



PERFORMANCE AUDITING  
in the Australian National Audit Office



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ISBN 0 642 80999 2

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## THE AUDITOR-GENERAL AND THE ANAO

The Auditor-General is an independent officer of the Parliament appointed by the Governor-General to review public sector performance and accountability regimes with the aim of adding value to public sector performance. The Auditor-General is supported by the Australian National Audit Office (ANAO).

The Auditor-General and the ANAO form an important link in the accountability chain from the public sector, to the Parliament and, ultimately, to the Australian community.

The ANAO aims to add value to public sector performance by contributing to:

- **Improvement in public administration** – Independent assessment of the performance of selected Australian Government public sector activities including scope for improving efficiency and administrative effectiveness; and
- **Assurance** – Independent assurance of Australian Government public sector financial reporting, administration, control and accountability.

The ANAO contributes to these outcomes primarily through the conduct of performance and financial statement audits.





## THE LEGISLATIVE FRAMEWORK

The *Auditor-General Act 1997* sets out the Auditor-General's functions, mandate and powers and establishes the statutory Office of the Auditor-General and the ANAO. The Auditor-General Act also provides for the independent audit of the ANAO.<sup>1</sup>

### *Independence*

The Auditor-General's independence is assured by key provisions in the Auditor-General Act.

Specifically, the Auditor-General:

- is an independent officer of the Parliament;
- is appointed by the Governor-General following the approval of the Joint Committee of Public Accounts and Audit (JCPAA);
- is appointed for a 10 year period;
- can only be dismissed by a resolution of both Houses of the Parliament; and
- cannot be directed in relation to his or her functions.

### *Mandate*

The ANAO is able to conduct performance audits and financial statement audits of Australian Government entities, authorities and owned and controlled companies. Government Business Enterprises (GBEs) are generally not subject to performance audits. However, the responsible Minister, the Finance Minister or the JCPAA can request the Auditor-General to conduct a performance audit of a GBE.

The Auditor-General may also enter into an arrangement with any person or body: to audit financial statements of the person or body; or to conduct a performance audit of the person or body; or to provide services to the person or body that are of a kind commonly performed by auditors, provided it is within the Australian Government's legislative power.

### *Wide information gathering powers*

The Auditor-General has wide information-gathering powers to provide access to information or premises.

### *Reports tabled in the Parliament*

The ANAO's audit reports are tabled in the Parliament and assist the Parliament in fulfilling its accountability role on behalf of the Australian people. The JCPAA reviews all ANAO audit reports and conducts inquiries on selected audits. Other Parliamentary Committees also conduct inquiries using ANAO reports as key information sources.

Extracts of relevant sections of the Auditor-General Act is enclosed within this publication.

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<sup>1</sup> *Auditor-General Act 1997*, Parts 3, 4 and 7.



## PERFORMANCE AUDITING BY THE ANAO

### WHAT IS A PERFORMANCE AUDIT?

A performance audit is an independent, objective and systematic assessment of public sector entities<sup>2</sup> programs, resources, information systems, performance measures, monitoring systems and legal and policy compliance. Performance audits play an important role in improving the administration and management practices of public sector entities.

Performance audits involve the evaluation of the implementation of specific government programs, policies, projects and activities. They also examine how well administrative support systems operate. As such, the audits can include consideration of:

- economy (minimising cost);
- efficiency (maximising the ratio of outputs to inputs);
- effectiveness (the extent to which intended outcomes were achieved); and
- legislative and policy compliance.

There are four types of performance audit:

- audits of a program or activity in a single entity;
- protective security audits (examines security arrangements);
- cross-entity audits (reviews the same activity in a number of entities or the administration of a program by a number of entities); and
- follow-up audits (reviews the implementation of recommendations from a previous audit).

Each performance audit has specified objectives which are approved by the Auditor-General.

Performance audits also identify better practices, which may then be incorporated into Better Practice Guides (BPGs). BPGs identify good practice and spread the messages throughout the public sector to help improve the quality of public administration across all entities.

The Auditor-General may also undertake audits following requests, for example, from the Parliament, Ministers or individual parliamentarians. In some cases requests are handled through correspondence rather than preparing a formal report.

The Performance Audit Services Group (PASG) at the ANAO conduct performance audits in accordance with ANAO Auditing Standards. All performance audit reports are tabled in the Parliament.

