



Australian National Audit Office

Report on Results of a Performance Audit of the ANAO Audit Management Processes

October 2001





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18 October 2001

Dear Madam President
Dear Mr Speaker

In accordance with the provisions of section 45 of the Auditor-General Act 1997, I submit to Parliament my report on a performance audit of the Australian National Audit Office. The report presents my finding from a performance audit of the Australian National Audit Office's audit management processes.

Yours sincerely

A handwritten signature in black ink that reads 'Michael Coleman'. The signature is written in a cursive, flowing style with a prominent initial 'M'.

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

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

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Executive Summary

Introduction

This performance audit of the Australian National Audit Office's (ANAO) audit management processes is the final phase of a three phase process of performance audits undertaken as a function of my role as the independent auditor of the ANAO.

This review focused on detailed client engagement management for the Performance Audit Services Group (PASG), the Business Assurance Services Group (BASG), and the Assurance Audit Services Group (AASG).

The ANAO's audit management process governs the way individual audit engagements are managed and includes engagement planning, budgeting, undertaking fieldwork, reporting, monitoring and review.

This audit has been performed in accordance with Australian Auditing Standards applicable to performance audits and accordingly included such tests and other procedures as the auditor considered necessary in the circumstances.

Objectives

The objectives of this audit were to perform an independent and systematic examination of the ANAO's audit management process for the purpose of:

- ▶ forming a view as to whether the audit management processes ensure efficient and effective audits; and
- ▶ suggesting ways by which management practices, for the above processes, might be improved.

Audit Scope

The scope of this audit primarily addressed:

- ▶ planning procedures including budget setting, time scheduling and staff allocations to audits;
- ▶ key performance indicators used to measure the efficiency and effectiveness of the audit;
- ▶ the systems used to monitor the progress of audits; and
- ▶ review procedures, quality control and audit performance feedback.

Audit Approach

Our approach included conduct of the following key steps:

- ▶ conduct of a series of meetings with key stakeholders engaged in audit management;
- ▶ review of existing guidelines and procedure manuals;
- ▶ review of a selection of audit files;
- ▶ review of internal and externally sourced documentation relating to performance indicators and quality control;
- ▶ identifying opportunities for improvement that will enhance processes within the ANAO; and
- ▶ report findings to management and seek responses to recommendations.

Key staff members with whom discussions were held are listed in Appendix 1.

Conclusion

The ANAO has structured audit management processes covering planning, implementation, monitoring of progress and obtaining feedback on audit performance. My audit found that these processes were operating efficiently and effectively.

I also noted during my audit that the ANAO is pro-active in monitoring current best practice in audit methodology and has engaged in peer reviews with other Audit Offices and has commissioned external quality assurance and benchmarking reviews.

My audit did, however, note a small number of areas where opportunities for improvement in the efficiency and effectiveness of the audit management process exist. My recommendations are outlined below, with more detail provided in Section 3.

Opportunities for improvement

- ▶ To improve the effectiveness of budget monitoring and to better assess the progress of performance audits, I recommend budgets be set for the key stages of a performance audit and where possible, defined milestones. I also recommend that time and cost benchmark data be established for each type of performance audit.
- ▶ To facilitate continuous improvement, I recommend that a structured post audit debriefing process be developed that should encourage the participation of all audit engagement team members in identifying the lessons learnt and improvement areas for future audits.

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- ▶ I recommend that consideration be given to reducing the number of layers of review where a performance audit has been assessed as 'no known or potential risk' or 'potential minimal risk'. Risk assessments, for each performance audit, should be reviewed and approved by the ANAO executive group prior to completion of the Audit Work Plan.
 - ▶ I recommend that consideration be given to the potential quality and efficiency benefits that may be gained by having an in-house specialist assist performance audit teams with the formatting and drafting of performance audit reports.

ANAO Audit Management Processes

Overview of ANAO audit products

The ANAO's two stated primary outcomes are to:

1. improve public administration; and
2. provide independent assurance of Commonwealth public sector financial reporting, administration, control and accountability.

To achieve these outcomes, the ANAO has three key products:

- ▶ performance audits;
- ▶ financial statement audits; and
- ▶ better practice guides.

