

Australian National Audit Office Chief Financial Officer's Forum

21 June 2019

Welcome

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

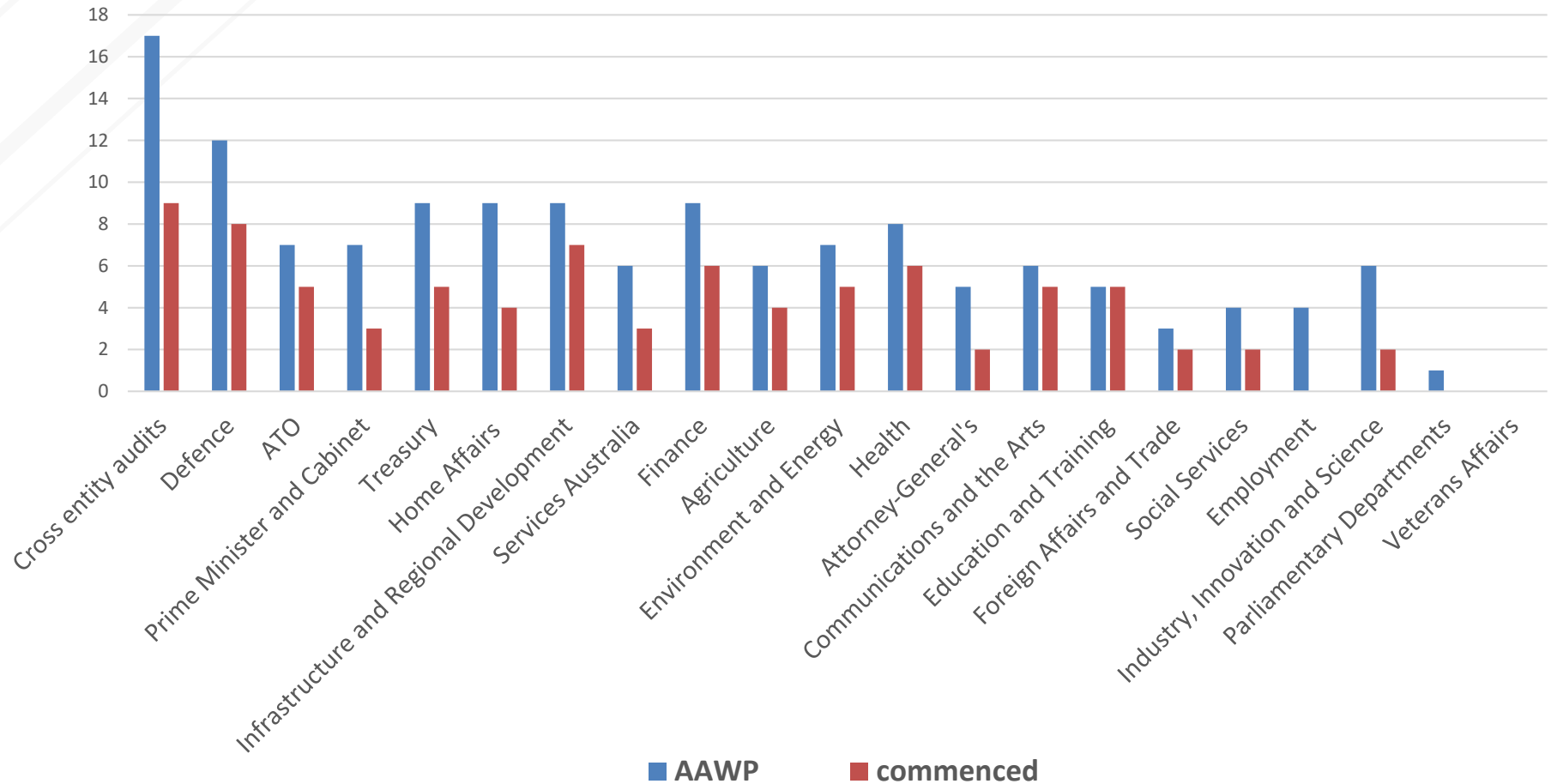
Deputy Auditor-General's update

- **Observations from 2018-19 program**
- **Overview of 2019-20 program**

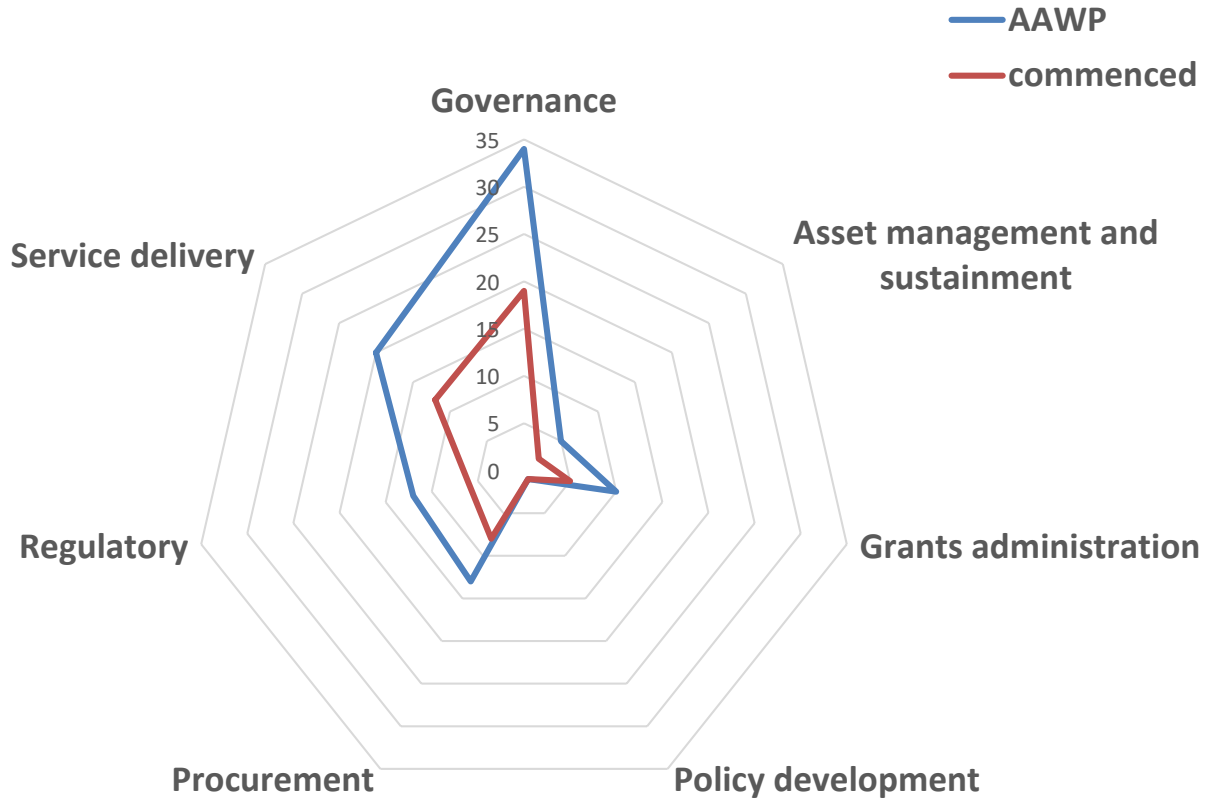
Audit program overview

Lisa Rauter
Group Executive Director
Performance Audit Services Group

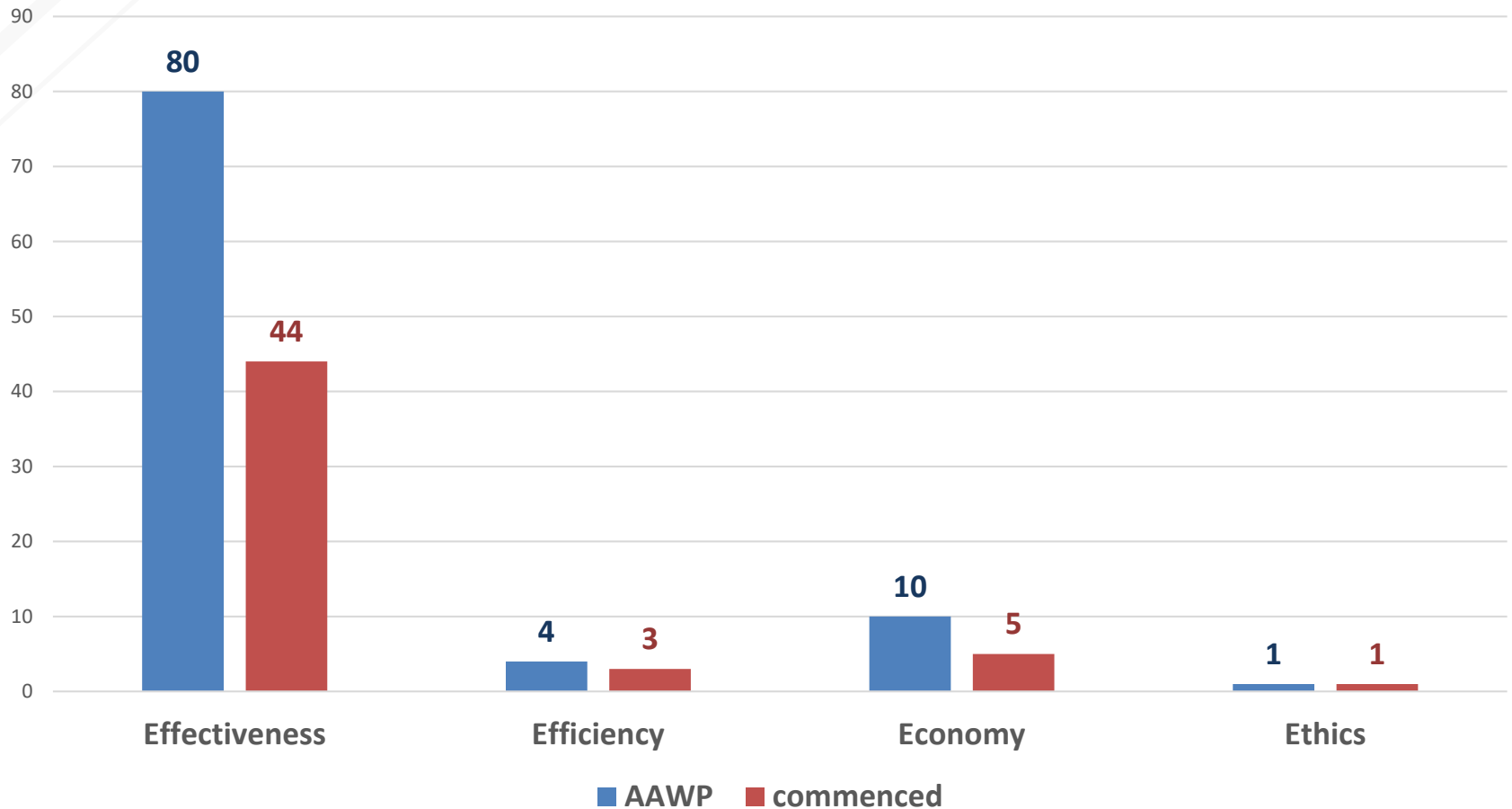
2018-19 AAWP Topic commencements by Portfolio



2018-19 AAWP Topic Outcomes by Activity



2018-19 AAWP Topic Outcomes by Objective





2019-20 portfolio risks driving the program



Risk summary

Governance

- Oversight of the delivery of major projects and transition initiatives
- Governance of shared responsibilities with other government entities and non-government stakeholders
- Appropriateness of governance arrangements for decentralised operations
- Governance of CCEs and GBEs

Service Delivery

- Implementation of the Commonwealth performance measurement framework
- Measuring efficiency
- Maintaining accountability for services delivered through third parties

Risk summary

Financial Management

- Application of judgement and appropriateness of assumptions for the calculation of liabilities
- Complex valuation methods and models used to derive the value of Commonwealth investments in portfolio entities

Asset Management & Sustainment

- Maintenance and sustainability planning tailored to the nature and use of the assets
- Use of judgement and expertise to value specialist or unique assets