<sup>2</sup> The term 'entity' is used to describe all organisations subject to the *Financial Management and Accountability Act 1997*; and the *Commonwealth Authorities and Companies Act 1997*.

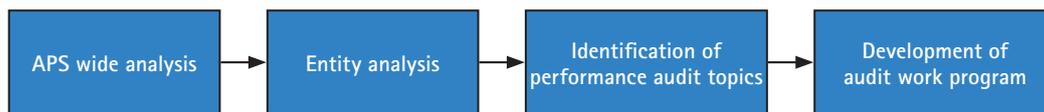


## THE ANAO'S APPROACH TO PERFORMANCE AUDITING

A structured planning approach is taken to determine future audit topics. The Audit Work Program (AWP) is the result of the ANAO's annual audit planning and is published in July each year.

The broad steps involved in preparing the performance audit work program are shown in Figure 1. These steps provide a structured approach to consider entity specific and APS wide risks in identifying and ranking potential audit topics for inclusion in the AWP. The AWP is underpinned by a risk-based methodology and aims to provide broad coverage of areas of public administration.

**Figure 1. Performance audit planning steps**



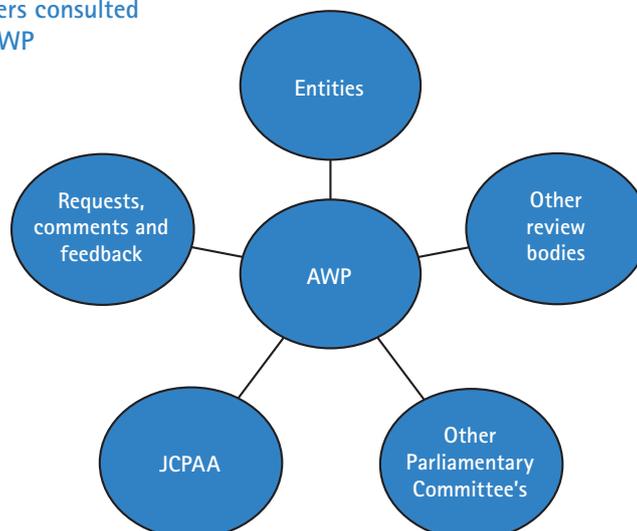
Audit topics are selected with the following factors in mind:

- > portfolio risks and the potential to improve performance;
- > thematic risks to sound public administration;
- > Parliamentary comment; and
- > ANAO capacity.

Potential individual audit topics are rated against criteria such as potential benefits, financial materiality, risks to reputation and service delivery and the extent of previous audit coverage. The priorities of the Parliament, as determined by the JCPAA, and the views of entities and other stakeholders are also taken into account in determining the final work program. The extent of stakeholder engagement during the development of the AWP is illustrated in Figure 2.

The Auditor-General determines the AWP after consideration of all factors and stakeholder input.

