in the AASG audits reviewed 21 instances in the PASG audits reviewed	4 instances in the AASG audits reviewed 10 instances in the PASG audits reviewed

3.85 The monitoring of independence requirements identified instances where required individual audit team member declarations had not been completed. In 2020–21 the number of instances where independence declarations were not completed decreased from the prior year in financial statements audits and increased significantly in performance audits. The majority of instances identified in performance audits related to one audit where a number of completed independence sign-offs were inadvertently deleted from the audit file. The lesson learnt from this audit was shared with all PASG staff to avoid this recurring. In response to a 2020–21 internal audit report recommendation AASG and PASG will implement processes to review independence declarations prior to the commencement of audit fieldwork and to check them against ‘time charged’ reports upon completion of audit fieldwork. PSRG will add a procedure to the AASG and PASG quality assurance review test programs to determine whether the processes have been implemented appropriately. The ANAO reinforces the importance of completing and filing independence declarations in technical updates to all audit staff. The ANAO will action this recommendation in 2021.

3.86 In addition to the AQI measures reported in this report, ANAO performance measure 15 reported in the [ANAO annual report](#), relates to audit quality: *The ANAO independent quality assurance program indicates that audit conclusions are appropriate.* In 2020–21 the ANAO achieved a result of 94.1 per cent against a target of 100 per cent. Table 14 provides the results of the ANAO quality review results.

Table 13: Audit Quality Indicator 10 – Internal quality review results

Internal quality review results - Number of audit files rated as ‘Unsatisfactory’ in the ANAO Annual Inspection Program.		
Benchmark	2020–21	2019–20
No. of engagements: 0	1	3

3.87 In the QA review of 2019–20 financial statements audits, one audit performed by a contractor firm, was rated as unsatisfactory due to a significant finding. The reviewer identified a

material misstatement which was not detected by the audit team and the audit conclusion was inappropriate in the circumstances. The auditor’s report was withdrawn and the entity was requested to correct and reissue the financial statements. The corrected financial statements and auditor’s report were reissued in June 2021. In response to these results, the ANAO delivered additional training to contracted firms in May 2021. A summary of the review findings arising from the annual inspection program is provided in Table 14. Refer to Appendix 2 for the ANAO rating system and definitions.

Table 14: Summary of the quality assurance review findings in the annual inspection program

	2020–21	2019–20
AASG – Completed audits	1 significant 24 moderate 44 minor	4 significant 25 moderate 59 minor
AASG – Real time review	No significant 4 moderate 12 minor	No significant 5 moderate 6 minor
PASG	No significant 5 moderate 15 minor	No significant No moderate 6 minor

3.88 A high number of findings from quality reviews, particularly when these are repetitive indicate issues with audit quality. Timely identification and appropriate remediation of issues is necessary to facilitate improvements in audit quality.

3.89 The annual inspection program identified areas for improvement in financial statements audits including:

- the design and execution of substantive analytical procedures;
- audit procedures to gain assurance over the completeness and accuracy of internally generated reports;
- risk assessment analytics;
- key management personnel disclosure testing; and
- subsequent events.

3.90 The quality reviews of performance audits identified areas for improvement relating to:

- completion of test programs as the audit progresses;
- completion of independence declarations;
- documentation not saved in the audit file; and
- file finalisation.

3.91 The ANAO evaluates findings identified in internal and external quality assurance reviews and determines if there are thematic or repetitive issues arising in audits. The ANAO conducts root cause analysis on thematic or repetitive issues to understand the underlying drivers of quality deficiencies and address them with targeted action plans.

2020–21 Root cause analysis

3.92 In 2019 the ANAO introduced root cause analysis methodology over areas of work where quality processes identified scope for improvement. The analysis assists with the continuous improvement of the audit practice, through gaining a deeper understanding of the drivers of quality deficiencies, more targeted follow-up actions can be developed. The most significant individual findings and thematic findings from the quality assurance program are subject to the root cause analysis.

3.93 In August 2020 ASIC provided the ANAO with a report on the results of their review of the ANAO Quality Assurance Framework which included a review of aspects of the ANAO's pilot program for root cause analysis of deficiencies in audits of financial reports. The report included one good practice recommendation to the ANAO recommending that the root cause analysis pilot program be made permanent and expanded to cover:

- all findings on in-house audits;
- findings on outsourced audits;
- audits where there have been subsequent restatements of financial reports; and
- findings from 'hot' reviews.

