



Australian Government

Department of Finance



Department of Finance

Australian National Audit Office

Audit Committee Chairs Forum

14 June 2019

Deputy Auditor-General's update

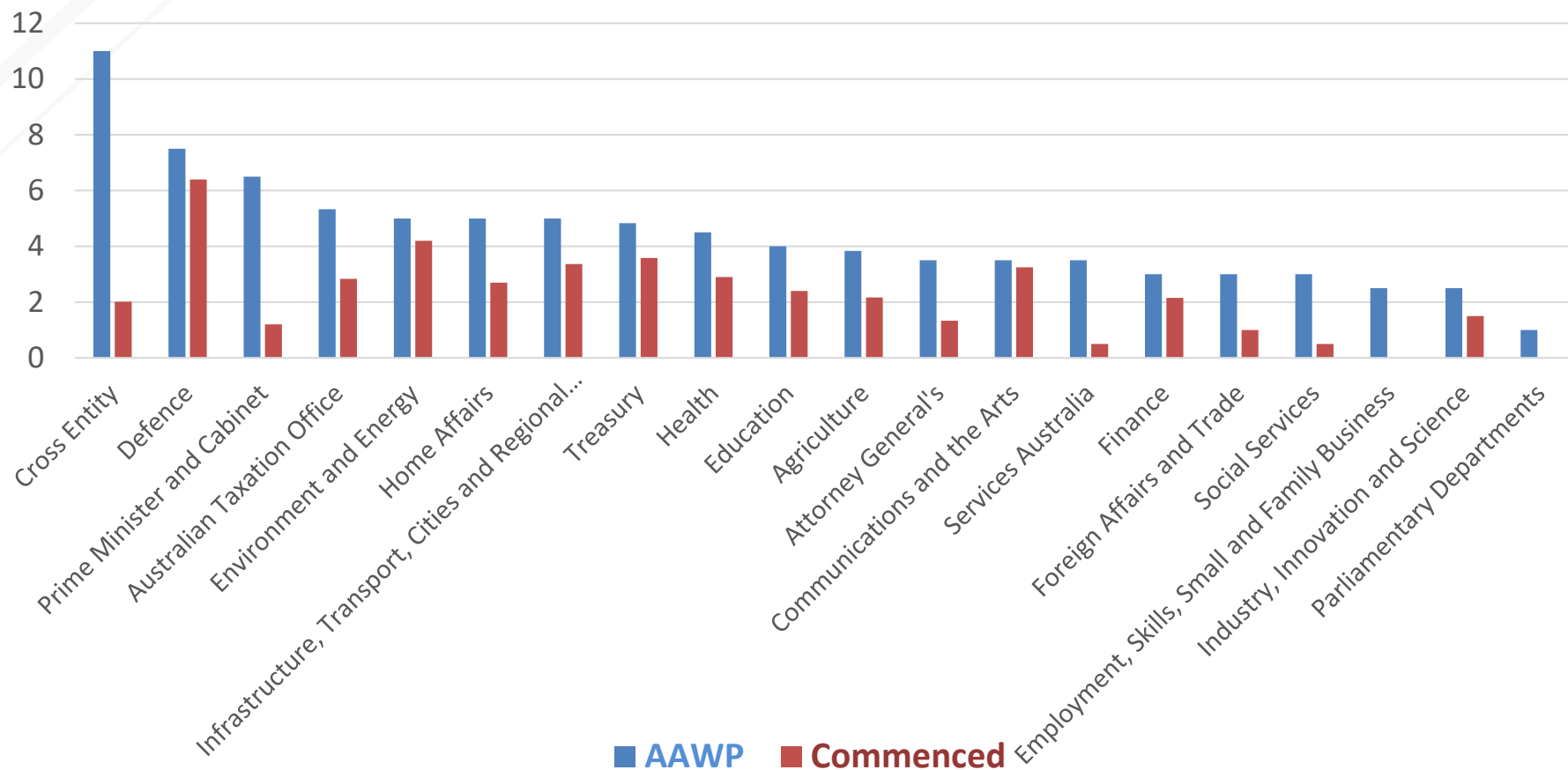
Rona Mellor
Deputy Auditor-General

Deputy Auditor-General's update

- **Parliament**
 - Some evidence that the Parliament is signalling a desire for more system-level assurance and transparency of the operation of frameworks in the public sector
- **JCPAA**
 - High level of activity in the 45th Parliament
 - JCPAA inquiry report 479 included commentary on the quality of evidence in hearings