Performance audits

Performance audits evaluate the economy, efficiency and administrative effectiveness of the Commonwealth public sector entities. The objective of performance audits is to improve public sector administration and accountability and to add value by identifying better administrative principles. The Performance Audit Services Group (PASG) and the Business Assurance Services Group (BASG), within AASG, conduct performance audits.

Under the Auditor General Act 1997, the Auditor-General may conduct a performance audit of any Commonwealth body, other than Government Business Enterprises (GBE's). Performance audits of GBE's may be undertaken where requested by the responsible Minister, the Finance Minister or the Joint Committee of Public Accounts and Audit (JCPAA).

Financial statement audits

A financial statement audit is an independent examination of the financial accounting and reporting of an organisation in order to express an opinion on whether the financial statements fairly reflect the results of an entity's operations and financial position. The outputs of a financial statement audit are the audit report on the financial statements, a report to the Minister and a summary report to Parliament. The audit report is included in the Annual Report of each entity.

Financial statement audits are conducted on all Commonwealth entities including government agencies, statutory authorities and owned or controlled Commonwealth companies. Financial statement audits are conducted by the Assurance Audit Services Group (AASG).

Better practice guides

Better practice guides are prepared with the aim to improve public administration by identifying and promoting better practice across the public sector. Material for better practice guides is drawn from specific audits undertaken or from general audit experience. Better practice guides are developed by the Business Assurance Services Group (BASG), which is currently part of the AASG or as a separate deliverable from the PASG.

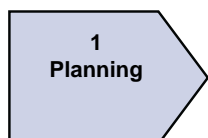
This review focuses on the efficiency and effectiveness of the ANAO's audit management process in delivering quality products.

The key steps to managing an efficient and effective audit are:



An overview of the ANAO's audit management process is detailed below. The first three steps have been separately analysed from both a performance and assurance audit perspective.

PASG and BASG Planning, Implementation and Report



The initial planning process focuses on the identification and selection of potential performance audits and better practice guide topics. An annual Audit Work Plan (AWP) is then developed that details Performance Audit topics to be undertaken in the coming year.

Prior to the commencement of each individual audit, the Audit Manager prepares an internal work plan that is reviewed and approved by Executive and Group Executive Directors and the Deputy Auditor-General.

The work plan is the key planning and project management document for managing performance audits. The plan outlines the fundamental elements of the audit including:

- ▶ section of the Act under which the audit is to be completed;
- ▶ whether the audit is in the AWP and has Auditor-General approval;
- ▶ the estimated per cent contribution to improved public administration;
- ▶ audit objectives;
- ▶ selection criteria (impact, materiality, risks to good management, significance, visibility, coverage) and priority rating;
- ▶ risks to the audit;
- ▶ audit approach;

-
- ▶ resources (audit hours, consultants, travel and other costs);
 - ▶ milestones (planning, preliminary study, implementation stage, reporting requirements);
 - ▶ approving authorities (Audit Manager, Executive Director, Group Executive Director, Deputy Auditor-General and Auditor-General).

To ensure the audit is managed effectively the internal audit work plan document may be refined after undertaking a preliminary study or at any time whilst undertaking the audit, to vary the scope, objectives, and/or resources. An *AWP Variation Approval Request Form* is completed and referred to the Deputy Auditor-General for appropriate approval.

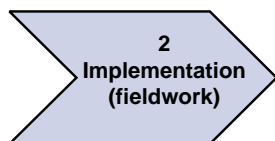
The Audit Manager determines the budget, which is primarily based on familiarity with the audit topic, availability of client information and internal resources, and past experience. The budgets for performance audits are guided by performance targets, which are set at an average cost of \$300 000 per audit, with an average 11-month completion period. Where the budget for an audit is estimated to exceed \$350 000, the Performance Audit Guide indicates that options should be identified to reduce the cost, including a change in scope or focus, the use of alternative resources or reduction in out-of-pocket expenses.

The budget is estimated at the initial planning stage and detailed in the internal audit work plan. The budget and required resources may be confirmed again if a preliminary study is undertaken. To assist with the calculation of budgets, a ready reckoner is used. Managers enter the required resources (both ANAO staff and external consultants and specialists) and any out of pocket expenses (ie travel), and the spreadsheet calculates the total cost. A listing of preferred consultants, together with their areas of speciality, is maintained if the performance audit requires specialist skills or experience.