Risk summary

Regulatory

- Design of risk-based compliance strategies
- Delivery of proportionate responses to non-compliance
- Monitoring and reporting on compliance activities

Grants Administration

- Compliance with the Commonwealth Grants Rules and Guidelines
- Effectiveness and efficiency of grant program management through grants hubs and other third parties
- Assurance arrangements to demonstrate that grant program objectives are being met with value for public funding

Risk summary

Procurement

- Maintaining competition throughout procurement processes to demonstrate value for money
- Management of probity in procurement

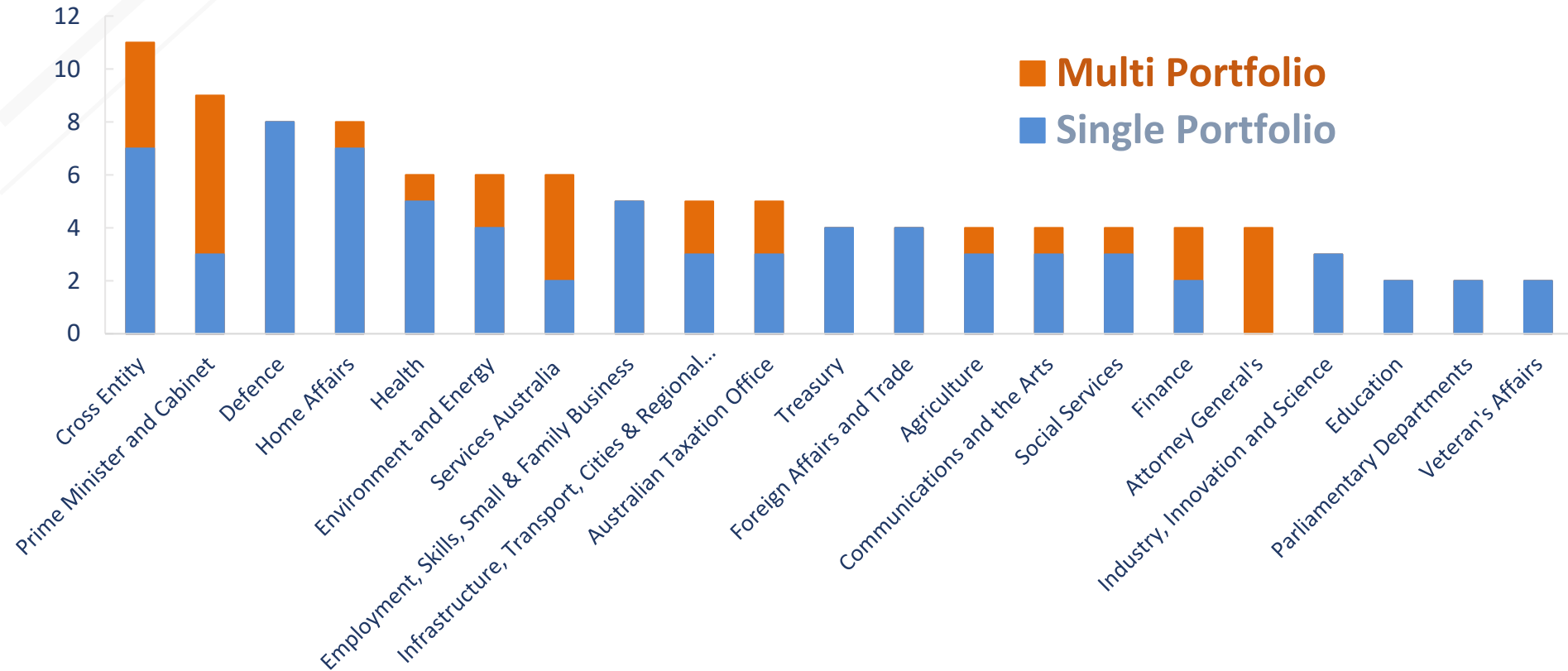
Policy Development

- Use of evidence including data and performance measures in the policy development process