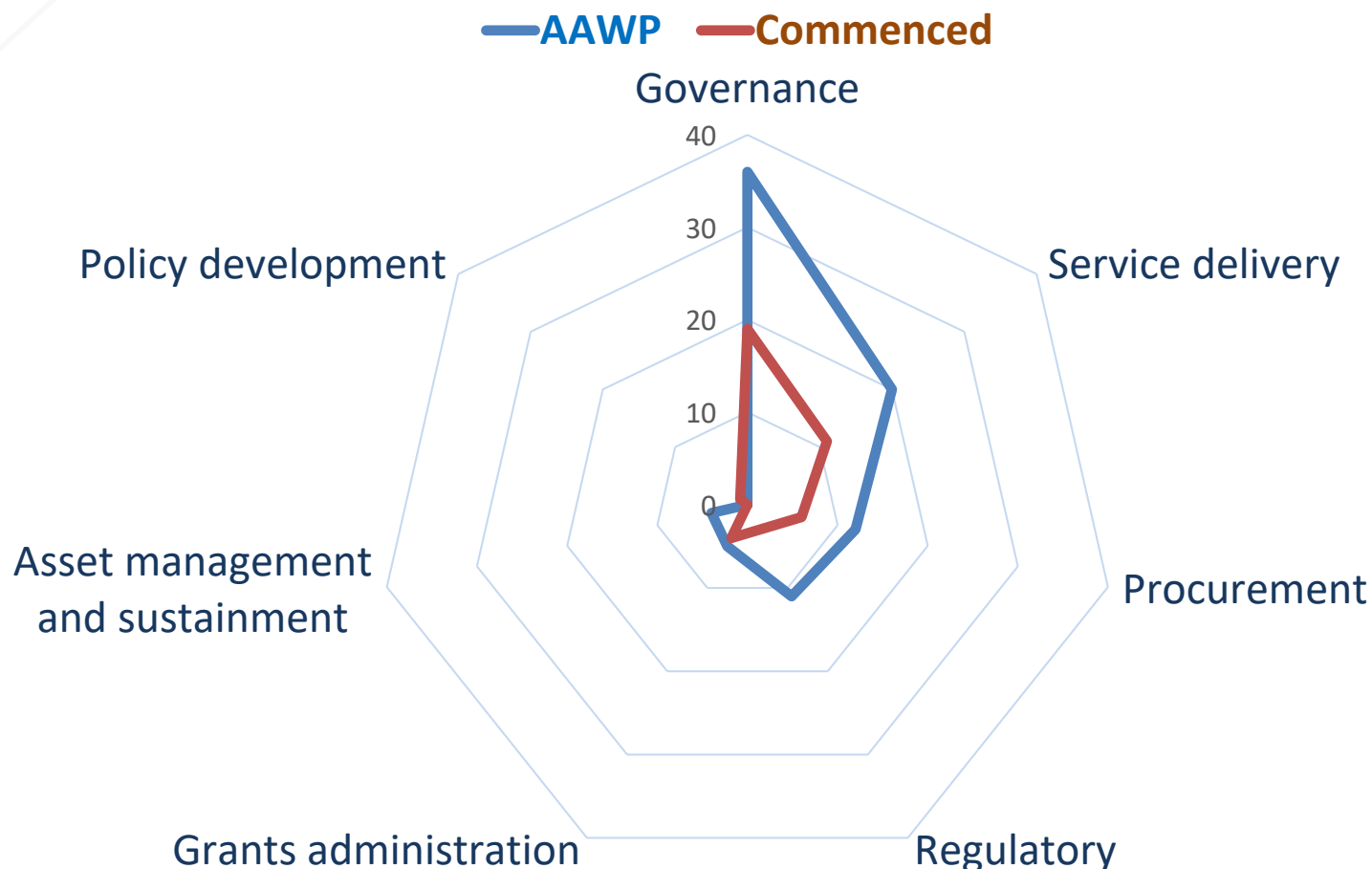
Deputy Auditor-General's update

2018-19 program: Portfolio coverage



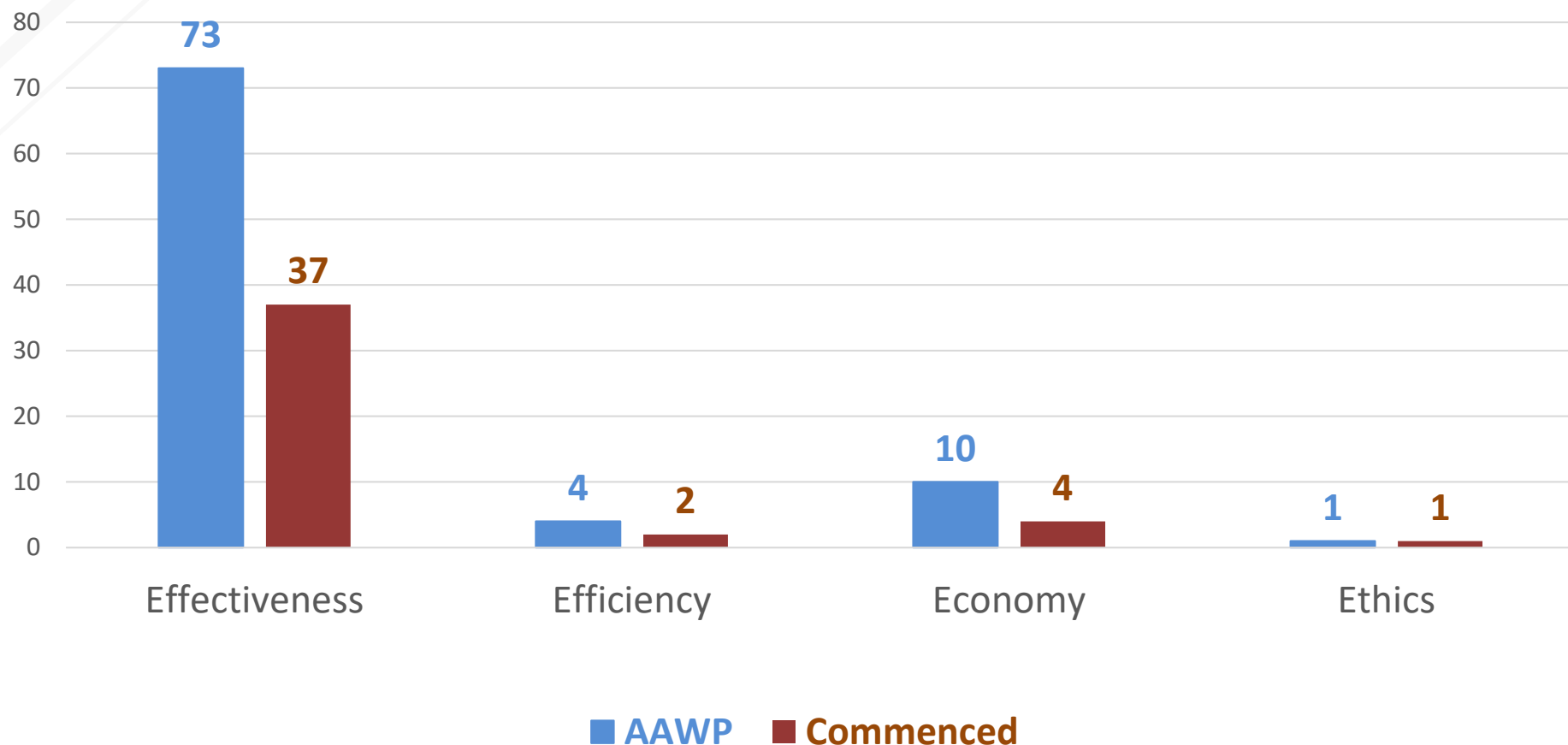
Deputy Auditor-General's update

2018-19 program: Activity coverage



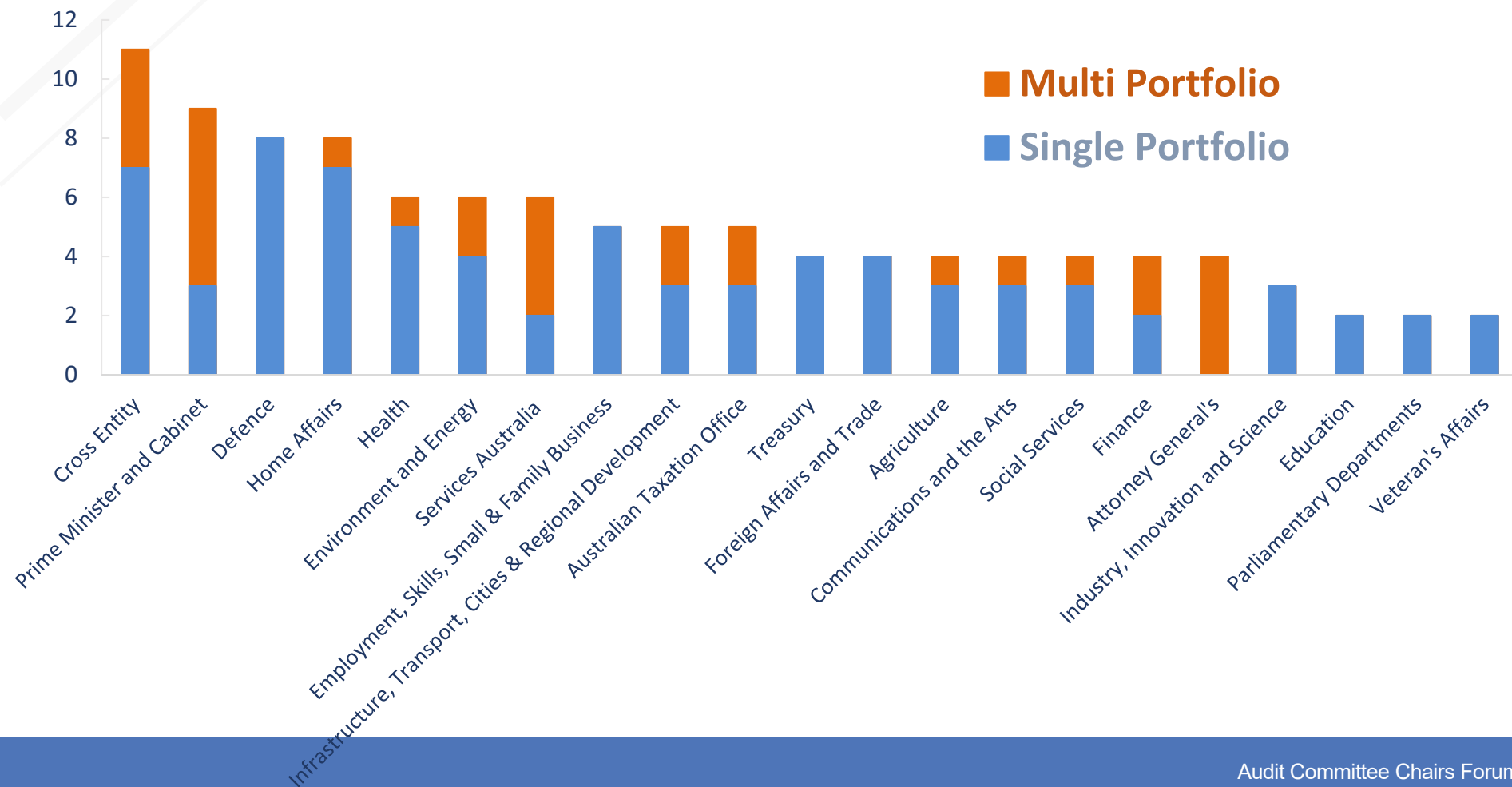
Deputy Auditor-General's update

2018-19 program: Objective



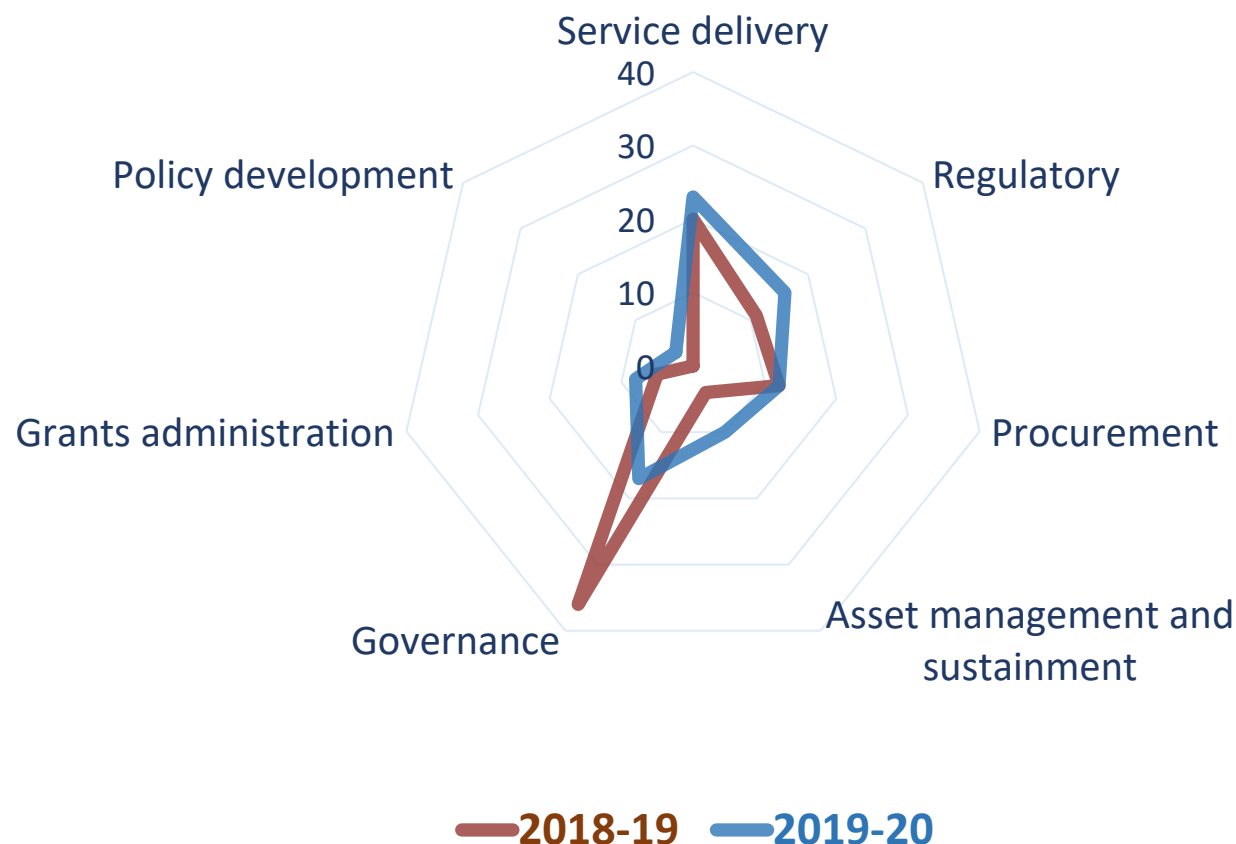
Deputy Auditor-General's update

2019-20 program: Portfolio coverage



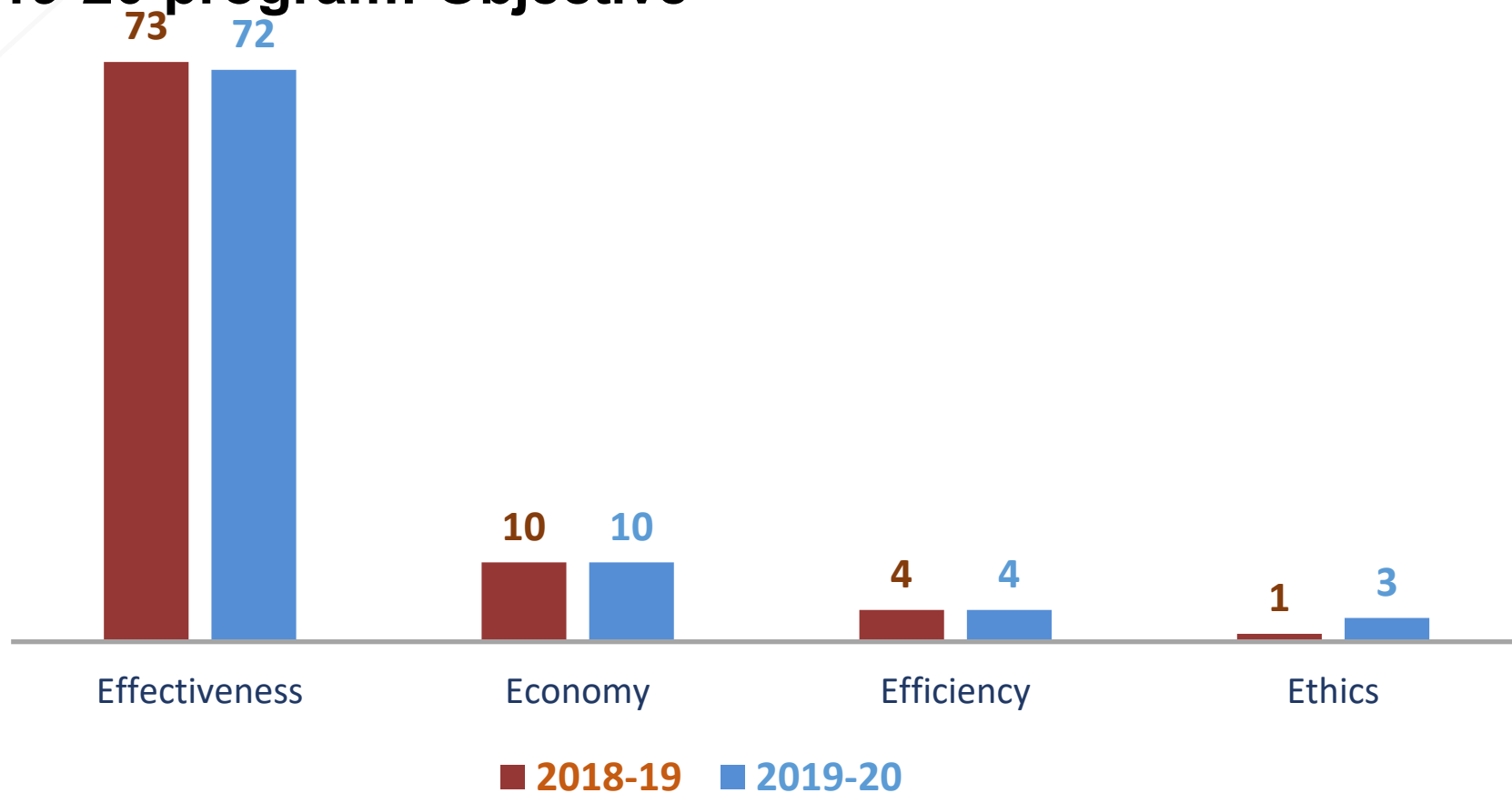
Deputy Auditor-General's update

2019-20 program: Activity coverage



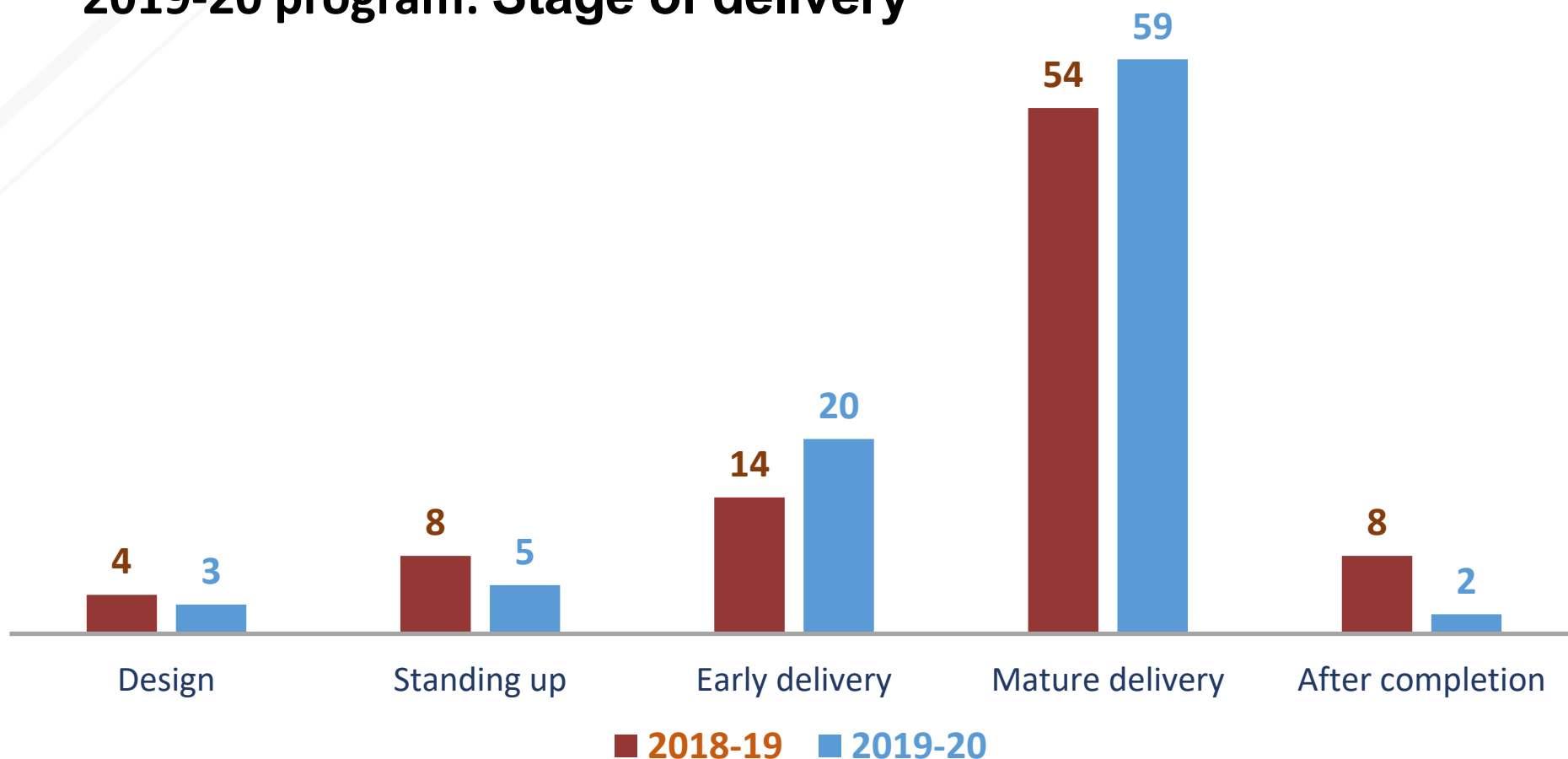
Deputy Auditor-General's update

2019-20 program: Objective



Deputy Auditor-General's update

2019-20 program: Stage of delivery





Australian Government
Department of Finance

Audit Committee Chairs Forum



Tracey Carroll
First Assistant Secretary
Financial Analysis, Reporting and Management Division

14 June 2019
Galambany Centre
Department of Finance



Content

- Key Accounting Standards Changes
- AASB 16 *Leases*
- 2018-19 Consolidated Financial Statements (CFS)
- 2018-19 CFS Supplementary Reporting Pack
- 2019 Machinery of Government (MoG) Changes

Key Accounting Standards Changes

- Key changes in accounting standards include:
 - AASB 9 *Financial Instruments*
 - AASB 15 *Revenue from Contracts with Customers*
 - AASB 16 *Leases* and
 - AASB 1058 *Income of Not-for-Profit Entities*
- Finance published position papers on website:
<https://www.finance.gov.au/resource-management/presentations-position-papers/>
- Amended Financial Reporting Rule (FRR), Resource Management Guide (RMG) and Primary Reporting Information Management Aid (PRIMA).



AASB 16 Leases

Implementation process to date:

- Phase 1 and 2 - EM 2019/03 and EM2019/16 issued:
 - Leases model created, policies on transition issued;
 - Additional FAQ's;
 - Chart of accounts and draft journal entries issued;
 - Central Budget Management System (CBMS).



AASB 16 Leases

Implementation process 2019-20:

- Phase 3 and 4 guidance:
 - Entities update models with 30 June borrowing rates;
 - CBMS updated for Budget estimates and opening balance adjustments;
 - CBMS updated for monthly actuals;
 - Financial Statement disclosures.



