

## Performance Audit Report No. 53 (2012-13)

# Agencies' Implementation of Performance Audit Recommendations

### Audit objective and scope

- 3.1 This audit assessed the effectiveness of agencies' arrangements for monitoring and implementing ANAO performance audit recommendations. The audit included an assessment of the ability of agencies to respond to recommendations from ANAO reports that have general application to the Commonwealth public service.
- 3.2 The agencies selected for audit were:
- Department of Education, Employment and Workplace Relations (DEEWR);
  - Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA);
  - Department of Infrastructure and Transport (DIT); and
  - Department of Finance and Deregulation (DoFD).
- 3.3 The ANAO audit criteria were whether agencies had:
- effective governance systems to monitor ANAO performance reports and provide oversight of implementation of agreed recommendations;
  - reporting arrangements were accurate and timely, with appropriate intervention mechanisms, if required; and
  - adequate implementation of agreed recommendations.

- 3.4 This chapter should be read in conjunction with ANAO Report 53 of 2012-13.<sup>1</sup>

## Audit Conclusions

- 3.5 Overall, ANAO concluded that each of the four agencies had systems in place to capture, monitor and report on recommendations but three of the four agencies did not have a systematic approach to cross agency audits, which may have relevance to the agency's operation.
- 3.6 Specifically, ANAO found that, among other things:
- cross agency audit recommendations (as opposed to agency specific) were not consistently identified and acted on; and
  - apart from the DEEWR, there were inconsistencies and weaknesses in oversight, reporting and implementation.
- 3.7 As part of the audit, the ANAO selected seven completed specific and cross agency audits to assess the completeness and timeliness of implementation, involving 48 recommendations. The analysis showed that, other than DEEWR, none of the agencies had a 'structured approach' to implementation of ANAO recommendations; involving planned implementation dates, and the allocation of responsibilities to guide the program management area and reporting to audit committees.<sup>2</sup>
- 3.8 In addition, ANAO's assessment of 25 of the 48 recommendations across agencies showed inaccuracies in the recording of the status of recommendations. Inconsistencies in monitoring also resulted in uncertainty about whether audit committees were informed of audit reports, the recommendations and risks to be addressed.<sup>3</sup>
- 3.9 Overall, 69 per cent of the recommendations were assessed as having been implemented adequately, while the remainder were assessed as having been implemented to varying degrees.<sup>4</sup>
- 3.10 Further details can be found by referring directly to Audit Report No. 53 2012-13.

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1 The report can be accessed at:  
<[anao.gov.au/~media/Files/Audit%20Reports/2012%202013/Audit%20Report%2053/Audit%20Report%2053.pdf](http://anao.gov.au/~media/Files/Audit%20Reports/2012%202013/Audit%20Report%2053/Audit%20Report%2053.pdf)>

2 ANAO Report No. 53 2012-13, p. 13.

3 ANAO Report No. 53 2012-13, p. 15.

4 ANAO Report No. 53 2012-13, p. 13.

## Audit recommendations

### 3.11 The audit report made two recommendations.

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| 1     | To better support the application of relevant recommendations, the ANAO recommends that agencies establish, or review existing procedures for assessing the relevance of recommendations from ANAO cross-agency audits, and subsequent monitoring.<br><br>DEEWR's response: <i>Noted</i> . FaHCSIA's response: <i>Agreed</i> .<br>DoFD's response: <i>Agreed</i> . DIT's Response: <i>Agreed</i>   |
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| 2     | In order to support timely and complete implementation of ANAO performance audit recommendations, the ANAO recommends that agencies establish, or strengthen implementation approaches, including documenting intended actions, timelines and setting out clear responsibilities for the outcome.<br><br>DEEWR's Response: <i>Agreed</i> . FaHCSIA's Response: <i>Agreed</i> .<br>DoFD's Response: <i>Agreed</i> . DIT's Response: <i>Agreed</i> . |
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Source ANAO Report No. 53 2012-13, pp. 16-18.

## The Committee's review

- 3.12 The Committee is principally concerned with governance arrangements; which, in turn, impact on the timeliness and completeness of the implementation of audit recommendations.
- 3.13 To assist in the review, the Committee called representatives of three of the four agencies -DEEWR, DoFD and DIT - who gave evidence at a public hearing on 13 February 2014.

