



Australian Government

Department of Finance



Department of Finance

Australian National Audit Office

Audit Committee Chairs Forum

6 December 2019



Australian Government

Department of Finance



Audit Committee Chairs Forum

6 December 2019

Time	Agenda item	Presenter
11.00	Welcome and opening remarks	MC (ANAO)
11.10	Auditor-General's update	Grant Hehir, Auditor-General
11.25	Financial Reporting <ul style="list-style-type: none"> Financial Analysis, Reporting and Management update Key Themes: Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019 	Tracey Carroll, First Assistant Secretary Financial Analysis, Reporting and Management Division Carla Jago, Group Executive Director, Assurance Audit Services Group
11.40	Performance reporting <ul style="list-style-type: none"> Commonwealth resource management framework and the clear read principle – insights from performance audit ANAO pilot of audits of performance statements 	Tom Ioannou, Group Executive Director, Performance Audit Services Group Michael White, Senior Executive Director, Performance Audit Services Group
12.10	Break	
12.30	Risk / Governance <ul style="list-style-type: none"> Governance update Implementation of ANAO and Parliamentary Committee Recommendations 	Scott Dilley, First Assistant Secretary Governance Lisa Rauter, Group Executive Director, Performance Audit Services Group
1.00	Department of Finance update <ul style="list-style-type: none"> Assurance in a shared service environment PGPA Act review update 	Stein Helgeby, Deputy Secretary, Governance and Resource Management
1.15	Audit Quality	Jane Meade, Group Executive Director, Professional Services and Relationships Group
1.30	Forum close	

Auditor-General's update

Grant Hehir
Auditor-General

Auditor-General's update

- Quality of financial reporting
- Pilot Program of Assurance Audits of Performance Statements
- Audit quality
- Key insights from recent performance audits



Australian Government
Department of Finance

Audit Committee Chairs Forum



Tracey Carroll
First Assistant Secretary
Financial Analysis, Reporting and Management
Department of Finance

6 December 2019
Galambany Centre
Department of Finance



Content

- 2018-19 Financial Reporting
- Support to entities for 2019-20 Financial Reporting
- 2019-20 Accounting Standard Changes

2018-19 Financial Reporting

- Entity financial statements are consolidated into Australian Government statements:
 - 2018-19 Final Budget Outcome
 - 2018-19 Consolidated Financial Statements
- The requirements of these products drive our timeframes with entities

Support to entities for 2019-20 Financial Reporting

- Review and refresh of our guidance materials
- Earlier release of annual Financial Statements guidance (Financial Reporting Rule, RMG125, PRIMA):
 - Drafts will be circulated in December 2019
 - Final products to be released early in 2020
- Ongoing leases implementation support
 - Estimates incorporated in 2019-20 MYEFO
 - Actuals reporting from December 2019 Australian Government General Government Sector Monthly Financial Statements

2019-20 Accounting Standard Changes

- AASB15 *Revenue* and AASB1058 *Income of Not-for-Profit Entities*
 - Have all sources of revenue, administered as well as departmental, been reviewed to determine what changes to recognition or reporting will be required?
- AASB16 *Leases*
 - How have entities determined the opening balances for the application of AASB16?
 - What controls are in place to capture and track lease information?
 - How has the entity managed any information gaps they may have identified?

Questions?

Key Themes: Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019

Carla Jago
Group Executive Director
Assurance Audit Services Group

2018-19 Financial Statements Audits Report to Parliament

Key Results

- 237 of 248 Auditor's Reports issued including CFS
- 82% of auditor's reports issued within three months of year-end (2017-18: 90%)
- 184 audit findings across all categories (2017-18: 159)

Concluded for the majority of entities:

- key elements of internal control were operating effectively to provide reasonable assurance that the entities were able to prepare financial statements that are free from material misstatement

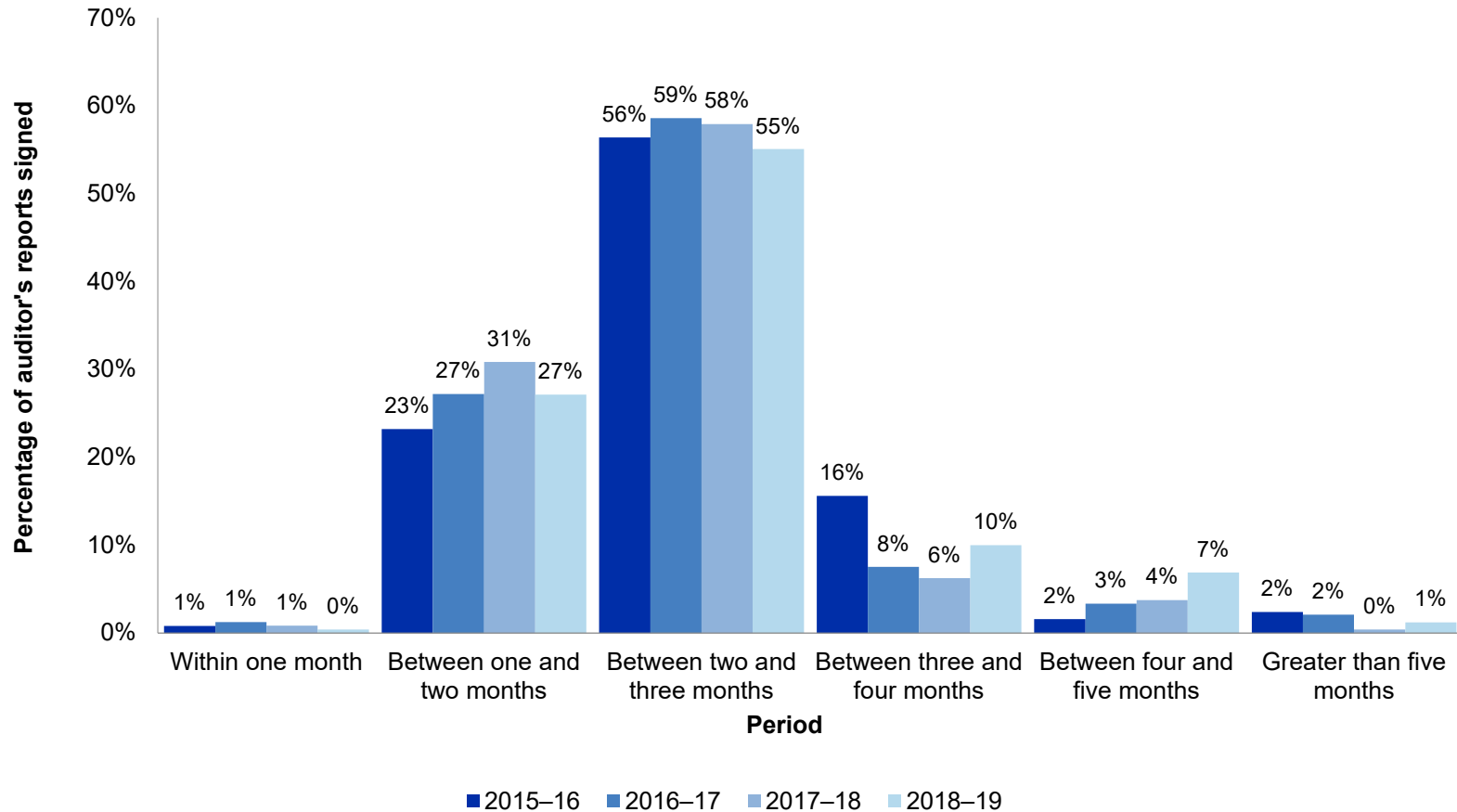
2018-19 Financial Statements Audits Report to Parliament