2018-19 Consolidated Financial Statements – Deliverables from entities

- CBMS Annual Actuals submissions and audit-cleared financial statements:
 - Material entities due – Thursday, 15 August 2019
 - Small entities due – Friday, 30 August 2019
- CFO assured supplementary reporting packs (SRPs):
 - Material entities due – Monday, 19 August 2019
 - Small entities due – Friday, 30 August 2019
- Signed financial statements (within one day of signing).



2018-19 CFS Supplementary Reporting Pack

- Issued to entities in May 2019.
- The 2018-19 SRP includes new questions relating to the new accounting standards:
 - AASB 9 *Financial Instruments* (effective from 1 July 2018) – transitional impacts as at the date of initial application;
 - AASB 16 *Leases* (which will be effective from 1 July 2019) – known or reasonable estimate of lease assets and liabilities as at the date of initial application, i.e. 1 July 2019; and
 - AASB 15 *Revenue from Contracts with Customers* (effective from 1 July 2018 for ‘for-profit’ entities) – adjustments to revenue per old revenue standards, as the CFS is prepared on a ‘not-for-profit’ basis.



2018-19 CFS Supplementary Reporting Pack – other changes

- Clarification of requirements for maturity reporting.
 - Resource Management Guide 122 *Disclosure of maturity information in financial statements* – issued April 2019.
- The information provided in SRP by entities for the preparation of the government's CFS is required to be subject to an equivalent level of management assurance as applied to the entity's financial statements.
 - Section 18A of the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* – amendment approved by Finance Minister in March 2019.



Role of Audit Committee

- To provide independent advice and assurance to the entity's accountable authority. This includes the review of the appropriateness of the entity's financial reporting, including the SRP.
 - Section 17(2)(a) of the *Public Governance, Performance and Accountability Rule 2014* refers (functions of the audit committee).



Machinery of Government Changes

- Administrative Arrangement Order issued on 29 May 2019.
- The Machinery of Government Changes – A guide for agencies (the MoG guide) sets out the following principles for implementing MoG changes:
 - taking a whole-of-government approach
 - good faith negotiations
 - open and honest identification of resource implications
 - timely and accurate exchange of information
 - constructive and open communication with staff
 - accountability and compliance with legislation and policy.
- Timeframe set for completion: 1 July 2019



Five Entities have been renamed by the amendment to the Administrative Arrangements Order (AAO)

- The Department of Agriculture and Water Resources has been renamed the Department of Agriculture.
- The Department of Education and Training has been renamed the Department of Education.
- The Department of Human Services has been renamed Services Australia.
- The Department of Jobs and Small Business has been renamed the Department of Employment, Skills, Small and Family Business.
- The Department of Infrastructure, Regional Development and Cities has been renamed the Department of Infrastructure, Transport, Cities and Regional Development.



Legislation and functions being transferred by the amendment to the AAO

- Industrial relations has transferred from the Employment portfolio to the Attorney-General's portfolio.
- Vocational education and training, and apprenticeships has transferred from the Education portfolio to the Employment portfolio.
- Migrant adult education has transferred from the Education portfolio to the Home Affairs portfolio.
- Settlement services for refugees and humanitarian migrants has transferred from the Social Services portfolio to the Home Affairs portfolio.
- Whole of government service delivery has transferred from the Prime Minister and Cabinet portfolio to Services Australia.
- Population policy has transferred from the Infrastructure portfolio to the Treasury portfolio.
- Housing affordability has transferred from the Social Services portfolio to the Treasury portfolio.



Other changes

- Two new entities will be created from 1 July 2019:
 - Faster Rail Agency in the Infrastructure, Cities, Regional Development Portfolio; and
 - National Indigenous Australians Agency in the Prime Ministers Portfolio
- The Museum of Australian Democracy at Old Parliament House will transfer to the PM&C portfolio .



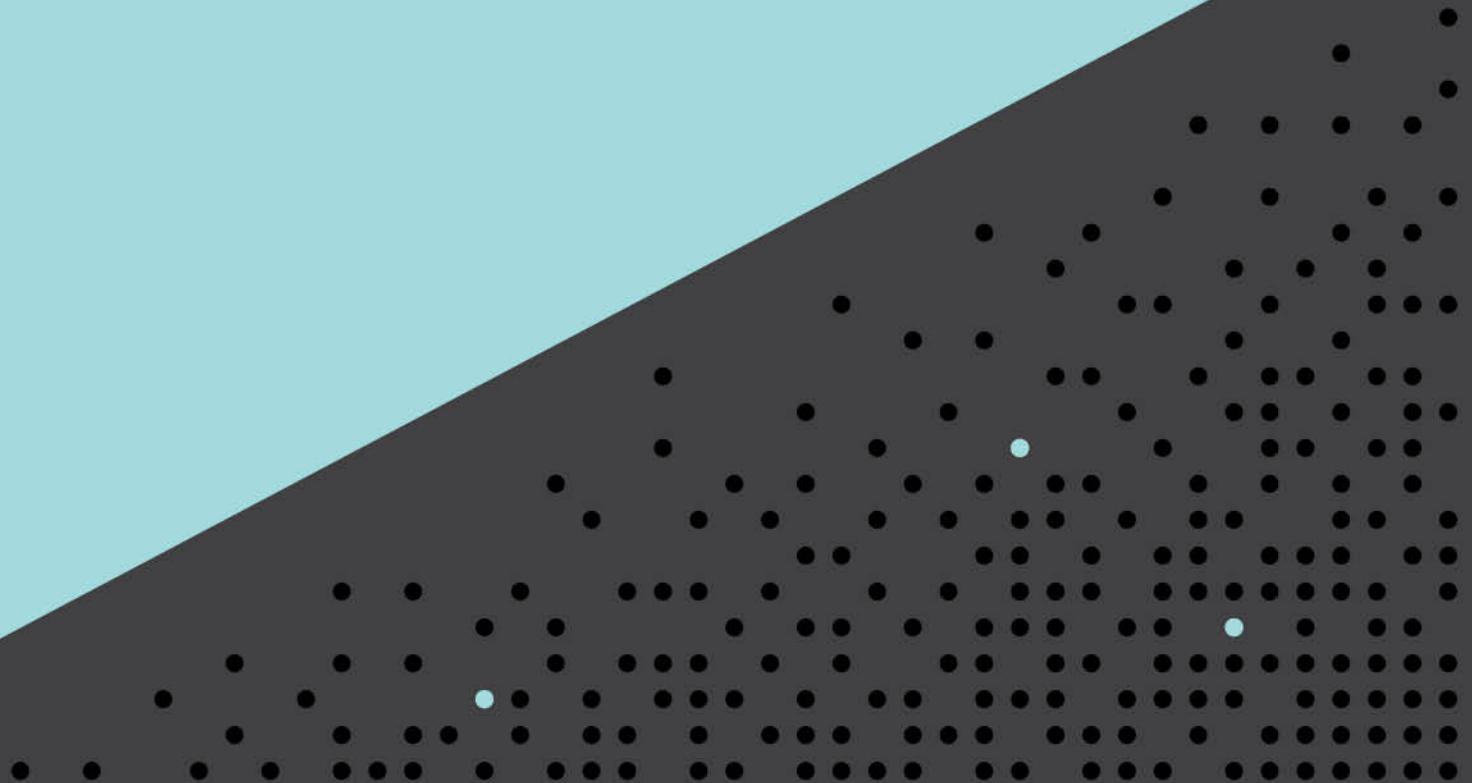
Any Questions?





Australian Government
Department of Finance

Digital Annual Reporting



Annual Reports and the Transparency portal

In 2018, Finance and 15 NCCEs successfully piloted a web-based digital reporting system to develop and publish our 2017-18 Annual Reports.

The results of the pilot are available at transparency.gov.au

At the request of parliament the PGPA Rule has been amended to require all Commonwealth entities and Companies to publish the annual report using the digital reporting tool administered by the Finance Minister.

“As soon as practicable after the annual report for a Commonwealth entity has been presented to the Parliament, the annual report must be published using the digital reporting tool administered by the Finance Minister”



Digital Prototype Pilot

1

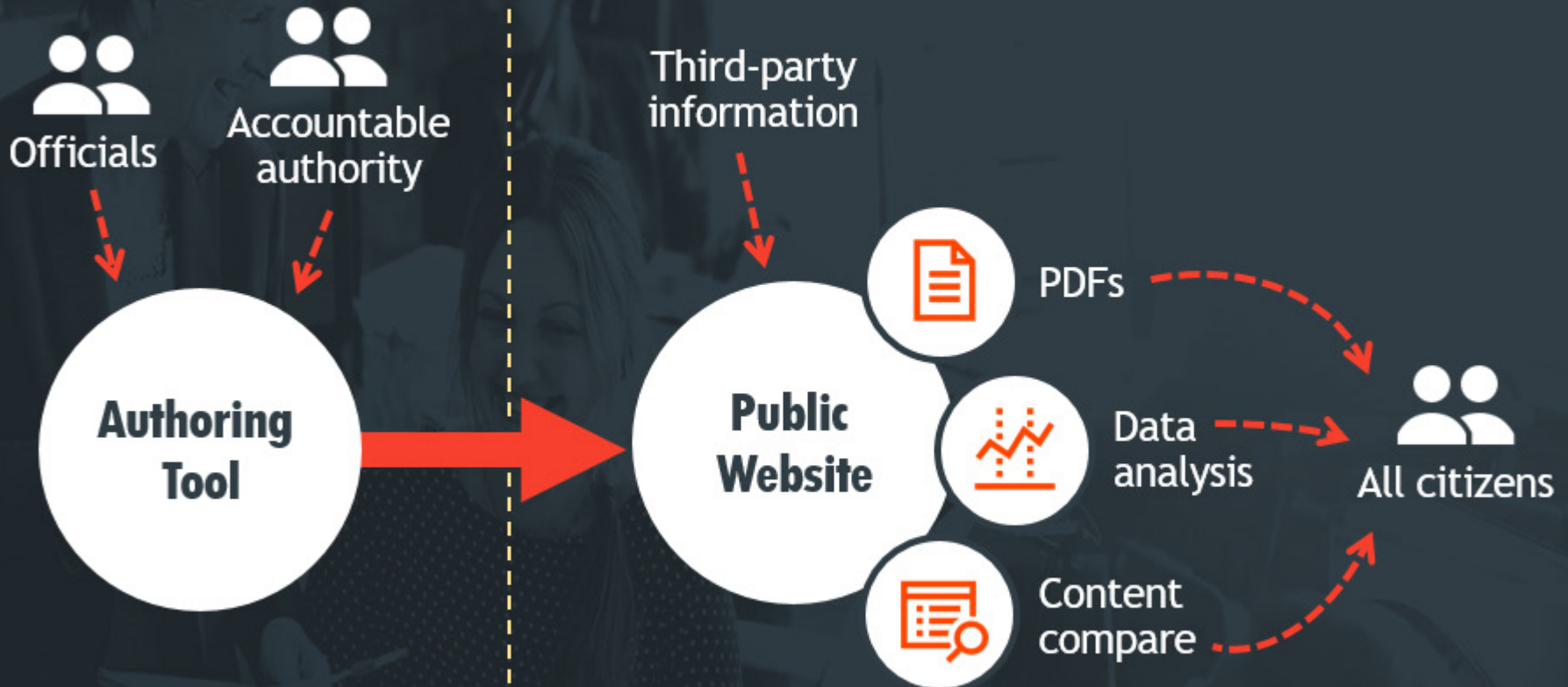
Draft, review, comment and approval workflow

