



Australian National Audit Office

REPORT ON RESULTS OF A PERFORMANCE AUDIT OF THE STRATEGIC PLANNING FRAMEWORK

April 2000

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Executive Summary

Introduction

This performance audit of the Australian National Audit Office's ("ANAO") strategic planning framework is the initial audit in a three phase process of performance audits undertaken as a function of my role as the independent auditor of the ANAO. The second and third phases will focus on client engagement management and the setting of priorities for the allocation of resources available to the ANAO.

The ANAO's strategic planning process is used to determine its long-range corporate objectives and to establish and monitor a plan to achieve those objectives in practice. 1999/2000 is the first year in which the ANAO is required to report against the output & outcomes framework.

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 strategic planning process for the purpose of:

- Forming a view about whether the ANAO's strategic planning framework is appropriately structured and the process is being undertaken in a manner that will assist in ensuring that resources available to the ANAO are being utilised in an efficient and effective manner;
- Suggesting ways by which management practices, including procedures for monitoring performance, might be improved.

Scope and approach to the audit

The scope of this audit included conduct of the following key steps:

- Conduct a series of meetings with key stakeholders within the strategic planning framework;
- Review the existing strategic framework using a business process analysis methodology;
- Highlighting the opportunities for improvement which will enhance the value of the strategic planning framework within the organisation; and
- Report findings.

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

Conclusion

In my view, I am satisfied that the ANAO's strategic planning framework is well structured and incorporates all of the elements that I consider should form part of an efficient and effective corporate planning process. The purpose, content and timing of the detailed plans within the framework are appropriate given the operations of the ANAO. The process provides meaningful and useful information which allows the ANAO to plan effectively for both their current activities and future developments. Also, given the size of the organisation the resources which have been applied to the development of the strategic planning framework appear reasonable.

Opportunities for improvement

This review has identified a number of opportunities for improvement which will assist in the ongoing integration of the strategic planning framework into the operations of the business.

- The ANAO should ensure that appropriate strategies are developed to address the significant change to methods of government transacting business in the future due to new e-commerce systems;
- A three year planning cycle should be formalised to coordinate each of the various elements of the strategic planning framework. This timetable should be communicated to all ANAO employees to ensure that everyone is aware of their responsibilities and the function of each element in the process.
- A discrete presentation of the ANAO's strategic planning framework should be incorporated into the formal induction process for new personnel;
- The ANAO's strategies and the corresponding "indicators of success" and KPI's appear appropriate and aligned with the key result areas. However, some of the current KPI's are broad in nature and lack qualitative definition. Therefore, I have recommended improvements be made to the definition of the KPI's;
- A series of actions should be undertaken in order to fully implement the risk management framework and integrate it into the strategic planning framework;
- The ANAO's strategies for the use of the private sector to assist in the delivery of financial statement audits should be clearly defined and documented within the external strategy documents;
- The content of Client Services Documents need to be reviewed to ensure they adequately address the combined financial statement and performance audit coverage. Client Service Documents should indicate how the various risks of the client are being addressed through the services provided by the ANAO.

The detail relating to each of these items is included in section 3 of this report.

Overall ANAO Comment

The ANAO has invested considerable resources in developing and managing the Strategic Planning Framework in recent years and will pursue the actions identified in the report to further improve and refine the framework and related processes. As such, the ANAO has found the report to be timely and constructive.

ANAO Strategic Planning Framework

The strategic planning framework is an essential part of any organisation. It should provide a framework to enable business strategies to be formulated and provides a mechanism for effectively communicating these strategies to the organisation's stakeholders. In addition, an effective strategic planning framework is essential in considering the adequacy of existing resources to meet business objectives and in identifying future development needs. An integral part of this strategic planning framework are the KPI's used to measure the efficiency and effectiveness of the strategies which have been put in place.

The ANAO have developed a comprehensive strategic planning framework over a number of years.

1997 saw the publishing of a Strategic Directions document. This was followed with the current Corporate Plan (1998-2001) which was adopted in November 1998. The Corporate Plan is used to communicate the ANAO's strategies to both external and internal stakeholders. The plan clearly defines the vision, mission and values of the ANAO as well as the four key result areas ('KRA') against which the ANAO measure their performance:

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

Performance indicators are listed for each KRA.

The annual Business Plan outlines how the KRA's identified in the Corporate Plan are to be achieved and provides a "scorecard" so that the ANAO's performance against the KRAs can be assessed, monitored and measured.

The Business Plan is supported by annual Audit Service Group Product plans and an Operational Plan for the Corporate Management Branch.

Underpinned by the ANAO Corporate Plan are other key planning documents which include the Risk Management Plan (released in October 1999). This plan was developed in conjunction with Senior Executive Staff. A Corporate Plan review was finalised in September 1999.