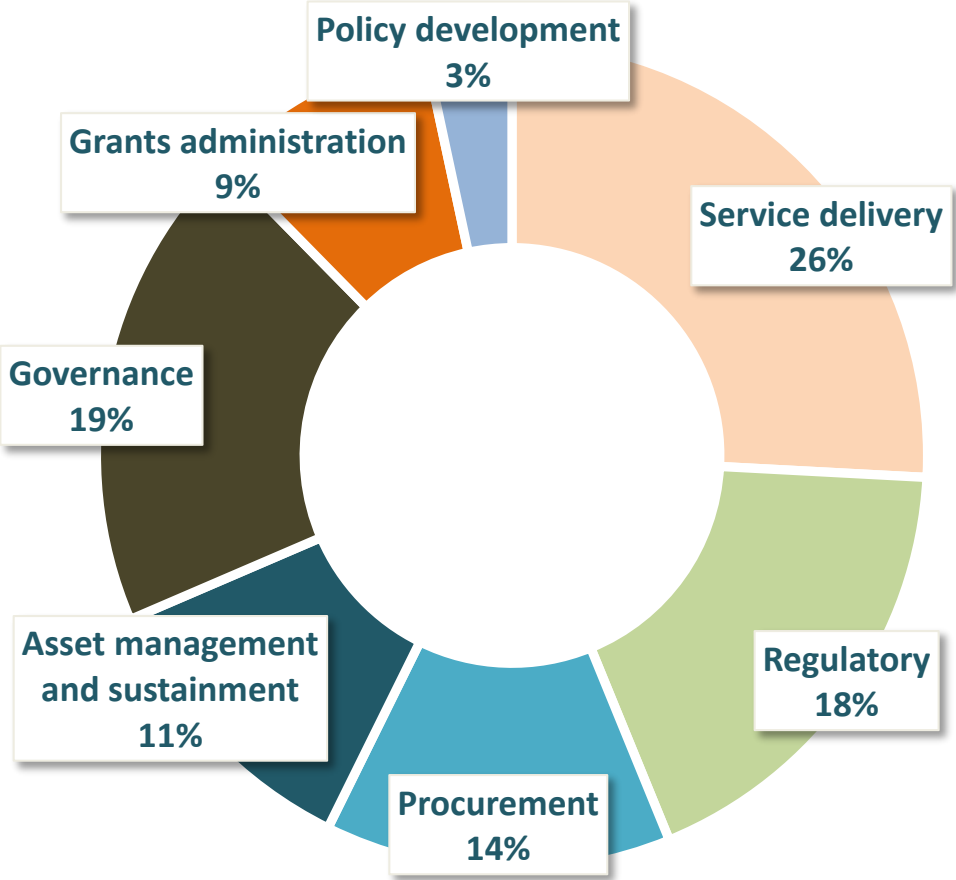


2019-20 performance audit topic coverage

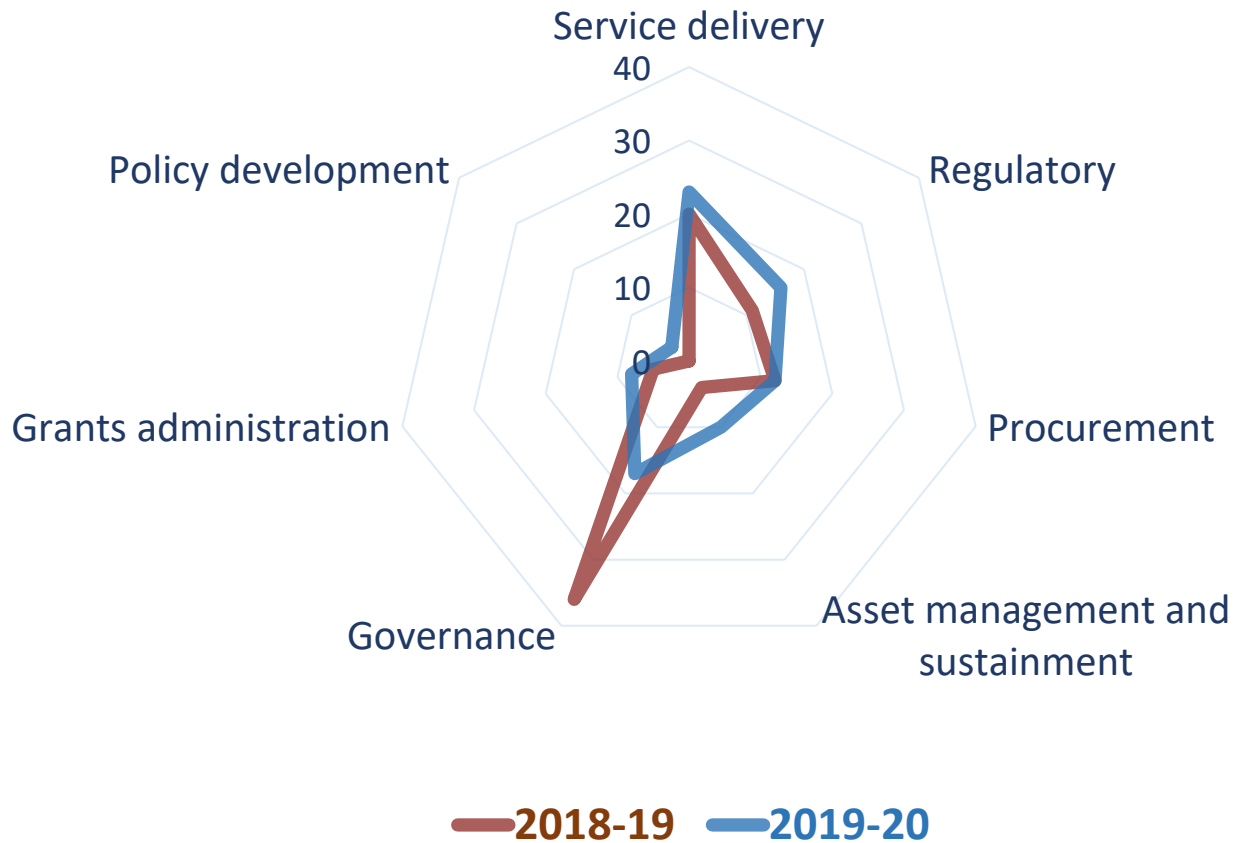
2019-20 Topics by portfolio