2

Content pushed after approval

3

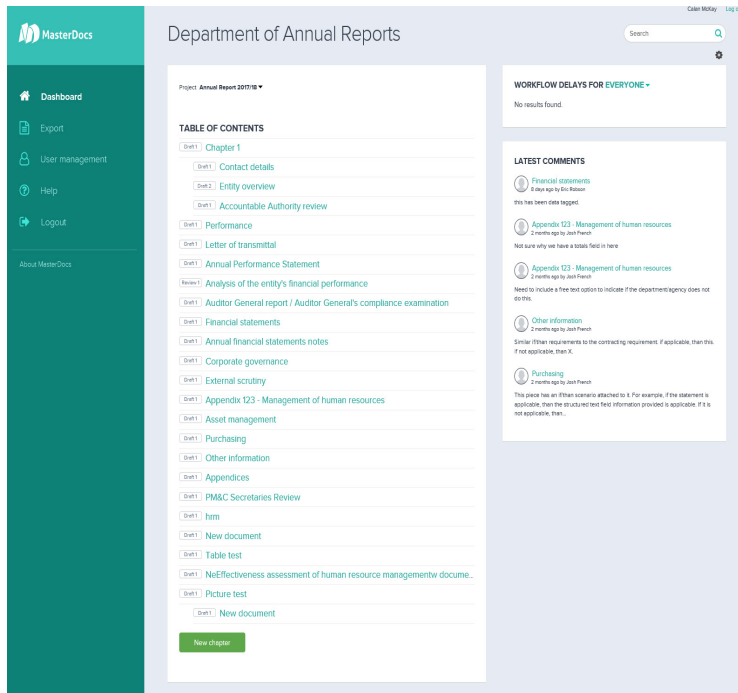
All Annual Reports now available in one location



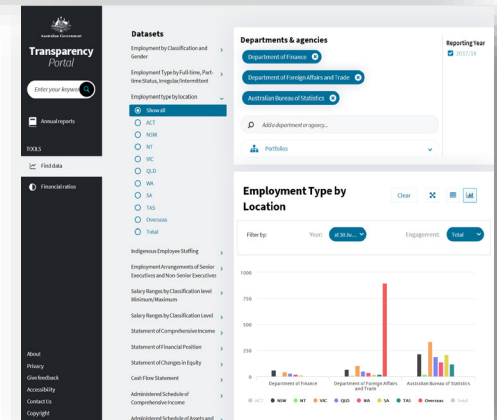
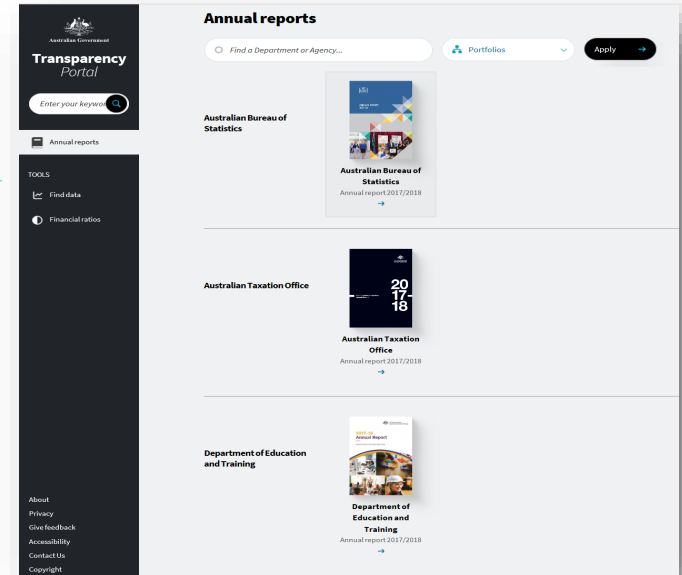
The Authoring tool

