

**Report by the Independent Auditor  
of the Australian National Audit Office  
on the Results of a Performance Audit  
of “Value for Money” Provided by the ANAO**

June 2004

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24 June 2004

Dear Mr President  
Dear Mr Speaker

I have undertaken a performance audit of the Australian National Audit Office (ANAO), in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of the audit to the Parliament. The report is titled *Report by the Independent Auditor of the Australian National Audit Office on the Results of a Performance Audit of "Value For Money" Provided by the ANAO*.

Yours sincerely

Michael J Coleman  
*Independent Auditor*  
*Appointed under Section 41 of*  
*The Auditor-General Act 1997*

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# 1 Executive summary

## 1.1 Introduction

In accordance with Section 45 of the Auditor-General Act 1997, the Independent Auditor may at any time conduct a performance audit of the Australian National Audit Office (ANAO) and report in accordance with the requirements of the Act.

The Act does not require the Independent Auditor to conduct a performance audit annually; this is a requirement of the Independent Auditor's contract. The 2003 fiscal year is the second year of my second three-year contract as Independent Auditor. During my first contract, I undertook three performance audits under the following themes:

- Strategic Planning Framework (April 2000)
- Planning and Resource Allocation Processes (December 2000)
- ANAO Audit Management Process (October 2001)

In 2002, as part of my second contract, I conducted a performance audit of the Contract Management Arrangements in the ANAO (December 2002).

My performance audit reports have dealt with four phases of the planning and management activities of the ANAO. Each of these reports has indicated minor areas for improvement and my reports all support the view that the ANAO's strategic planning, individual assignment planning as well as the audit management processes employed are efficient and effective.

The specific topic of my performance report has, in the past, been discussed and agreed with ANAO management and the ANAO audit committee but in 2003 a specific request was received from the Chairman of the Joint Committee of Public Accounts and Audit (JCPAA). The Chairman suggested that, given the cost of undertaking performance audits in 2001-02 consumed \$15.267 million in ANAO resources, I should select a sample of performance audits (3) conducted by the ANAO for review and consider whether such audits represent "value for money".

To provide feedback on the value added through ANAO performance audits, it was agreed there was a need to consider the overall performance audit process rather than consider a sample of reports in isolation.

In the absence of any independent criteria for such qualitative evaluation, the Chairman of the JCPAA suggested that I apply the professional standards prevailing in current commercial audit practice, also taking into account the ANAO's own published criteria for the selection of audits.

## 1.2 Objective

To assess whether the selected audit reports represented “value for money”, I performed an independent and systematic examination of the performance audit processes in place within the ANAO from strategic planning through to the delivery of final reports.

The Commonwealth has promulgated a set of Performance Management Principles that identify the main features of good practice in performance reporting. Performance monitoring under this framework is primarily concerned with evaluating outcomes and outputs of an agency’s performance.

In considering “value for money” I focused on the Performance Management Principles and on the following criteria:

- *Effectiveness* - the extent to which the Performance Audit Services Group (PASG) reviews achieve the desired outcomes.
- *Efficiency* - the extent to which the PASG maximises the outputs produced from a given set of inputs or minimises the input cost of producing a given set of outputs.
- *Economy* - whether the PASG provides input in the most economic manner.

## 1.3 Approach

The approach to this performance audit included the following key steps:

- Identify key stakeholders, discuss approach, timing of review and agree on specifics of the review.
- Agree a definition of what constitutes “value for money”.
- Review where the context of “value for money” fits within the overall objectives of the ANAO.
- Review mechanisms to measure “value for money”.
- Review the role of the JCPAA, Parliamentarians and agencies in the assessment of the provision of “value for money”.
- Review background information around the selection and conduct of performance audits within the ANAO.

