A YEAR IN THE LIFE OF THE AUDITOR-GENERAL

7 December 2010

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Auditor-General for Australia
Introduction

Thank you for the invitation to be with you at your December meeting.

I have been asked to speak about my role and, broadly, how I fulfil my responsibilities to the Parliament and to the Australian public during the course of a year.

My role is unique in our system of government at the federal level in Australia, but not dissimilar to the roles of many of the state auditors-general. The essential elements of my responsibilities are defined by the (Commonwealth) Auditor-General Act 1997 which provides for a broad audit mandate and the necessary statutory support for access to all government information, and for the independence of the Auditor-General. The legislation has stood up well since its last major revision in the 1990s, and allows my office to undertake its role of reporting independently with great confidence. I will mention, later, a few areas of the legislation where I have suggested consideration might be given to varying the Auditor-General’s mandate.

Having appropriate legislative support is necessary, but not sufficient, for having a well performing office. The office needs to be appropriately resourced, manage stakeholder relationships effectively, invest in quality approaches, and adopt sound practice management approaches so that we ‘practice what we preach’ in our own operations. Above all, an audit office needs to be respected for the understanding of the topics conveyed in its reports, its objectivity, judgement, and balance in reporting.

I am pleased that my office does well on these measures. In this context, I was amused to hear of the remarks by the Prime Minister, the Hon. Julia Gillard MP, who has given quite a profile to redheads since assuming office. The Prime Minister said recently:

“When I visit schools they have kids out the front to greet me and I sometimes think they are disproportionately selecting redheads.”¹

“I’ve got no evidence I could submit to the Auditor General or anything like that but I do worry.”²

¹ Gillard, Julia 2010. Article in the Sunday Times newspaper, 27 June, page 58
It’s encouraging that the extent of evidence we expect, and on which we base our conclusions, is appreciated at the highest levels within government.

As you would expect, each Auditor-General brings their own perspective to bear on the objectives of the office. Clearly, discharging the Auditor-General’s statutory responsibilities is fundamental, but providing a stimulus for better public administration through our reports and other products and services is also essential.

This means we have to work hard to deliver quality products and services that lead to improvement in public administration. I have never forgotten a quote in one of my text books from my student days which discussed the future of auditing in Britain in 1942. At that time, a committee of experts wrote:

“Attempts to persuade the accountancy profession to take a wider view of their public responsibilities have so far met with little success...there is little or no evidence during the last twenty or twenty-five years to show that the professional accountant, qua professional accountant, has produced a single idea of value to industry or the State. He has merely ticked and cast and trusted in God.”

Fortunately, auditors are generally seen to be making a stronger contribution today.

Auditors-General are relied upon by the Parliament and the public to report objectively on the financial and managerial performance of the executive’s administration. Traditionally, government in Australia has been powerful with command of a very substantial level of resources relative to those of the Parliament. With the current minority government arrangements requiring greater emphasis on working relationships between the Government and the Parliament, and a renewed emphasis on transparency, the role of the Australian National Audit Office (ANAO) will be as important as ever in informing the Parliament, and the Government, on the state of public administration.

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2 Ibid.


4 It is noteworthy in this context that more than half of the staff in my office are women.
Auditors-General have to be willing to tackle topics that are sensitive or that otherwise may be unpopular with the government of the day, when required. In this context, I agree with Tony Harris, former Auditor-General in New South Wales, who said ‘auditors-general who avoid topics which fall within their mandates, just because they are contentious, fail the community’.

With these introductory comments, I intend to reflect back on the last financial year, to provide a flavour of a year in the life of the Auditor-General, and the ANAO.

**Our product line**

Leading up to 2009-10, the Australian Government had put in place a range of stimulus measures in respect to the global financial crisis which had engulfed the world. These measures were designed to shore up confidence in the financial system and the economy more broadly or, as Gordon Brown, the then Prime Minister of Britain observed “the helping hand of society underpinning the invisible hand of the market.”

It was an interesting time in Australian politics also. Kevin Rudd was Prime Minister, Malcolm Turnbull was Opposition Leader. And there was rarely a dull moment.

As you would expect, the ANAO considered the implications for its audit work of the Government’s response to the economic downturn in Australia. Our response was reflected in our work program for the year for both performance audits and our audits of the financial statements of Australian Government entities.