Key Results cont'd

Report includes additional analysis on:

- Audit Findings
- Quality and Timeliness of Financial Statement preparation
- Tabling of Annual reports
- Executive Remuneration
- Financial Sustainability
- Human Resource service arrangements

Audit Report Signing Analysis 2018–19



Audit Findings

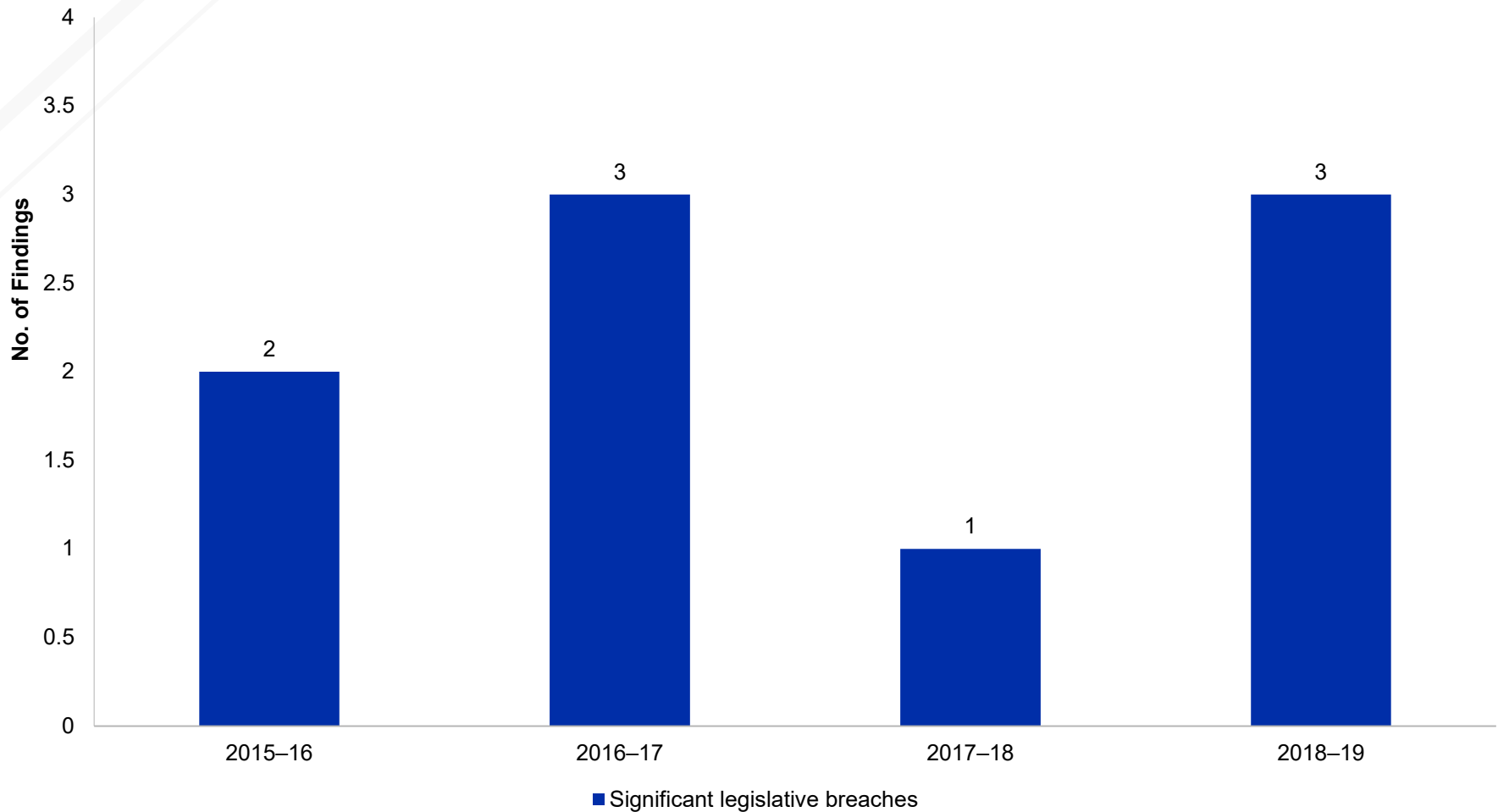
Total findings 184 (2017-18: 159)

- 3 significant (2017-18: 1)
- 21 moderate (2017-18:18)
- 160 minor (2017-18: 140)

87% (2017-18: 85%) of significant and moderate findings related to the following categories:

- IT controls – management of user access and privileged users;
- Compliance and quality assurance frameworks supporting program payments; and
- Management of non-financial assets

Significant legislative breaches



Quality of FS Preparation

Financial statements preparation

- 28 entities had findings or commentary relating to the weaknesses in processes supporting FS preparation.