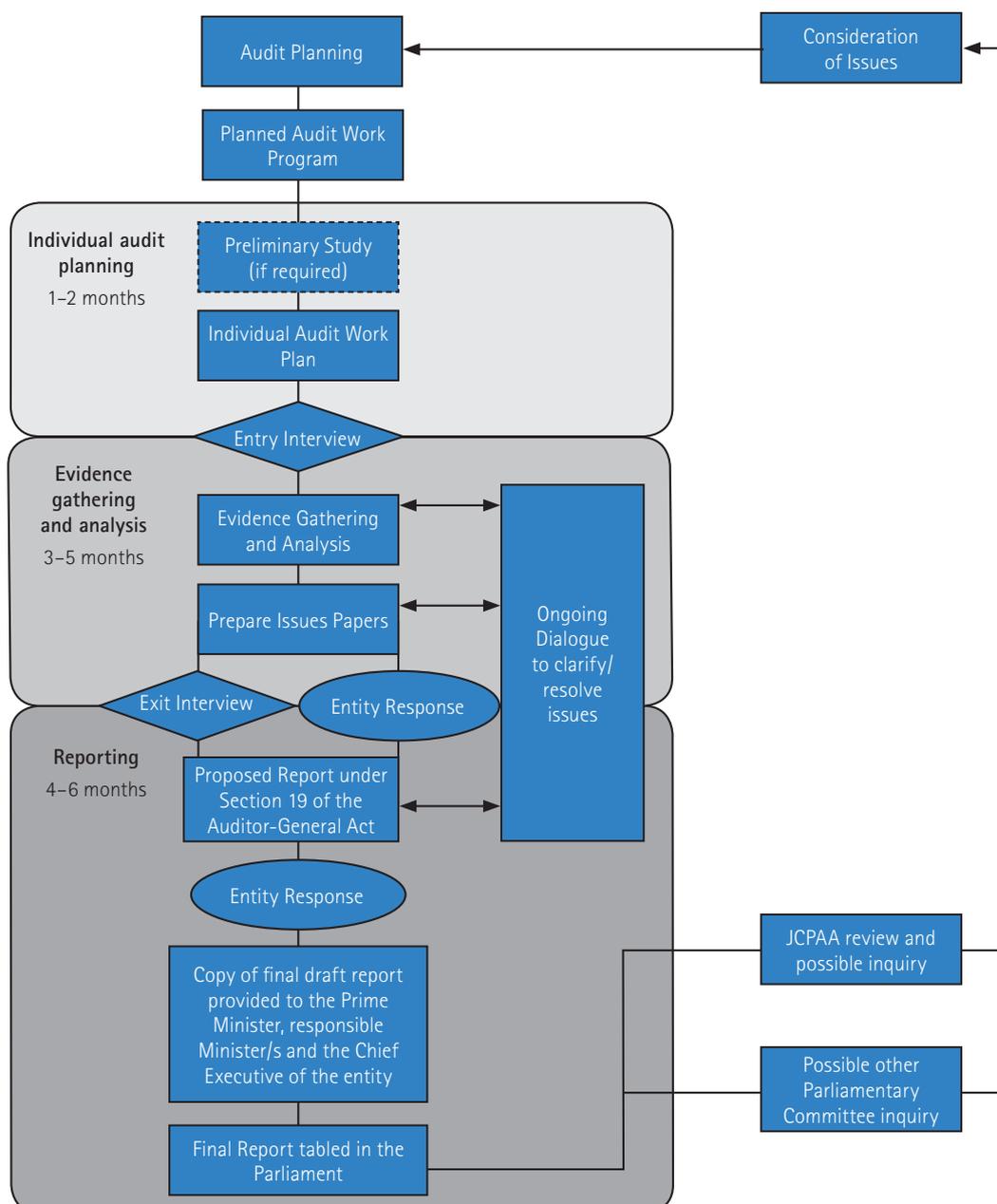
**Figure 2. Stakeholders consulted in developing the AWP**



## THE PERFORMANCE AUDIT CYCLE

The main elements of the performance audit cycle are individual audit planning, evidence gathering and analysis and reporting. These are illustrated in Figure 3 below.

Figure 3. Performance audit cycle





## THE PHASES OF A PERFORMANCE AUDIT

### INDIVIDUAL AUDIT PLANNING

The focus in this phase is the development of an Individual Audit Plan that defines the scope and objectives and lays out the methodology, schedule and budget of the audit.

In developing an Individual Audit Plan, a Preliminary Study may be conducted to enable the audit to be effectively planned. A Preliminary Study can assist in better defining the objectives, scope and methodology of the audit.

A Preliminary Study is not undertaken if the audit is less complex or if the ANAO has sufficient information to adequately plan the audit. In some cases, the Preliminary Study may lead to a full audit not being undertaken or to the proposed audit objectives or scope being amended to reflect changing circumstances.

### EVIDENCE GATHERING AND ANALYSIS

During this phase the ANAO gathers evidence, analyses the evidence and discusses emerging issues with the entity relating to the objectives of the audit. Prior to the commencement of this phase, an Entry Interview is held with the senior management of the entity with responsibility for the program or activities subject to the audit.

The intent of the Entry Interview is to introduce the audit team, discuss the objectives and scope of the audit, allow the entity to raise contextual matters relevant to the audit, discuss access to relevant systems and documentation and entity facilities and agree administrative and contact arrangements. ANAO access to preliminary documentation will often be requested prior to the Entry Interview.

During evidence gathering, interviews with managers and staff are conducted and paper and electronic documentation is reviewed. Physical assets may also be inspected and staff observed undertaking their work. Evidence gathered is analysed against test criteria and Issues Papers are prepared that outline the issues that this analysis has identified.

At the Exit Interview the audit findings and conclusions are discussed and the feasibility of possible recommendations are tested, agreement is reached on matters of fact and a common understanding on contextual matters that may impact on the interpretation of the facts is reached. The entity also has the opportunity to provide further documentation relevant to the audit findings and to provide written comments on the Issues Papers.