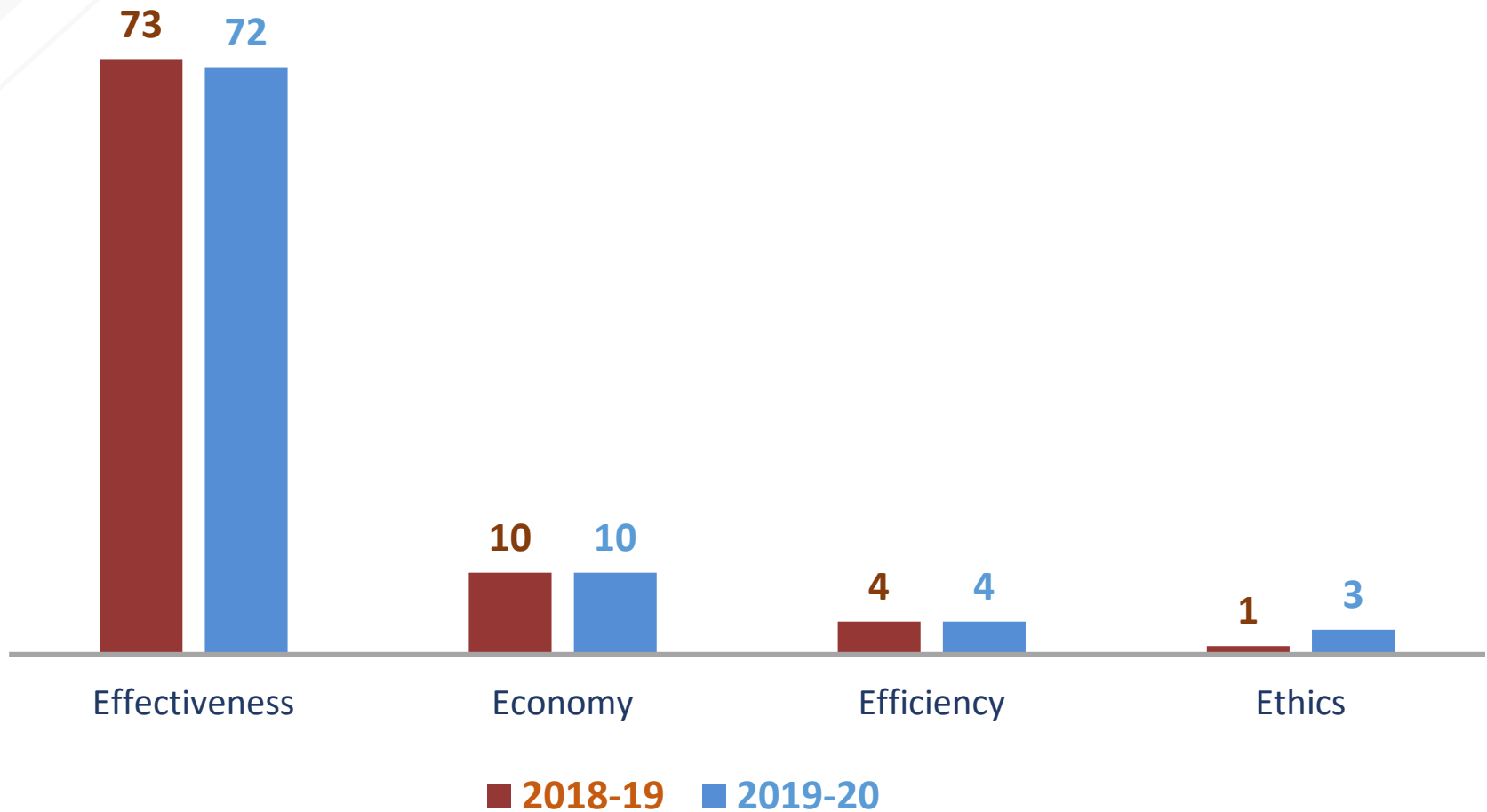
2019-20 Activity Coverage



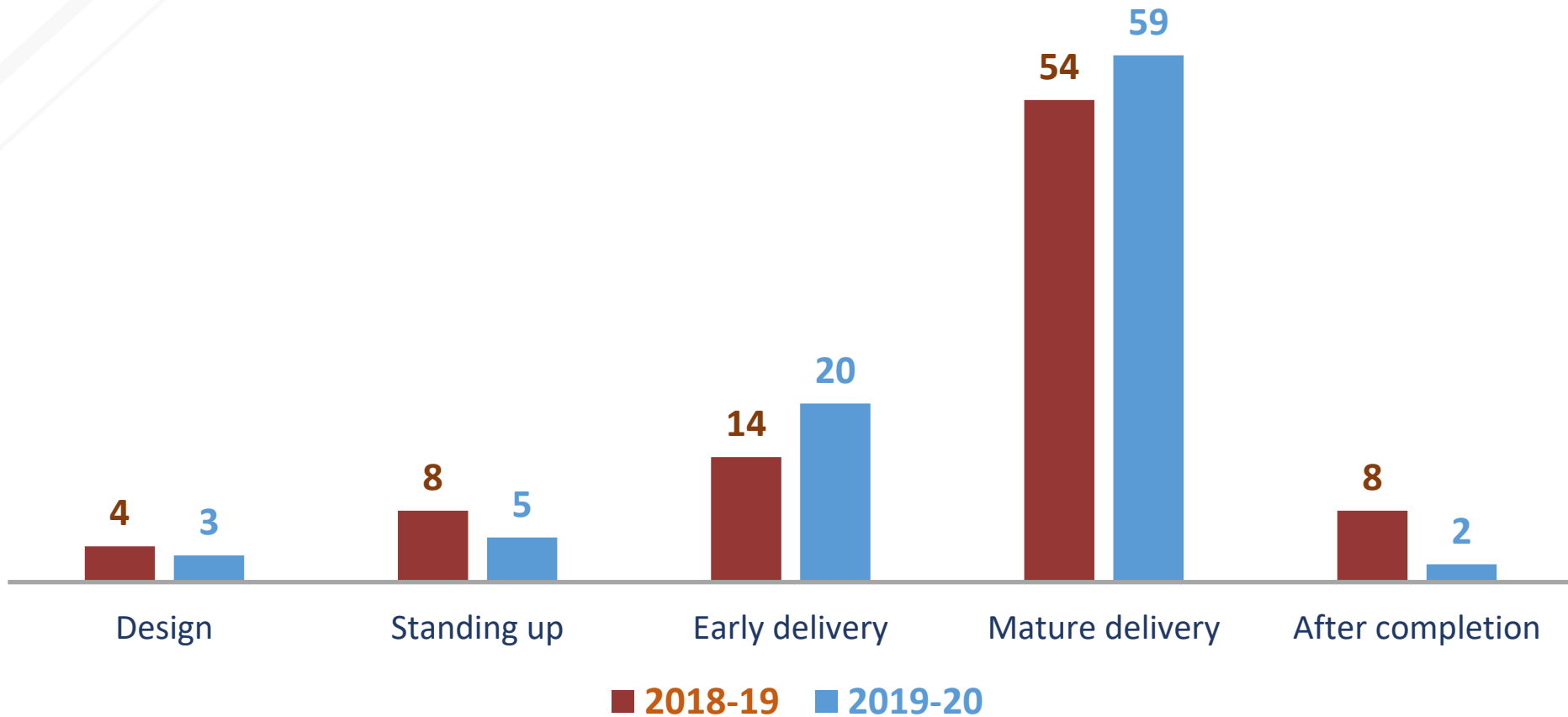
Activity coverage compared



Objective compared



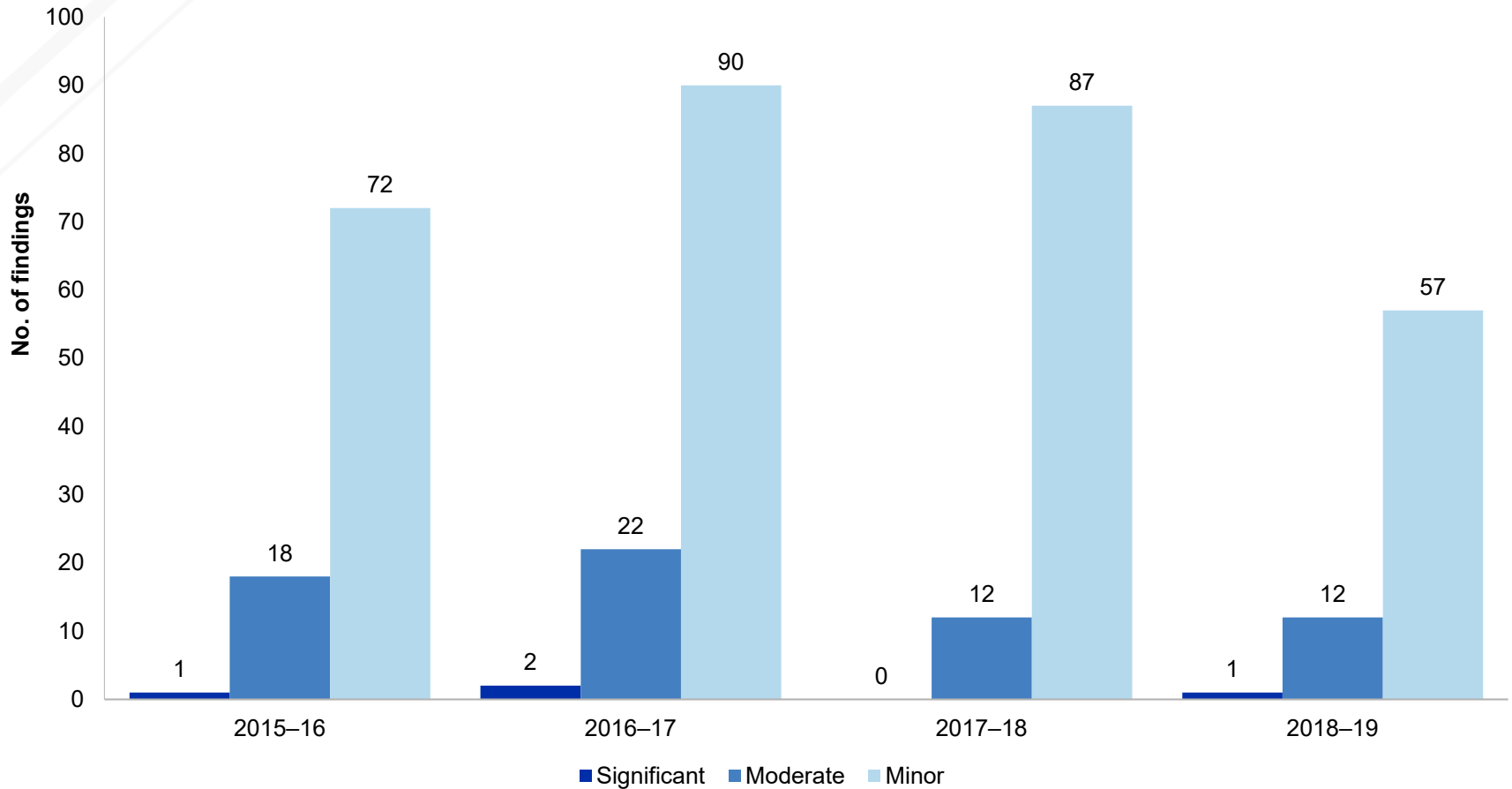
