Planning and Scoping of Performance Audits by the Australian National Audit Office

Performance Audit

June 2011

15 June 2011

Dear Mr President
Dear Mr Speaker

I have undertaken a performance audit of the Australian National Audit Office, in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this performance audit to the Parliament. The report is titled *Planning and Scoping of Performance Audits by the Australian National Audit Office.*

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

Geoff Wilson
Independent Auditor
Appointed under Section 41 of
The Auditor-General Act 1997

Contents

Abbreviations

AASG	Assurance Audit Services Group
ANAO	Australian National Audit Office
AUASB	Auditing and Assurance Standards Board
the Act	*Auditor-General Act 1997*
ASA	Australian Auditing Standards
ASAE	Australian Standards on Assurance Engagements
AWP	Audit Work Plan
Blue Book	ANAO annual Audit Work Program
BPG	Better Practice Guide
Canadian OAG	Office of the Auditor-General of Canada
CMB	Corporate Management Branch
DMO	Defence Material Organisation
EBOM	Executive Board of Management
ED	Executive Director
ERDMS	Electronic Record and Document Management System
FTE	Full Time Equivalent
GBE	Government Business Enterprise
GED	Group Executive Director
IT	Information Technology

JCPAA	Joint Committee of Public Accounts and Audit
NPP	New Policy Proposal
OEA	Office of Evaluation and Audit—Indigenous Programs
OPP	One Pass Plan
PAM	Performance Audit Manual
PASG	Performance Audit Services Group
PBS	Portfolio Budget Statement
PS Act	Public Service Act 1999
PSB	Professional Services Branch
QA	Quality Assurance
SME	Subject Matter Expert

Summary

Summary

Introduction

1.   The Australian National Audit Office (ANAO) assists the Auditor-General to provide an independent view of the performance and financial management of public sector entities. The *Auditor-General Act 1997* (the Act) sets out the Auditor-General's functions, mandate and powers. The Act establishes a unique, independent relationship between the Auditor-General and the Australian Parliament.

2.   The primary client of the ANAO is the Australian Parliament. The ANAO's main point of contact with Parliament is through the Joint Committee of Public Accounts and Audit (JCPAA), although interaction does occur with other parliamentary committees and parliamentarians in order to obtain an understanding of parliamentary priorities, public administration matters and the outcomes of audit coverage.

3.   The ANAO's purpose is to provide Parliament with an independent assessment of selected areas of public administration, and assurance about public sector financial reporting, administration, and accountability. This function is delivered through the Assurance Audit Services Group (AASG) and the Performance Audit Services Group (PASG). The Professional Services Branch (PSB), through the provision of technical assistance, and the Corporate Management Branch (CMB), through the provision of practice management related services, supports the two 'operational' areas of the ANAO.

4.   The PASG currently undertakes in excess of 50 performance audits each year, covering a range of topics across the Commonwealth public sector. Given the role that performance auditing plays in supporting the achievement of the ANAO's outcomes to improve public sector administration and provide assurance, it is considered a critical function of the ANAO. In addition to performance audits and the development of the annual Audit Work Program (also known as the Blue Book), PASG also:[1]

- undertakes assurance activities generally in response to requests from stakeholders, including Ministers and parliamentary committees. An

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[1] Performance Audit Manual (March 2011), p. 28.

annual assurance activity currently being undertaken within PASG relates to Defence major capital acquisition projects;

- publishes better practice guides (BPGs), drawing on the ANAO's experience of areas of public administration common to public sector entities and emerging and topical issues impacting on the performance of the public sector;

- publishes a newsletter, AuditFocus, that summarises common messages and themes reflected in the ANAO's audit reports; and

- assists the Parliament on tabled audit reports and submissions to various parliamentary inquiries and reviews.

5. Of relevance to the context of this performance audit, the ANAO has recently received an additional appropriation in order to enhance the performance audit program and enhance Information Technology (IT) capability.

Independent Auditor

6. Mr Geoff Wilson, the Independent Auditor for the ANAO, who is also a Partner of KPMG, arranged for KPMG to undertake this performance audit.

Audit objective and scope

7. The objective of this performance audit was to consider, at the annual performance audit program level and individual performance audit level, the process for planning and scoping performance audits within the ANAO. Using guidance from the Standard on Assurance Engagements *Australian Standards on Assurance Engagements (ASAE) 3500–Performance Engagements*[2] and the Act, this performance audit examined:

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2   Standard on Assurance Engagements ASAE 3500 – Performance Engagements (July 2008). Issued by the Auditing and Assurance Standards Board.

- performance audit program planning:

  – the annual ANAO performance audit planning process (including the prioritisation, coverage and risk identification of audit topics);

  – the PASG allocation process in relation to resources and costs (budgetary aspects and funding);

  – the tools and systems used to assist the ANAO in planning and scoping performance audits; and

  – the interactions/communication with Parliament/JCPAA in relation to performance audit planning and scoping.

- individual performance audit planning:

  – the planning processes employed for individual performance audits (including scoping and identification of scope limitations, planning each audit topic, development of audit assertions, identification of risks and relevant stakeholders);

  – the planning for allocation of resources and timing associated with each audit topic to meet key milestones;

  – the tools, systems and available resources used to assist the ANAO performance audit staff plan and to scope audit topics; and

  – a sample of performance audits was selected to determine whether the planning and scoping was undertaken in accordance with defined methodologies.

8.   This performance audit considered the planning and scoping processes for the annual performance audit program, including a high-level comparison against the Office of the Auditor-General of Canada (Canadian OAG) planning process (noting that this comparison is only for elaboration purposes due to the differences between the ANAO and the Canadian OAG). The audit also reviewed a sample of performance audits to examine the planning and scoping approaches that were employed for individual audits.

9.   This performance audit did not: consider the outcome of performance audits; examine working papers, reports, methodologies or the ongoing

management of audits that relate to phases after planning and scoping; or examine assurance reviews or the development of BPGs.

Summary of findings

10. The ANAO's purpose is to provide Parliament with an independent assessment of selected areas of public administration, and assurance about public sector financial reporting, administration, and accountability. A key role in fulfilling this purpose is the delivery of an annual program of performance audits, with in excess of 50 performance audits currently undertaken by the ANAO each year.

11. The ANAO's planning and scoping of the annual performance audit program and individual performance audits is being undertaken in an efficient and effective manner.

12. The ANAO has established rigorous and effective processes for the planning and scoping of the annual program of performance audit activity, with a structured 'top down/bottom up' approach in place to identify audit topics. The processes adopted by the ANAO ensure that audit attention is targeted towards high-priority audit topics based on factors such as: potential benefits of the audit; financial materiality; risks to reputation and service delivery; and previous audit coverage. The selection of audit topics is based on extensive communication and consultation undertaken with internal and external stakeholders (including the JCPAA) to capture emerging topics and address areas of concern.

13. The effective processes employed by the ANAO for planning and scoping individual audits are detailed in a suite of policy and procedural materials, which are subject to periodic review. The ANAO has established a sound planning process for its performance audits, which effectively captures the high-level overview of the audit rationale, objectives, scope, risks, audit criteria, milestones and resources and allows for an effective mechanism to document and communicate the audit activity. To underpin its planning and scoping processes, the ANAO has developed a suite of applications, templates, guides, procedures and policies to support the management and execution of the Audit Work Plan within available resources.

Summary Conclusion

14.   As the planning and scoping of the annual Audit Work Program and individual performance audits is being undertaken in an efficient and effective manner, this performance audit has not identified any formal recommendations for the ANAO. The audit has identified four suggested improvements at the individual audit planning and scoping level to further enhance the control framework and add to the effectiveness of the planning and scoping of individual performance audits by: formalising the existing checkpoint for the review of the Audit Work Plan early in the conduct of fieldwork; documenting internal consultation with IT Audit branch; documenting internal consultation with financial statement audit (AASG); and providing further support and training in the professional services automation system.

ANAO Response

15.   The ANAO welcomes the audit report and its conclusion that the planning and scoping of our annual work program and individual performance audits is being undertaken in an efficient and effective manner. In recent years, we have invested in our audit planning processes to ensure that our program of performance audits continues to meet the needs of the Parliament. This includes a strong focus on strengthening our performance audit policy, guidelines and processes, underpinned by an expanded learning and development program and the implementation of a knowledge portal to support auditors in both the planning and conduct of audits. The ANAO also accepts the suggestions made in the report to enhance current practices. We have already implemented three of the suggestions and will take steps to ensure that our forward program of support system training addresses the fourth suggestion.