The development of a realistic budget is a key tool in managing the resources and costs during the audit and ensuring audit targets are met within the required timeframes. The budget in the internal audit work plan document is very high level and, whilst a more detailed budget is prepared for the preliminary study stage of the audit, the overall budget does not break down the costs across different stages of the audit or the major milestones. Some Audit Managers prepare detailed project planning documents outlining resources, milestones and timing, however this is not mandatory.

The allocation of resources to the audit is dependent on staff availability, experience and required skill-set. Audit teams for performance audits are generally small and consist of two to three staff of various skill levels. Performance audit staff are assigned to eight portfolio branches and

generally only work on clients within that portfolio. In some instances, assurance audit staff have been utilised on performance audits (ie Australian Tax Office), where it is considered that they can contribute their knowledge from their financial statement audit experience.



The Audit Manager is responsible for the day-to-day management and implementation of the performance audit, including detailed planning, execution of the audit program, supervision of staff, reporting to ANAO management and overseeing preparation of the audit report.

Meetings are held between PASG and AASG client team members with the objective of developing an integrated approach to undertaking the work, identifying issues and coordinating timing of fieldwork. Issues identified in performance audits are discussed with the financial statement auditors and vice versa. Additionally, where similar reviews are being undertaken across separate entities, for example Fraud Control, advice is sought from other branches within the Performance Audit Group as to the audit approach and emerging issues.

A Performance Audit is broken down into 'milestones'. The current Performance Audit Guide indicates there are 26 milestones across three stages: six in the preliminary study stage; seven in the implementation stage and 13 in the reporting stage. The Audit Manager determines the timing of milestones and is responsible for reporting to management when each milestone has been completed and the status of current milestones.

When setting the timing of milestones, the Audit Manager takes into account issues that may affect the timely completion of the audit including lack of familiarity with the audit subject, lack of resources, changes to the audit area and lack of reliable agency data. If issues arise that may prevent the audit from achieving milestones within the established timeframes, these must be communicated and discussed with management, together with corrective action plans.

Regular discussions are held with agency management throughout the audit to communicate audit findings and clarify issues arising during the audit. The Auditor-General and Deputy Auditor-General are also involved at various stages throughout the audit, however the level and extent of involvement depends on the nature of the audit. This involvement ensures early awareness of audit issues and reduces the amount of time required at the reporting stage. At the conclusion of the implementation stage, an exit interview is conducted with the agency to discuss the findings identified during the audit.

The reporting phase accounts for around 30–40 per cent of the total time taken to complete a performance audit. The phases and timeframes of the reporting process are outlined below:

Weeks	Process
1	Section 19 Draft report to Executive Director and incorporation of any comments.
2	Section 19 Draft report to Group Executive Director and incorporation of any comments.
3	Section 19 Draft report to Deputy Auditor-General and Auditor-General for clearance (may require presentation).
4	Section 19 Draft report incorporating Auditor-General, Deputy Auditor-General and Executive comments, approved and forwarded to the Agency.
5 to 9	Section 19 Draft report reviewed by the Agency and responses provided. ¹
10 to 12	Consideration and incorporation of Agency comments as appropriate and finalisation of report. Final report to Executive Director and Group Executive Director and clearance obtained. Final Report forwarded to the Deputy Auditor-General and Auditor-General for approval.
13 to 14	Final Report reviewed and clearance for issue given by Deputy Auditor-General and Auditor-General.
15	Final Report to printer and tabled.

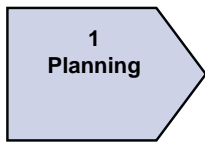
The reporting timeframe is heavily dependent on the quality of the initial draft report, the findings presented and the time taken for feedback and responses from the Agency. A review of the reporting process was undertaken by the ANAO for performance audits conducted in 1999–2000. The review revealed that the total average time taken to complete the reporting phase was 120 days, against a target of 105 days (15 weeks). Completion of the reporting stage ranged from 50 days to 241 days. The greatest delays appear to occur in obtaining agency responses (range from 16 to 51 days, average time of 32 days) and then from final Auditor-General approval to tabling (range from 3 to 38 days, average of 22 days).