- Consider all performance audits completed during the year ended 30 June 2003 and select a sample of three performance audits to be reviewed as part of the independent audit<sup>1</sup>.
- Review the sample of performance audits and consider whether:
  - the stated objectives of the review are met;
  - the review was undertaken in a cost effective manner;
  - the recommendations have been accepted; and
  - both the agency and the JCPAA are satisfied with the results.
- Review the effectiveness of current processes in place within the ANAO to measure the contribution of performance audit outputs.
- Identify opportunities for improvement that will enhance processes within the ANAO.
- Report findings to management and seek responses.

This audit has been performed in accordance with Australian Auditing Standards applicable to performance audits (AUS806 – Performance Auditing) and accordingly included such tests and other procedures that I considered necessary in the circumstances.

## 1.4 Conclusion

My review indicates that the ANAO's overriding objective through the conduct of a performance audit is to endeavour at all times to improve public administration and accountability. The PASG seeks to achieve this in a cooperative fashion with the bodies being audited and welcomes suggestions and comments at any time. The ANAO facilitates this interaction through regular meetings during audits, post-audit surveys for a significant cross-section of performance audits undertaken and consultation on audit programs.

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<sup>1</sup> Reports reviewed:

No 27 – *Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort*

No 42 – *Managing Residential Aged Care Accreditation*

No 57 – *Administration of the Payment of Tax by Non-residents*

The question of whether the ANAO provides “value for money” is a circuitous one. The Auditor-General is independent and must make his own assessment of whatever work he considers it necessary to undertake. However, he does seek counsel from the JCPAA in the determination of the audit program for performance audits. The JCPAA in turn takes a lead role in co-ordinating parliamentary input into the program. Therefore, although it is the Auditor-General who makes the final decisions, the JCPAA has input into the program and is in a position to express its views about whether the services being delivered by the ANAO are appropriate and constitute “value for money”.

My observation is that the ANAO does provide “value for money” when assessed against these criteria. However, the way that services are currently being delivered is not necessarily the only way that “value for money” can be achieved and indeed the JCPAA is in a position to question and challenge the delivery as it sees fit. For example, over recent years, most performance audits have been performed by teams of two or three people, commonly over a period of eleven months. An alternative approach might be to amend the annual audit program so that in addition to these small scale performance audits, the Auditor-General might undertake a small number of larger projects focused on issues of major concern.

There currently is a framework for dialogue between the Auditor-General and the JCPAA. Recommendations 1 and 5 of my report suggest that the JCPAA might consider providing the Auditor-General with more specific guidance about what it considers to be the major themes facing the Parliament. The Auditor-General would then be in a position to assess his program against those themes with a view to determining whether in specific years his program might take into account specific targeted reviews using larger teams.

While my review identified some areas where minor performance opportunities exist, overall arrangements within the PASG are, in my opinion, designed to increase accountability, improve effectiveness and increase efficiencies.

**ANAO comment**

The ANAO welcomes the report and its conclusion that the ANAO does provide “value for money” in its performance audits, and that overall arrangements are designed to increase accountability, enforce effectiveness and increase efficiency.



## 2 “Value for money”

### 2.1 Definition

To consider whether any specific piece of work undertaken by the PASG or overall arrangements within the PASG represented “value for money” it was recognised by all parties involved in this review that there was a need to agree upon some definitions as to what represented “value for money” in the arena of performance auditing within the ANAO.

Research undertaken around “value for money” identified a number of books, journals and articles on the topic. “Value for money” – like performance auditing itself – is the subject of numerous and varied definitions and the analysis and debate around the definition is fraught with interpretational issues.

In his book, ‘The Overseers – Public Accounts Committees and Public Spending’, David G McGee describes “value for money” as:

*“outputs being produced as efficiently as possible with the least cost to public funds, and these outputs are delivering their anticipated benefits”*

Using McGee’s definition as a starting point, the *output* of a performance audit can be seen as the report and associated recommendations. The *delivery of anticipated benefits*, and hence “value for money”, is linked to the objectives of the review being met and delivering the anticipated benefits. This is the definition and frame of reference I have used in assessing the performance audits undertaken within the ANAO.