Timeliness

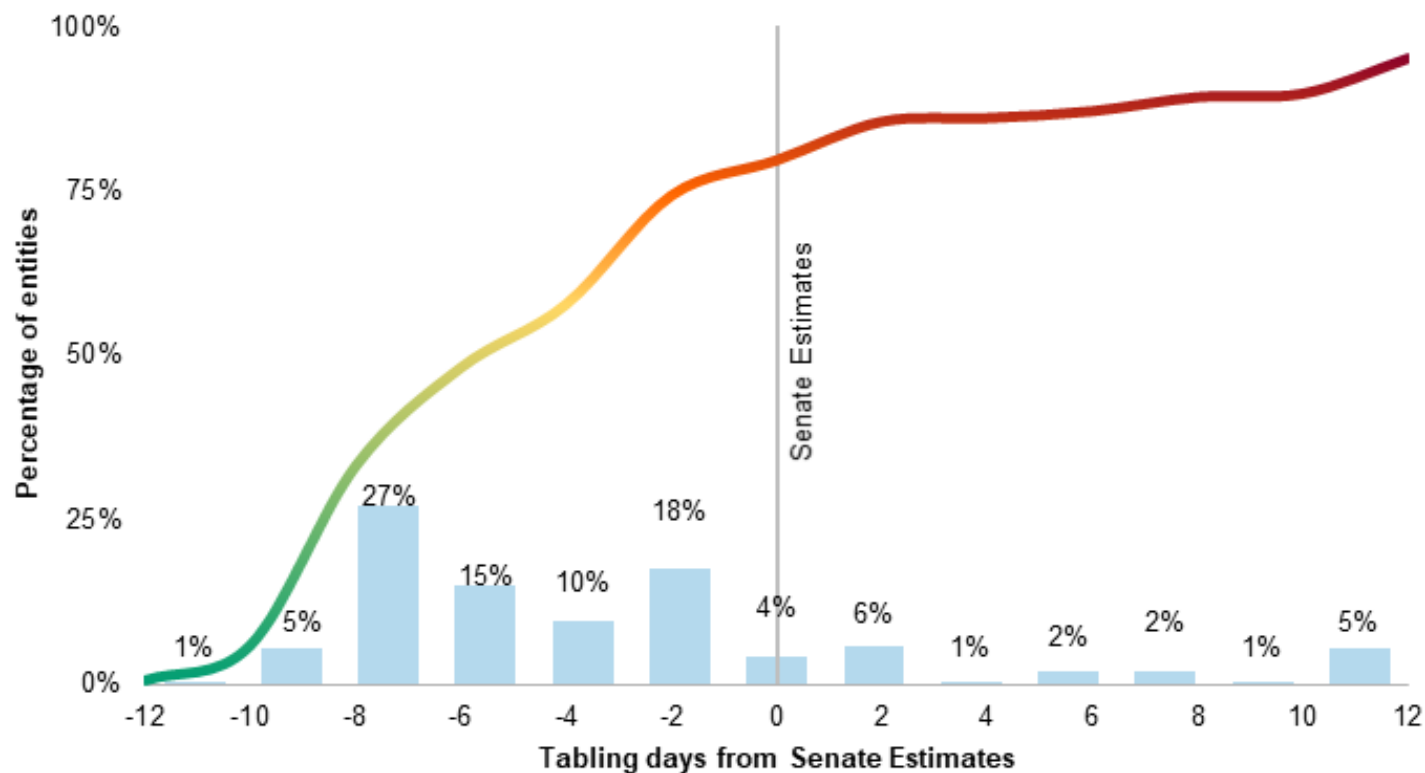
- 69% of entities provided draft financial statements in accordance with the agreed timeline (2017-18: 82%)
- Further 18% (2017-18: 9%) provided statements within one week of the agreed timeline

Unadjusted audit differences

- Total number of adjusted and unadjusted audit differences increased by 7% from from 2017-18.
- 121 unadjusted audit differences reported (2017-18: 88).

Tabling of Annual Reports

The 2018-19 tabling dates were:



Financial Sustainability – **transparency.gov.au**

The Department of Finance has set up the Transparency.gov.au portal for capturing and reporting annual reports for all Commonwealth entities. Finance included four financial ratios and the ANAO utilised two of these as part of the analysis in the Report to Parliament:

1. The Total Liabilities to Total Assets ratio indicates the level of ownership of the entity's assets, but can also be used to gain an understanding of the entity's net equity.
2. The Financial Assets to Total Liabilities ratio indicates the extent to which an entity's liabilities can be covered by its financial assets.

Financial Sustainability

Key points to note:

- Consistent with previous years
- Analysis of operating surpluses and deficits
 - 21% of for profit (2017-18:18%) and 13% (2017-18: 11%) NFP large average deficits
 - 44% (2017-18: 40%) of NFP large average surpluses
- Analysis of balance sheet strength (gearing and liquidity)
 - Reviewed based on the Department of Finance's financial ratios
 - Across government 70% (2017-18: 75%) of entities have strong balance sheets

Executive Remuneration

Background

- Amendments were made to the PGPA Rule in April 2019, requiring Commonwealth Entities to include additional disclosure on executive remuneration in their 2018-19 annual reports.
- Under the new requirements annual reports required additional remuneration disclosures with respect to three staffing categories: key management personnel (KMP); senior executives and other highly paid staff. Commonwealth companies were only required to include information in relation to KMP. The annual report information is not audited by the ANAO.
- The financial statements include reporting on KMP and this information is audited by the ANAO.

Executive Remuneration

The ANAO noted:

- Some entities included additional disclosures in their audited financial statements to increase transparency e.g. disaggregated information for KMP, senior executives and other highly paid staff.
- Some entities included additional information within footnotes to clarify information in the annual report disclosures.
- 32 entities changed the number of KMP from 2017-18 to 2018-19.
- Variances between the disclosure in the financial statements and the annual report for some entities.

Human Resource Service Arrangements

Auditor-General Report No.25 2016–17 *The Shared Services Centre*:

- strengthening the role of the board and its sub-committees and improving the quality of information and communication provided to these boards; and
- putting in place transparent and sound processes for agreeing performance and cost parameters with clients and for monitoring and reporting the Shared Services Centre's performance against these parameters.

Human Resource Service Arrangements

Table 2.5: Commonwealth Human Resource shared service arrangements

Provider description	Number of entities providing HR services	Number of entities to whom they are providing services	Types of services
Established as a service delivery hub	3	22	<ul style="list-style-type: none"> • All processes related to the management of payroll • Related IT management services • Other Corporate functions
Provider is the portfolio agency	gab	18	
Provider is a non Commonwealth entity or Company	4	16	
Provider is an entity outside the receiving entities portfolio	3	6	
Total	19	62	

Way forward for 2019-20

ANAO approach to assist quality in FS preparation:

- Agree timing of position papers in the audit strategy.
- Agree timing of review of key estimates by management and provision to audit team.
- Collaboratively agree responsibilities/expectations and timing of final audit phase.

For audit committees:

- Encourage you to actively support management through the critical evaluation of position papers and holding entities to account for delivering on agreed timetables.
- ANAO has recommended to entities that the provision of a detailed variance analysis should support the audit committee's review of financial statements at year-end.

Commonwealth Resource Management Framework & the Clear Read Principle

Tom Ioannou
Group Executive Director
Performance Audit Services Group

Clear Read Principle – performance audit

Auditor-General Report No. 14 2019-20
*Commonwealth Resource Management
Framework and the Clear Read Principle*

Cross-entity performance audit
Presented for tabling 27 November 2019

Department of Finance
Department of Defence
Department of Health
Department of Home Affairs

Clear Read Principle - PGPA

Revised explanatory memorandum for PGPA Bill - benefits of the new framework were expected to include:

... achieving a clear line of sight between the information in appropriation Bills, corporate plans, Portfolio Budget Statements and annual reports. Entities will need to define, structure and explain their purposes and achievements to create a clear read across these documents.