Transparency.gov.au

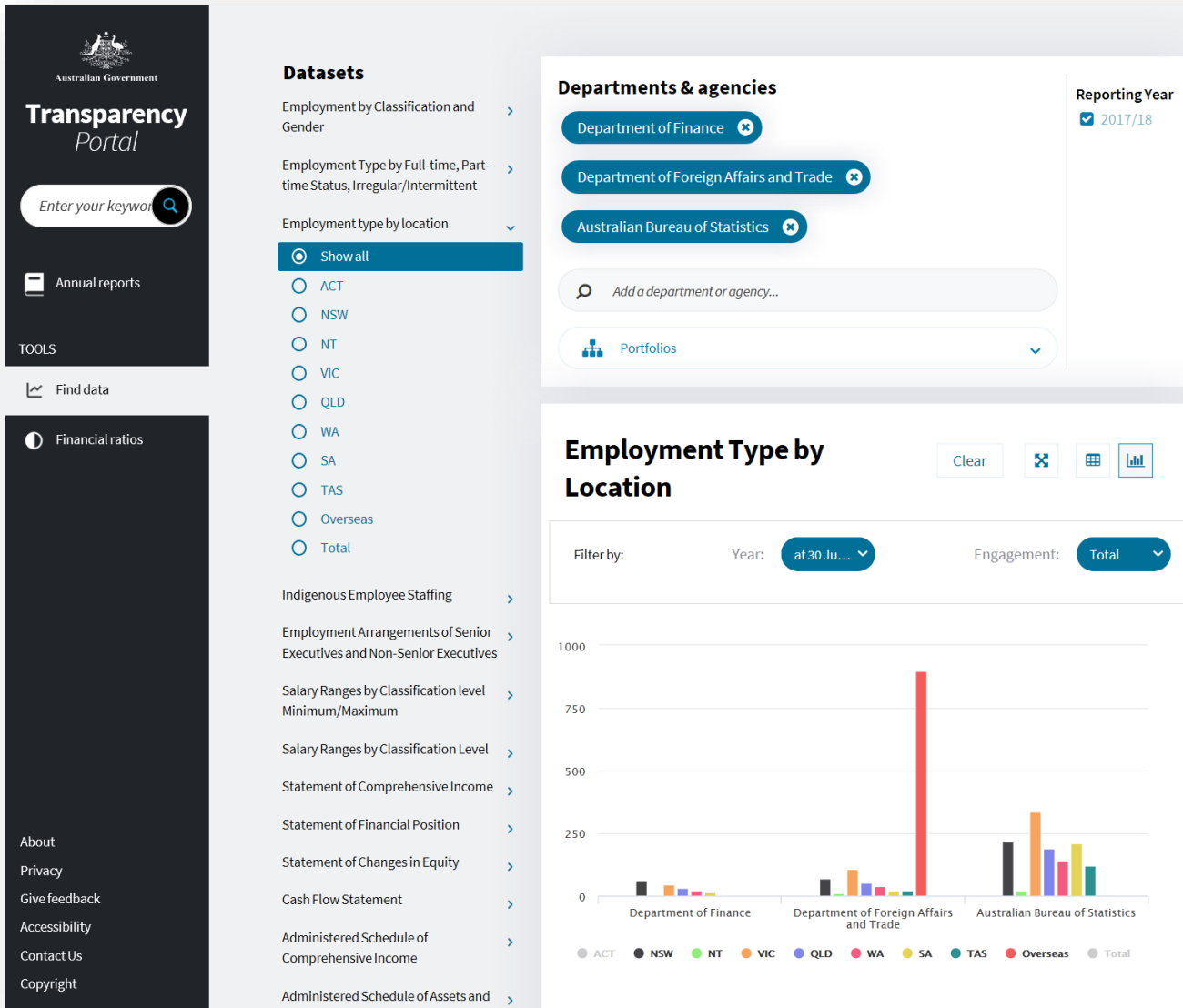
MasterDocs



190 Entities and Companies

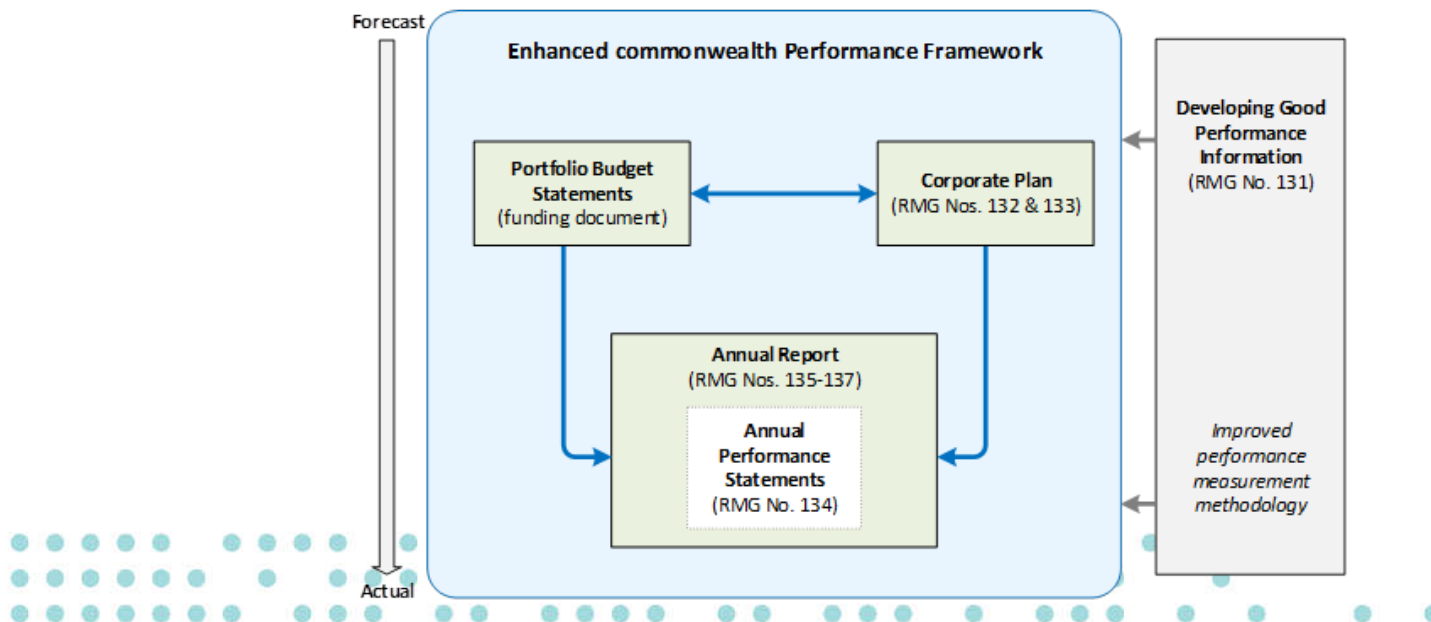


Data from Annual Reports



The Plan:

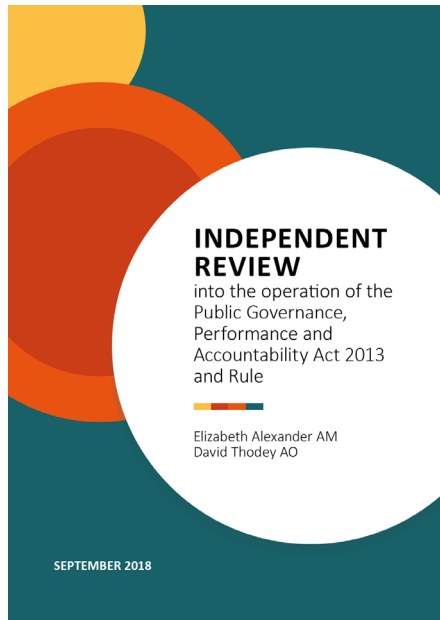
- 2018-19 full collection of Annual Reports in the Transparency Portal (October)
- 2020-21 first year of Corporate Plans **and** Portfolio Budget Statements in the Transparency Portal
- 'Line of sight' elements within the digital reports drawn together in line with the Performance Framework <https://www.transparency.gov.au/corporate-plan/department-finance/2018/performance>





Australian Government
Department of Finance

Independent Review into the Operation of the *Public Governance, Performance and Accountability Act 2013* and Rule



The **Finance Minister**, on 5 April 2019, tabled a statement in the parliament that **agreed**, in principle, to the **48 of the 52 recommendations** that are the responsibility of the government.



Finance will shortly brief the Minister for Finance to:

- Provide an update on the status of the implementation of recommendations and proposed broad reaching consultation.



Recommendations that have been implemented

1. **Recommendation 31** - *The development of a digital reporting platform.*
2. **Recommendation 35** - *The enhanced disclosure of executive remuneration.*
3. **Recommendation 36** - *The inclusion of an explanation of remuneration policy and practice in entity annual reports.*
4. **Recommendation 41** - *Disclosing material personal interest.*
5. **Recommendation 49** - *Improving entity banking arrangements.*



Recommendations In Progress

1. Enhancing Resource Management Guidance (RMG) -
Recommendation 39
2. Improving management practices and information-
Recommendations 11-13, 17-21 (relating to audit committees) **and 50**



Risk

Culture and governance:

Audit insights — board

governance

Tom Ioannou
Group Executive Director
Performance Audit Services Group

Culture and governance:

Audit insights — board governance

- Report No. 34 of 2018–19 **Effectiveness of Board Governance at Old Parliament House (OPH)**—published on 18 April 2019;
- Report No. 35 of 2018–19 **Governance of the Special Broadcasting Service Corporation (SBS)**—published on 26 April 2019;
- Report No. 36 of 2018–19 **Effectiveness of Board Governance at the Australian Institute of Marine Science (AIMS)**—published on 30 April 2019; and
- Report No. 37 of 2018–19 **Effectiveness of Board Governance at the Sydney Harbour Federation Trust (SHFT)**—published on 2 May 2019.

Culture and governance: Audit insights — board governance

Board responsibilities:

- **Performance** - monitoring performance of organisation and management
- **Conformance** - compliance with requirements and accountability to stakeholders

Board role is not only to monitor and protect but also to enable and enhance performance.

Culture and governance: Audit insights — board governance

Elements of governance:

- **Hard** - board composition, appointment processes, independence, etc
- **Soft** – chair/CEO relationships, board behaviours, board culture

Hard attributes - necessary but not sufficient. Interplay of hard and soft is key to good governance.

Common messages on culture and governance

HH Royal Commission (2003) highlighted importance of:

- clearly defined and recorded policies or guidelines
- clearly defined limits on the authority of management, including in relation to staff emoluments
- independent critical analysis by the board
- recognition and resolution of conflicts of interest
- dealing with governance concerns
- maintaining control of the board agenda
- providing relevant information to the board

Common messages on culture and governance

APRA Prudential Review of CBA (2018), found associated weaknesses in board oversight and organisational culture with:

- insufficient rigour and urgency by the Board and its Committees around holding management to account in ensuring that risks were mitigated and issues closed in a timely manner
- gaps in reporting and metrics hampered the effectiveness of the Board and its Committees
- a heavy reliance on the authority of key individuals that weakened the Committee construct and the benefits that it provides

Common messages on culture and governance

Hayne Royal Commission (2019)

- Is there adequate oversight and challenge by the board and its gatekeeper committees of non-financial risks?
- Is it clear who is accountable for risks and how they are to be held accountable?
- Are issues, incidents and risks identified quickly, referred up the management chain, and then managed and resolved urgently? Or is bureaucracy getting in the way?

Common messages on culture and governance

Hayne Royal Commission (2019), continued...

- Is enough attention being given to compliance? Is it working in practice? Or is it just 'box ticking'?
- Do compensation, incentive or remuneration practices recognise and penalise poor conduct? How does the remuneration framework apply when there are poor risk outcomes or there are poor customer outcomes? Do senior managers and above feel the sting?

Common messages on culture and governance

- HIH Royal Commission (2003)
- APRA Prudential Review of CBA (2018)
- Hayne Royal Commission (2019)

Boards should focus on:

- The adequacy of their oversight and challenge of entity management and emerging risk:
 - Including non-financial risks such as compliance risk, conduct risk and regulatory risk.
- Getting the right information – including on non-financial risks.
- Establishing clear accountability for managing risks

Common messages on culture and governance

- HHH Royal Commission (2003)
- APRA Prudential Review of CBA (2018)
- Hayne Royal Commission (2019), continued....

Boards should focus on:

- The identification and escalation of risk and incidents.
- The urgent management and resolution of risk and incidents.
- Paying sufficient attention to compliance, while avoiding box ticking.
- Linking remuneration and incentives to the management of non-financial risks.