The ANAO's Strategic Planning Framework is outlined in the following diagram:



The document, purpose, contents and timing of each element of this framework are as follows:

Document & Purpose	Contents	Timing
<p>Corporate Plan</p> <p>To communicate the ANAO's strategies to external stakeholders.</p>	<p>The plan outlines the vision, mission and values of the ANAO as well as the four key result areas (KRA's) against which the ANAO measure their performance;</p> <ol style="list-style-type: none"> 1 Meeting client's needs; 2 Quality services & products; 3 Highly performing people; and 4 Good business management. 	<p>The current corporate Plan was adopted in November 1998 and covers the period 1998-2001.</p>
<p>Business Plan</p> <p>To communicate the ANAO's strategies to internal stakeholders.</p>	<p>Includes key performance indicators and scorecards for monitoring the success of the business in achieving its objectives.</p>	<p>The current Business Plan covers the period 1999 - 2002. The plan is reviewed bi-annually, the last update was in September 1999.</p>
<p>Product & Operational Plans</p> <p>Defines the objectives, purpose and strategies for each function of the business.</p>	<p>Details functional strategies for achieving the KRA's set in the Corporate Plan.</p>	<p>Plans cover a one year period from 1 July–30 June.</p>

Document & Purpose	Contents	Timing
<p><u>Strategic plans and policies</u></p> <p>To set internal strategies for various corporate functions of the business, for example IT and Human Resources.</p>	<p>Details functional strategies for achieving departmental objectives.</p>	<p>Plans cover a three year period.</p>
<p><u>Outputs & outcomes framework</u></p> <p>Provides a framework to measure the ANAO's performance in reporting to government</p>	<p>Provides a definition of the expected outputs and outcomes from the ANAO's operations.</p>	<p>Annually.</p>
<p><u>Risk Management Framework</u></p> <ul style="list-style-type: none"> • Documents the ANAO's risk management strategy for the 1999-2000 financial year; • Summarises the approach to be taken to identifying and analysing all business risks. 	<p>The document identifies, analyses, assesses and treats risks identified by the ANAO.</p>	<p>The risk management framework was adopted in November 1999 and will be reviewed annually.</p>
<p><u>Strategic Directions</u></p> <p>Introduces various strategic themes including:</p> <ul style="list-style-type: none"> • Adding value to the public sector; • Managing for success; and • Our people, our success 	<p>Updates strategic directions outlines in the previous Corporate Plan and reflects the progress against the strategies set in the original Corporate Plan.</p>	<p>Published in 1997. Now incorporated in the ANAO Business Plan.</p>

Opportunities for Improvement

Implementation Priority

High	1.	Strategies to deal with e-commerce activities.....	7
Medium	2.	Timing of the elements within the planning framework	9
Medium	3.	Communication of the Strategic Planning Framework	10
Medium	4.	Key Performance Indicators	11
Medium	5.	Risk Management Plan	12
Low	6.	Project management and the use of the private sector	13
Low	7.	Integration—Client Service Documents and Audit Service Product Plans	14

Implementation Priority	Action
High	Immediate action required by management to ensure that the Strategic Planning Framework 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 Strategic Planning Framework is appropriately aligned with the requirements of the ANAO
Low	Attention is warranted by management to ensure that the Strategic Planning Framework is appropriately aligned with the requirements of the ANAO

Implementation
Priority:
High

1. Strategies to deal with e-commerce activities

Findings:

The Corporate Plan identifies key features of the external environment within the next three years. E-commerce was not identified as being one of these.

The significant changes in transacting business by government departments and agencies in the future, due to the introduction of e-commerce, will have at least two implications for the ANAO. The first being the skills required to audit e-commerce activities and the second the ability of the corporate processes and information systems to deal with the challenges provided by e-commerce.

I understand that an audit of e-commerce is included in the ANAO's 2000-2001 draft audit program.

Key Actions Required:

In order to assist in the efficient and effective integration of e-commerce into the strategic planning framework I recommend that the following activities be undertaken:

- Ensure a strategy to deal with the implications of e-commerce is incorporated into the planning framework;
- Develop appropriate training and knowledge management systems to ensure that the ANAO are adequately skilled to audit and advise their clients;
- Ensure that the revised IT strategy, due prior to June 2000, incorporates e-commerce; and
- Ensure that issues identified as part of the ANAO's "after determine" review of their public sector clients' readiness for e-commerce are considered to determine resource priorities.

ANAO Comment:

Agreed. The ANAO Business Plan 1999-2002 includes the following strategy:

‘Over the life of the Plan, resources will be devoted to establishing the capability to respond to the dynamic growth in the reliance on IT to support program delivery’.