Clear Read Principle – key documents

Key publications in PGPA performance framework:

- Portfolio Budget Statements (PBS) - primary financial planning document for entities;
- Corporate Plans - primary non-financial planning document for entities; and
- Annual Reports - incorporate the performance statements and audited financial statements of entities, which report respectively on the non-financial and financial results achieved by entities.

Clear Read Principle - JCPAA inquiries

Joint Committee of Public Accounts and Audit (JCPAA) – three inquiries on PGPA performance framework:

- Report 453: *Development of the Commonwealth Performance Framework*, December 2015
- Report 457: *Development of the Commonwealth Performance Framework — Second Report*, May 2016
- Report 469: *Commonwealth Performance Framework*, December 2017.

Clear Read Principle – JCPAA expectations

JCPAA described a 'clear read' or 'clear line of sight' of entities' performance information as exhibiting three key characteristics:

- performance information is presented clearly and consistently and is reconcilable throughout an entity's PBS, corporate plan and annual report within one reporting cycle;
- performance information is presented clearly and consistently throughout an entity's PBS, corporate plan and annual report across multiple reporting cycles; and
- compatibility of performance information between Commonwealth entities — in terms of comparability, consistency of reporting structure and level of information provided.

Clear Read Principle – performance audit

Audit objective

- To examine the effectiveness of the design and implementation of the clear read principle under the Commonwealth Resource Management Framework.

Audit criteria

- Finance effectively established the clear read principle in the Commonwealth Resource Management Framework, and monitored its implementation.
- Selected entities addressed Parliamentary expectations, and established a clear read through their 2017–18 performance measurement and reporting.

Clear Read Principle – audit focus

Audit focused on 2017–18 performance reporting cycle

- third reporting cycle under current arrangements
- cycle commenced with publication of PBSs in May 2017
- concluded with tabling of annual reports in September/October 2018, approximately 18 months later.

Audit also examined extent to which selected entities established clear read principle in performance reporting and improved quality of information presented to the Parliament over time

- Reporting in 2016–17, 2017–18 and 2018–19 and plans for 2019–20 were reviewed.

Clear Read Principle – audit focus

Audit considered Finance's design activities up to 2019–20 performance reporting cycle

- extent to which Finance's guidance established the clear read principle to inform entities.

Audit also reviewed Finance's activities to address agreed recommendations from JCPAA Reports 453 and 469.

Clear Read Principle – audit focus

To assess extent to which JCPAA expectations of a clear read of performance information have been communicated through Finance guidance and implemented by entities, ANAO looked for:

- clear information – within a reporting cycle
- consistent information – within a reporting cycle and across reporting cycles
- reconcilable information – within a reporting cycle
- comparable information – across reporting cycles and between entities

See Table 1.3 of audit (page 27).

Clear Read Principle – audit conclusion

Auditor-General's overall conclusion:

Finance's design and the selected entities' implementation of the clear read principle under the Commonwealth Resource Management Framework has been partially effective and Parliamentary expectations have not been fully realised.

Clear Read Principle – audit conclusions

Finance has informed entities of the clear read principle, provided guidance on some aspects of achieving a clear read, and carried out monitoring and assessment of entities' implementation of framework requirements.

- However, Finance's current guidance is focused on supporting entities to implement the clear read principle within a reporting cycle.
- Expanding this guidance to address implementation of the clear read principle across reporting cycles and between entities would contribute to the realisation of the Parliament's expectations.
- Finance could further improve its support of entities' implementation of the clear read principle by directly providing entities with advice based on its assessments of entity reporting, and monitoring the effectiveness of its own activities on implementation.

Clear Read Principle – audit conclusions

In respect to the selected entities' implementation of the clear read principle, the Auditor-General concluded that:

- within the 2017–18 reporting cycle — implementation was mostly effective in the case of Health and partially effective in the case of Defence and Home Affairs;
- across reporting cycles — implementation was partially effective in the case of Home Affairs and not effective in the case of Defence and Health; and
- between entities — implementation was partially effective in the case of the three departments. A clear read was most evident in those areas where reporting was underpinned by framework requirements, in particular for the presentation of information in entity PBSs and annual reports.

Clear Read Principle – audit recommendations and key messages

Three recommendations to Finance:

- amending requirements and guidance
- monitoring advice provided to entities to improve implementation of the clear read principle.

Also five key messages which may be relevant for operations of other entities.

Clear Read Principle – audit key messages

First, when preparing PBSs, corporate plans and annual reports, entities should consider the needs of Parliament as the primary user of these documents.

- In particular, entities should consider Parliament's need for a clear read within reporting a cycle, across reporting cycles and between entities, which is aided by clear, consistent, comparable and reconcilable reporting.

Second, entity processes for preparing PBSs, corporate plans and annual reports should be coordinated so as to implement the clear read principle across the product suite and the complete cycle of performance measurement and reporting.

- Effective coordination facilitates a holistic approach to preparation and publication of these documents.

Clear Read Principle – audit key messages

Third, significant change to an entity's operating environment that impacts its purposes, activities, capability, risk and/or performance, should trigger a review of the corporate plan.

- Resource management and performance reporting frameworks provide entities with the flexibility to update and reissue corporate plans at any time.
- The purpose of the corporate plan as an entity's primary planning document, and the needs of Parliament as a user of this document, should be considered when deciding whether to reissue it.

Clear Read Principle – audit key messages

Fourth, effective integration of financial and non-financial performance information in annual reports can provide Parliament and the public with an improved understanding of the connections between the resources agreed by Parliament and outcomes delivered.

Fifth, explaining changes to PBSs and corporate plans across reporting cycles, and providing comparative results in performance statements, assists Parliament and public to monitor performance over time.

Questions

Audit available at: <https://www.anao.gov.au/>

Questions?