In determining if the outputs of the PASG are being produced as efficiently as possible with the least cost to public funds, and are delivering their anticipated benefits, I set a key task as part of this review to understand how the ANAO determines what the outputs should be.

It is worth noting that McGee also states:

*“The “cost” of democracy or the return on investment, in the sense of a PAC and an Auditor-General carrying out their functions to a high degree of effectiveness, is impossible to quantify.”*

This raises an interesting conundrum that is reflected in the research around “value for money”. The Auditor-General is an independent officer of the Parliament and independent of Executive Government. The intrinsic benefits of having an Auditor-General go far beyond the physical services delivered and this makes the measurement of “value for money” complex.

## 2.2 Context

Whether or not a particular performance audit represents “value for money” must be considered in the context of where that performance audit fits within the overall objectives of the ANAO.

The Auditor-General is independent of the Executive Government, but does consider the views of JCPAA and agencies in establishing the ANAO’s strategic direction and its annual Audit Work Program.

*“It is the JCPAA that has a key role in relation to the ongoing activities of the ANAO by advising them on the planning of the ANAO’s audit activity and in recommending the budget for the ANAO to the Parliament and the Government each year.”<sup>2</sup>*

Performance audits aim to improve public administration and as such also aim to have agencies accept the value of implementing the recommendations and suggestions for improvement made in audit reports. Whilst broad-ranging, the Auditor-General’s performance audit functions do not extend to examining or reporting on the appropriateness of Government policy.

In assessing the “value for money” provided by the PASG, it is important to consider what is being asked of the ANAO. The Auditor-General Act 1997 (Part 4, Division 2) provides the power for the Auditor-General to undertake performance audits in a variety of circumstances and report the results of audits as soon as practicable to the Parliament with a copy to the responsible Minister. The Act does not define the term performance audit but importantly requires the Auditor-General to set auditing standards (section 24). The ANAO Auditing Standards were last gazetted on 11 February 1998 and are updated automatically to incorporate changes and improvements in Australian Auditing Standards.

The Auditor-General Act 1997 (Section 10) also requires the Auditor-General to have regard to the audit priorities of Parliament and the reports of the JCPAA in performing his functions, including the determination of his performance audit program.

## 2.3 Mechanisms for measurement

The performance audit program aims to improve public sector administration and accountability by adding value through an effective program of performance audits and related products.

The *Audit Work Program 2002 – 03* was developed in consultation with the JCPAA and agencies and provided to the Prime Minister, Leader of the

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<sup>2</sup> 2001 – 2002 Annual Report - The Auditor General (p.2)

Opposition, Ministers, Shadow Ministers, the JCPAA and agency heads, the Privacy Commissioner and the Ombudsman in July 2002. The JCPAA takes the lead role in co-ordinating parliamentary input to the development of the program.

The program outlines the performance audits in progress at 1 July 2002 and a list of performance audit topics from which audits for 2002 – 03 are selected. The program also sets out in summary form the work programs intended to be undertaken by the other ANAO Output Groups, namely Assurance Audit Services and Information Support Services.

The Auditor-General reported in his 2001 – 2002 Annual Report that, inter alia:

- Surveys conducted by independent organisations indicate that Parliamentarians and agencies are largely satisfied with the ANAO.
- The JCPAA and other Parliamentarians have indicated that they are generally satisfied with the ANAO's activities. In this regard it is acknowledged that the selection of audits is at the sole discretion of the Auditor-General.

This suggests that, broadly, the Parliament is satisfied with the ANAO's performance. The Auditor-General is an independent officer of the Parliament. Accordingly, ultimately, it is the Parliament as a whole, and therefore to a large extent the JCPAA, who must assess whether or not the Auditor-General is providing an overall, "value for money" service.

The "value for money" of any single performance audit is a function of:

- whether the audit topic was selected within the framework of the ANAO's Strategic Plan;
- whether the selection of the audit topic was appropriate; and
- whether the output from the performance audit achieved the stated objectives for the audit.