Culture and governance:

Audit insights — board governance

Practices adopted by audited boards to support effective board governance:

- Establishing a board charter
- Periodically evaluating board performance
- Actively considering current and future board skill requirements
- Recognising and managing conflicts of interest
- Retaining adequate documentation and records of decisions and actions
- Actively questioning and challenging management

Culture and governance:

Audit insights — board governance

Practices adopted by audited boards to support effective board governance continued:

- Reviewing key strategic risks in corporate risk registers and setting the risk appetite
- Ensuring that the audit committee and its operating arrangements support the board obtaining the external advice and assurance it requires
- Approving and periodically reviewing key policies and frameworks, particularly those that relate to the duties of an accountable authority

Culture and governance:

Audit insights — board governance

Practices adopted by audited boards to support effective board governance continued:

- Providing appropriate induction to assist board members' understanding of their obligations
- Seeking management assurance regarding internal controls and compliance, and
- Seeking consolidated progress reports on results against all performance targets in the corporate plan

Culture and governance: Audit insights — board governance

ANAO Audit Insights:

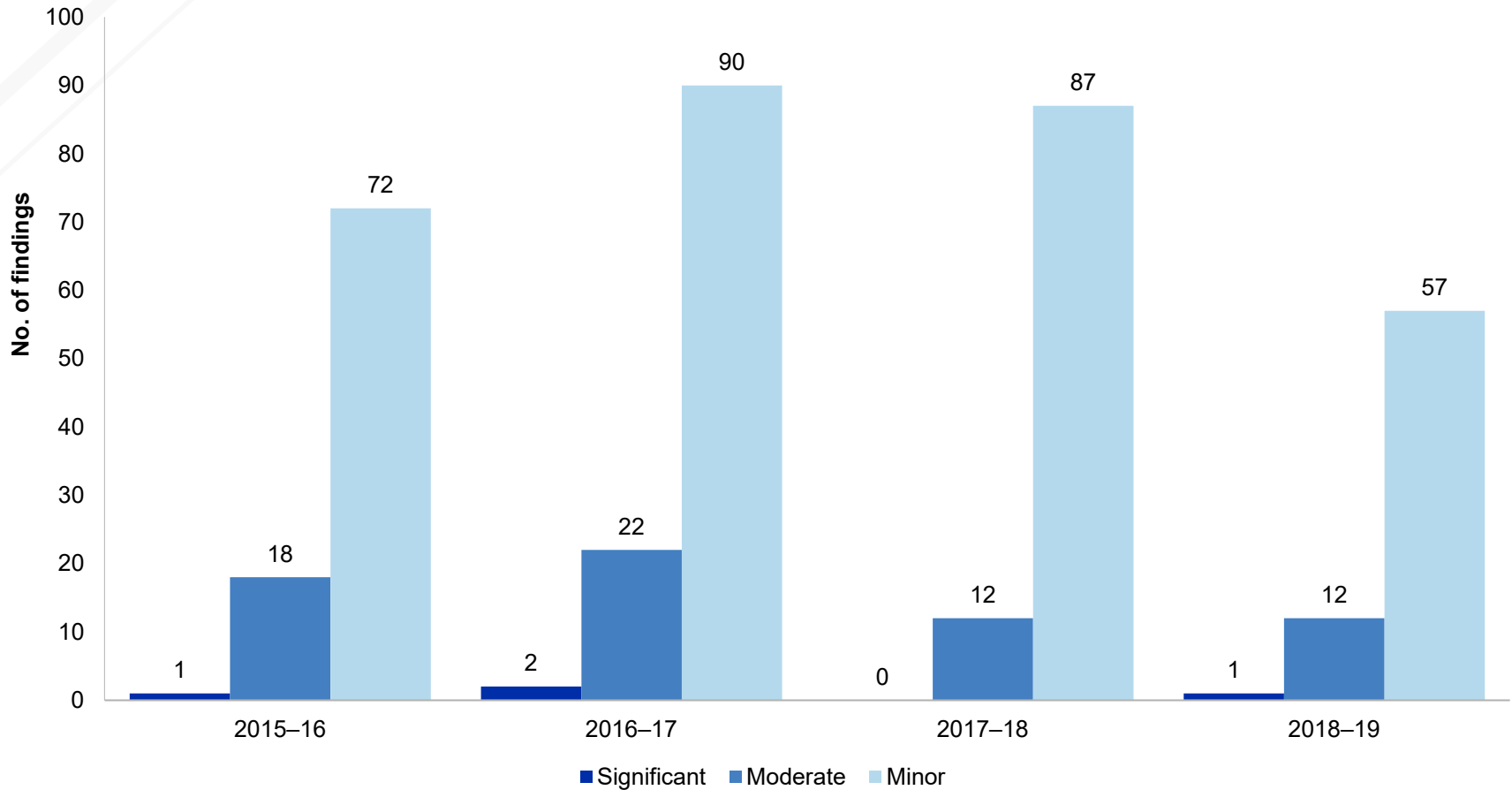
<https://www.anao.gov.au/work/audit-insights/board-governance>

Assurance audit update

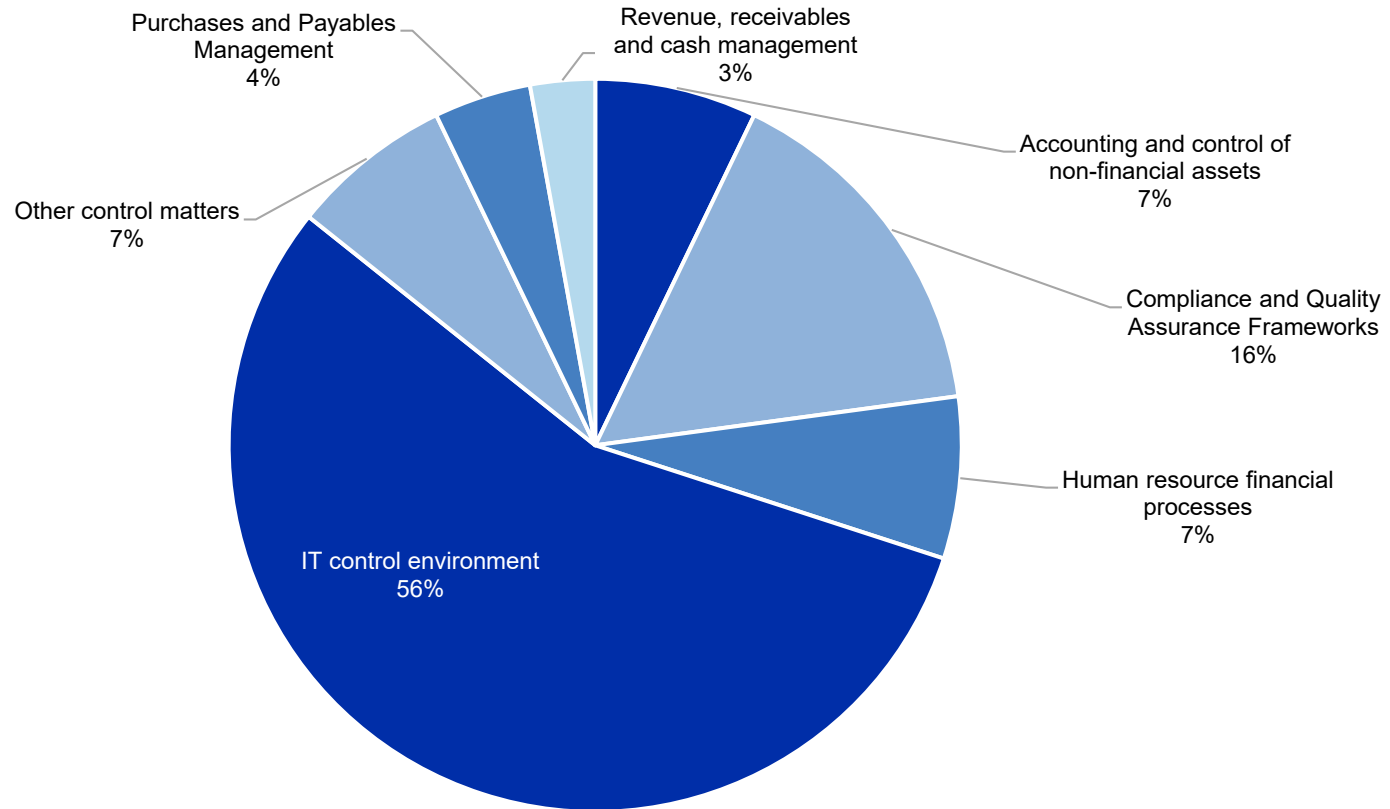
Carla Jago
Group Executive Director
Assurance Audit Services Group

Interim report on key financial controls of major entities (2018–19 financial year)