3.94 The ANAO is committed to continuing the root cause analysis program which is included as a permanent activity in the [ANAO Quality Assurance Framework and Plan 2021–22](#). In 2020–21 the ANAO enhanced the root cause analysis program, incorporating several ASIC recommendations including performing root cause analysis on the ANAO oversight of contracted-out audits (outsourced audits). The ANAO will continue to expand the root cause analysis methodology and processes in a staged approach in future years.

3.95 The report to EBOM on the results of the root cause analysis tabled in July 2020 included two follow-up actions to address the underlying drivers of the identified deficiencies in audit quality. The two follow-up actions were completed in 2020–21.

Timeliness and effectiveness of remediation

3.96 The results of internal and external quality assurance reviews, peer reviews and relevant internal and external audits are reported to EBOM. The report includes the recommended follow-up actions to address any identified findings, recommendations or observations. The follow-up actions are assigned to responsible officers with timeframes for completion.

3.97 The Quality Committee monitors the ANAO's progress in addressing the findings and recommendations made in external or internal reviews, including assessing the prioritisation of active follow-up actions and reports on this to EBOM. Table 16 details the status of findings arising from internal and external reviews.

Table 15: Status of Findings Arising from Internal and External Reviews

Category	Opening position 1 July 2020	New follow-up action items	Resolved follow up action items	Closing position 30 June 2021
AASG	12	17	16	13
PASG	1	6	4	3
ANAO	3	4	2	5
Total	16	27	22	21

Complaints and allegations

3.98 The [ANAO Audit Manual](#) sets policies and processes for the formal management of any complaints or allegations that the work performed by the ANAO does not comply with applicable standards, requirements, systems of quality control or independence policies. The policies include escalation and consultation procedures to resolve any complaints or allegations made. The policy also sets out remedial actions required if a deficiency in the design or operation of the ANAO's quality control policies and procedures, or non-compliance with the ANAO's system of quality control by an individual or individuals, are identified during the investigation into a complaint or allegation.

3.99 During 2020–21 the ANAO received no complaints or allegations.

Summary of parliamentary feedback

3.100 The ANAO's primary relationship is with the Australian Parliament, particularly the Joint committee of Public Accounts and Audit (JCPAA). The ANAO undertakes an annual survey of the JCPAA members to obtain feedback in a number of areas. Table 17 provides the JCPAA 2020–21 response to those questions relating to audit quality.

Table 16: Audit Quality Indicator 11– Results of JCPAA 2020–21 survey

Results of independent surveys of Joint Committee of Public Accounts and Audit (JCPAA) members (percentage of JCPAA members who agree that the ANAO's reports and services have contributed to improved public sector accountability and transparency)		
Benchmark	2020–21	2019–20
90%	71%	100%

3.101 The ANAO engaged an independent research firm, ORIMA Research Pty Ltd, to conduct a survey of JCPAA members in 2021. The result of 71 per cent was based on the percentage of JCPAA members who responded³ to the survey that agreed or strongly agreed to the following statements:

- The ANAO's reports and services have contributed to improved public sector accountability and transparency; and
- The ANAO's reports and services help improve public sector administration.

3.102 The decrease in the 2020–2021 result compared to prior years and below the target was due to an increase in the proportion of neutral responses, rather than negative ones. Respondents provided positive ratings in relation to the ANAO's role and function; the ANAO's audit priorities; the support the ANAO provides to the JCPAA, clearly communicating significant issues in reports; and the overall value of information it provides on public sector performance. Satisfaction ratings for performance audit reports, the Defence Major Projects Report and other assurance review reports were consistently high, with some opportunity for improvement in relation to reports being easy to understand and the perception of financial statement audit opinions providing assurance to the Parliament.

3 In 2021 seven of the 15 JCPAA members responded to the survey (47 per cent) which is consistent with the previous participation rate of 8 out of 16 members surveyed in 2020.

4. Quality assurance strategy and deliverables for 2020–21

4.1 The key deliverables for 2020–21 were set out in the [ANAO Quality Assurance Framework and Plan 2020–21](#). The achievement of the strategy and deliverables are set out below in Table 17.