ANAO pilot of audits of performance statements

Michael White
Senior Executive Director
Performance Audit Services Group

Previous audits of performance statements – ASAE 3500

- ANAO has examined the progress of the implementation of the performance statements requirements under the PGPA Act and the PGPA Rule.
- Three performance audits across ten entities to date:
 - 2015-16: Department of Agriculture and Water Resources; Australian Federal Police
 - 2016-17: Department of Jobs and Small Business; Department of the Environment and Energy; Australian Trade and Investment Commission, Australian Sports Commission
 - 2017-18: Attorney-General's Department; Department of Education and Training; Department of Foreign Affairs and Trade; Department of the Prime Minister and Cabinet

Audit coverage

We have also examined a selection of entities' performance measures within the audits of:

- Smart Centre's Centrelink Telephone Services (DHS)
- Disability Support Pension (DSS)
- National Water Infrastructure Development Fund (Infrastructure)
- Disability Support Pension (DSS)
- Reforms to Services on Norfolk Island (Infrastructure)
- Addressing Illegal Phoenix Activity (ATO)
- Management of the Regional Network (PM&C)
- Administration of the Renewable Energy Target (CER)
- Delivery of extreme weather services (BoM)
- Management of National Parks (Director of National Parks)

Audit criteria

- Did entities publish annual performance statements and comply with the PGPA Act 2013;
- Did entities establish effective supporting frameworks and processes for preparation and assurance;
- Were performance criteria appropriate (relevant, reliable and complete); and
- Were reported results complete and accurate - supported by sufficient records.
- Audit Committee assurance to Accountable Authorities is also considered during the audits.

Key learnings

Improve the 'set-up' of performance information in corporate plans

- Avoid internally-focussed and technical terms (or define)
- Clearly describe the method of assessment and information sources (underpinned by documented internal processes)
- Include a target or benchmark (reader should be able to form an expectation of performance that can be compared to reported results).
- Focus on the quality of measures, rather than quantity.

Key learnings continued

Good quality analysis should:

Provide an assessment of overall progress against the purpose, rather than only providing a summary of performance criteria results, or activities carried out during the period

Explain to a reader the connection between:

- the performance results presented;
- internal or external environmental influences that affected those results; and
- how these informed the overall assessment of progress against the purpose.

Pilot Audit Program

On request by the Minister for Finance, the Auditor-General has agreed to undertake a program of pilot audits of annual performance statements, in consultation with the JCPAA

- Implements Recommendation 8 from the *Independent Review of the PGPA Act and Rule*.

Will apply existing methodology (5th year of implementation), with some new features including:

- Report interim findings to entities in March 2020
- Provide audit opinions (under ASAE 3000) to Minister for Finance and prepare a report for the JCPAA

Post-Pilot Program steps

Results from the pilot will be provided to the JCPAA and will inform a transition towards full implementation of annual auditing of performance statements of Commonwealth entities by the ANAO

Any amendments to the PGPA Rule are expected to take effect from 2020-21 and would be factored in to future performance statements audits



Break



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Scott Dilley

First Assistant Secretary

Governance and Resource Management

Department of Finance

6 December 2019

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Content

- **Previously implemented amendments to the PGPA Rule**
 - Annual Reports and the Transparency Portal
- **Proposed changes made by the PGPA Amending Rule**
 - Enhanced audit committee disclosure requirements
 - Changes to audit committee membership requirements
 - Corporate plan requirements
- **Proposed amendments to Finance Secretary's Direction - PBS**



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Annual Reports and the Transparency Portal

Audit Committee Chairs Forum
6 December 2019

Annual Reports and the Transparency Portal

Part of the amendment to the *Public Governance, Performance and Accountability Rule 2014*:

17BCA Annual report to be published using digital reporting tool

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



Transparency.gov.au – Publications

The screenshot displays the 'Publications' section of the Transparency.gov.au website. The page features a dark sidebar on the left with the 'Transparency Portal' logo and navigation links for Home, Publications, Related Resources, and Tools (Find data, Financial ratios). The main content area has a search bar and a filter for 'Departments & agencies'. It lists three organizations, each with a grid of publication covers and a 'View other publications' button.

Publications

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Departments & agencies Portfolios

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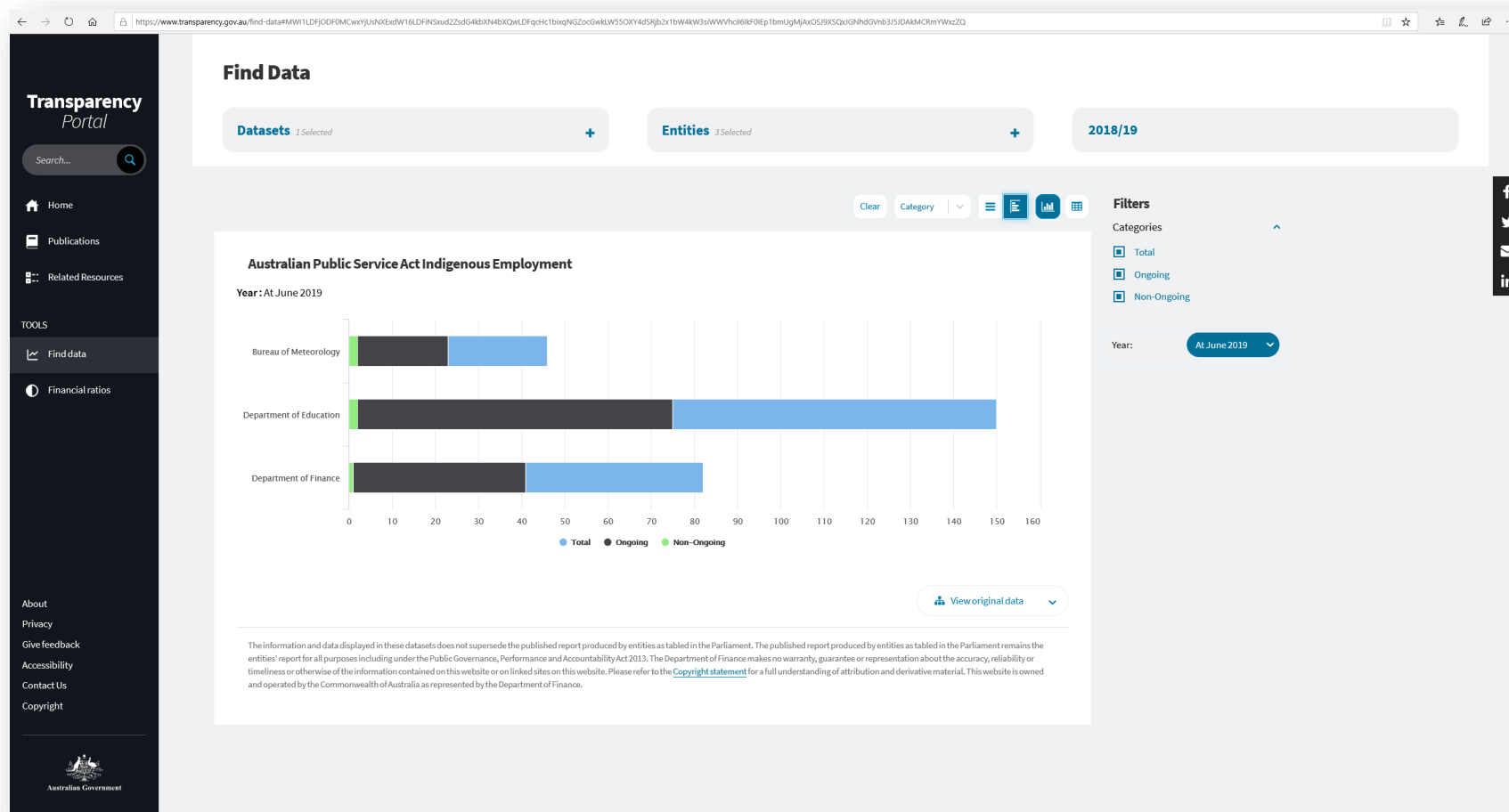
CORPORATE PLAN 2019-20 →