**Performance Audit Program**

The performance audit program for 2009-10 started briskly. We generally table between 45 – 50 performance audits a year. They cover a full range of agencies and programs designed to inform the Parliament of the state of public administration and stimulate improvements in performance. I have full discretion over the choice of which performance audits to undertake, but I may be requested to undertake audits by the Parliament, Government, individual Senators and Members, and members of the public.

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5 Bagehot, *Who runs Britain?* The Economist, 4 April 2009, p. 56
In late June 2009, I was requested by the then Prime Minister to undertake a performance audit of matters relating to representations to the Treasury regarding automotive finance arrangements for car dealers. You will recall that questions had been raised in the Parliament and the media at the time concerning representations made to the Prime Minister and the Treasurer, about assistance for individual motor dealers, and whether one representation made in relation to John Grant Motors in Ipswich, Queensland, had received favourable treatment. This led to questions in the Parliament as to whether the Prime Minister and / or the Treasurer may have misled the Parliament. It became known in the media as ‘OzGate’.

The audit did not point to any evidence of improper actions on the part of the Prime Minister or the Treasurer. It did, however, highlight a range of matters concerning the implementation of the policy measure by the Treasury, and raised serious questions as to whether the senior responsible executive had breached the APS Code of Conduct because confidentiality about dealings with Ministers and their staff was not maintained, and preferential treatment given to one representation was motivated by, amongst other things, the personal circumstances of the dealer principal and the executive’s understanding that the dealer principal was a supporter of, and donor to, the Liberal Party of Australia. The Treasury accepted the audit’s conclusions that there were significant weaknesses in the implementation of the OzCar facility. From a methodological perspective, the audit was noteworthy for a number of reasons:

- through the powers provided by the Auditor-General Act (section 32), evidence was taken on oath from the then Prime Minister, the Treasurer, the senior responsible executive, and other key parties;
- utilising specialist IT resources, we identified and examined relevant electronic mail communications;
- the audit was completed and tabled in 6 weeks, including time for respondents to provide comments on the report. This was an outstanding effort on the part of the audit team; a report on such a significant matter has never been done in anything like the timeframe since the office has had performance audit powers (1979).

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6 ANAO Report No 1 2009-10. Representations to the Department of the Treasury in Relation to Motor Dealer Financing Assistance. 4 August 2009
There were to be other high-profile performance audits of new government measures completed or commenced during 2009-10, including:

- Building the Education Revolution (BER)
- Green Loans
- Home Insulation Program

These and other reports highlight, to varying degrees, the challenges in implementing government programs. In more recent times, I have drawn attention to the importance of government bodies giving more emphasis to the governance arrangements applying to the implementation of new programs, as matters raised in relation to the latter two reports, in particular, directly affect services delivered (or not) to Australian citizens. Poor implementation of government programs may also affect the livelihood of key stakeholders involved in the delivery of programs and does not reflect well on the Australian Public Service. Reflecting a desire to avoid a repeat of these experiences, the Government has since sought the views of my office on measures available to improve the implementation of new programs.

We also considered the administration of Parliamentarians’ Entitlements7 during 2009-10 and commented on:

- shortcomings in the framework for administering Parliamentary entitlements in that there wasn’t a consistent approach to specifying the purposes for which entitlements may be used and, where purposes are specified, the meaning of key terms such as Parliamentary business and electoral business had not been articulated
- the limited accountability for entitlements use, in particular Parliamentarians were not required to respond to invitations that they certify their use of entitlements, and there was a relatively low level of public reporting of entitlements expenditure
- Finance had adopted a relatively gentle approach to entitlements administration so that for printing entitlements, which was the central focus of the audit, the department was not aware of the substantive nature of the items produced, instead relying on invoice descriptions and certifications from Parliamentarians that the items produced are on the menu of items that may be printed, and

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7 ANAO 2009. Administration of Parliamentarians’ Entitlements by the Department of Finance and Deregulation. Audit Report No. 3 2009-10
of a sample of items produced using the Printing Entitlement, 74 per cent of represented items were at varying levels of risk of being outside entitlement.

Both the department and the Government were responsive to the audit findings. In particular, the Government agreed to a ‘root and branch’ review of the entitlements framework and Finance was given significant additional funding to improve the administration of entitlements, including the online publication of all entitlements expenditure administered by the department.