¹ Under Section 19 of the Auditor-General Act 1997, recipients of a proposed performance audit report have 28 days to respond to the Auditor-General on a proposed report. The Auditor-General must give a copy of the proposed report to the Chief Executive of the Agency and a copy may also be given to any person who, in the Auditor-General's opinion has a special interest in the report.

Information provided for reports tabled in 2000–2001 revealed the time to complete the reporting stage ranged from 36 days to 297 days, with an average of 156 days. For 13 of the 46 audits, reports were tabled six months or longer after fieldwork had been completed.

AASG Audit Management Processes

There are 287 financial statements to be audited. Various 'signing officers' include the Auditor-General, Deputy Auditor-General, Group Executive Directors and most Executive Directors. Some Senior Directors also have authority to sign certain audit reports. The allocation of audits to appropriate signing officers depends on the risk profile of the audit. An internal review of the appropriateness of sign-off delegations is currently being undertaken.



Planning for financial statement audits takes place following completion of the prior year audit. Our review indicated that planning documents are generally finalised several months after completion of the prior year audit.

Planning is generally limited to confirming that there have been no major changes to the Agency's operations and rolling forward existing plans. Where there have been changes to the Agency's operations more comprehensive planning is undertaken. Benchmarks have been set for the amount of time that is to be spent on planning: comprehensive planning should not exceed 15 per cent of total audit hours and planning updates in following years should not exceed 5 per cent of total audit hours. Where possible, all members of the audit team are involved in the planning process.

The implementation of a revised financial statement audit methodology and the Government's tightened financial reporting timetable has impacted on the amount of time spent on planning financial statement audits. According to the Assurance Audit Services Product Plan for 2000–2001, the budget for financial statement audits has been increased by 7940 hours to allow for the implementation of the new methodology. The revised audit methodology has a greater focus on an entity's business and processes, with more initial time being spent on developing a strong understanding of major processes and the associated business risks. ANAO management expect audit time efficiencies will be realised from this revised methodology in future years.

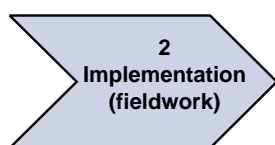
Budgets for financial statement audits are generally based on the time spent and staff mix used in the previous year. When setting budgets Audit Managers take into account any possible efficiency gains that may be realised and availability of staff. Whenever possible, to contribute to a more efficient audit, audit team members who have previously worked on the audit are assigned to the current year audit. The ANAO are taking initiatives to improve staff retention and to recruit additional senior auditors.

The two key outputs of the planning stage are the:

1. Audit Strategy Memorandum (ASM)—an internal document; and
2. Client Strategy Document (CSD)—a document issued to Agencies.

The ASM details the audit scope and approach, the nature of the Agency's operations (including identification of risks, critical audit issues and the control environment), significant accounting and audit issues, other planning considerations (ie information technology, internal audit), reporting timeframes, resources, staffing and fees.

The CSD is primarily an annual ANAO information document provided to Agencies and outlines the service charter, ANAO's products and services, the audit scope and approach, a high-level risk assessment, regulatory requirements and financial statement audit deliverables.



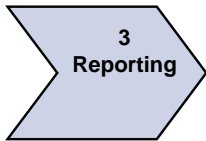
The ANAO periodically reviews and assesses its financial statement audit methodology. This process involves an assessment of the products and processes employed by the market and ensures that the ANAO is aware of current trends.

As a result, the ANAO has introduced a new financial audit methodology for 2000–01 financial statement audits. The new audit methodology has been adopted from a model used by the accounting firm Ernst & Young and is consistent with current trends in the industry.

As the revised audit methodology will initially increase the total time taken to complete audits, Audit Managers have been allowed to increase budgets by 20 per cent in the year of implementation of the new methodology. However, management expect this implementation cost to be recovered in future years as efficiency gains from the new methodology are realised. The new methodology was piloted on five audits in the previous year and ANAO staff have received training in the new methodology. Ernst & Young have also provided 'coaching reviews' to provide assistance with the implementation of the new approach as part of the change management strategy.