Table 17: 2020–21 Quality Assurance Framework and Plan deliverables

Quality framework element	High level objectives	Brief scope of work	Target completion date	Outcome
Engagement performance	To ensure that the ANAO audit methodology is compliant with the ANAO auditing standards.	Annual methodology review - financial statements audits	28 February 2021	Completed 17 March 2021
		Annual methodology review - performance audits	30 April 2021	Completed 17 March 2021
		Annual financial statements audit software template updates	30 November 2020	Completed 9 October 2020
		Annual assessment of performance audit software template updates	30 April 2021	Completed 30 April 2021
		Annual communication template updates	30 June 2021	Completed 18 January 2021
	To maintain a high level of audit quality by keeping ANAO staff and contract firms' knowledge up-to-date and fostering continuous improvement	Training on methodology and standards updates, quality findings and other relevant issues	30 June 2021	Completed Training delivered during 2020–21: <ul style="list-style-type: none"> subject matter sessions including sampling, auditing estimates, audit

Quality framework element	High level objectives	Brief scope of work	Target completion date	Outcome
				risk and response and appropriations training; <ul style="list-style-type: none"> • 10 AASG technical update sessions; and • 5 PASG technical updates.
	To maintain a high level of audit quality by keeping contract firms' knowledge up-to-date and fostering continuous improvement	Contractor webinar on methodology and standards updates, quality findings and other relevant issues	31 May 2021	Completed 19 May 2021
		Presentation to contract firm relationship partners on ANAO expectations for quality and results of quality inspections	30 June 2021	Completed 24 June 2021
Monitoring	To determine whether audits have been performed in accordance with the ANAO auditing standards	Annual internal review of a sample of completed financial statements audits	31 March 2021	Completed 16 April 2021
		Annual internal review of a sample of completed performance audits	31 July 2021	In progress at 30 June 2021 (completed 21 July 2021)
		Annual internal real-time review of in-process financial	31 December 2020	Completed 12 November 2020

Quality framework element	High level objectives	Brief scope of work	Target completion date	Outcome
		statements audits		
		Annual external review by ASIC of ANAO quality framework	30 June 2021	In progress at 30 June 2021 (completed 27 August 2021)
		Annual external review by ASIC of a sample of completed financial statements audits	30 June 2021	In progress at 30 June 2021 (completed 27 August 2021)
		Biennial peer review by New Zealand Office of the Auditor-General of a sample of completed performance audits	30 June 2021	Deferred due to the COVID -19 pandemic
		Internal audit of compliance with selected requirements of the ANAO audit manual	30 June 2021	Completed 17 June 2020
	To identify the root cause(s) of inspection findings in order to determine the most appropriate remedial actions	Root cause analysis of most significant findings and thematic findings and observations	30 June 2021	In progress at 30 June 2021 (completed 18 August 2021)
	To monitor themes arising in inspections of contract firms	Review of published results of QA reviews of firms and firm transparency reports	30 June 2021	Completed 6 November 2020

4.2 In addition to these deliverables, in 2020-21 the ANAO also completed a number of activities under the AASG Quality and Staff Engagement and Wellbeing Improvement Plan. This plan was developed in response to the 2020-21 root cause analysis and dialogue sessions conducted by the Auditor-General with AASG staff. The activities from this Plan completed in 2020-21 included:

- Clearly articulating roles and responsibilities for all levels of staff;
- Training;
- Peer reviews over areas with repetitive quality assurance findings;
- The development of a "good manager guide";
- Messaging regarding the importance of quality; and
- Additional quality control processes certifying that key planning milestones had been documented and reviewed.

4.3 The Quality Committee monitored the completion of these activities during 2020–21. Activities in the AASG Quality and Staff Engagement and Wellbeing Improvement Plan scheduled for completion in 2021–22 are set out in the [Quality assurance framework and plan 2021-22](#).

Appendix 1 2020–21 Audit Quality Indicator Results

1. The ANAO Quality Report measures 11 quantitative AQIs. Five AQIs are measures from the Australasian Council of Auditors-General (ACAG) macro benchmarking survey in which most Australian audit office, including the ANAO, participates.⁴ The ACAG macro benchmarking survey project is an annual exercise that has been conducted since 1994. The overall purpose of the survey is to provide, to the extent practicable, comparable information to audit offices across Australasia on quantitative and qualitative benchmarks of the operations of audit offices and specific characteristics of each jurisdiction. The remaining AQIs are derived from ANAO performance measures, audit manual policy requirements and expectations regarding independence and audit quality.
2. Measuring AQIs against specific benchmarks can inform and enhance reporting about audit quality and assist in understanding the root causes of quality inspection findings. This in turn enhances audit quality by ensuring that remediation activities address the issues that potentially impact audit quality.
3. The ANAO has identified benchmarks for each of these AQIs against which performance is assessed. ANAO benchmarks for the AQIs derived from the ACAG macro benchmarking are developed using past results of comparable audit offices⁵ taken from this survey, adjusted to calculate a three-year rolling average. Other benchmarks are developed using targets from [ANAO performance measures](#), [Audit Manual](#) policy requirements and ANAO expectations regarding independence and audit quality.
4. The following table provides a summary of the 2020–21 and 2019–20 ANAO results. Refer to the [ANAO 2020–21 Quality Assurance Framework and Plan](#) for detail regarding the source of each of the benchmarks.