## Governance, accountability and timeliness

- 3.14 During the hearing, the ANAO emphasised that, in their view, the DEEWR system represented better practice within government and it could be replicated or adapted for other agencies.<sup>5</sup> Despite this very positive finding by ANAO, some inconsistencies between official sign off

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5 Mr McPhee, Auditor General, *Committee Hansard*, 13 February 2014, p. 2.

arrangements and actual practice were found. However, this did not detract from the Auditor-General's assessment.

- 3.15 DEEWR has developed the Audit Recommendations dnet site (ARds), a database that allows for continuous updating, including targeted and relevant cross agency recommendations, and timeframes for completion. The data is updated and reviewed for quarterly Audit Committee meetings, with sign off by a Deputy Secretary.
- 3.16 During the hearing, Mrs Leigh Navara, Acting Chief Internal Auditor, confirmed that developing the DEEWR system involved:
- developing a database that uses the SharePoint database application with a web interface;
  - providing one to one training to staff by audit coordinators who also update the database;
  - implementing associate secretary and deputy secretary sign off on implementation; and
  - incorporating audit recommendations as a standing item on the senior executive meetings.<sup>6</sup>
- 3.17 The benefit of this system is the ability for staff to keep tracking data up to date and senior level sign off provides accountability. As a consequence, the audit committee is performing its role on the basis of reliable information. Mrs Navara also confirmed that several agencies had already viewed the system, which included those in the ANAO review and the Fair Work Ombudsman.<sup>7</sup>
- 3.18 The DoFD and DIT employ spreadsheets and tables, emailed to areas for updating, which allows for direct communication with program areas. ANAO found that this approach makes it difficult to track continuity, because historical data is in earlier documents. Emailing documents across a large and dispersed organisation is also considered to be inherently risky by ANAO.
- 3.19 In relation to DIT, the ANAO found that of 12 recommendations DIT had implemented, 7 were not monitored in the agency system. The ANAO was also concerned that no recommendation had been coded red in the previous three years, but some recommendations had been outstanding for 72 months.<sup>8</sup> Since the completion of the audit, three internal audit

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6 *Committee Hansard*, p. 7.

7 *Committee Hansard*, p. 7.

8 ANAO Report No. 53 2012-13, p. 39.

recommendations have been coded red for audit committee consideration.<sup>9</sup>

## Audit Committees

- 3.20 Although the effectiveness of audit committees was not the subject of the audit *per se*, as part of the system of governance the ANAO made comments on audit committee performance. In particular, ANAO found that none of the audit committees of the four selected agencies had asked for supporting documentation.<sup>10</sup>
- 3.21 The effectiveness of agency audit committees was canvassed during the hearing, and the Auditor General testified that governance in the public sector had improved considerably over the past decade.<sup>11</sup> Agency audit committees were part of that progressive change and the involvement of independent members who bring external skills bolstered oversight of agency performance.<sup>12</sup>

## Agency responses

- 3.22 The DoFD and DIT agreed with both ANAO recommendations 1 and 2, to review or establish internal systems to capture cross agency recommendations and monitor the implementation by improving documentation, setting due dates and establishing clear lines of responsibility for the outcomes.
- 3.23 In evidence to the Committee, the DIT outlined measures being adopted to improve the accuracy of reporting on the status of recommendations. Mr Banham, Chief Operating Officer, DIT said:
- We had a database for internal audit recommendations and we have now expanded that to pick up all recommendations coming from all audits. Addressing the recommendation about the cross-agency audit findings, we have put in place a mechanism whereby the audit committee is provided with an analysis of the outcome of all cross-agency audit reports and how the recommendations will have an impact on the department and whether they need to be tracked within the department as well.
- 3.24 In relation to strengthening the audit committee, and raising the seniority of executive oversight, Mr Banham submitted that:

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9 DIT, *Submission 5 (Response to Question on Notice)*, 27 February 2014, p. 1.

10 ANAO Report No. 53 2012-13, p. 15.

11 Mr McPhee, Auditor General, *Committee Hansard*, 13 February 2014, p. 1.

12 See, for example, *Committee Hansard*, 13 February, 2014, p. 2.

The first thing we did was to implement a process of getting greater assurance to the audit committee about the outcomes.... We wanted more substantial information coming back to the committee about the closure, the outcome, of actually putting in place the recommendations. We also introduced a higher level of monitoring and sign-off of completion. We lifted this through the audit committee to the executive. Now we provide a quarterly report to the executive of the organisation fully explaining what action has been taken before the recommendation is finally signed off.<sup>13</sup>