The implementation of the audit strategy and conduct of fieldwork for entities generally occurs in two stages: interim testing, and final testing. With an earlier deadline set for audit clearance on financial statements for larger Agencies, a 'hard close' audit approach has been encouraged. A 'hard close' approach has the primary objective of allowing year-end audit procedures to commence earlier. Whilst this has been effective for some audits, a 'hard close' approach is not always achievable and has resulted in additional time in circumstances where an Agency's month end procedures are not well organised.

To assist with the timely completion of the audit, the ANAO may issue Agencies with a list of audit requirements, including specific reports and supporting schedules prior to commencing the audit. The quality and timeliness of information provided by Agencies significantly affects the ANAO's ability to complete the audit on time and within budget.



3
Reporting

At the conclusion of the audit, the Audit Manager is required to prepare a Signing Officer's Review Memorandum (SORM). The SORM provides the signing officer with all information and matters requiring consideration and/or clearance prior to issuing the audit opinion.

The following information is including in the SORM:

- ▶ scope of the audit
- ▶ audit resourcing
- ▶ overview of financial statements including explanation of operating results and audit approach for significant financial statement items
- ▶ outcomes of accounting and auditing issues
- ▶ lessons learned (both in relation to the Agency and wider applications within the ANAO)
- ▶ lessons learned (both in relation to the Agency and wider applications within the ANAO)
- ▶ summary of audit differences
- ▶ statement of work performed and recommended audit opinion

Monitoring and review—PASG and AASG



4
Monitoring
& review

It is the responsibility of Audit Managers to individually monitor, review and report on the status of all their audits. Audit Managers report directly to their Executive Directors, signing officers and/or Group Executive Directors on the progress of the audit, including the achievement of milestones, issues identified and any changes in approach or scope.

The Audit Resource Management System (ARMS) is the tool used to monitor the resources and costs of individual jobs. Audit Managers have direct access to ARMS and can generate reports showing resource usage against budget, including direct costs, hours and accrued charge-out costs.

Where the audit is not progressing in line with budget, or the budget requires amending, Audit Managers are required to notify management of the change to the budget, and provide reasons for the amendment. Budget variation (assurance audits) and *AWP Variation* (performance audit) requests are reviewed and approved by the signing officer, Executive Director and/or Deputy Auditor-General.

In the performance audit group, an SES meeting is held every fortnight and a report is presented detailing the status of all current performance audits, the latest milestones achieved and the objectives for the coming fortnight. The Business Manager maintains a spreadsheet of Tabled Reports detailing the project, the audit type, date of tabling, actual hours, costs, comparisons with budgets, days to completion, number of recommendations, financial benefits achieved, and results of client surveys. This information is used to report against the ANAO's performance indicators.

Key performance indicators

The ANAO's key performance indicators are outlined in an internal scorecard which provides information on the ANAO's performance across four key result areas (KRAs):

1. Meeting client needs
2. Quality products and services
3. Highly performing people
4. Good business management

The scorecard incorporates Portfolio Budget Statement (PBS) indicators and other measures of the ANAO's outcome-output framework. The performance measures are primarily output driven and relate to both quantity and quality of output, timeliness and costs. Quantitative information is compiled by Business Managers from various ANAO information systems. Qualitative information is obtained through client and staff surveys.

1. Meeting client needs

This key result area focuses on the acknowledgement of the value of the ANAO's contribution to Parliament and its clients. The measurements are based on Agency and Parliamentary surveys. Respondents are asked a series of questions and are required to rate the performance (score of 1–strongly disagree to score of 5–strongly agree) of the ANAO over a number of areas including:

- ▶ audit planning and consultation;
- ▶ audit implementation;
- ▶ audit reporting; and
- ▶ benefits and general comment.

The surveys are undertaken by an independent consultant and formally reported to ANAO management. The Business Manager records the results of each survey.

2. Quality products and services

This measure is output-focussed and KPIs include the percentage of audits completed in accordance with timetables and within approved budgets, the number of performance audit reports issued and the ratio of estimated financial benefits to the cost of performance audits. This information is obtained from ANAO information systems and compiled by Business Managers.

3. Highly performing people

This key result area focuses on the opinion of public sector management on the knowledge, understanding and skills of ANAO personnel. Information is obtained from Agency surveys and also internal staff surveys. Target performance measures are based on a certain percentage of respondents rating staff, internal initiatives and processes as better than satisfactory. Staff turnover and ongoing staff professional development are also addressed.