Aggregate audit findings for last four years

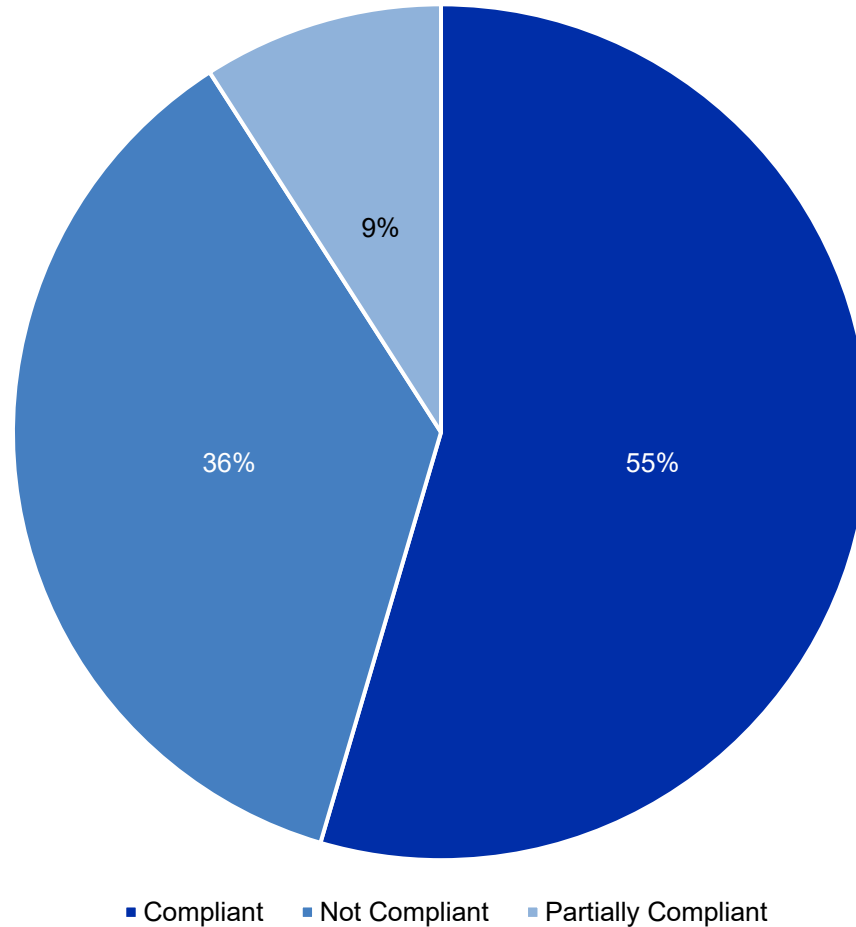


2018–19 interim audit findings – by category

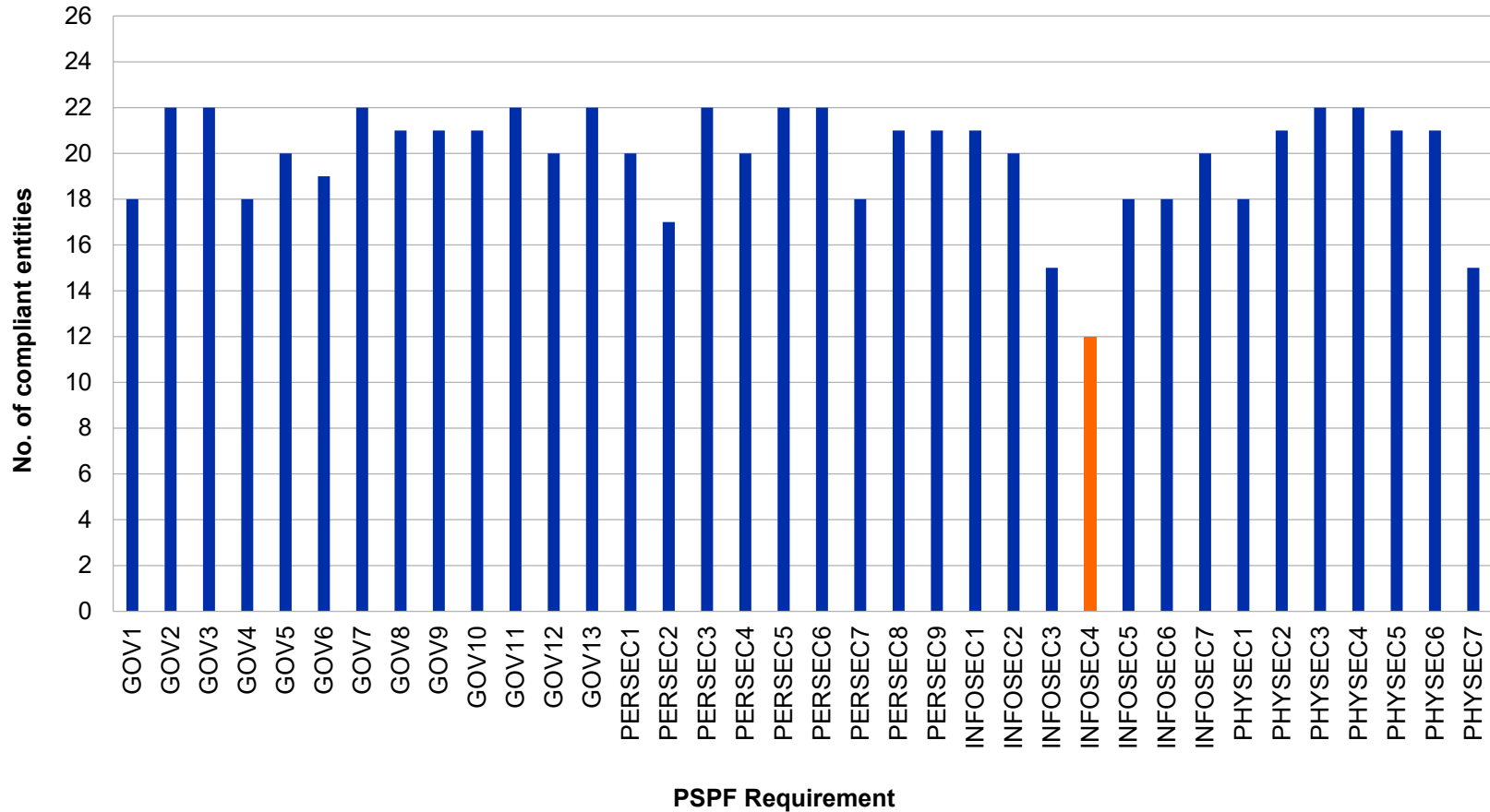


Source: ANAO compilation of interim findings.

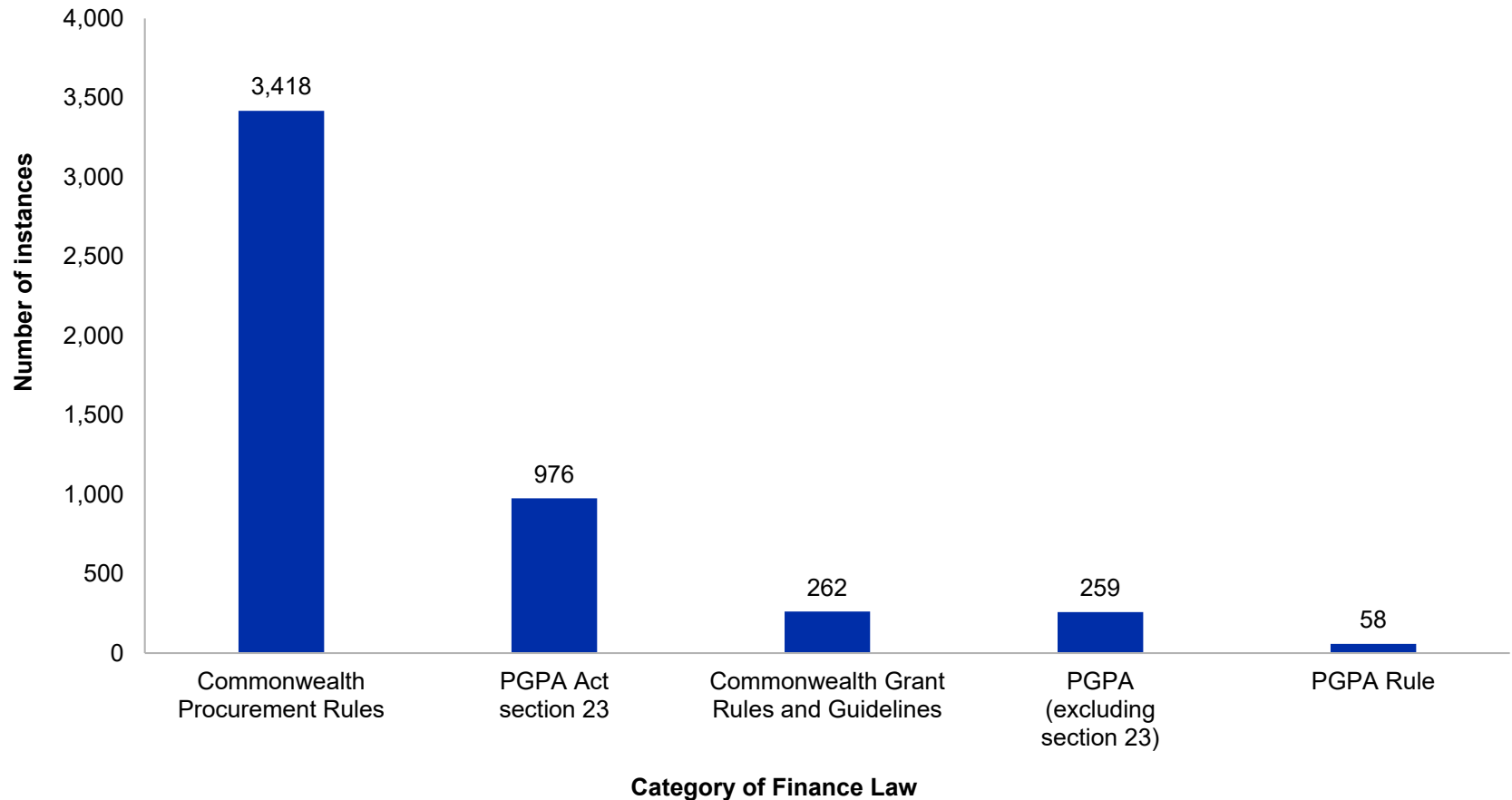
Entity compliance with INFOSEC 4



PSPF compliance comparison by mandatory requirement



Non-compliance identified during 2017–18 by entities



Source: ANAO analysis of non-compliance identified by entities.

Fraud management

- Effective fraud training including e-learning to support the development of a fraud awareness is key to preventing, detecting and reporting fraud
- Entities have diverse approaches to the implementation of fraud training
 - 23 of the 26 entities had mandatory fraud awareness training

Fraud management continued...

- Monitoring of completion of mandatory fraud training varies between entities
 - As at 30th June 2018, seven entities did not have a process to centrally monitor completion of the mandatory training
 - As at 30th June 2018, five entities had compliance rates below 70%
- There is an **opportunity for entities to strengthen their fraud awareness training programs and develop systems to monitor staff compliance with requirements**

Payment Cards

Accountability is supported by: clear and comprehensive policies, a robust acquittal process; timely independent review; and management reporting

- Three entities have not updated their policy for more than three years
- All entities had established payment card limits for their cardholders
- Six entities did not undertake regular review and reporting of the status of acquittals to management

Payment Cards continued...

- Assurance processes that monitor compliance with policies will help identify delays in acquittals, trends in inappropriate use and emerging risks
 - 23 Entities had implemented monitoring of purchase card expenditure - three entities did not have formal management assurance processes
 - Six entities only require receipts to be retained for transactions above the ATO substantiation limit for claiming GST (\$82.50)

Strengthening procedures will lead to increased transparency over compliance with internal policies, enhancing assurance that payment card expenditure is appropriate, within delegation and supported by receipts

Year End Report for 2018-19

- Information that will be collected for the Year End Report:
 - Number and value of audit adjustments
 - Adherence to financial reporting timetable
 - Executive Remuneration Disclosures