The Auditor-General's performance audit responsibilities encompass providing a balanced view of public sector performance across the broad spectrum of public sector entities. Therefore, the "value for money" of any single performance audit must also be assessed against a background that the very existence of the Auditor-General and the reviews undertaken by the ANAO contribute to the overall control environment within the Australian Public Service. In addition, comments and observations from individual audits are accumulated into Best Practice Guides for the benefit of the entire Public Service and impact the conduct of audit assignments.

## **3 Performance audits**

### **3.1 Performance auditing in the ANAO**

The ANAO's Annual Report for the year ended 30 June 2002 states that, typically, performance audits undertaken by the ANAO examine the use of resources, information systems, performance measures, monitoring systems and legal compliance. These audits are designed for the purposes of forming an opinion on whether:

- management of the operations has been economical, efficient and effective and are delivered in accordance with legislative or government approved objectives;
- internal procedures for promoting and monitoring economy, efficiency and effectiveness are adequate; and
- improvements might be made to management practices.

Audit topics are selected on two grounds:

- activities where an audit can be expected to add the greatest value in improved accountability, economy, efficiency and administrative effectiveness; and
- to ensure appropriate coverage of entity operations within available audit resources.

The ANAO's audit work program is developed in close consultation with the JCPAA and agencies. Performance audits are selected having regard to the ANAO's risk criteria including identifying improvements in public administration. An initial "scoping study" is prepared and the progress of each audit is re-assessed during the course of each performance audit. If it becomes apparent that the objectives will not be met, for example if it becomes apparent that no worthwhile improvements will be identified, the performance audit is either re-focused or in exceptional circumstances, abandoned.

An element of my review was designed to consider the strategic and integrated audit planning process utilised in developing the annual audit work program. While I recognise a comprehensive process is followed with regard to the development of the audit work plan my review identified a couple of areas where current practice could be improved.

### ***Strategic planning process***

The first phase of the annual strategic planning process involves a combined ANAO SES planning meeting to discuss and agree on APS wide developments, risks and associated audit themes which may be addressed in stand alone audits or as elements of other audits. An analysis of the business risks facing agencies is undertaken during the planning process to ensure appropriate audit coverage is in place to address these risks. From this, each branch within the PASG submits suggestions about the reviews to be completed in a given year.

### ***Annual work plan***

As part of the strategic planning process a copy of the proposed audits to be undertaken by the PASG is provided to the JCPAA for comment. The JCPAA asks parliamentary committees to consider potential performance audit topics but does not provide committees with a copy of the draft plan. Therefore, parliamentarians have little formal background to the plan and there is a risk that their ability to provide contextual feedback and shape future programs is restricted.

In the process of fine-tuning the final Annual Work Program, the Auditor-General takes account of “themes” that he identifies as “emerging issues of interest to the Parliament”. The themes identified are those that the Auditor-General considers to be appropriate. These themes are described in the Auditor-General’s Annual Work Program that is provided to the JCPAA. The JCPAA may be able to provide additional valuable input into the ANAO planning process by identifying what it believes to be the key themes facing the country over ensuing years through its role of co-ordinating feedback to the ANAO.

#### **Recommendation 1**

As part of the ongoing refinement of the performance audit process, consideration should be given to providing more specific focus on key themes facing the country when developing the annual audit plan. The JCPAA would be a good source for input on those themes. Similarly, to ensure sufficient information is available to provide contextual feedback, the JCPAA should consider providing parliamentary committees with a copy of the draft plan at the time that they ask them for input about potential performance audit topics.

#### **ANAO comment**

The ANAO will specifically seek the views of the JCPAA in developing future themes.

### ***Delivery of audits***

Prior to the conduct of a performance audit conducted under section 15 of the Act, a preliminary study may be carried out to establish whether or not to proceed with an audit. Management of the audited body is advised of the purpose of the preliminary study and that a decision will be made whether to proceed with a performance audit in light of the findings of the preliminary study.