Audit Findings
and Conclusions

1. Introduction

This chapter provides background to the ANAO's planning and scoping processes for the annual performance audit program and individual performance audits. It also outlines the objectives, scope and methodology for this performance audit.

Background

1.1   A 'performance audit' is a review or examination of any aspect of the operations of a person or body. The aim of a performance audit is to examine the economy, efficiency and effectiveness of the operations of government administration and to recommend ways in which administrative performance may be improved. A performance audit may encompass the whole or part of the operations of a body and may extend beyond a single entity, that is, performance audits can examine the operations of more than one body.[3]

1.2   The ANAO undertakes four different types of performance audits[4]:

- specific audits within an entity, of a program, activity and/or common business process that supports the delivery of outputs by the entity, such as record keeping and asset management;

- cross-entity audits that examine a specific issue or activity or control framework across a number of entities, such as workforce planning, counter-terrorism, green procurement or legal services; or the delivery of a program, such as Indigenous services, by a number of entities;

- follow-up audits, which assess to what extent an entity has implemented the recommendations of a previous audit and, where applicable, recommendations made by a parliamentary committee; and

- protective security audits, which examine particular aspects of security, including information security, personnel and physical security.

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[3] *Auditor-General Act 1997*, Division 2, Section 18.

[4] Performance Audit Manual (March 2011), p. 21.

1.3   The three foundation elements that underpin the performance auditing within the ANAO are:

- the *Auditor-General Act 1997*. The Auditor-General is responsible for financial and performance audits of all Commonwealth agencies, authorities, companies and subsidiaries; except for performance audits of Government Business Enterprises (GBEs), which can only be undertaken if they are requested by the responsible Minister, the Minister for Finance or the JCPAA;[5]

- **ANAO Auditing Standards,** which are set by the Auditor-General. All ANAO staff must comply with these standards as the minimum standards of professional audit work expected of staff of the ANAO. These standards were most recently issued in June 2009;[6] and

- **ANAO policies,** which represent the minimum requirements that must be complied with in the planning and conduct of all performance audits and are drawn from the Auditor-General's mandate.[7]

1.4   These elements are explained in the Performance Audit Manual (PAM) along with guidance and explanatory material for ANAO staff. These elements are discussed in further detail below.

Auditor-General Act 1997

1.5   In undertaking performance audits, the audit team should have a detailed knowledge and understanding of the Act, particularly those relating to the:

- creation of the Office of the Auditor-General;

- establishment of the ANAO;

- audit mandate of the Auditor-General;

- definition of a performance audit;

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[5] *Auditor-General Act 1997*, Part 4, Div. 2.

[6] *Auditor-General Act 1997*, Section 24.

[7] Performance Audit Manual (March 2011), p. 11.

- establishment of the requirement for the ANAO Auditing Standards; and

- the ANAO's relationship with Parliament, particularly the JCPAA.

Standard on Assurance Engagements ASAE 3500 Performance Engagements

1.6 The ANAO has adopted the Auditing Standards issued by the Auditing and Assurance Standards Board (AUASB). The key standards applicable to performance audits are:

- ASAE 3500: Performance Engagements;

- ASAE 3100: Compliance Engagements; and

- ASAE 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

1.7 Relevant requirements of additional auditing standards also apply, for example, Australian Auditing Standard (ASA) 230: *Audit Documentation*, ASA 500: *Audit Evidence* and ASA 520: *Analytical Procedures*.

1.8 It should be noted that in the event of an inconsistency between a provision in the ANAO's Auditing Standards and a provision in the Act or other legislation, the legislative provision prevails.

Performance Audit Manual

1.9 The PAM outlines the policies and guidance in relation to performance audits undertaken by PASG. It is made up of two main components—the first covering elements relating to the delivery of audit programs, and the second covering the key phases in the performance audit life cycle (including planning and scoping).

1.10 Specifically, the PAM covers the planning and scoping elements in two sections. The first is 'Pre-Audit: Strategic planning phase' which outlines the process of developing the annual Audit Work Program; and the second is 'Pre-Audit: Start-up phase' which covers the planning of individual performance audits.

1.11 Relevant to this performance audit are the following sections with the PAM:

- Complying with our mandate (Section A1);

- Pre-Audit: Strategic Planning Phase (Section B1); and

- Pre-Audit: Start-up Phase (Section B2).

Relevant PASG policies

1.12 A number of policies have been developed in relation to performance audits carried out by the ANAO. They represent the minimum requirements that must be complied with in the planning and conduct of all performance audits.

1.13 The policies draw on the mandate of the Auditor-General for performance audits and carried out on his behalf by staff employed by the ANAO under the *Public Service Act 1999* (PS Act) or persons engaged under the *Auditor-General Act*. The policies also reflect the requirements of the applicable Auditing Standards and accepted practices in the conduct of performance audits.

PASG annual Audit Work Program (Blue Book)

1.14 The annual Audit Work Program—also known as the Blue Book—is published in July each year and sets out a program of proposed performance audit topics as at 1 July each year.

1.15 The Blue Book is a rolling program of performance audits that is reviewed and updated each year to ensure it meets the needs of Parliament and enables the ANAO to achieve its outcomes. The program is provided to portfolio agencies and parliamentarians, and is accessible from the ANAO's website.

The audit

Audit objectives

1.16 The objective of this performance audit was to consider, at the annual performance audit program level and individual performance audit level, the process for planning and scoping performance audits within the ANAO. Using guidance from the Standard ASAE 3500–Performance Engagements[8] and the Act, this performance audit examined:

- annual performance audit program planning:

  - the ANAO's annual performance audit planning process (including the prioritisation, coverage, risks and drivers of audit topics). Consideration of the ANAO annual Audit Work Program July 2010, was undertaken. Consideration of how emerging risks/topics are addressed by the ANAO as part of this process was also undertaken;

  - the PASG's allocation process in relation to resources and costs (budgetary aspects and funding to the PASG);

  - the tools and systems used to assist the ANAO in planning and scoping performance audits; and

  - the interactions/communication with Parliament/JCPAA in relation to performance audit planning and scoping.

- individual performance audit planning:

  - the individual performance audit planning process (including scoping and identification of scope limitations, planning each detailed audit topic, development of audit assertions, identification of risks and relevant stakeholders);

  - the planning for allocation of resources and timing associated with each audit topic to meet key milestones;

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[8] Standard on Assurance Engagements ASAE 3500 – Performance Engagements (July 2008), Issued by the Auditing and Assurance Standards Board.

– the tools, systems and available resources used to assist the ANAO performance audit staff to plan and scope audit topics; and

– a sample of performance audits was selected to determine whether the planning and scoping was undertaken in accordance with defined methodologies and to identify potential efficiencies.

Audit scope

1.17 The scope for this performance audit was developed after consultation with key stakeholders and consideration of a number of ANAO performance audit-related documents.

1.18 Stakeholders interviewed as part of the scoping process included:

- the Auditor-General and the Deputy Auditor-General;

- PASG Group Executive Directors (GEDs); and

- members of the ANAO Audit Committee (including the Chair).

1.19 The planning process identified that the scope for this performance audit would consider:

- high-level aspects from the annual performance audit program planning and scoping processes including a high-level comparison against the Canadian OAG planning process (noting there are differences in the conduct of audits and the structure of the offices); and

- sampling of performance audits and only considering the planning and scoping phase of individual performance audits.

1.20 This performance audit did not:

- consider the outcome of performance audits;

- examine working papers, reports, methodologies or the ongoing management of audits that relate to phases after planning and scoping; or

- examine assurance reviews or the development of BPGs.

1.21 Fieldwork was limited to interviews with key staff from the ANAO and key stakeholders and the consideration of relevant documentation and information provided.

Audit methodology

1.22 This performance audit was conducted in accordance with Australian Auditing and Assurance Standards, specifically relating to Performance Engagements (ASAE 3500). To achieve the objectives and conclude on the objective of the performance audit, this performance audit was undertaken in accordance with an audit program.

1.23 During the course of the audit interviews were held with:

- the Deputy Auditor-General;

- the Secretary of the JCPAA;

- PASG GEDs;

- PASG Executive Directors (EDs) with responsibility for the following Portfolios:

    – Immigration and Citizenship / Attorney-General / Australian Customs and Boarder Protection Service / Foreign Affairs and Trade;

    – Agriculture Fisheries and Forestry / Resources, Energy and Tourism / Broadband Communications and the Digital Economy / Climate Change and Energy Efficiency / Sustainability, Environment, Water, Population and Communities / Innovation, Industry, Science and Research;

    – Human Services / Families, Housing, Community Services and Indigenous Affairs; and

    – Cross Agency Audits focussed on key business processes.