4. Good business management

Key performance measures include average audit costs, achievement of PBS indicators and performance of corporate management through service group surveys. Audit costs are monitored by ANAO information systems and are based on the total number of hours spent and the level of staff used.

The ANAO scorecard is presented in the ANAO's Annual Report and formally reported to management on a quarterly basis. Key performance indicators for both the PASG and the AASG are outlined in Group Product Plans and incorporate PBS indicators. The existence of KPIs and formal reporting of performance highlights achievements and identifies areas where improvement is required.

Feedback and process improvement—PASG and AASG



The ANAO have several processes in place to provide feedback to staff on audit performance and identify areas of improvements in the audit management process. Formal processes include completion of staff performance appraisals, undertaking client and staff surveys and internal and external quality assurance reviews. These processes demonstrate the ANAO's commitment to the principles of continuous improvement.

Staff performance appraisals

Supervisors and managers are required to complete performance appraisals for staff. Formal feedback is required for jobs or tasks greater than 100 hours for AASG Senior Directors, and 35 hours for other AASG staff. A performance review is conducted in April and October for all staff. This appraisal provides staff with feedback on their audit performance and identifies training requirements and career planning.

Report assessments

Performance Audit Managers receive feedback from the Deputy Auditor-General and Auditor-General on the quality of their report. The assessment includes consideration of the timeliness of the report, its delivery with agreed budgets, the degree of difficulty of the subject matter and other various quality factors. Reports are ranked as 1 (needs more work), 2 (suitable), or 3 (commendable). Reports receiving a ranking of '1' are amended prior to releasing to the Agency. Additional feedback on the quality of reports is given to staff during the review process.

Client surveys

Client surveys are undertaken by an independent consultant to determine the level of satisfaction with the services provided by the ANAO. Clients complete a questionnaire assessing ANAO performance across key audit areas. An interview is also held with the Agency to confirm the results of the survey and incorporate any additional feedback.

Surveys are presented to Executive Directors for comment and to incorporate proposed actions and lessons learned where unfavourable results are received. The results are then issued to the Deputy Auditor-General and Auditor-General and communicated to the audit team. The results of client surveys form a component of the ANAO's key performance targets.

Internal Quality Assurance Reviews

The Research and Development branch have implemented an internal Quality Assurance Program for both the assurance and performance audit groups.

For the Assurance Audit group, quality reviews are conducted on both ANAO and outsourced audits and focus primarily on compliance with auditing and accounting standards and ANAO policies and procedures. Standard checklists are used and the Research and Development branch undertakes the reviews with assistance provided from field auditors. At present, the program involves seven ANAO audits, one Financial and Control Administration (FCA) audit and 11 outsourced audits.

For the Performance Audit group, reviews are undertaken by the Research and Development branch and primarily focus on compliance with ANAO policies, procedures and the performance audit guide. Quality reviews were undertaken on three performance audits last year.

Results of the quality reviews are provided individually to the audit team being reviewed, and are reported in aggregate to Executive Directors and presented to the Executive Board of Management (EBOM). The reports detail what needs to happen (ie. identification of improvements to current processes), training requirements and any required changes to existing policies and procedures.

To ensure staff are aware of current issues and process improvements, assurance audit staff attend fortnightly technical session and performance audit staff hold quarterly forums.

External Quality Assurance Reviews

Performance audits

External feedback is provided through peer reviews, primarily with other domestic and international audit offices. Peer reviews are undertaken with the New Zealand Audit Office and are project managed by the Research and Development branch. The reviews focus on comparing audit processes and practices and identifying areas for improvement.

Informal quality review exercises and benchmarking is also undertaken with the UK National Audit Office. This involves liaison, discussion and periodic staff secondments. The reviews focus on comparing practices and identifying improvements to processes and practices.

Qualitative benchmarking exercises have been conducted comparing ANAO practices with, Canadian and United States Audit Offices. The results of this benchmarking exercise were positive for the ANAO. Further qualitative benchmarking exercises are not considered effective as the operations, size and budgets of these Offices are not considered comparable.