ANNUAL REPORT 2018-19 →

View other publications



Transparency.gov.au – Find data



Transparency.gov.au – Financial ratios

The screenshot shows the Transparency.gov.au website interface. The main content area displays financial ratios for the Department of Finance for the 2018/19 period. The ratios are:

Ratio	Value
Total Liabilities to Total Assets	24%
Financial Asset to Liabilities Ratio	
Capital turnover	
Current ratio	

The page also includes a sidebar with navigation links (Home, Publications, Related Resources, TOOLS, Find data, Financial ratios) and a footer with social media icons and the Australian Government logo.

Transparency Portal

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Financial ratios

Department of Finance

Year: 2018/19

Total Liabilities to Total Assets Financial Asset to Liabilities Ratio Capital turnover Current ratio

2018/19

Department of Finance

Total Liabilities \$731,562,000

Total Assets \$3,071,888,000

Total Liabilities to Total Assets 24%

[View original data](#)

Notes

Financial metrics provide an indication of an entity's financial sustainability. Financial sustainability in a government context is defined as the ability of the entity to pay liabilities as and when they fall due, replace assets at a sustainable rate and maintain this over the longer term. The metrics offer an indication of an entity's ability to meet their commitments and should be considered in the context of the broader situation of the entity.

- The Total Liabilities to Total Assets ratio indicates the level of ownership of the entity's assets, but can also be used to gain an understanding of the entity's net equity of the entity.
- The Financial Assets to Total Liabilities ratio indicates the extent to which an entity's liabilities can be covered by its financial assets.
- The Current Ratio shows whether an entity's current assets are greater than its current liabilities. It indicates whether the entity is likely to be able to pay its short term liabilities as they fall due.
- The Capital Turnover Ratio indicates whether an entity is replacing its assets at a sustainable rate. That is, whether new or replacement assets are being purchased at a greater rate than they are being used.
- The Current Ratio and Capital Turnover Ratio are currently under development as part of the 2019-20 Financial Statements process.



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Audit Committee Membership and Disclosure Requirements

Audit Committee Chairs Forum
6 December 2019

Changes to audit committee membership and disclosure proposed by the PGPA Amending Rule

2019

2020

2021

September

October

November

December

January

February

March

April

May

June

July

July

Finalise draft
PGPA
Amending Rule

Consultation
period

Review
feedback

JCPAA
consultation
and approval

Finalise PGPA
Amending Rule

Instrument is
registered

Enhanced audit
committee disclosure
requirements apply
to 2019/20
annual reports

Updated audit
committee
guidance to be
released

Audit committees
must be compliant
with new
membership
requirements

Enhanced audit committee disclosure requirements

The following information must be included in an annual report of a Commonwealth entity or Commonwealth company for the reporting period:

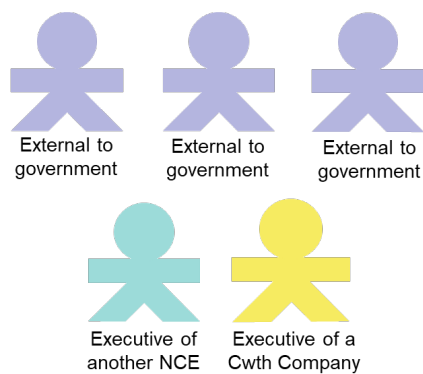
- a direct electronic address of the charter determining the functions of the audit committee;
- the name of each member of the audit committee during the period;
- the qualifications, knowledge, skills or experience of those members;
- information about each of those members' attendance at meetings of the audit committee during the period; and
- the remuneration of each of those members.



Changes to the audit committee membership requirements

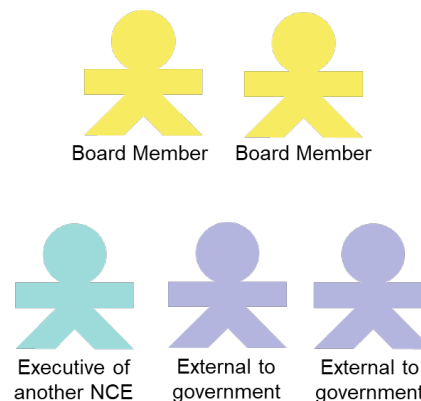
Non-corporate Commonwealth entities:

All audit committee members must be persons who are not officials of the entity, and a **majority** of the members must be persons who are not officials of any Commonwealth entity. For example:



Corporate Commonwealth entities:

All of the audit committee members must not be employees of the entity. For example:



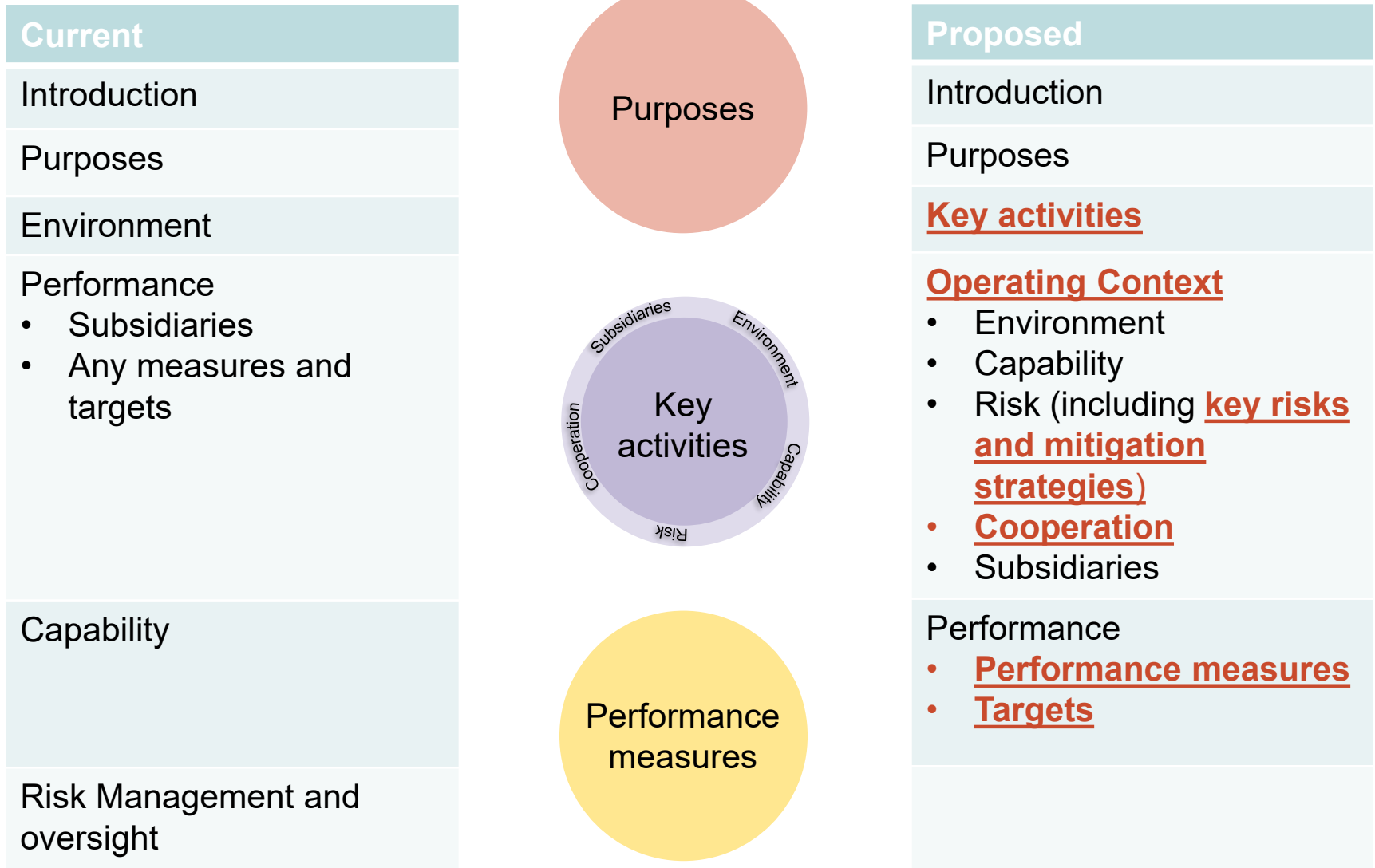


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Corporate Plans and Finance Secretary's Direction

Audit Committee Chairs Forum
6 December 2019

Corporate plans – proposed changes



Characteristics of Performance Measures

- Relate directly to purposes or key activities
- Use sources on information and methodologies that are reliable and verifiable
- Provide an unbiased basis for the measurement and assessment of the entity's performance
- Where reasonably practicable, comprise a mix of qualitative and quantitative measures
- Include measures of the entity's outputs, efficiency and effectiveness if those are appropriate measures
- Provide a basis for an assessment of the entity's performance over time.

Proposed Amendments to Finance Secretary's Direction - PBS

- Clarifies relationship between corporate plan and PBS
- Consistency in terminology – performance measures
- Acknowledges that it is sometimes not practicable to set targets
- Acknowledges that it is sometimes not appropriate to provide an expected date of achievement (ongoing programs)
- Clarifies the existing requirement for the reporting of contributions made to an outcome by other entities

Further work to be undertaken to provide better alignment between Corporate Plan and PBS in consultation with Commonwealth entities

Contact

For any further information or assistance, please contact:

- Annual Report amendments:
 - DigitalAnnualReportProject@finance.gov.au
 - (02) 6215 1653
- Audit Committee requirements, Corporate plans and the Finance Secretary's Direction:
 - pgpa@finance.gov.au



Implementation of ANAO and Parliamentary Committee Recommendation

Lisa Rauter
Group Executive Director
Performance Audit Services Group

Implementation of ANAO and Parliamentary recommendations

- The ANAO regularly undertakes follow-ups of prior year audits to provide assurance on the implementation of agreed ANAO recommendations
- Follow ups are also done on a case by case basis within individual performance audits
- From 2018-19 we have initiated a new series of cross-entity audits, examining implementation of both ANAO and parliamentary committee recommendations
- Audits will utilise both limited and reasonable assurance processes to ensure an efficient audit approach

Recommendations from recent audits and inquiries

In 2018-19:

- 146 recommendations by ANAO (131 were agreed to)
- 67 recommendations by the Joint Committee of Public Accounts and Audit (JCPAA)

Implementation of ANAO and Parliamentary Committee Recommendations audit report tabled August 2019

- First in a series of audits
- Second audit underway - to table May 2020 (Education; Health (incl. Sports Commission, NHMRC))

Implementation of ANAO and Parliamentary recommendations

First audit examined 4 entities (two portfolios):

- Department of Agriculture
- Airservices Australia
- APVMA
- Department of Infrastructure, Transport, Cities and Regional Development

A reasonable timeframe for the implementation of agreed ANAO recommendations was taken as within two calendar years of the tabled report.

Audit rationale, focus and findings

Audit rationale: reports of the ANAO and parliamentary committees identify risks to the successful delivery of outcomes and areas where administrative or other improvements can be made.

Audit focus: entities' arrangements to respond to and monitor implementation of recommendations

Overall finding: mixed success across entities; strong correlation between entities' governance arrangements and successful implementation

Audit Conclusion

- None of the entities demonstrated that they had effectively implemented all agreed recommendations
- Agriculture was the only entity with effective governance arrangements over implementing ANAO recommendations
- Additional substantive procedures were required to be undertaken for all other recommendations

Key Learnings

Deciding the entity's position and responding

- clarify the intent of a recommendation
- 'agreed' or 'not agreed'
- specify agreed actions (appropriate and achievable which address the identified risk or issue)

Implementation plans

- assign responsibility
- set timeframes
- success measures

Key Learnings cont.