- the Business Manager, PASG;

- the Chief Finance Officer, ANAO;

- the A/g ED, IT Audit Branch; and

- PASG Audit Managers responsible for managing the five selected (sample) ANAO performance audits.

1.24 The focus of interviews and the review of key documentation was to:

- understand the annual performance audit program planning process (including obtaining the current year's plan, approval and relevant prioritisation and risk-based planning that has occurred);

- understand how the resource allocation of performance audits (staff, costs and funding) within the PASG is managed, including how subject matter experts (SMEs) and external contractors are engaged;

- consider the PASG tools and systems used to assist in the planning and scoping of performance audits and processes in place to ensure ANAO staff undertaking audits do not have conflicts of interest; and

- understand the communication and relationship with the JCPAA and AASG with regard to audit planning and scoping.

1.25 In addition, at the individual performance audit level, the focus was to:

- consider the process for planning and scoping individual performance audits with consideration of risk assessments and engagement of stakeholders. This included consideration of compliance against the PAM and Procedural Rules developed by PSB;

- consider how individual performance audits are planned, capturing how timeframes are set and key milestones determined;

- gain an understanding of the tools and systems that are utilised by the PASG staff, to determine their effectiveness and efficiency for planning and scoping; and

- understand the methodology employed to plan and scope performance audits and, through a sample of audits, determine whether this is being efficiently and effectively applied.

1.26 Five individual performance audits were selected as part of a sample for testing against the key planning and scoping requirements established

within the PAM. The selection of five audits is approximately representative of 10 per cent of the total annual performance audits tabled in Parliament by the ANAO.

1.27 The key testing elements are included in **Chapter 3, Table 3.2** and **Table 3.3.**

Report structure

1.28 The audit report is structured as follows:

Chapter 2 **Annual Performance Audit** **Program Planning and Scoping**	Examines the annual performance audit program planning and scoping processes, including the following: • annual planning process; • allocation of resources and costs; • tools and systems utilised; and • interactions/communication with Parliament/JCPAA and others.
Chapter 3 **Individual Performance Audit** **Planning and Scoping**	Examines the individual performance audit planning and scoping processes, including the following: • individual performance audit planning and scoping process; • allocation of resources and timing of audits; • tools and systems utilised; and • results of testing a sample of individual performance audits.

2. Annual Performance Audit Program Planning and Scoping

This chapter describes the processes and procedures employed by the ANAO to plan and scope the annual Audit Work Program.

Annual planning process

2.1   At the highest level, the ANAO's Blue Book describes the annual audit coverage. This outlines the:

- strategic and integrated approach to audit planning;

- portfolio/agency audit strategy overviews;

- performance audits in progress as at the time of publication;

- rolling program of potential performance audits and better practice guide topics that will be undertaken; and

- Australian Government entities subject to financial statement audit coverage.

2.2   In developing the Blue Book, the ANAO adopts an ongoing and integrated approach to the planning of its financial statement, performance audits and related products. In this context, the ANAO endeavours to maintain a balance between planning and delivering products that address the key risks and challenges facing the Commonwealth public sector and individual entities, while also producing contemporary products that are responsive to a changing environment, stakeholder requests and cover matters of public interest.

2.3   The consultation process for the development of the Blue Book is detailed in **Paragraph 2.16 to Paragraph 2.23**. In summary, the process follows a consultative approach taking into consideration parliamentary priorities (through the JCPAA) and the input from Chief Executives of entities and other key stakeholders. The development of the Blue Book involves the conduct of an environmental scan to identify key risk and challenges and the development of an in-depth understanding of the entities' operations:

- conducting an environmental scan of key risks and challenges to public administration:

  – This was observed in the planning day the Independent Auditor attended, during which the key risks and issues relating to the relevant Portfolios within the specific PASG branch were discussed and used as a basis for identifying potential audit topics.

  – Representatives from the AASG financial statements team were in attendance and provided input into the planning process and topic identification process.

  – Each PASG Audit Manager discussed their assigned entities and noted that information was sourced through the entities' corporate documents: Portfolio Budget Statements (PBSs); relevant reports by review bodies and parliamentary committees; media and press releases; and Hansards. Audit Managers also obtained information from previous audit activity, which may involve liaison with industry associations, consumer bodies, contracted service delivery organisations, and recipients of services.

- understanding the operations of agencies and identifying areas that could potentially improve performance:

  – As a result of the discussion at the planning day and environmental scan, the PASG branch team members identified a list of potential audit topics that would then be refined and prioritised by the ED based on criteria of potential audit benefits; financial materiality; risks to reputation and service delivery; and extent of previous audit coverage. Each of these criteria is further defined in the Blue Book.

  – This list is then provided to the GEDs, the Deputy Auditor-General and the Auditor-General for comments, refinement and approval.

  – Draft topics are then provided to the JCPAA and to entities for comment.

  – Once approved by the Auditor-General, this forms the basis of the Blue Book.

2.4 There was rigour around the planning and scoping aspects of the Blue Book development process. The process to identify audit topics was structured—'top-down and bottom-up', whereby key PASG team members participate in planning sessions to share knowledge. The ANAO Executive (including the Auditor-General) provides oversight of, and input into, this process. In addition, the process was targeted towards higher priority audit topics, therefore, focusing audit effort and resources towards higher-risk audits.

2.5 **Diagram 2.1** reflects the process which is followed by the ANAO in undertaking the planning and scoping of the annual Audit Work Program.

Diagram 2.1

The ANAO planning and scoping process – the development of the annual Audit Work Program (Blue Book)

Development of the Annual Audit Work Program

PASG planning strategy and consideration by EBOM of environmental scan

Key considerations
- Portfolio risks
- Parliamentary comments
- Environmental scans to identify challenges and risks to Commonwealth public administration
- Previous audit findings and coverage
- Factors for selecting individual audits
- ANAO Capacity (including estimated branch staffing and budget available to complete the Annual Audit Program)

PASG/AASG planning meeting to discuss directions and potential topics (Each branch holds their individual planning day meeting)

Key sources of information:
- Entity corporate documents
- JCPAA and other Parliamentary committee reports
- Hansard
- Ministerial Statements and press releases
- Budget papers, including PBS Ombudsman and APSC reports

Details of potential topics for the following financial year entered into relevant PASG planning systems and submitted to Executive for consideration

Draft topics provided to the JCPAA and to entities for input

Consideration by the Executive Board of Management of proposed program and budget

Comments received from JCPAA and entities received and considered

Final work program submitted to the Executive for approval

Approved audit work program provided to the JCPAA, Ministers, other Parliamentarians and entities, and made available on the ANAO's website

Source: Analysis of data provided by the ANAO.

International comparison of the planning and scoping process between the ANAO and the Canadian Office of the Auditor General

2.6 **Table 2.1** provides a high-level comparison between the ANAO and the Canadian OAG in relation to the scoping and planning of performance audits (noting that this comparison is only for elaboration purposes due to the fact that differences exist between the ANAO and the Canadian OAG). It should be noted that there is only a limited number of Audit Offices internationally that have adopted international auditing standards in the undertaking of performance audit activities, of which, the ANAO is one, as is the Canadian OAG.

2.7 Key high-level observations in relation to the average number of performance audits completed for each office for the past three years are as follows:

- **ANAO**—producing between 45 and 55 performance audits. In addition the ANAO currently produces the following audit products: Financial Statement audit opinions (and other regulatory assurance reports); Better Practice Guides; and the Defence Material Organisation (DMO) Major Projects report; and

- **Canadian OAG**—producing between 26 and 33 performance audits. In addition the Canadian OAG also produces/undertakes: Financial Audits; Special Examinations; Sustainable Development Monitoring activities; and Environmental Petitions and Assessment of Agency Performance reports.