In 1998, the ANAO undertook a benchmarking exercise of the performance audit process with the Industry Commission and the NSW Audit Office. Although the ANAO compared well, several opportunities were identified to improve the efficiency and effectiveness of the reporting process including: reducing the number of milestones in the reporting process; agreement on key issues by senior management during the audit (rather than at the reporting stage); early commencement of the reporting process; reduction in the layers of review and implementing a structured process to identify the strengths and weaknesses of each review. Whilst some of these recommendations have since been implemented, there is still no structured post-audit review process and there does not appear to have been any reduction in the layers of report review.

Financial statement audits

For 1995–96, 1997–98 and 1998–99 financial statement audits, external quality assurance and benchmarking reviews were conducted by KPMG. The quality assurance review process involved a review of individual audit files to ensure an appropriate audit opinion was issued and the audit was conducted in an efficient and effective manner. Feedback was provided to individual audit teams and a formal report issued making recommendations to address deficiencies noted.

With the exception of the 'coaching reviews' undertaken by Ernst & Young, external quality reviews have not been undertaken recently. ANAO management propose to continue with the external quality review program in the near future.

Knowledge management system

The ANAO has set as a key priority the establishment of a knowledge management system for capturing and sharing information and knowledge within the ANAO. A knowledge management strategy and implementation plan have been prepared.

Key features of the proposed knowledge management system are:

- ▶ a database to allow the storage and sharing of common and reusable information on audit clients, Parliament, audit subject matters and ANAO audit guidance and better practice materials;
- ▶ facilitation of knowledge sharing by greater use of lessons learnt seminars and the introduction of individual 'Centre of Excellence' roles;
- ▶ associated staff incentives to ensure appropriate ownership, maintenance, sharing and use of knowledge sources;
- ▶ scanning of information sources and filtering of information through to appropriate knowledge managers; and
- ▶ access to relevant external data sources, using hot-links to connect users to existing sites.

The evaluation of tenders for the design and implementation of knowledge management technology is currently in progress.

Opportunities for Improvement

Implementation Priority

Medium	1. Setting of budgets for each milestone—PASG18
Medium	2. Post-audit debriefing of engagement teams—PASG and AASG....19
Medium	3. Levels of review for performance audits—PASG20
Medium	4. Report drafting technical support—PASG21

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

1. Setting of budgets for each milestone—PASG

Findings:

A high level budget is prepared for all performance audits and is detailed in the internal audit work plan. This budget is restricted to total audit hours and costs, contractors' hours and costs, travel and other costs. Completion dates for defined milestones are also established, however, time and cost budgets are not broken down to audit milestones or key audit stages.

Whilst managers monitor the progress of each audit in terms of time spent and costs, the completion of each audit stage and the achievement of milestones against budget is not assessed. Without budgets set for each milestone it may not be possible to readily identify, on a timely basis, audit time and cost that is being incurred in excess of the approved budget.

The accumulation of milestone time and cost data, for completed performance audits, would also provide managers with benchmark guidance as to the percentage of total audit time and cost that would normally be incurred for each milestone stage of a performance audit.

Key Actions Required:

To improve the effectiveness of budget monitoring and to better assess the progress of performance audits, I recommend that budgets be set for key stages of a performance audit and where possible, defined milestones. Instances, where budgets are exceeded and milestones are not achieved within time and cost estimates, should be reported to Executive Directors.

I also recommend that time and cost benchmarks be established for each type of performance audit. These benchmarks should provide guidance to audit teams on the percentage of total hours and cost normally incurred on each key stage of a performance audit.

ANAO Comment:

Consideration will be given to the cost benefit of a more detailed budgeting approach without foregoing the flexibility of current budgetary arrangements.

It should be noted that overall targets in 2000–2001 were substantially achieved and that overall parameters are set for each performance audit.

2. Post-audit debriefing of engagement teams —PASG and AASG

Findings:

The current post-audit engagement team debriefing process is unstructured and does not adequately facilitate the identification and communication of review strengths, weaknesses and lessons learnt to all engagement team members.

A structured post-audit completion debriefing session, in which the whole audit engagement team participates, will assist in the identification of better practice and process improvement and would provide an essential element to a continuous improvement process.

Key Actions Required:

To facilitate continuous improvement, I recommend that a structured post-audit debriefing process be developed to identify and communicate the lesson learnt and improvement areas for each completed audit. All audit engagement team members should participate in this process.