In undertaking this audit, I was reminded of advice given to me some years earlier that such audits of Parliamentary Entitlements should only be done in one’s last year as Auditor-General!

We also tabled a range of important audits during 2009-10 dealing with such diverse topics as:

- Administration of Climate Change Programs
- Management of the Overseas Owned Estate
- Lightweight Torpedo Replacement Project
- Application of APS Values and Code of Conduct to service providers
- Management of Live Animal Imports

I read all of the reports and other documents produced by my office and spend a considerable amount of time on the more sensitive reports, particularly in getting the messaging right. As you would expect, I accept a high level of personal responsibility for the quality of the work produced by my office.

Our performance audit reports are a source of valuable information for program managers in an increasingly complex and interconnected world. It is not feasible to do justice to all of the experience here, but matters that stood out in the past 12 months included the importance of agencies and their managers:

8 ANAO Audit Report No 26 2009-10. Administration of Climate Change Programs
10 ANAO Audit Report No 37 2009-10. Lightweight Torpedo Replacement Project
11 ANAO Audit Report No 40 2009-10. Application of the Core APS Values and Code of Conduct to Australian Government Service Providers
- knowing their organisational responsibilities in a joined-up world
- practising active management
- having the right horse-power for significant tasks
- actively managing risks, including monitoring risks and mitigation strategies
- modifying or killing projects that aren’t performing.

As an office, we are seeking to answer in our reports the implications arising from our findings – to answer the ‘so what’ question. We want to leverage our work for the benefit of all agencies, not just those subject to particular audits.

**Financial Statement Audit Program**

The ANAO also has a strong financial statement audit practice. We have in excess of 240 clients where we undertake financial statement audits. These include the Government’s own accounts, bodies such as the Reserve Bank of Australia, Australia Post, departments of state and a range of smaller reporting entities. We partner with accounting firms where, in our assessment, specialist industry knowledge is required or the geographic spread is such that it is uneconomical for the office to service the audit from Canberra or Sydney.

I sign the audit opinions on the Government’s accounts and another 10 or so high profile clients. My senior staff also sign audit opinions under delegation.

The ongoing challenge for all of us is keeping abreast of the changes in accounting and auditing standards, and in the businesses of our clients. The greater adoption of current values in accounting, through changes in accounting standards or government policies, and complexity in underlying entity systems, means that we are using more specialist skills than ever before in our audit teams. We were particularly alert to ensuring there is sufficient support for the carrying values of assets and liabilities due to the effects of the global financial crisis. By and large, our clients were too, which facilitated the audit processes.

As a general comment, we are seeing a greater level of maturity in client systems, and in their preparation of financial statements, partly as a result of encouragement provided by my office. Qualification of audit opinions is now quite rare; and the
Government, in its own accounts, has taken steps to address issues that have in the past resulted in a qualified audit opinion.

The involvement of internal audit as a key part of the review of the financial statement preparation process is mixed. Where appropriate, the ANAO places reliance on internal audit work in deciding our own financial statement audit coverage. The extent of reliance, not surprisingly, varies between agencies. Greater reliance is placed on internal audit work where the work is focused on financial and legislative compliance, including coverage that is used to underpin the annual Certificate of Compliance process. We continue to encourage agencies to identify opportunities for internal audit coverage to include key financial systems and controls. This will provide increased assurance to the Chief Executive to support the certification of their agency’s annual financial statements.

So while we are not seeing as much excitement arising from our financial statement audit work as some years ago, we are pleased to see the investment of clients and the ANAO in achieving better outcomes here pay off. It is very important to work from the perspective of bringing integrity to financial reporting in government.

Our reports on our financial statement work highlight:

- the progressive reduction in the number and severity of audit findings – this reflects favourably on the overall financial stewardship by agencies
- the main area where our audits identify issues is in relation to information technology controls, particularly in respect of such matters as user access, change management and IT incident and problem management. This is hardly surprising given the size and complexity of IT systems managed by agencies, and
- other areas where our audits identify the need for improvement include accounting for assets, key system reconciliations and business continuity management.