Table 2.1

High-level comparison of the planning and scoping process between the ANAO and the Canadian OAG

ANAO	Canadian OAG
• Majority of performance audit topics are determined through the Annual Audit Work Program planning process. • The process is an ongoing and integrated approach to the planning of the ANAO's financial statement, performance audit and related products. In this context, the ANAO endeavours to maintain a balance between planning and delivering products that address the key risks and challenges facing the Commonwealth public sector and individual entities, while also producing contemporary products that are responsive to a changing environment, stakeholder requests and cover matters of public interest. • The process is a rolling risk-based exercise generally conducted at the portfolio level.	• Majority of performance audit topics are determined through the OAG's one-pass planning process. • This process is aimed at ensuring that resources are focussed on the areas of highest significance and risk, and to provide assurance to Parliament that the office is fulfilling its responsibilities. • The process is a risk-based long-range planning exercise generally conducted at the entity level.
The ANAO and Canadian OAG are closely aligned	
• The outcome of the process is the Blue Book which identifies proposed performance audits to be conducted as a rolling-forward plan. • The Blue Book is reviewed annually.	• The outcome of the process is a One Pass Plan (OPP) that identifies proposed performance audits to be conducted over the next five years. • The OPP is reviewed periodically and at the completion of each audit.
The ANAO and Canadian OAG are closely aligned	
• Audit topics may also be selected in response to requests from stakeholders, including Ministers and Parliamentary committees, or identified as a priority area by the Auditor-General or as a result of discussions by the PASG planning meetings.	• Audit topics may also be selected in response to a request from the Government or a parliamentary committee, or identified as a priority area by the Auditor General or as a result of discussions by the OAG Executive at its annual planning meeting.
The ANAO and Canadian OAG are closely aligned	

• Audit teams plan a performance audit based on the topic outlined in the Blue Book.
 	
• This planning process involves:
 	
  – gaining an understanding of the subject matter of the audit;
 	
  – establishing the audit scope, objective, criteria and resource requirements;
 	
  – developing the audit approach; and
 	
  – notifying the entity of the proposed audit.
	• Audit teams plan a performance audit based on the topic outlined in the OPP.
	
	• This planning process is referred to as the survey phase and involves:
	
	  – gaining an understanding of the subject matter of the audit;
	
	  – establishing the audit scope, objective, criteria and resource requirements;
	
	  – developing the detailed audit steps; and
	
	  – notifying the entity of the proposed audit.

ANAO	Canadian OAG
The ANAO and Canadian OAG are closely aligned	
• The planning process results in the AWP. • The AWP outlines the key elements of the audit, such as the audit objectives, scope, approach, criteria, risks, resources and milestones. • Generally planning is limited to 150 hours (which equates to approximately 5 per cent of the average of 3,000 budgeted hours for an ANAO performance audit), however, additional familiarisation can be undertaken in the initial stage of fieldwork.	• The planning process results in an audit plan, which includes an audit logic matrix. • The audit logic matrix outlines the key elements of the audit, such as the audit objectives, lines of inquiry, criteria, questions, methodology and potential sources of data. • Around 40 per cent of the average 8,000 hours budgeted for each audit is dedicated to the survey phase.
In relation to the planning hours, the ANAO limits the planning to approximately 5 per cent when compared to the Canadian OAG of 40 per cent of the allocated budget. This is outlined for high-level comparison purposes only, noting that the ANAO and Canadian OAG structures are significantly different, produce diverse products and are funded differently. *In addition, whilst the number of planning hours varies between the two offices, the number of hours allocated will be influenced by accumulated entity knowledge and the approach to continuous planning.*	
• Audit criteria guide the approach to achieving the audit objective and scope. • The audit team should identify or develop criteria that are consistent with the objective of the audit and suitable for evaluating the subject matter. • Sources of criteria include legislation, government policy, standards established by recognised bodies of experts, and generally accepted better practice.	• Audit criteria are the benchmarks against which a subject matter is audited. • The audit team should identify or develop criteria that are consistent with the objective of the audit and suitable for evaluating the subject matter. • Sources of criteria include legislation, government policy, standards established by recognised bodies of experts, and generally accepted better practice.
The ANAO and Canadian OAG are closely aligned	

Source: Office of the Auditor General of Canada, International Peer Review of the Office of the Auditor-General of Canada, May 2010.

Allocation of resources and budget

2.8   The process to allocate funds to the ANAO is well-established and is undertaken through an annual submission to the JCPAA based on key deliverables within the ANAO's PBS and presented to Parliament.

2.9   Based on each group's historical expenditure information, an allocation of group funding is approved by the ANAO Executive Board of Management (EBOM)—this is considered the top-down budgeting process.

2.10   GEDs, EDs and the PASG Business Manager compile a PASG budget in line with branches' structure. The PASG Business Manager liaises with the relevant branch EDs in aligning the internal budgeting requirements with the audits planned for delivery during the upcoming financial year and the

branch's staffing profile—this is considered a bottom-up component of the budgeting process.

2.11 The budget for the group is then adjusted where required and approved by the PASG GEDs.

2.12 The budget is formally reviewed on a quarterly basis to ensure that any re-prioritisation of audit topics within the set budget can be accommodated. This provides flexibility around allowing for any emerging audit topics or requests made by Parliament to be considered and funded if agreed to be undertaken by the Auditor-General.

2.13 **Table 2.2** provides a snapshot of the number of audits, staff and budget allocated to PASG over 2008–2009, 2009–2010 and 2010–2011 (planned):

Table 2.2

Overview of the number of audits, staff and budget allocated to PASG

PASG	2008–2009	2009–2010	2010–2011
Total Audits completed/planned	48	50	56 (planned)
Total Funding/Budget in million AUD	25.287 *	28.130 *	32.337 (budget) *
Staff / Full time Equivalent (FTE)	118.87	138.44 **	148.37 (budget) ‡

*   includes an allocation for corporate costs and funding for audit products including: BPGs; annual assurance reviews; and independent reviews of government advertising (2008–09 to 2009–10)
**   including 20 FTEs transfer in the last 6 months from the Office of Evaluation and Audit—Indigenous Programs (OEA)
‡   including staff of the OEA

Source: Analysis of data provided by the ANAO.

2.14 In 2009–10, a New Policy Proposal (NPP) was put forward by the ANAO to enhance professional capability (approximately $20 million over four years). This proposal sought to increase the IT audit and specialists capability within the ANAO, restore the number of performance audits undertaken each year (from 45 in 2008–09 to over 50 in 2009–10), and to improve technical support and quality assurance capability.

Support systems and guidance materials

2.15 The ANAO has established a suite of appropriate applications, templates, guides, procedures and policies to support the management and execution of the annual performance audit program planning and scoping processes. Key systems and tools were primarily used by PASG as part of the planning and conduct of individual performance audits. Refer to **Chapter 3, Table 3.1** for detail.

Consultation with stakeholders

2.16 As noted earlier, the consultation process for the development of the Blue Book involves consulting with Parliament, entities and other stakeholders.

2.17 While the Auditor-General has ultimate discretion over the areas subject to performance audit, the ANAO has adopted a consultative approach to planning and developing the Blue Book, taking into consideration parliamentary priorities (through the JCPAA) and the input from Chief Executives of entities and other key stakeholders.

2.18 The ANAO consults with the JCPAA as part of the development of the Blue Book each year to identify parliamentary priorities and areas of concern. In obtaining the Parliament's audit priorities, the JCPAA plays a coordination role in collecting this information from the various parliamentary committees and then provide the ANAO in writing with the Parliament's audit priorities. This high-level audit topic identification process is formalised and operational.

2.19 In addition, the ANAO on a monthly basis communicates formally to the JCPAA advising them of the Audit Work Plans that were approved in the previous month. This extends to the ANAO inviting the JCPAA to provide any early input into this process. This regular communication process was adopted in July 2008 and is considered effective.

2.20 In discussions with the Secretary of the JCPAA, it was noted that the working relationships between the ANAO and the JCPAA is facilitative and the information provided by the ANAO is robust and of high quality.

2.21 The ANAO also provides briefing and advice to parliamentary committees, parliamentarians and the JCPAA on new performance audit topics as required. This advice is timely and of good quality.

2.22 It was noted that there was broad communication and consultation undertaken internally and externally with key stakeholders to capture emerging topics and ensure their input has been considered. At the stage of developing the Blue Book, the internal communication is primarily focussed on engagement of AASG in the planning sessions of each branch within PASG. The ANAO also engages with external SMEs to inform the development of Portfolio strategies and specific audit topics, with experts attending formal planning day sessions to present to ANAO staff.

2.23 Further internal consultation and communication is undertaken at the time of planning and scoping individual performance audits and is discussed in detail in **Chapter 3, Paragraph 3.19 to Paragraph 3.29**. **Diagram 2.2** outlines the key stakeholders that provide input into the development of the Blue Book.

Diagram 2.2

ANAO planning and scoping – stakeholder communication and engagement

Other Parliamentary committees, particularly the Senate Finance and Public Administration Committee and the House of Representatives Finance and Public Administration Committee, can also review ANAO performance audit reports and conduct inquiries that draw on the ANAO's work.

