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Auditor-General Report No. 25 (2020–21) Audits of the Financial Statements of Australia Government
Entities for the period ending 30 June 2020

Auditor-General Report No. 40 (2020–21) Interim Report on Key Financial Controls of Major Entities

Opening Statement by Auditor-General

Joint Committee of Public Accounts and Audit

19 August 2021

1. Good morning Chair and committee members
2. The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) sets out the governance, performance and accountability of, and the use and management of public resources by, the Commonwealth, Commonwealth entities and Commonwealth companies. The PGPA Act requires accountable authorities to establish and maintain systems relating to risks and controls. The PGPA Act also requires the accountable authorities to prepare annual financial statements for audit as soon as practicable after the end of each reporting period. Auditing of financial statements is mandated under the PGPA with the Auditor-general identified as the mandated auditor.
3. The primary purpose of financial statements is to provide relevant and reliable information to users about a reporting entity's financial performance and position. In the public sector, the users of financial statements include ministers, the Parliament and the community. Auditing of financial statements provides assurance to the Parliament and other users that the statements can be relied upon. The preparation of timely and accurate audited financial statements is also an important indicator of the effectiveness of an entity's financial management, which fosters confidence in an entity on the part of users. Financial statements enable accountable authorities and CFO's to discharge their financial management responsibility and accountability.
4. Government accountability and transparency is also supported by the preparation of the audited Australian Government's Consolidated Financial Statements in accordance with the PGPA Act. These present the consolidated whole-of-government financial results inclusive of all Australian Government-controlled entities.
5. The ANAO's financial statements audits, undertaken in accordance with the ANAO Auditing Standards (as required under the *Auditor-General Act 1997*), provide an independent examination of the financial accounting and reporting of public sector entities. They provide independent assurance

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- that financial statements have been prepared in accordance with the Australian Government's financial reporting framework and Australian accounting standards. The ANAO's assurance audits contribute to improvements in the financial administration of Australian Government entities.
6. Audited financial statements are required to be included in entities' annual reports, which Ministers must present to Parliament normally on or before 31 October each year.
 7. The Auditor-General presents two reports on audits of financial statements to the Parliament twice a year. The first of these reports, *Interim Report on Key Financial Controls of Major Entities*, reports on ANAO coverage of key financial systems and controls in major Commonwealth entities. In assessing the effectiveness of an entity's control environment to support the preparation of the financial statements, the ANAO examines aspects of the entity's governance structures. The ANAO considers whether management has established frameworks and processes that promote positive attitudes, awareness and actions concerning the entity's internal controls and the importance of these to the entity. The main elements reviewed include: governance structures relevant to the preparation of the financial statements; audit committee and assurance arrangements; and systems of authorisation, recording and procedures. Reporting on controls in this way enables Parliament to gain an insight into areas of risk in the major entities, and for the broader public sector to learn from the work performed in the major entities
 8. The second report, *Audits of the Financial Statements of Australian Government Entities*, reports on the results of the financial statements audits of all (nearly 250) Commonwealth entities. The independent reporting to the Parliament on this activity supports accountability and transparency in the Australian Government sector. It provides a whole-of-sector overview to the Parliament about the state of financial reporting. Through the work, the ANAO also reports on themes or risk areas across the sector.
 9. Key to the ANAO's audit process is an assessment of entities' internal control frameworks as they apply to financial reporting. An effective internal control framework provides the ANAO with a level of assurance that entities are able to prepare financial statements that are free from material misstatement. Where weaknesses in internal controls are identified, the ANAO raises audit findings. Significant findings pose a significant business or financial management risk to the entity and include issues that could result in a material misstatement of the entity's financial statements. Moderate findings pose a moderate business or financial management and can include prior year issues that have not been satisfactorily addressed. Minor findings pose a low business and financial management risk and include accounting issues that, if not addressed, could pose a moderate risk in the future. Significant legislative breaches include instances of significant potential or actual breaches of the Constitution, and instances of significant non-compliance with the entity's enabling legislation, legislation that the entity is responsible for administering and the PGPA Act.

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10. At interim 2020–21, a total of 60 findings were reported across the 25 entities included in the interim audit report to Parliament, comprising no significant, nine moderate and 51 minor findings. Fifty-three per cent of findings are in the areas of management of IT controls, particularly the management of privileged users.
11. A total of 142 findings were reported to entities as a result of the 2019–20 financial statement audits. These comprised two significant, 22 moderate and 118 minor findings. Both significant findings related to governance and executive remuneration. Each was reported to the relevant Minister. The majority of findings continue to be in compliance and quality assurance frameworks supporting program payments (being the assurance over information relied on by entities for decision making including payments); financial reporting; and management of IT security and user access, in particular the management of privileged users. Three legislative breaches were also reported to entities during 2019–20 financial statements audits. Of the legislative breaches, one was significant and related to failure to distribute funds in accordance with the relevant Act.
12. The two reports also seek to give Parliament an insight into key governance issues and risks in the sector. In past reports this has included analysis related to the composition, operational arrangements and administrative support of audit committees; compliance with finance law when the reporting process was reduced; review of entities gifts and benefits policy and processes; compliance with publishing of executive remuneration reporting; disclosure of contractor and consultant expenses for a sample of entities; analysis of entities' fraud control management; analysis of entity payment card policy and monitoring; review of cyber reliance and PSPF compliance; and observations about implementation of Machinery of Government changes. For the two reports the under consideration in this inquiry, a number of matters addressed in the reports to Parliament included:
 - The PGPA Act requires commonwealth entities to prepare and give an annual report to the entity's responsible Minister by the 15th day of the fourth month after the end of the reporting period. In 2019–20, 77 per cent (2018–19: 83 per cent) of these entities were provided with auditor's report within three months of the financial year end. The average time taken to table annual reports from the date of the auditor's report was issued was 40 days (2018–19: 39 days).
 - Analysis of whether annual reports were tabled in Parliament so as to allow sufficient time for review before Senate estimates hearings. Sixty two per cent of annual reports were tabled before the date of the 2019–20 Senate estimates hearing date (2018–19: 76 per cent). A further 16 per cent tabled on the date of the portfolio's hearing (2018–19: four per cent).
 - Targeted assurance activities over the management of staff leave of three entities. This work was undertaken as a result of the increase in findings relating to human resource

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management and administration across Australian Government entities during the period from 2015–16 to 2018–19. The analysis performed identified weaknesses in processes relating to staff leave and associated monitoring controls. These weaknesses included the timeliness of submission and approval of leave requests; reliance on manual controls, including management by supervisors not being sufficiently effective in the absence of appropriate monitoring and reporting; and that existing reporting had not identified rates of non-compliance with entity policies, and patterns of attendance.

- Observations relating to entities compliance against Audit Committee reporting requirements outlined in the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule). Analysis of 182 annual reports identified 68 entities did not comply with one or more of the PGPA Rule disclosure requirements for audit committees. The analysis also considered the number of audit committees of which individuals were members. Detailed analysis on the membership and remuneration results of the audit committees of the 25 entities covered by the Interim Report was also included in the report.
- A review of entities' implementation and compliance with the Protective Security Policy Framework (PSPF) Essential Eight mitigation strategies including mandatory and recommended controls intended to strengthen cyber resilience and the capacity of government to mitigate cyber threats. The review found that there continues to be limited improvement in the level of compliance with PSPF mitigation strategies since the controls since being first mandated in 2013.

13. Officers of the ANAO are available to assist the Committee with its hearing.