In line with this strategy, action has commenced on strengthening our IT audit capacity to meet the challenges being presented by e-commerce including through outsourced arrangements. In addition, consistent with plans agreed to last year, work will commence shortly on the development of an ANAO Knowledge Management Strategy which will address our future knowledge needs in relation to this and other public sector developments.

The establishment and maintenance of an in-house IT capability for an organisation the size of the ANAO that meets all our needs is not cost-effective. We have therefore entered into strategic alliances with external providers to assist in meeting our on-going needs in this area.

At an operational level, the ANAO has provided preliminary E-Commerce training to ANAO staff and a two day training course on IT auditing includes a segment on E-Commerce.

2. Timing of the elements within the planning framework

Findings:

The constituent elements of the planning framework have been developed over time. Certain aspects, such as completion of the risk management review, did not fully coincide with the formulation of the Business Plan.

Due to the Corporate risk review being finalised after the completion of the Business Plan the following key risks were identified in the risk management review of the Corporate Management Branch, however they have not yet been included in the Key Result Areas of the current Business Plan. These include:

- failure to meet statutory requirements and policy obligations;
- failure to effectively manage the delivery of business support; and
- failure to provide professional and career development.

Key Actions Required:

I recommend that a three year planning cycle be formalised to co-ordinate each of the various elements of the strategic planning framework and that this be disseminated to ANAO employees to ensure that everyone is aware of their responsibilities and the function of each element in the process. This should help to improve the efficiency of the process.

The timetable should include annual high level reviews of the tri-annual framework documents, namely Strategic Directions, Corporate Plan, Business Plan and the Risk Management Review, as appropriate.

This will ensure that the results of the risk management review and other initiatives are available across all business areas to drive the Business Plan, particularly as they relate to the overall strategic planning framework.

ANAO Comment:

Agreed. A timetable will be developed which identifies dates for the review and updating of each element of the ANAO's Planning Framework.

The corporate risks identified will be incorporated in the Business Plan where appropriate when the plan is next updated.

Implementation Priority: Mediu

3. Communication of the Strategic Planning Framework

Findings:

As part of this audit a number of staff were interviewed to ascertain their understanding of the ANAO's strategic planning framework. All of the staff interviewed were aware of the Corporate Plan, the Business Plan and the themes introduced within the Vision, Mission, and Values Statement.

Two of the staff members interviewed had recently joined the ANAO and had been to the formal induction course held in December 1999. They both expressed the view that the strategic planning documents had not been formally presented to them at this session and that they had only come across these documents whilst reviewing information contained within the Lotus Notes database.

I understand that at the recent formal induction process general references were made to these strategic planning documents. The fact that the course participants were not aware of this suggests that the references were not an effective way of communicating the information within these documents.

Key Actions Required:

I recommend that a discrete presentation of the ANAO's strategic planning framework documents be incorporated into the formal induction process to ensure that the framework is communicated effectively to all employees. The presentation should include an explanation of the background and the objectives of the documents and where they can be found.

I understand that the graduate inductions program undertaken in February 2000 included a detailed walkthrough of the ANAO's strategic planning framework.

ANAO Comment:

Agreed.

Implementation
Priority:
Medium

4. Key Performance Indicators

Findings:

I have reviewed the ANAO's strategies and the corresponding "Indicators of Success" and "Key Performance Indicators" to ensure their appropriateness and alignment with the Key Result Areas defined in the Corporate Plan. Generally, these were found to be appropriately aligned. In addition, the KPI's appeared to be specific, measurable, accurate, realistic and timely.

However, I have identified a number of instances where I believe improvements could be made. These include:

Key Result Area 1 – Meeting Clients Needs

The KPI which indicates that "90% of public bodies acknowledge role of ANAO" should be more qualitative. I recommend that this KPI be amended to "90% of public bodies acknowledge the **value added** by the ANAO".

Key Result Area 2 – Quality Products and Services

The KPI which indicates that "quality assurance results meet minimum standards" should be enhanced to include a clearer definition of the **minimum** standard.

Key Result Area 3 – Highly Performing People

The "Indicators of Success" should also be linked to the results of the client satisfaction surveys as an indication of how the client perceives ANAO staff.

Key Actions Required:

I recommend that consideration be given to revising the KPI's in line with my comments above.

ANAO Comment:

Agreed. The ANAO periodically reviews its Key Performance Indicators and will incorporate the suggestions into the next review ahead of the preparation of the 2000-2001 Portfolio Budget Statements.