The Parliament is the ANAO's primary client and the JCPAA is the ANAO's primary point of contact with the Parliament. The JCPAA is a joint statutory committee of the Parliament that has a special relationship with the ANAO. Duties of the JCPAA are outlined in Section 8 of the Public Accounts and Audit Committee Act 1951.

The Auditor-General has complete discretion in the performance or exercise of their functions / powers, subject to the Auditor-General Act and other laws of the Commonwealth. When developing the annual audit work program (Blue Book), the Auditor-General must have regard to the audit priorities of the Parliament / JCPAA.

Information is also obtained from within the ANAO through discussions with AASG and the ANAO Executive. PASG and AASG audit teams are to agree on the strategic risks and broad areas of audit coverage for each portfolio in planning performance and financial audit work programs for the forthcoming year.

The PASG Group Executive Directors and Executive Directors have key involvement and input throughout the process of scoping and planning at both levels – PASG and individual audits.

PSB undertakes analysis of new developments in any applicable auditing and professional standards and legal and regulatory requirements and, in consultation with PASG, how they are to be incorporated into PASG policies, guidance and audit methodology. A review of PAM will be undertaken at least once every six months.

Parliament / Other Parliamentary Committees

JCPAA

ANAO

Auditor-General & Deputy Auditor-General

AASG and IT Branch

PASG AWP / Blue Book

PASG Group Executive Directors & Executive Directors

Professional Services Branch

Internal Stakeholders

Entities / Australian Government Agencies

Other Bodies & Experts

External Stakeholders

Portfolio agencies are formally consulted in developing the annual audit work program and their views are to be taken into account in developing the final program.

Other government bodies (e.g. Productivity Commission, Privacy Commissioner and the Ombudsman), central agencies (e.g. Department of the Prime Minister and Cabinet), industry groups, & consumer groups

Source: Analysis of data provided by the ANAO.

Conclusion

2.24 The documented processes, extensive consultation and targeted audit priority are being undertaken in an efficient and effective manner. There was:

- rigour and established processes;

- extensive communication and consultation undertaken internally and externally (including the JCPAA) with key stakeholders to capture emerging topics and ensure their input had been considered;

- well-established processes around the allocation of funds through an annual submission to the JCPAA based on key deliverables within the PBS and presented to Parliament;

- structured processes in place for topic identification (top-down and bottom-up) whereby key PASG team members undertake planning sessions and share knowledge. In addition, the ANAO Executive (including the Auditor-General) provide oversight of, and input into, this process;

- targeted audit attention towards higher priority audit topics based on factors such as potential benefits of the audit; financial materiality; risks to reputation and service delivery; and previous audit coverage; and

- a suite of appropriate ANAO applications, templates, guides, procedures and policies to support the management and execution of the annual performance audit program planning and scoping processes.

2.25 This performance audit has not identified any recommendations or suggested improvements for the annual performance audit program planning and scoping process.

3. Individual Performance Audit Planning and Scoping

This chapter describes the processes and procedures that are undertaken to plan and scope individual performance audits.

Planning and scoping process

3.1   Generally, performance audits are selected from the Blue Book, and from time to time audit topics are requested by parliamentary committees or Ministers as a means to examine a matter related to public administration at the Federal level. While requests from the Parliament and/or Ministers are accorded high priority, the Auditor-General has ultimate discretion over the areas subject to performance audit.

3.2   Once a performance audit is selected, the EDs allocate individual audits to an Audit Manager, who has primary responsibility for the planning and implementation of individual audits. The nature and extent of audit planning will vary according to the size and complexity of the audit.

3.3   The allocation of resources to audit planning is up to 80 hours where there exists a high level of familiarity with the subject matter and the entity. However, in cases where it is required to gain sufficient knowledge of the audit activity, the allocation of resources is up to 150 hours in total. In either case, the Audit Manager must obtain approval from the responsible GED before any planning work commences and the audit team is required to plan the audit so that it is conducted effectively, and achieves the anticipated audit objectives.[9]

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[9] Performance Audit Manual (March 2011), pp. 65, 66.

3.4   The first step in planning a performance audit is the development of an Audit Work Plan (AWP). The AWP is a key ANAO document for planning, controlling and monitoring performance audits.[10] The minimum contents of an AWP include:

- audit background and rationale;

- audit objective;

- audit scope;

- audit criteria;

- performance audit risk and risks to the audit's successful outcome;

- a risk matrix;

- resourcing for the audit including estimated costs and duration of the audit; and

- the estimated tabling date.

3.5   As a starting point for the preparation of the AWP, information already available within the ANAO is reviewed. Such information may have already been collected as part of the ANAO's annual planning process, as part of another performance audit, or by AASG as part of the annual audit of an entity's financial statements. Background information is also sourced from public or external sources to the entity. In addition, the audit team generally meets with the entity, including its internal audit function, and obtains and reviews documentation.[11]

3.6   Once the AWP is drafted it is then provided to the responsible ED and GED for review and agreement, then provided to the Deputy Auditor-General for approval. High-risk audits and audits not in the Blue Book require the approval of the Auditor-General.

3.7   Once agreed and approved, the AWP provides the authority to conduct the audit and to expend the budget; however all the elements of the AWP

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[10] Performance Audit Manual (March 2011), p. 74.

[11] Performance Audit Manual (March 2011), p. 70.

should be kept under review throughout the conduct of the audit to ensure their continued relevance to the purpose of the audit.

3.8 Significant forecast changes to the audit budget or timeframes that are not as a result of changes to the audit objective or the audit scope must be advised to the responsible GED and reflected in ChangePoint PSA[12] in a timely manner.[13]

3.9 The Deputy Auditor-General would be consulted in circumstances where the AWP proposes a significant variation to the audit objectives, audit scope and any significant consequential changes to the audit budget or timeframe.[14]

3.10 **Diagram 3.1** reflects the process which is followed by PASG in undertaking the planning and scoping of individual performance audits.
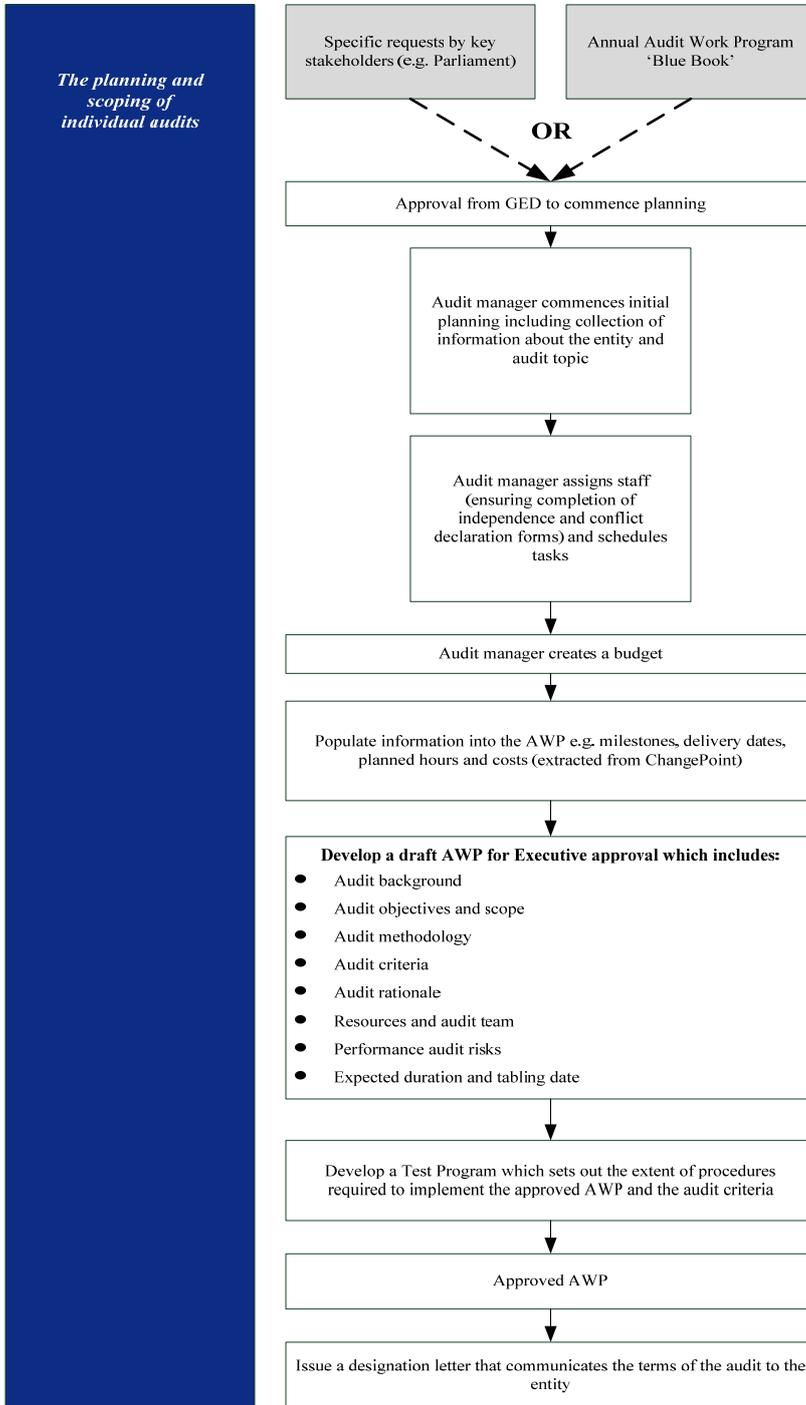
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[12] ChangePoint PSA is a management information system used by the ANAO that assists in the capture of individual audit budget and actual hours charged, and producing reports for Executive considerations.