Summary of Audit Quality Indicators — 2019–20 to 2020–21

Audit Quality Indicator	Benchmark	2020–21	2019–20
<i>Relevant ethical requirements</i>			
1. Compliance with independence requirements - Breaches of independence policies	0	1	0
<i>Human resources</i>			
2. Turnover of audit personnel	15-20%	AASG staff: 14.4% PASG staff: 28.2% SADA staff: 13.6%	AASG staff: 20.1% PASG staff: 25.2% SADA staff: 23.7%
3. Training hours per audit professional	20 hours	AASG staff: 86 hours PASG staff: 103 hours	AASG staff: 83 hours PASG staff: 69 hours

⁴ The Northern Territory Auditor-General's Office does not participate in the ACAG macro benchmarking survey.

⁵ Comparable audit offices are NSW, Victoria, Queensland and Western Australia.

Audit Quality Indicator	Benchmark	2020–21	2019–20
4. Staffing leverage - Ratio of engagement executive hours charged to in-house financial audit work to lower level audit staff hours	0.08	0.08	0.07
5. Engagement executive and manager workload - Hours charged by audit staff who are classified as an Engagement Executive, Manager, EQCR or higher as a percentage of total hours charged			
Financial Audit	27%	25%	25%
Performance audit	44%	31%	39% ^a
6. Staff workload - Chargeable hours per FTE professional			
Financial audit	1200	1,300	1,250
Performance audit	1,050	1,097	1,026
7. Technical accounting and auditing resources - Percentage of total office expenditure allocated to technical resources	3%	3%	3%
Audit performance			
8. Frequency and impact of financial statement restatements and errors - Number and percentage (of audited financial statements) of restatements for errors, computed annually, and magnitude of those restatements	0	7 (2.5%) out of 284 engagements Errors range from \$84,595 to \$269m net impact on the individual financial statements	8 (2.8%) out of 287 engagements Errors range from \$867,000 to \$46m net impact on the individual financial statements
Monitoring			
9. Internal quality review results - Percentage of engagement executives subject to review annually			
Financial audit	33%	33%	41%
Performance audit	33%	36%	40%
Contracted out firms– financial audit	33%	50%	50%
10. Internal quality review results - Number of audit files rated as 'unsatisfactory' in the ANAO Annual Inspection Program	0	1	3

Audit Quality Indicator	Benchmark	2020–21	2019–20
11. Results of independent surveys of Joint Committee of Public Accounts and Audit (JCPAA) members - Percentage of JCPAA members surveyed who were satisfied that the ANAO improved public sector performance and supported accountability and transparency	90%	71%	100%

Note a: The ANAO changed the methodology for classification as audit manager in 2020–21 removing EL1s from the audit manager category for consistency across the ANAO. The revised results for 2019–20 using the same methodology results in the measure reducing to 31% which is consistent with the 2020–21 results.

Appendix 2 Evaluating Inspection Findings

The processes used for evaluating the severity of inspection findings

The ANAO Quality Assurance rating system defines both individual findings ratings and an overall audit rating.

Individual findings rating definitions:

Rating	Description
A. Significant	These findings pose a high risk to the ANAO's reputation (including its independence, objectivity, and professionalism).
B. Moderate	These findings pose a moderate risk to the ANAO's reputation (including its independence, objectivity, and professionalism).
C. Minor	These findings pose a low risk to the ANAO's reputation (including its independence, objectivity, and professionalism).

Following the rating of all identified findings, an overall file rating is assigned to each reviewed audit file in accordance with the following overall audit file rating definition.

Overall audit rating definition:

Rating	Description
Satisfactory	Not unsatisfactory
Unsatisfactory	As a result of a significant finding or multiple moderate findings: <ul style="list-style-type: none">(i) An inappropriate conclusion has been issued under the circumstances; or(ii) A conclusion was issued for which there was no reasonable basis, or for which the documentation did not support the conclusion that was issued.