- 3.25 The Department of Finance (DoF) accepted that as a central agency the Committee was correct to expect it to have a best practice system in place, and this would set a standard for other line agencies.<sup>14</sup> DoF told the Committee that it fully intended to reach that standard, and is well advanced in implementing ANAO's recommendations.<sup>15</sup> As part of these reforms, the DoF is implementing a new database system, which it expected to be in use by 30 June 2014.<sup>16</sup>
- 3.26 Ms Connell, Chief Operating Officer, submitted that, in the meantime, the existing internal audit system has been broadened to capture ANAO recommendations, with closer scrutiny and monitoring. In practice, this means that DoF is capturing cross agency recommendations 'more centrally', as well as at the group and business level, and has implemented Deputy Secretary sign-off on the closure of recommendations that have been implemented.<sup>17</sup>
- 3.27 As a consequence, business areas are no longer responsible for closing recommendations. Business areas now make a recommendation to the audit committee that a recommendation be closed, and if the audit committee is not satisfied, it will seek further assurances.<sup>18</sup>

## Committee Comment

- 3.28 The Committee notes that the two 'follow-up audits' subject to this review were conducted in response to interest from various parliamentary

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13 *Committee Hansard*, 13 February, 2014, p. 4.

14 *Committee Hansard*, 13 February, 2014, p. 7.

15 Ms Connell, Chief Operating Officer, *Committee Hansard*, 13 February 2014, p. 6.

16 DoF, *Submission 4 (Response to Question on Notice)*, p. 2.

17 Ms Connell, Chief Operating Officer, *Committee Hansard*, 13 February 2014, p. 6.

18 Ms Connell, Chief Operating Officer, *Committee Hansard*, 13 February 2014, p. 6.

committees. In addition, the 2011 ANAO Survey of Parliamentarians 'indicated that periodic audits of the implementation of performance audit recommendations would be of benefit'.<sup>19</sup>

- 3.29 Performance audit recommendations identify risk and are intended to enable an agency to better meet the priorities of the incumbent government.<sup>20</sup> The failure to implement recommendations means that the benefit of the audit is lost, and public funds are wasted.<sup>21</sup>
- 3.30 Consequently, the Committee continues to support the strategic use of 'follow-up audits', as part of the ongoing process of improving agency performance.
- 3.31 The Committee is pleased that ANAO's overall finding in this audit is that each of the selected agencies has a system in place to capture, monitor and oversight implementation of audit recommendations. It is disappointing, however, that the internal systems of three of the four agencies were not completely in alignment with better practice.
- 3.32 It is acknowledged that agencies vary in size and complexity, and implementation will be influenced by relevance and priority of any particular recommendation against competing demands and internal processes. Nevertheless, the general public, relevant Ministers and the Parliament are entitled to expect that agreed recommendations will be implemented in a timely manner. To achieve this, all agencies require:
- an effective internal system to capture, monitor and oversee implementation;
  - a fully effective audit committee; and
  - the appropriate level of oversight by senior management to ensure accountability.
- 3.33 The ANAO did not formally audit the audit committees, however, some insights into their operation were gained as a result of the audit. Audit committees are now an established part of the governance of Commonwealth and have contributed to the improvement of governance within the public sector.
- 3.34 The ANAO finding that no audit committee asked for supporting documentation, in an assessment where systems did not meet better practice, is concerning. The Committee also notes the important role of independent members, who bring important external influence into an

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19 Mr Ian McPhee, Auditor-General, *Submission 1*, 13 February 2014, p. 1.

20 Mr Ian McPhee, Auditor General, *Submission 1*, 13 February 2014, p. 1

21 Mr Ian McPhee, Auditor General, *Submission 1*, 13 February 2014, p. 1.

otherwise closed system. Improvements in data capture and reporting, and the allocation of implementation deadlines, will also strengthen audit committees. Ultimately, however, it is senior management who are responsible and accountable and have the authority to direct implementation to achieve outcomes.

- 3.35 The Committee commends DEEWR for the professionalism and diligence it has shown in establishing and maintaining a better practice model. The DEEWR system exhibits the features of a better practice model and all Commonwealth agencies are encouraged to review their own systems in light of both DEEWR's example and the ANAO's findings.
- 3.36 The Committee is encouraged by the constructive response and the commitment of the DoF and DIT to address the weaknesses identified in their systems. It may, however, choose to request further information in the future to assure itself that the measures outlined in evidence to the Parliament have actually been achieved.