[13] PASG Policy 28: Performance Audit Manual (March 2011), p 92.

[14] PASG Policy 29: Performance Audit Manual (March 2011), p 92.

Diagram 3.1

The ANAO planning and scoping process of individual audits

The planning and scoping of individual audits	

Specific requests by key stakeholders (e.g. Parliament)

Annual Audit Work Program 'Blue Book'

OR

Approval from GED to commence planning

Audit manager commences initial planning including collection of information about the entity and audit topic

Audit manager assigns staff (ensuring completion of independence and conflict declaration forms) and schedules tasks

Audit manager creates a budget

Populate information into the AWP e.g. milestones, delivery dates, planned hours and costs (extracted from ChangePoint)

Develop a draft AWP for Executive approval which includes:
- Audit background
- Audit objectives and scope
- Audit methodology
- Audit criteria
- Audit rationale
- Resources and audit team
- Performance audit risks
- Expected duration and tabling date

Develop a Test Program which sets out the extent of procedures required to implement the approved AWP and the audit criteria

Approved AWP

Issue a designation letter that communicates the terms of the audit to the entity

Source: Analysis of data provided by the ANAO.

3.11 The PAM[15] provides that the AWP is prepared for each performance audit based on a sound understanding of the entity and activities to be audited and on the outline of the audit high-level scope published in the Blue Book.[16]

3.12 In addition, an AWP should contain the audit rationale, objective, audit criteria, scope, approach, risks, resource requirements and the audit timeline. This provides a framework to:

- distinguish between the planned audit activity itself and identifying and assessing the risks around the activity's efficiency, effectiveness and economy;

- develop suitable audit criteria;

- target sources of relevant evidence;

- identify performance audit risks;

- identify the need for specialist skills or the work of an expert; and

- estimate resource requirements.[17]

3.13 A sound understanding and knowledge of the entity and activities to be audited assists in the preparation of the AWP, particularly in:

- defining the audit objective, scope and criteria;

- identifying resource requirements;

- identifying auditability of the audit topic; and

- identifying the approach and procedures required to achieve the audit objectives.

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[15] The PAM outlines the policies and guidance in relation to performance audits undertaken by PASG. Refer to Chapter 1, Para 1.9 to 1.11 of this report.

[16]'Blue Book' is a rolling program of performance audits reviewed and updated each year to ensure it meets the needs of Parliament and enables the ANAO to achieve its Outcomes. Refer Chapter 1, Para 1.14 to 1.15. of this report.

[17] ASAE 3500 Para 38.

3.14   Audit criteria are reasonable and attainable standards of performance against which the extent of administrative effectiveness, efficiency or compliance aspects of an entity's programs or activities can be assessed. They reflect a desirable (normative) model for the subject matter being reviewed. They represent good practice and a reasonable expectation of what should be.[18]

3.15   At the commencement of a performance audit, the audit team should have at least a broad understanding of the entity and the audit activity which is developed and enhanced as further information is acquired during the course of the audit.[19]

3.16   In addition, within six weeks following the commencement of the delivery phase of an audit, the responsible ED shall review the risk profile for the audit and, in those cases where the risk profile has changed since the AWP was approved, advise the GED (and the ANAO Executive where it affects the audit objective or scope) of the change and the proposed treatment.[20]

3.17   It has been identified that in two individual performance audits sampled the audit criteria identified at the start of the audit changed during the audit. Given the dynamic environment within which performance audits are undertaken, audit criteria can at times be refined during the course of an audit. The formality of a six-week review can be utilised to inform the ED and the GED of any changes to the audit risk profile (timeline, budget and resources) and provide the audit team with the opportunity to reflect on the audit objective, scope and criteria in light of any information obtained to date on the audit activity which may warrant a change to the focus of the audit objective, scope or criteria.

3.18   *It is suggested that the ANAO:*

- *introduces (based on Policy 17 of the PAM) an individual performance audit-level 'checkpoint' six weeks following the commencement of audit fieldwork. This checkpoint will allow refinement to the audit objective, scope or criteria to be made, based on information obtained; and*

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[18] Performance Audit Manual (March 2011), p. 79.

[19] Performance Audit Manual (March 2011), p. 68.

[20] PASG Policy 17: Performance Audit Manual (March 2011), p. 84.

- *reviews the operational effectiveness of this 'checkpoint' recommendation and assesses whether it is realising the intended benefits. Given that the ANAO has the review capability through its Quality Assurance (QA) function (undertaken by PSB), it is suggested that this forms part of future QA considerations.*

ANAO comment. The ANAO accepts these suggestions for improvement and has implemented a formal checkpoint. Our Professional Services Branch will review the operational effectiveness of this formal checkpoint as part of its annual Quality Assurance reviews of our performance audit program.

Communication and consultation

3.19 While it was observed that the communication and engagement between PASG and AASG is sound (largely through the involvement of AASG at planning days[21] and engagement at the GED level), engagement with AASG varied according to the performance audit topic being reviewed at the individual performance audit level.

3.20 In accordance with established policies, performance audit teams should discuss proposed audits with AASG and consider financial statement audit findings during the development of the annual Audit Work Program and in the planning and conduct of individual audits[22]. The audits undertaken by AASG are financial statement-based in nature and are focused largely on risk of materiality and financial misstatement. Therefore they do not necessarily cover the range of all programs undertaken by entities. The early involvement of AASG is, however, considered to be a source of information and input into the planning phase of individual performance audits. The joint preparation of periodic ANAO status reports for entity audit committees, which cover both financial statement and performance audit activity, provides an additional avenue of communication between the two service groups.

3.21 It was acknowledged through this performance audit that where an individual performance audit had direct relevance to a financial topic (e.g. through review of assets or debt recovery) the communication and

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[21] A meeting where key risks and issues relating to the relevant Portfolios within the Branch are discussed and used as a basis for identifying potential audit topics for inclusion in the Blue Book.

[22] Performance Audit Manual (March 2011), p. 104.

consultation between PASG and AASG at the Audit Manager level was continuous and effective. However, where an individual performance audit did not have a direct relation to a financial topic, the involvement and consultation between PASG and AASG at the Audit Manager level was less evident or not undertaken.

3.22 While AASG has a key focus on financial statements audit, insights they may have into the entity's environment, risks, controls and relationships can be relevant to PASG in their planning and scoping of performance audits.

3.23 *It is suggested that the ANAO ensures that a specific step is built into the process of developing an AWP (through a specific section in the AWP) that provides greater visibility to the PASG Executive that consultation between PASG and AASG has been undertaken. This section should summarise the consultation undertaken to ensure complete knowledge transfer between AASG and PASG. The ANAO should undertake this process regardless of the audit topic/activity being undertaken.*

ANAO comment. The ANAO accepts and has implemented this suggestion for improvement.

3.24 Due to the in-depth nature of performance audits and the range of audit topics undertaken by PASG, the use of specialist IT skills SMEs are often required.

3.25 The ANAO has dedicated IT resources (within the IT Branch as a part of the AASG) that have been established to support both the AASG (financial statement audit) and PASG (performance audit). In addition, the ANAO has established a formal contract panel of service providers to complement PASG capability (where required).

3.26 The involvement of IT resources and SMEs in the conduct of performance audits will obviously vary depending on the topic/scope and the entity's environment. Discussions with the PASG GEDs also noted that the skills and capability of individual Audit Managers within PASG allows for a large percentage of the performance audit to be undertaken without the need for specialist expertise.