Monitor and track implementation

- clear line of sight to implementation progress

Review of implementation of recommendations by Audit Committees

- are timeframes achieved?
- has the original intent of the recommendation been achieved?
- is there a process to track and report on ANAO AND parliamentary recommendation actions

Report back to JCPAA or the Parliament on implementation



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Audit Committee Chairs Forum



Stein Helgeby
Deputy Secretary
Governance and Resource Management

6 December 2019
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Content

- Assurance in a shared service environment
- PGPA Act review update

Audit Quality

Jane Meade
Group Executive Director
Professional Services and Relationships Group

Regulation of auditing inquiry

- Parliamentary Joint Committee on Corporations and Financial Services
- Submissions closed 28 October 2019 – 97 received
- Hearings – Sydney, Canberra, Melbourne 29 November 2019
- Final hearing 9 December 2019
- Terms of reference:
 - potential conflicts of interests – auditing and consulting
 - the level and effectiveness of competition
 - audit quality
 - scope of audit
 - audit regulation

ANAO submission to inquiry

- Areas covered in ANAO submission:
 - What is an audit and why is it important?
 - Scope of audit
 - What are the principles of a good audit?
 - Quality
 - Independence
 - Transparency
 - Signposts – independence and transparency – focus on public sector model
 - ANAO use of contractor firms to deliver audits
- Appearance at hearing
 - Independence in the public sector
 - Non assurance services
 - ANAO quality assurance

ANAO Audit quality update

- Quality assurance reviews – financial audit and performance audit
- Annual internal quality reviews
- Real-time quality reviews – financial audit
- External reviews:
 - Performance audit – biannual reviews – NZ OAG
 - Financial audit – annual ASIC reviews
- Findings reported to EBOM and ANAO audit committee
- Results and action plans monitored by ANAO quality committee

Quality framework and plan document

- Published on ANAO website 2 July 2019
- ANAO Corporate Plan 2019–20 is the ANAO's key strategic planning document. It guides the operating environment and sets out how we will deliver on our purpose.
- Quality Assurance Framework and Plan complements the Corporate Plan. It describes the ANAO Quality Assurance Framework and reflects the ANAO's quality assurance strategy and deliverables for the coming year.
- <https://www.anao.gov.au/work/corporate/quality-assurance-framework-and-plan>

Audit Quality Indicators (AQIs)

- Quantitative measures at individual audit and organisation level
- Provide insights about key matters that may contribute to the quality of an audit
- With qualitative context, may inform discussions about the auditing process and may strengthen audit planning, execution, and communication
- Can inform and enhance reporting about audit quality and assist in understanding the root causes of quality inspection findings
- Root cause analysis enhances audit quality by ensuring that remediation activities address the issues that potentially impact audit quality

Pilot root cause analysis

- ANAO pilot - financial statement audit QA review
- Process for identifying the causes of problems or events in order to prevent them from recurring.
- Audit regulators - FRC in the UK and ASIC in Australia conducted thematic reviews of firms' processes in their audit inspection activities
- Benefits:
 - Can identify good practice as part of continuous improvement
 - Enables the implementation of better targeted actions to address findings

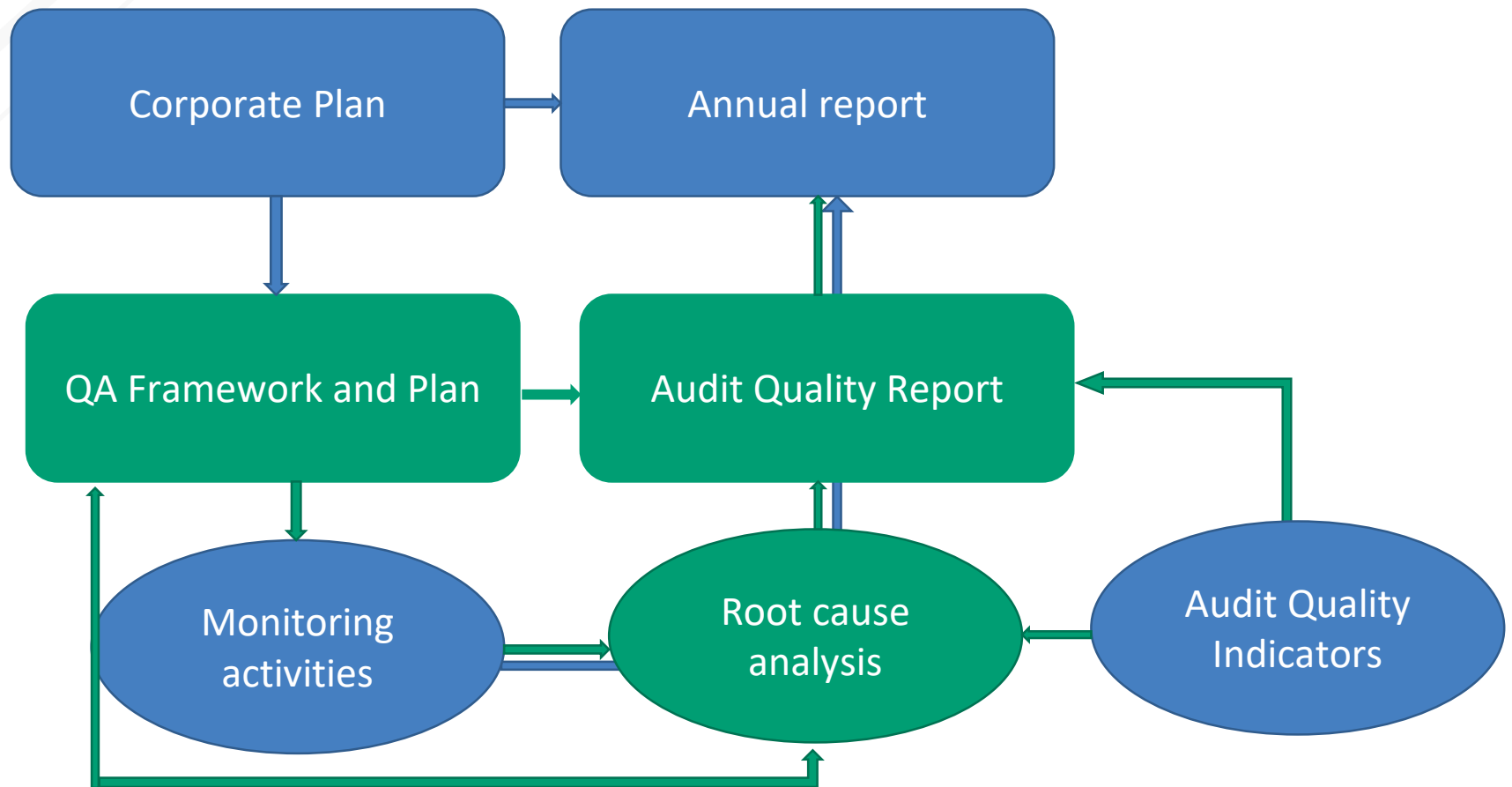
Pilot audit quality report

- Based on US Centre for Audit Quality *Audit Quality Disclosure Framework* - January 2019.
- Discussion on each element of audit quality – reference points of focus - the processes, policies, and procedures used to address or support each element.
- Description may also reference relevant AQIs.

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Recent ANAO initiatives



2020 forum dates

- Friday 12 June 2020
10:30am-1:30pm
- Friday 4 December 2020
10:30am-1:30pm