A preliminary study may examine the operations of an organisational unit, or specified functions or a program of activity within an entity. Generally, issues arising during the course of the preliminary study will be discussed with a representative of the audited organisation prior to a decision on future audit activity.

If the ANAO decides to proceed to a performance audit at the conclusion of the preliminary study, discussions will be held with the audited body to explain the scope and objectives of the performance audit and to make appropriate working arrangements for access and for progressive discussion of matters arising during the audit. If the decision is made not to proceed to a performance audit, the results of the preliminary study may be reported to Parliament.

The Act enables the Auditor-General to engage any person under contract to assist in the performance of any Auditor-General function. This allows the ANAO to acquire specialist skills under contract to perform specialist fieldwork and investigate or provide assurance that the audit opinions, findings and recommendations are soundly based and reflect an adequate understanding of the subject area of the performance audit.

As recently as 2000-01, the ANAO's balanced scorecard and associated corporate planning documentation contained a performance indicator around the targeted average cost of tabled reports being less than \$300 000 and 80 per cent of audits being completed within 11 months. While management are keen to move away from the average cost indicator, this is still viewed as an informal benchmark by many within the PASG.

The ANAO performance audit policy manual (*Audit guidance: report clearance and finalisation*) indicates that up to four months of the eleven months devoted to the overall performance audit should be allocated to the report clearance and publication process.

## Recommendation 2

Consideration should be given to delegating authority to issue draft reports to Branch Head or Group Executive Director to improve efficiencies in the reporting process. I have discussed this issue with the Auditor-General who has observed that because the Section 19 Report is a formal transmission to an agency for final comment, it is important for the Report to reflect the considered view of the Auditor-General. This limits the opportunity for the delegation of authority for the issuance of draft reports by Branch Heads.

### **ANAO comment**

The ANAO will consider this recommendation in particular cases but notes the important limitations already drawn to attention.

### ***Follow up reviews***

An element of the PASG annual work plan includes follow up reviews designed to establish progress made in implementing recommendations raised in previous performance audits. The follow up process is designed to provide feedback to the ANAO and Parliament on performance audit effectiveness in producing improvements in public sector management. The performance audit policy manual includes a section about the requirements for following up on audit reports. This indicates that *‘Executive Directors need to ensure that they have implemented timely processes to adequately follow up the implementation of audit recommendations in performance audit reports in their audit portfolios’*.

The ANAO has one or more “observer” representatives on agency audit committees. As a matter of procedure, the observer is required to draw the ANAO reports and recommendations to the attention of agency audit committees so that the matters are incorporated into the relevant audit committee’s monitoring agenda.

However, discussion with PASG staff indicates that there is no scheduled program for specific follow up reviews to be undertaken in a given year. While such reviews are closely linked to follow up work undertaken by the JCPAA and have a compliance focus, the decision on which reviews are to be followed up includes less tangible factors such as the need to allocate audit days to complete the annual plan and the common view within the ANAO that follow up reviews provide an opportunity to train staff.

### **Recommendation 3**

While there is no requirement or commitment to undertake a follow up review on each performance audit, I suggest that a more strategic view be taken with a focus on following up on reviews where significant savings, efficiencies or increased effectiveness were to be realised as a result of the implementation of recommendations raised by the PASG.

#### **ANAO comment**

Agreed. While these criteria lie behind the ANAO's current selection of its follow up audits, the ANAO will more specifically identify this focus in its future planning process.

## **3.2 Performance monitoring**

The Commonwealth has promulgated a set of Performance Management Principles that identify the main features of good practice in performance reporting. Performance monitoring under this framework is primarily concerned with evaluating outcomes and outputs of an agency's performance in terms of effectiveness, efficiency and economy.

- *Effectiveness* is the extent to which an agency's programs and services achieve the desired outcomes.
- *Efficiency* is defined as the extent to which an agency maximises the outputs produced from a given set of inputs or minimises the input cost of producing a given set of outputs.
- *Economy* refers to providing inputs in the most economic manner.