3.27 In addition, the timing and nature of engaging specialist resources will vary from one audit to another. For instance, the need to engage specialist resources for a performance audit that has clear linkages to a specialist topic should be identified and undertaken early in the planning phase. On the other

hand, it may not be readily apparent at the early planning phase that there will be a need to engage a specialist resource and therefore the engagement may reflect more of an 'on-demand' resource supplement model.

3.28 In one of the five sampled performance audits, the AWP did not identify whether there is a need to engage IT resources during the conduct of the audit. However this need has eventuated during fieldwork, which resulted in the IT Branch needing to meet this request in a shorter timeframe while accommodating existing workloads. While it is acknowledged that it is not always possible to identify the full range of capabilities to deliver an audit during the planning stage, improved visibility internally of the need for IT capability would provide additional assurance.

3.29 *IT is often, but not always, a critical component of an entities environment and is therefore worthy of consideration (including specialists) when assessing potential performance audit approaches.*

It is suggested that the ANAO ensures that a specific step is built into the process of developing an AWP (through a specific section in the AWP) that provides visibility to the PASG and AASG Executive that consultation and engagement of IT resources has been considered.

ANAO comment. The ANAO accepts and has implemented this suggestion for improvement.

Quality assurance and capturing lessons learned

3.30 The ANAO QA program is conducted annually by the PSB who assesses whether audits were conducted in accordance with the Act, the ANAO Auditing Standards and PASG policies. The results of the QA program are reported to the Auditor-General and EBOM.

3.31 The results of the performance audit 2009–10 QA program were reviewed as part of this performance audit. The 2009–10 review, which comprised a review of four performance audits and two assurance reviews, found that each of the audits and the assurance reviews were undertaken in accordance with relevant auditing standards and associated policies, although in some instances documentation of compliance with policies relating to independence in respect of assurance reviews and supervisory reviews required improvement. The reviews also identified a small number of matters

for improvement, including with respect to the presentation of audit criteria in audit reports and better documentation aspects of audit working papers.

3.32 These QA reviews provide a framework for the ANAO to identify opportunities for continuous improvements and capturing lessons learned from performance audit activity.

Allocation of resources including budgets and timing of audits

3.33 The process to determine the allocation of resources commences when an Audit Manager requests approval to undertake initial audit planning (generally capped at 150 hours). The PASG Audit Manager would then compile a budget and timeline for the audit by estimating the number of resources and hours for each audit stage and entering this information into the ChangePoint PSA tool.

3.34 The PASG Business Manager can generate PASG-level reports from ChangePoint PSA, which are provided to the PASG Executive on a weekly basis for discussion and monitoring purposes.

3.35 It is expected that audit teams submit weekly timesheets against tasks and run regular project reports from ChangePoint PSA to detail progress against the budget and timelines of their respective performance audit.

3.36 In the case that a change to the timeline or budget is foreseen, the PASG Audit Manager would issue an AWP variation and request approval from the Executive. If the changes are not justified, the audit team would exceed the budgeted cost/timeframe which is then reported in aggregate (PASG) against KPIs in the ANAO Business Plan and Annual Report.

Tools and systems utilised

3.37 The ANAO and PASG have a suite of tools and systems to support them in achieving their business and operational needs. These are outlined in **Table 3.1**.

Table 3.1

Overview of systems and tools utilised by the ANAO and PASG

System / Tool	Purpose/function
Finance One	Used as the corporate finance system, utilising a general ledger and account processing.
eHive	The ANAO's electronic record and document management system.
ChangePoint PSA	Assists in the capturing of individual audit budgets and actual hours charged, and producing reports for Executive considerations. It integrates closely with PeopleSoft and Finance One.
Knowledge Portal	Launched on 5 May 2010, the Knowledge Portal is an online facility that incorporates the ANAO PAM, performance audit documents and other material in a searchable repository. As such, the Portal combines online policy advice, practical guidance and a range of templates and pro forma to guide the conduct of audits and allow performance auditors to access real examples on how to conduct a performance audit.
PAM	Outlines the policies and guidance in relation to performance audits undertaken by PASG. The PAM has two main components—the first covering elements relating to the delivery of audit programs, and the second covering the key phases in the performance audit life cycle (including planning and scoping).

Source: Analysis of ANAO information and data.

3.38   The PASG Audit Managers should regularly monitor expenditure against the approved budget using the ChangePoint PSA tool. This is to allow for the audit progress and potential budgetary pressures to be monitored.[23]

3.39   The audit planning process is important as it establishes realistic audit milestones, allowing for the facilitation and ongoing monitoring of audit progress. The PASG Audit Managers should take account of audit risks, the size and skills of the audit team and any competing tasks or activities, such as contributing to corporate activities or training/leave of individual team members.[24]

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[23] Performance Audit Manual (March 2011), p. 36.

[24] ibid.

3.40 The ANAO limits the planning phase of a performance audit to 150 hours in order to facilitate an efficient approach to planning and sharpen the focus and outcome of this phase. Previously, the ANAO adopted a more 'open-ended' and 'uncapped' approach to planning. As a comparison, the Canadian OAG (refer **Table 2.1**) allocates 40 per cent of total budget to the planning phase. While it is recognised that the ANAO has adopted the 5 per cent limit (150-hour) approach, with the option to request additional hours with appropriate approval being obtained, either approach must be supported by adequate controls that facilitate the achievement of the appropriate outcome in the most effective and efficient manner.

3.41 In order to ensure that performance reporting accurately reflects the actual status of each performance audit, PASG Audit Managers are required to monitor progress against the agreed milestones on a weekly basis, at a minimum, and update ChangePoint PSA accordingly. The data held in ChangePoint PSA forms the basis of reporting for the PASG and the ANAO Executive.[25]

3.42 The ChangePoint PSA tool was implemented in the ANAO in February 2010. The implementation was intended to be a multi-phased approach with the first phase focusing on delivering basic functionality provided by the legacy systems. Phase two will be focused on providing enhanced Executive reporting functionality. ChangePoint PSA currently provides project costing, time recording and reporting capabilities. The effort to date has been focused on providing basic program-level reporting, which will also provide a solid basis for the additional enhancements required for phase two.

3.43 Through discussion with a number of PASG Audit Managers and testing over a sample of individual performance audits, it was identified that PASG Audit Managers utilise the ChangePoint PSA tool to varying extents in order to manage their budgets and track their activities within the key milestones that form the basis of Executive reporting. It was observed through the documentation provided for three of the five sampled audits that the ChangePoint PSA tool was capable of generating reports at the individual performance audit level to track budget, timeline and resourcing information. The Audit Managers for two of the five sampled performance audits did not utilise the ChangePoint PSA tool to generate reports and monitor progress against budget in the periods between the achievement of key milestones.

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[25] ibid.

3.44 As a relatively new tool within the ANAO, it was observed that PASG Audit Managers' understanding and competency in using the functionality within the ChangePoint PSA tool to run reports and manage/monitor their audit budgets and milestones was variable. As ChangePoint PSA is being utilised by the ANAO Executive to monitor progress of individual audits in order identify milestone and budget variances, it is important for Audit Managers to receive further support and training to allow them to effectively use the tool.

3.45 *With the phased approached to the implementation of ChangePoint PSA (with phase two still to be completed) it is critical that Audit Managers are effectively using the current system to productively monitor and manage the progress of their audits.*

It is suggested that the ANAO provides further support and training to PASG Audit Managers around the use of the ChangePoint PSA, including reporting functionalities, to allow them to report on budgets and milestones on a regular basis to their respective ED.

ANAO comment. The ANAO accepts this suggestion for improvement. Our implementation of ChangePoint PSA has included a strong focus on training. The learning and development program includes additional training in the system, with particular emphasis in the coming months on using and deriving the full benefits of the new reporting capability.

Sample of individual performance audits

3.46 Five audits were selected as part of a sample for testing against the key planning and scoping elements within the PAM in order to determine whether these elements were efficiently and effectively applied. The selection of five audits is approximately representative of 10 per cent of the total performance audits tabled in Parliament. **Table 3.2** provides the summary of the cost, duration and timeline for the five performance audits selected as part of the sample.

Table 3.2

Summary of testing of sampled performance audits-actual cost, duration and timeline.