An Exit Interview will generally be held with senior entity managers at the conclusion of this phase of the audit.

### REPORTING

After considering an entity's response to the Issues Papers and any further information arising from the Exit Interview, the Proposed Report to the Parliament is drafted and forwarded to the entity for comment. The entity's comments are considered in preparing the final audit report. The entity's response is incorporated into the final report which is tabled in the Parliament. A final draft of the audit report is provided to the Prime Minister, responsible Minister/s and the entity's Chief Executive in view of their responsibilities relating to the program or activity subject to audit.



## MUTUAL OBLIGATIONS

Understanding the needs, expectations and priorities of entities is important and the ANAO works in a constructive and consultative manner with entities to identify areas where improvements can be made in public administration and service delivery.

The success of a performance audit in achieving improvement in public administration relies, in large part, on the degree to which entities and the ANAO meet their mutual obligations. The ANAO's obligations are identified in the Auditor-General Act and the ANAO Auditing Standards (which incorporate the Australian Auditing Standards).

Most Australian Government employees are also bound by the *Public Service Act 1999* and the APS Values and Code of Conduct which requires that staff at the ANAO should treat others, and be treated, with respect and courtesy.

Key obligations are discussed below.

### WHAT THE ANAO WILL DO:

#### *Knowledge of the business*

We will have, or obtain, sufficient knowledge of each entity to enable us to identify and understand issues that impact on the performance of the program or activity being audited.

#### *No surprises*

The ANAO works on a 'no surprises' basis with respect to audit findings so that entities are provided opportunities to discuss the audit findings, and to improve processes where this is warranted. We do this by engaging in ongoing dialogue during an audit. This dialogue also contributes to reports that are accurate, evidenced based, balanced and fair.

#### *Confidentiality of information*

The ANAO regards all audit and related information as 'in-confidence' and will not disclose it to members of the public, the media or other organisations, except as part of the ANAO's normal reporting arrangements. Sensitive information that is not in the public interest will not be included in public reports.<sup>3</sup>

#### *Security*

ANAO staff will be appropriately security cleared and all information provided to us will be stored securely at all times and used only for audit purposes.

### WHAT THE ANAO'S CLIENTS NEED TO DO:

#### *Full and free access*

Each entity is required to provide us with full and free access at all reasonable times to any premises, documents or other property that we may wish to examine and make copies of or take extracts from any document<sup>4</sup>.

#### *Reasonable facilities*

Each entity is also expected to provide all reasonable facilities to aid the conduct of an audit. This will generally include a secure office, computer terminal, telephone with external access and access to printing and photocopying facilities.

### FEEDBACK

Any feedback to inform the audit or concerns that the ANAO is not meeting its obligations should be raised with the relevant ANAO contact officer so the issue can be resolved. Each entity will also be provided with an opportunity to provide feedback to an independent consultant on the conduct of the audit through the ANAO's client surveys.

<sup>3</sup> Auditor-General Act 1997, Section 37.

<sup>4</sup> Auditor-General Act 1997, Section 33.



## WHAT HAPPENS TO PERFORMANCE AUDIT REPORTS AFTER TABLING?

### *Available to the public*

Following the tabling of an audit report, audit reports are publicly available. ANAO senior staff may brief Parliamentary Committees, Ministers, individual Parliamentarians, or the media on the findings of the audit.

### *Entity Audit Committee review*

Entities' Audit Committees usually have a standing agenda item to review the status of the implementation of audit recommendations.

### *Parliamentary review*

The JCPAA reviews all performance audit reports. Other committees of the Parliament may also choose to conduct an inquiry into any ANAO audit report. Parliamentary Committee reports are tabled in the Parliament and are publicly available.

### *Follow-up audits*

The ANAO's AWP includes the conduct of a number of follow-up audits that assess an entities' progress in implementing the recommendations of earlier audits.

## CONTINUING THE INFORMATION FLOW

The ANAO also periodically publish newsletters that provide information on issues and developments of interest to entities generally. ANAO staff also attend many Audit Committees as observers.

ANAO on line – <http://www.anao.gov.au> – provides information on the ANAO, the full text of current audit reports tabled in the Parliament, BPGs and speeches by the Auditor-General and other audit staff.







## CONTACT US

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<http://www.anao.gov.au>

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ANA0.004-02-08