#### ***Performance measurement***

The ANAO has in place performance measures that relate to the three output groups that are quantitative in nature and are essentially concerned with the issues of efficiency and productivity in delivering audit products. The measures relate primarily to quantity, timeliness and cost.

The output contributions to the achievement of the ANAO's outcomes relate primarily to the impact that the ANAO's outputs have on the Parliament, public sector entities and public sector administration in general.

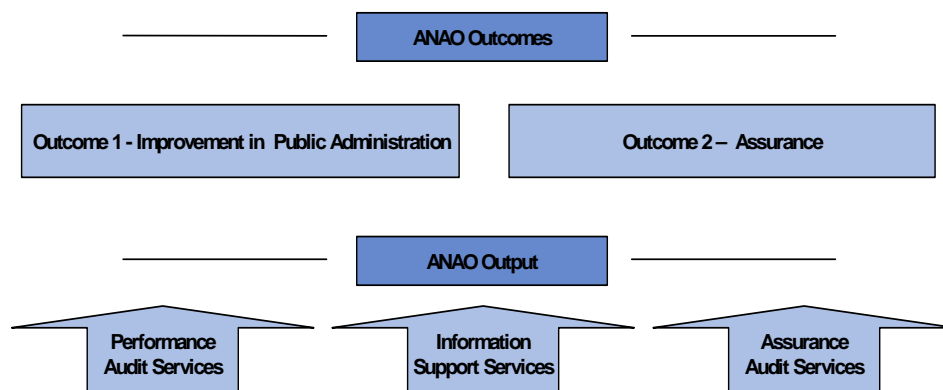
This approach is aimed at providing an understanding of the link between the ANAO's products (outputs) and their resulting impacts (outcomes). In turn it



provides an assessment of how cost effectively the ANAO is delivering its products and to what extent the ANAO is achieving its agreed outcomes. Results of the ANAO's performance measurement process is provided within the ANAO annual report.

### ***Contribution to public sector entities***

A major outcome from the ANAO's performance audit work is the recommendations made to improve accountability, economy, efficiency and administrative effectiveness. These recommendations may also yield efficiencies which in turn provides a cost effective contribution to the public sector.



The ANAO currently have a number of mechanisms that provide a measure of the contribution provided by performance audits. These include:

- proportion of recommendations accepted by audited entities;
- surveys of entities on the audit process, etc;
- parliamentary surveys;
- estimation of the potential annual recurring financial benefit arising from performance audits;
- JCPAA or other committee's review of audit reports and public inquiries into selected audit reports.

As part of my review I considered the mechanisms in place to capture data to support the results of the ANAO's performance against established targets. One such target is that 90 per cent of parliamentarians acknowledge the value of the ANAO contribution. A parliamentary survey is undertaken every two years in order to compile results for this indicator. The results are reported over two years rather than undertake an annual survey. Whilst I recognise the impracticality of conducting an annual parliamentary survey, I suggest any public documentation

reporting on this target should include a footnote explaining the process for collecting this data and the fact results are reported over a two year period.

**Recommendation 4**

The ANAO Annual Report should make it clear that the survey of parliamentarians is only conducted once every two years and that, therefore, in the second year, the result reflects a survey conducted in the prior year.

**ANAO comment**

Agreed.

### 3.3 Sample of performance audits

As part of this review I examined a sample of three performance audits to determine if these audits represented “value for money”. Using a random number generator I selected the following three performance audits:

- No 27 – *Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort*
- No 42 – *Managing Residential Aged Care Accreditation*
- No 57 – *Administration of the Payment of Tax by Non-residents*

The results of my review of the individual audits are reflected in the commentary throughout this report. Specifically, I reviewed the following in respect of each performance audit report:

- Stated objectives of the review have been met.
- The review was undertaken in a cost effective manner.
- The recommendations of the report have been accepted.
- The client is satisfied – both the agency and the JCPAA.