Implementation Priority: Medium

5. Risk Management Plan

Findings:

The current risk management plan was initiated through a risk workshop attended by the Audit and Assurance Services Group & Performance Audit Services Group Senior Executives in May. Risks identified were incorporated into the Business Plan. This work was extended in July 1999 to incorporate the risks connected with the Corporate Management Branch. The current risk management plan is the first step in the introduction of a comprehensive risk management framework.

Key Actions Required:

The following actions, primarily identified by management, need to be undertaken in order to fully implement the risk management framework and effectively integrate it into the strategic planning process:

- Ongoing monitoring and regular reporting to the Executive Board of Management on the risk treatments identified in the Risk Management Plan;
- A timetable should be set for the review of the risk ratings. I recommend that this should, as a minimum, be an annual review;
- Communication of the risk management process to all ANAO's employees and development of a risk management culture within the ANAO;
- Extension of the risk management framework to individual jobs and client management.

ANAO Comment:

Agreed. The risks identified will, to the extent necessary, be incorporated into the ANAO's Risk Management Framework. The ANAO is committed to regularly updating its risk profile and associated control structures and the next review will be undertaken prior to 30 June 2000. The ANAO Audit Committee is responsible for periodically reviewing the Office's management of its Risk Management.

The ANAO will explore further opportunities to enhance its risk management culture, noting that the ANAO's current audit planning framework is underpinned by a risk management approach.

Implementation
Priority:
Low

6. Project management and the use of the private sector

Findings:

The ANAO use the private sector to assist in the delivery of their financial statement audits, these audits are referred to as “project managed audits”. These audits are outsourced for strategic reasons including the provision of specialist resources and the location of some clients.

The Assurance Audit Services Product Plan for 1999-2000 makes reference to these project managed audits and states that “Non-core business will continue to be project managed as this strategy ensures that our clients obtain the best available industry related audit skills”. However, there is no overall strategy within either the Business Plan or the Corporate Plan which documents the criteria for the delivery of audit services through a project managed arrangement.

Key Actions/Controls Required:

I recommend that the ANAO’s strategies for the use of the private sector to assist in the delivery of the financial statement audits be clearly defined and documented within the external strategy documents, for example the Corporate Plan and the Client Service Documents. This will ensure that both the ANAO’s clients and the private sector firms used to assist the ANAO are fully aware of the strategic reasons for the ANAO’s method of service delivery.

ANAO Comment:

Agreed. The ANAO’s approach to the use of the private sector has been outlined in recent Annual Reports. Strategies in this regard will be further articulated at the time of the next review of the Business Plan which will occur prior to the commencement of the 2000–2001 financial year.

Implementation
Priority:
Low

7. Integration – Client Service Documents and Audit Services Product Plans

Findings:

The ANAO are moving towards an integrated audit approach which delivers “combined assurance” to their clients in terms of both performance audits and financial statement audits. One of the key strategies within the Performance Audit Services Product Plan is “to develop an environment which ensures the delivery of integrated services”. In order to help achieve this strategy joint performance and financial audit strategy and client service documents are being produced

As part of this review “combined” Client Service Documents (CSD’s) which outlined the ANAO’s Audit Strategy for the 1999-2000 cycle were reviewed. There appears to be a lack of interaction between the financial statement audit strategy and the performance audit strategy. In particular, the CSD appeared to be largely focused on the financial statement audit.

I understand that these joint CSD’s were pulled together only recently and within a short timeframe.

In addition, the current Assurance Audit Services Product Plan makes no reference to either an integrated service or the development of an integrated service.

Key Actions/Controls Required:

The content of the joint CSD’s needs to be reviewed to ensure they effectively combine the financial statement and performance audit coverage, indicating how the various risks of the client are being addressed through the ANAO activities.

This will help to ensure that there is a shared understanding of the risks and priorities when setting the audit strategy, and will assist in the ANAO achieving its strategy of integrated service delivery. In addition, the current Assurance Audit Services Product Plan should be reviewed to ensure it makes reference to the development of an integrated service.

ANAO Comment:

Agreed. The Client Service documents issued to date have been in respect of the 2000-2001 financial statement audit cycle and therefore have been focussed primarily on financial statement risks. The Client Service documents to be developed following the finalisation of the 2000-2001 performance audit program will reflect an assessment of the risks from both a financial statement and a performance audit perspective.

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:

- **Michael Watson:** Group Executive Director Assurance Audit Services
- **Edward Hay:** Group Executive Director Assurance Services & Corporate
- **John Meert:** Group Executive Director Performance Audit Services
- **Russell Coleman:** Executive Director Corporate Management Branch
- **Andrew Greaves:** Executive Director
- **Mary Ann Johnston:** Business Manager AASG
- **John Strickland:** Acting Business Manager PASG