Note: Audits 1, 2 and 4 were in progress at the time of this performance audit was being undertaken

	1	2	3	4	5
Cost (the whole audit)					
Actual (AUD)	272,633 (YTD)	24,727 (YTD)	461,475	276,373 (YTD)	375,907
Budget (AUD)	444,238	465,739	426,600	308,282	335,287
Timing (the whole audit)					
Duration	1 Sep 10 – 23 Sep 11	10 Jan 11 – 15 Dec 11	1 Feb 10 – 4 Feb 11	8 Mar 10 – 13 Dec 10	6 Nov 09 – 13 Aug 10
Actual (Hours)	2,027 (YTD)	240 (YTD)	3,782	1,815 (YTD)	1,342
Planned (Hours)	3,088	3,668	3,242	1,792	1,346
Timing (planning phase only)					
Duration	1 Sep 10 – 12 Oct 10	10 Jan 11 – 10 Feb 11	1 Feb 10 – 5 Mar 10	8 Mar 10 – 7 Apr 10	6 Oct 09 – 11 Nov 10
Actual (Hours)	487*	76 (YTD)	259**	108	76
Planned (Hours)	108	150	218	87	79

* The '*Research Task*', which may have extended beyond the planning phase, was allocated a budget of 52 hours while actual hours were 440. The '*AWP Preparation Task*' was allocated 56 hours while actual hours were 47.
** The '*Research Task*', which may have extended beyond the planning phase, was allocated a budget of 48 hours while actual hours were 90. The '*AWP Preparation Task*' was allocated 170 hours while actual hours were 169.

Source: Analysis of ANAO information and staff interviews.

3.47   **Table 3.3** is a summary of testing undertaken of the above-listed five performance audits against elements included in the PAM.

Table 3.3

Summary of testing of sampled performance audits against elements included in the PAM

Note: Audits 1, 2 and 4 were in progress at the time of this performance audit was being undertaken

Testing Elements	1	2	3	4	5
Audit Timing					
Considered Parliament's priorities, availability of qualified personnel, audit risks and entity's views regarding audit timing.	✓	✓	✓	✓	✓
Audit Commencement					
ED / GED approved the commencement of audit planning and the preparation of AWP.	✓	✓	✓	✓	✓
The audit has been undertaken based on an external request to the Auditor-General.	N/A	N/A	N/A	N/A	N/A
All team members complied with the ANAO Independence Policy. * It was noted by the Audit Manager that the requirement to complete an Independence Declaration was not mandated at the time this audit was undertaken.	✓	✓	N/A*	✓	✓
Audit Resources					
Audit budget was created.	✓	✓	✓	✓	✓
Monitoring and reporting against budget and milestones was undertaken by the Audit Manager between key decision points. [26]	×	✓	✓	×	✓
A contractor has been engaged and approval obtained. The AWP should specify the reasons why contract resources are required, their proposed involvement, and estimated costs.	✓	N/A	✓	N/A	✓
The need to engage a contractor / IT Branch was identified during the development of the AWP.[27]	×	N/A	✓	N/A	✓
The planning hours were within the budgeted hours.[28]	×	✓	×	×	✓
Information gathering					
Sufficient understanding of entity/audit activity was obtained.	✓	✓	✓	✓	✓
Information gathering and collection was cost-effective.	✓	✓	✓	✓	✓

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[26] Refer Para 3.43 of this report.

[27] Refer Para 3.28 of this report.

[28] Refer Table 3.2 of this report.

Testing Elements	1	2	3	4	5
Sources of information gathering included leveraging off information already collected as part of the ANAO's annual planning process, as part of another performance audit, or by AASG as part of the entity's financial statements audit.	✓	✓	✓	✓	✓
Discussions with the entity were held to obtain any relevant documentation / information.	✓	✓	✓	✓	N/A
Preparation of the AWP					
The AWP included audit rationale, benefits from the audit, previous audit coverage, audit objective and scope, audit criteria, audit approach, audit risks, audit timeline and key milestones, budget / costs including travel and the engagement of contractors, and the audit team.	✓	✓	✓	✓	✓
The Corporate Management Branch was consulted in considering whether legal advice was required.	N/A	N/A	✓	N/A	N/A
AWP indicated whether the audit is a high-risk audit. If yes, a Performance Audit Advisory Group was explicitly considered at the commencement of the audit.	N/A	N/A	N/A	N/A	N/A
AWP was agreed by the responsible GED and approved by the Deputy Auditor-General.	✓	✓	✓	✓	✓
For cross-portfolio audits, the scope of the audit, particularly the number or type of entities to be audited was considered.	N/A	N/A	N/A	N/A	✓
Changes to the Audit					
Explanation of a significant delay in commencing the audit was included in the AWP for Executive decision.	N/A	✓	N/A	N/A	✓
Significant forecast changes to the audit budget or timeframes were advised to the responsible GED and reflected in ChangePoint PSA in a timely manner.	N/A	✓	N/A	✓	✓
Proposed variations to the audit objectives or scope were submitted to the Deputy AG, through the responsible GED.	N/A	N/A	✓	N/A	✓
Audit Test Program					
An audit test program was prepared setting out the procedures that are required to implement the AWP.	✓	✓	✓	✓	✓
Records Management					
The approved AWP and related audit test program, records of discussion with entities and the Executive and records of review and all changes to the audit were retained.	✓	✓	✓	✓	✓

Source: Analysis of ANAO information and interviews held with staff.

Conclusion

3.48   For the individual audit level planning and scoping there was a formal, documented and effective process for planning and scoping of individual audits, through the PAM and related policies, with:

- formalities of the individual performance audit planning were captured in the individual AWPs which provided high-level overview of the audit rationale, objectives, scope, risks, audit criteria, milestones and resources and allows for an effective mechanism to document and communicate the audit activity;

- resourcing for audits based on the scope of the audit, the availability of staff and the complexity of the audit topic; and

- a number of appropriate key tools were utilised, including the ChangePoint PSA tool, e-Hive and the Knowledge Portal.

3.49   This performance audit has not identified any recommendations for the individual performance audit planning and scoping process. The audit has identified four suggested improvements to further enhance the control framework and improve the effectiveness of the planning and scoping of individual performance audits. These include:

- formalising the existing checkpoint for the review of the AWP early in the conduct of fieldwork;

- documenting internal consultation with IT Audit Branch;

- documenting internal consultation with financial statement audit (AASG); and

- providing further support and training in the professional services automation system.

Appendix

Appendix 1   Key ANAO documents and external references

In addition to the internal ANAO documentation reviewed, the following documents were referred to in completing this performance audit:

Key ANAO related documents[29]

- Australian National Audit Office, *Audit Work Program* – July 2010.

- Australian National Audit Office, *Performance Audit Manual* – March 2011.

- Australian National Audit Office, *Performance Audit Services Group Plan* – 2010–11.

- Australian National Audit Office, *Performance Auditing in the Australian National Audit Office,* 2008.

- Performance Audit Services Group, *Audit Work Plan* – 27 April 2010.

- Performance Audit Services Group, *Audit Manager ChangePoint Checklist* – September 2010.

- Performance Audit Services Group, *PASG Organisation Structure* – 26 October 2010.

- Performance Audit Services Group, *Approval to engage consultant for a Performance Audit.*

- Performance Audit Services Group, *Clearance Form.*

- Performance Audit Services Group, *Designation Letter Template.*

- Australian National Audit Office, *Performance Audit and Assurance Reviews – Executive Director Independence Confirmation.*

- Australian National Audit Office, *Performance Audit and Assurance Reviews – Independence Resolution Memorandum.*

- Australian National Audit Office, *Performance Audit and Assurance Reviews – Individual Declaration of Independence.*

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[29] All key ANAO-related documents were sourced during the fieldwork phase of this performance audit (December 2010 to March 2011).

- Australian National Audit Office, *Performance Audit IT Audit Engagement Memo.*

- Australian National Audit Office, *The Challenge of Cross Entity Audits – 'Tips and Traps for Performance Auditors'* – August 2005.

- Australian National Audit Office, *Performance Audit Services Group: Quality Assurance Report*, 2009–10.

- Australian National Audit Office, *Project Manager's Quick Reference Guide Training* (ChangePoint PSA) Version 0.2.

- Australian National Audit Office, *Portfolio Budget Statement 2010–11.*

- Australian National Audit Office, *Border Protection Branch Planning Day 2011.*

- Australian National Audit Office, *ANAO Audit Activity*, *Department of Health and Ageing, Departmental Audit Committee* – 5 April 2011.

External References

- Auditing and Assurance Standards Board, Standard on Assurance Engagements ASAE 3500 – Performance Engagements – July 2008.

- Office of the Auditor General of Canada, *International Peer Review of the Office of the Auditor General of Canada*, May 2010.