I am satisfied that in each case the above objectives have been met and offer the following observations:

- Given the timeframe involved in the ANAO performance audit process, some potential recommendations are resolved before the report is prepared.
- Specific feedback from the JCPAA is not always sought.
- The input of the JCPAA is sought in the planning phase of the Audit Work Program and the JCPAA takes the lead role in co-ordinating parliamentary input to the program.

- The ANAO has not received any feedback for the JCPAA nor other parliamentarians that they are not satisfied with the work of the ANAO.
- Given the independent nature of the Auditor-General and the subjective nature of whether “value for money” has been achieved, I conclude that the ANAO is delivering “value for money” as it is delivering “outputs being produced as efficiently as possible with the least cost to public funds, and these outputs are delivering their anticipated benefits”.
- In respect of the requirement “with the least cost to public funds”, the ANAO undertakes its operations in a cost effective manner – however – this is not to say that this is the only manner in which the activities can be undertaken. Similar outcomes could be achieved through the targeting of particular areas of expenditure within the government, large program expenditure lines across the public sector, a mixture of large and small projects or a mixture of team structures as well as short bursts of targeted reviews.

#### **Recommendation 5**

The majority of performance audits are undertaken by teams of two to three people. Commonly, the time from commencement to completion is eleven months. Where considered appropriate, performance audits involving larger teams are undertaken. The JCPAA should make suggestions to the Auditor-General about the Annual Work Plan if it believes that the Auditor-General should focus his attention on particular areas of government activity or on large projects.

#### **ANAO comment**

The ANAO welcomes any suggestions by the JCPAA on particular areas for or scope of audit projects.

## 4 Opportunities for improvement

### Implementation priority

Low	1.	PASG strategic planning process.	Page 17
Low	2.	Efficiencies in the reporting process	Page 18
Low	3.	Follow up audit strategy	Page 19
Low	4.	Reporting of key performance indicators	Page 20
Low	5.	Conduct of performance audits	Page 21

Implementation Priority	Action
High	Immediate action required by management to ensure that the PASG audit process is appropriately aligned with requirements of the ANAO
Medium	Requires the attention of management and an agreed program for prompt resolution to ensure that the PASG audit process is appropriately aligned with requirements of the ANAO
Low	Attention is warranted by management to ensure that the PASG audit process is appropriately aligned with requirements of the ANAO

## **1. PASG strategic planning process**

**Low**

### **Findings**

As part of the strategic planning process a copy of the proposed audits to be undertaken by the PASG is provided to the JCPAA for comment. The JCPAA asks parliamentary committees to consider potential performance audit topics but does not provide committees with a copy of the draft plan. Therefore, parliamentarians have little formal background to the plan and there is a risk that their ability to provide contextual feedback and shape future programs is restricted.

### **Key actions required:**

In the process of fine-tuning the final Annual Work Program, the Auditor-General takes account of “themes” that he identifies as “emerging issues of interest to the Parliament”. The themes identified are those that the Auditor-General considers to be appropriate. These themes are described in the Auditor-General’s Annual Work Program that is provided to the JCPAA. The JCPAA may be able to provide additional valuable input into the ANAO planning process by identifying what it believes to be the key themes facing the country over ensuing years through its role of co-ordinating feedback to the ANAO.

### **ANAO comment:**

The ANAO will specifically seek the views of the JCPAA in developing future themes.

## **2. Efficiencies in the reporting process**

**Low**

### **Findings**

As recently as 2000-01, the ANAO's balanced scorecard and associated corporate planning documentation contained a performance indicator around the targeted average cost of tabled reports being less than \$300,000 and 80 per cent of audits being completed within 11 months. While management are keen to move away from the average cost indicator, this is still viewed as an informal benchmark by many within the PASG.

The ANAO performance audit policy manual (*Audit guidance: report clearance and finalisation*) indicates that up to four months of the 11 devoted to the overall performance audit should be allocated to the report clearance and publication process.