ANAO Comment:

Agreed. A formalised post-audit debriefing process will be implemented. This process will be linked to the outcomes of client surveys, executive ratings on reports and existing continuous improvement mechanisms and client surveys, where available.

3. Levels of review for performance audits —PASG

Findings:

The current reporting stage for performance audits incorporates nine milestones over a period of 13 to 15 weeks, excluding the Audit Manager's time in preparing the draft report.

The draft and final reports undergo four layers of internal review prior to issuing to the agency for comment. Although this allows for a high level of management review and input, efficiency gains in the reporting process may be realised by reducing the level of review, particularly for performance audits that have been assessed as 'no known or potential risk' or 'potential minimal risk'.

The longer it takes to complete the reporting stage and table the performance audit report in Parliament, the greater the risk that the relevance of the findings may be limited.

Key Actions Required:

I recommend that consideration be given to reducing the number of layers of review where a performance audit has been assessed as 'no known or potential risk' or 'potential minimal risk'.

Risk assessments, for each performance audit, should be reviewed and approved by the ANAO executive group prior to completion of the Audit Work Plan.

ANAO Comment:

Review processes are designed to ensure the overall integrity and quality of the final product. The current audit approach is designed to build in quality throughout the audit, so that the final review processes are kept to a minimum.

At the time of the preparation of the 2002–2003 audit work program, the ANAO will consider whether some lower risk audits, such as follow-up audits, could be issued by ANAO senior executives. Any decision will need to have regard to the views of the Auditor-General in view of his ultimate responsibility for all audit reports.

4. Report drafting technical support—PASG

Findings:

Completion of the reporting stage of a performance audit ranged from 36 to 297 days in 2000–2001 and 50 to 241 days in 1999–2000. One of the main variables is the response time from Agencies. Another variable that impacts on the time to finalise a performance audit report is the quality of the initial draft report.

I note that there is no in-house technical support to assist performance auditors in ensuring a consistent quality in the presentation and wording of reports. Examples of best practice reports are not readily available to performance audit staff.

Key Actions Required:

I recommend that the consideration be given to the potential quality and efficiency benefits that may be gained by having an in-house specialist assist performance audit teams with the formatting and drafting of performance audit reports.

ANAO Comment:

Arrangements presently exist which allow audit teams to engage external specialists to assist with report drafting. A Performance Audit Reporting Guide was issued in June 2001 which provides staff with guidance on the preparation of audit reports and a standard report template is used to prepare draft audit reports.

The ANAO has adopted a number of different approaches to the production of audit publications with variable results. Any in-house specialist would require both subject matter expertise and editorial skills to ensure the arrangement is a cost-effective one.

Consideration will, however, be given to the benefits of engaging an in-house specialist to further assist performance audit teams with the formatting and drafting of performance audit reports.

Appendix 1: Key Contacts

This review was conducted by holding discussions with ANAO staff members and reviewing relevant documentation.

Key staff members with whom discussions were held included:

- ▶ **Ian McPhee:** Deputy Auditor-General
- ▶ **Warren Cochran:** Group Executive Director PASG
- ▶ **John Meert:** Group Executive Director PASG
- ▶ **Edward Hay:** Group Executive Director AASG and CMB
- ▶ **Michael Watson:** Group Executive Director AASG
- ▶ **Willie Tan:** Resource Manager and Signing Officer AASG
- ▶ **Puspa Dash:** Resource Manager and Signing Officer Group 3 AASG
- ▶ **John Hawley:** Acting Executive Director PASG
- ▶ **Russell Coleman:** Executive Director CMB
- ▶ **John Strickland:** Acting Business Manager PASG
- ▶ **Peter White:** Executive Director PASG
- ▶ **Richard Rundle:** Executive Director BASG
- ▶ **Lynne O'Brien:** Executive Director Research and Development
- ▶ **John Oldroyd:** Audit Manager PASG
- ▶ **Ann Thurley:** Audit Manager PASG
- ▶ **Mark Maloney:** Audit Manager AASG
- ▶ **David Crossley:** Executive Director AASG
- ▶ **Brandon Jarrett:** Audit Manager AASG