Stage of delivery compared



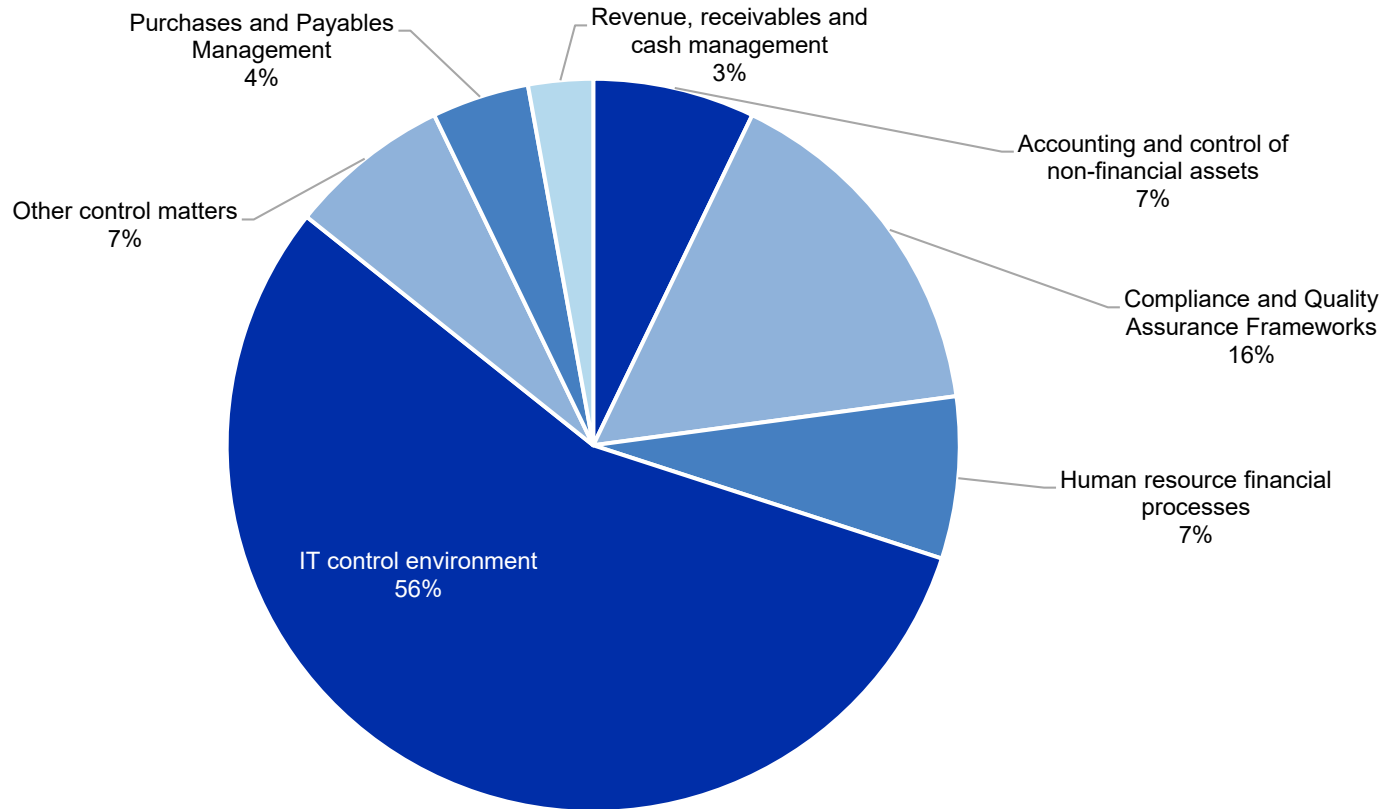
Interim report on key financial controls of major entities (2018–19 financial year)