### **Key actions required:**

Consideration should be given to delegating authority to issue draft reports to Branch Head or Group Executive Director in order to improve efficiencies in the reporting process. I have discussed this issue with the Auditor-General who has observed that because the Section 19 Report is a formal transmission to an agency for final comment, it is important for the Report to reflect the considered view of the Auditor-General. This limits the opportunity for the delegation of authority for the issuance of draft reports by Branch Heads.

### **ANAO comment:**

The ANAO will consider this recommendation in particular cases but notes the important limitations already drawn to attention.

### **3. Follow up audit strategy**

**Low**

#### **Findings**

An element of the PASG annual work plan includes follow up reviews designed to establish progress made in implementing recommendations raised in previous performance audits. The follow up process is designed to provide feedback to the ANAO and Parliament on performance audit effectiveness in producing improvements in public sector management. The performance audit policy manual includes a section around the requirements for following up on audit reports. This indicates that *‘Executive Directors need to ensure that they have implemented timely processes to adequately follow up the implementation of audit recommendations in performance audit reports in their audit portfolios’*.

The ANAO has one or more “observer” representatives on agency audit committees. As a matter of procedure, the observer is required to draw the ANAO reports and recommendations to the attention of agency audit committees so that the matters are incorporated into the relevant audit committee’s monitoring agenda.

Discussion with PASG staff indicates that there is no scheduled program for the specific follow up reviews to be undertaken in a given year. While such reviews are closely linked to follow up work undertaken by the JCPAA and have a compliance focus, the decision on which reviews are to be followed up includes less tangible factors such as the need to allocate audit days to complete the annual plan and the common view within the ANAO that follow up reviews provide an opportunity to train staff.

#### **Key actions required:**

While there is no requirement or commitment to undertake a follow up review on each performance audit, I suggest that a more strategic view be taken with a focus on following up on reviews where significant savings, efficiencies or increased effectiveness were to be realised as a result of the implementation of recommendations raised by the PASG.

#### **ANAO comment:**

Agreed. While these criteria lie behind the ANAO’s current selection of its follow up audits, the ANAO will more specifically identify this focus in its future planning process.

#### **4. Reporting of key performance indicators**

**Low**

##### **Findings**

As part of my review I considered the mechanisms in place to capture data to support the results of the ANAO's performance against established targets. One such target is that 90 per cent of parliamentarians acknowledge the value of the ANAO contribution. A parliamentary survey is undertaken every two years in order to compile results for this indicator. The results are reported over two years rather than undertake an annual survey. Whilst I recognise the impracticality of conducting an annual parliamentary survey, I suggest any public documentation reporting on this target should include a footnote explaining the process for collecting this data and the fact results are reported over a two year period.

##### **Key actions required:**

The ANAO Annual Report should make it clear that the survey of parliamentarians is only conducted once every two years and that, therefore, in the second year, the result reflects a survey conducted in the prior year.

##### **ANAO comment:**

Agreed.



## **5. Conduct of performance reviews**

**Low**

### **Findings**

In respect of the requirement “with the least cost to public funds”, the ANAO undertakes its operations in a cost effective manner – however – this is not to say that this is the only manner in which the activities can be undertaken. Similar outcomes could be achieved through the targeting of particular areas of expenditure within the government, large program expenditure lines across the public sector, a mixture of large and small projects or a mixture of team structures as well as short bursts of targeted reviews.

### **Key actions required:**

The majority of performance audits are undertaken by teams of two to three people. Commonly, the time from commencement to completion is a little under twelve months. Where considered appropriate, performance audits involving larger teams are undertaken. The JCPAA should make suggestions to the Auditor-General about the Annual Work Plan if it believes that the Auditor-General should focus his attention on particular areas of government activity or on large projects.

### **ANAO comment:**

The ANAO welcomes any suggestions by the JCPAA on particular areas for or scope of audit projects.