Clea Lewis
Executive Director
Assurance Audit Services Group

Aggregate audit findings for last four years

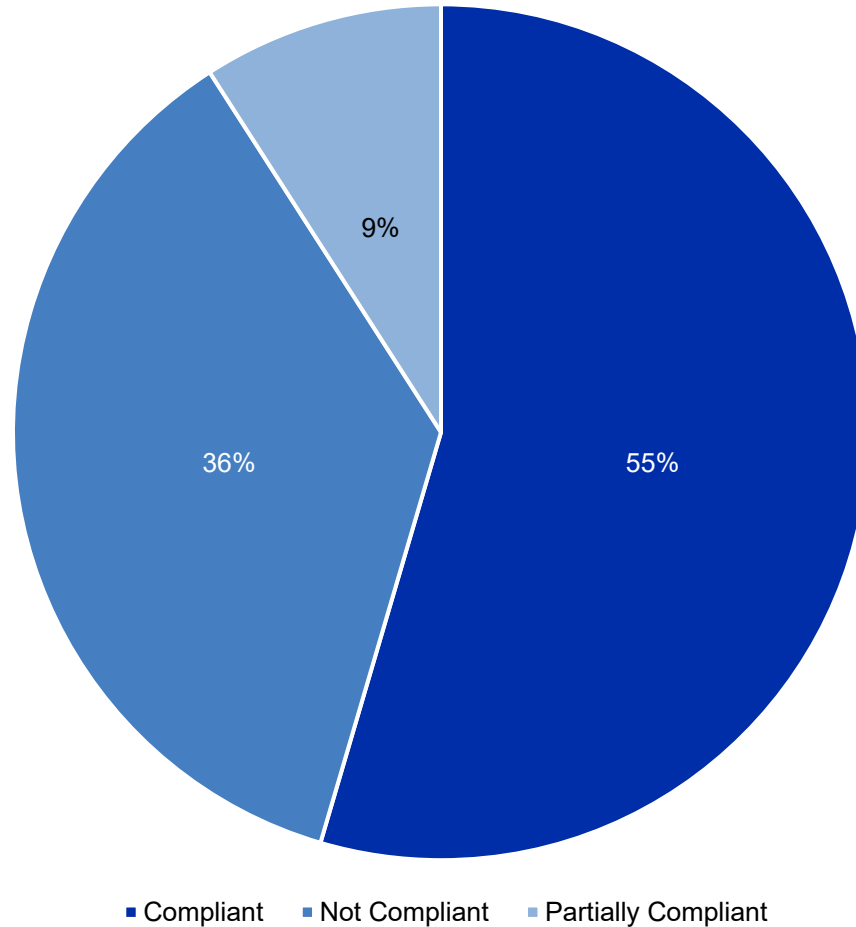


2018–19 interim audit findings – by category

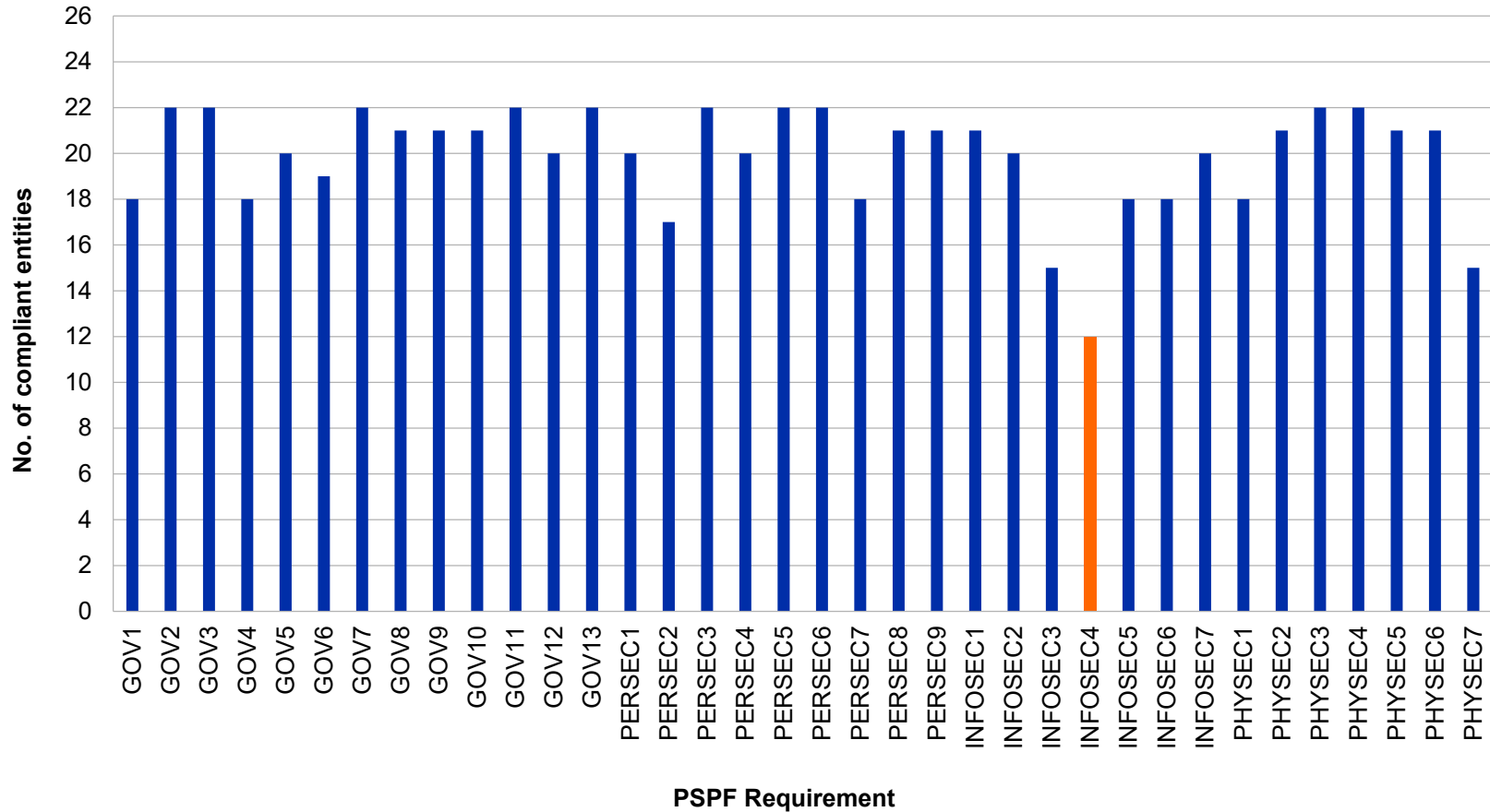


Source: ANAO compilation of interim findings.

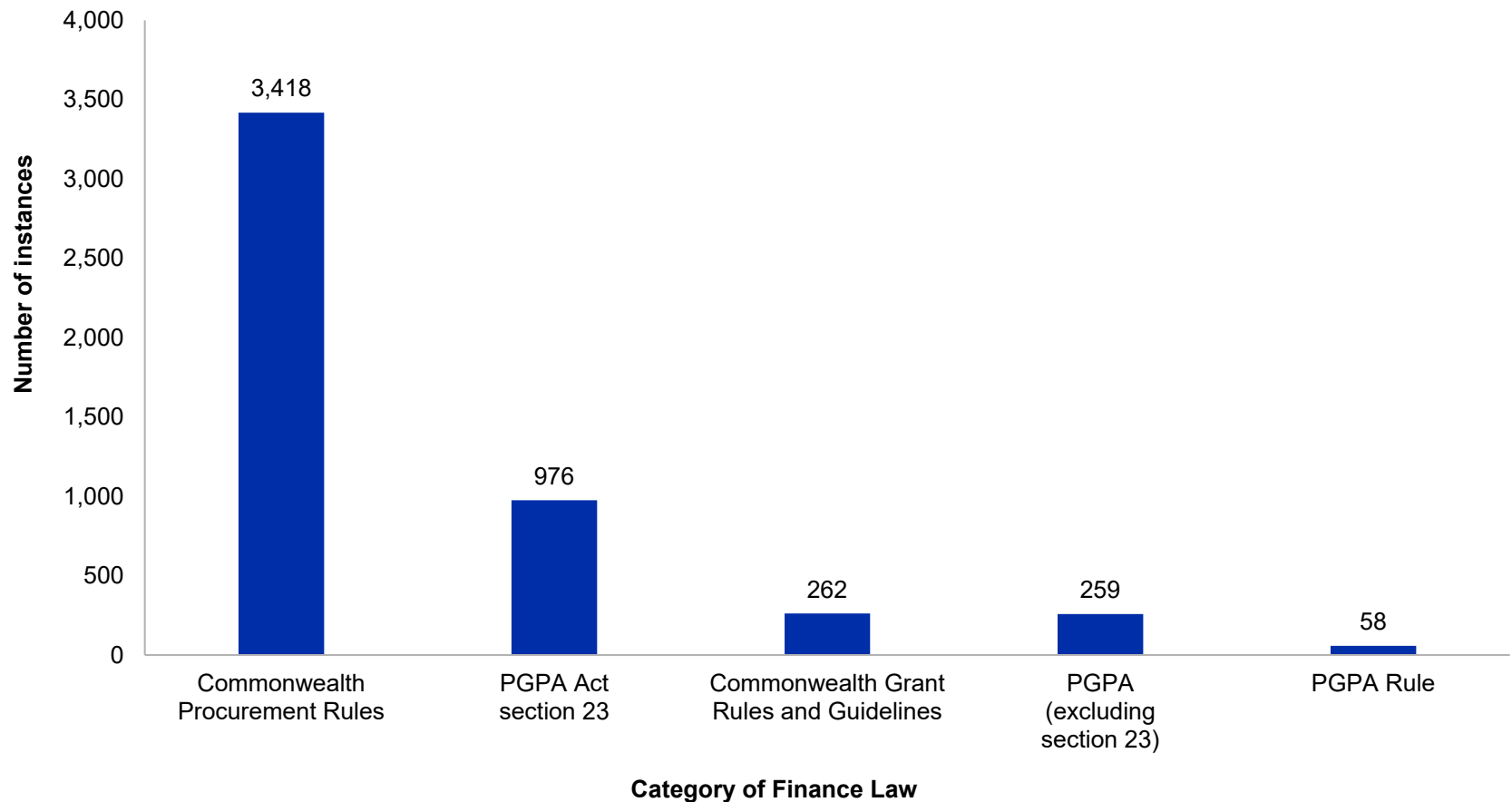
Entity compliance with INFOSEC 4



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

Audit insights — board governance

Tom Ioannou
Group Executive Director
Performance Audit Services Group

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.

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.

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

HIH 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

- HIH 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.

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

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

Audit insights — board governance

ANAO Audit Insights:

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

Q&A and meeting close

**Next Chief Financial Officer's Forum —
Friday 29 November 2019, 10-12:30pm**

National Portrait Gallery

Carla Jago
Group Executive Director
Assurance Audit Services Group