**Review Activities**

One of the newer business lines we have developed in recent years is in relation to our review activities. Reviews are recognised by the auditing and assurance
standards as providing less assurance than an audit, and are undertaken by the ANAO by agreement with the government and/or responsible government agency. We undertake reviews of major defence acquisition projects following a recommendation of the Joint Committee of Public Accounts and Audit (JCPAA) and acceptance by the Government and the Defence Materiel Organisation (DMO). This year’s report covered 22 major projects, and contains a wealth of information on major Defence projects. ANAO’s analysis shows that maintaining major projects on schedule remains the biggest challenge for DMO and industry contractors, affecting the capability made available for operational release and deployment.

The head of the DMO, Dr Stephen Gumley AO, has been committed to the ongoing investment in the public reporting of the status of these projects to provide greater transparency of the DMO’s business and accountability for their performance. There is good understanding and cooperation between DMO and the ANAO in the work required to produce this important report.

There was not the same level of alignment evident during 2009-10 in the benefits of my office’s involvement in the review of government advertising campaigns. As you may recall, the Government had asked my office to provide a review opinion on each certificate provided by chief executives of government agencies that the proposed advertising campaign was in accordance with the Government’s guidelines. However, after 22 months and a review of the process, the Government changed its perspective and decided to implement a separate review panel to undertake the review role for government advertising campaigns.

Despite the relatively short period of my office’s involvement in the review of government advertising campaigns, I have no doubt that my office made a significant contribution by bringing rigour and discipline to this aspect of public administration that, in the past, had been problematic to say the least. I made this point at the time in correspondence with the Government and my report to the Parliament. I also acknowledged that undertaking the review role has not been without risk for my office, but I undertook the role because I believed we could manage the risks and contribute positively to better outcomes for both public administration and the wider community, and we delivered on this.
We have moved on from this experience more than comforted by the considerably more measured approach to government advertising that applied during the period of our involvement compared to earlier arrangements. The benefits of our contribution have been widely acknowledged, including by the Government. While we are not longing for the bright lights of the advertising world, it is noteworthy that the Australian Greens have introduced legislation to strengthen the current guidelines and reinstate the Auditor-General’s role in reviewing government advertising campaigns.

Better Practice Guides

Another very significant way we contribute to better public administration is through our series of better practice guides. These guides leverage off our audit experience, but also draw from relevant management literature.

In the year just passed, we published four well-received guides on:

- **Strategic and Operational Management of Assets by Public Sector Entities** – Delivering Agreed Outcomes through an efficient and optimal asset base. 13 September 2010
- **Implementing Better Practice Grants Administration** – 21 June 2010
- **Planning and Approving Projects** – an Executive Perspective – 11 June 2010
- **Innovation in the Public Sector** – 1 December 2009

Agencies value our work here, so much so they would generally prefer we produced more guides and less audits. 😊 You can rest assured, though, we do our best to keep our work program in balance between better practice guides and audits.

Investing in Quality

In the ANAO we work hard at improving the quality of our work, year on year.

We invest heavily in the professional development of our staff because the public sector environment, professional standards and our own systems are constantly changing. On average, our audit staff undertake 44.5 hours of professional
development activity each year on subjects ranging from technical matters through to management development activities.

We are also investing heavily in practice management and audit support systems. Over the past couple of years, the ANAO has increased its investment in tools to support staff to deliver high quality products.

As part of this investment, a *Knowledge portal for performance audit* was deployed to support our performance audit program. It is an online facility that incorporates our Performance Audit Manual, performance audit documents and other material in a searchable repository. It combines online policy advice and practical guidance and allows performance auditors to access real examples on how to conduct a performance audit. This has proven to be an innovative approach, and at the request of the Australasian Council of Auditors-General, staff from our Performance Audit Services Group demonstrated the portal’s functionality to members of various Australian state audit offices, and Audit New Zealand.

As a way of increasing the efficiency of our financial statement auditing processes, we have implemented an upgrade to our financial statement audit software. As part of the upgrade, we increased the security around our information, which included the introduction of a database to avoid potentially losing information. We also introduced an improved synchronisation function to save time, so that we now only update changes to our audit master file rather than replicating and replacing entire files.

In 2009 we introduced an electronic document management system across the office. This system has not only strengthened our records management environment, but has provided a much improved evidence management capability for our performance audits, given the digital world we operate in. It provides the capacity to manage large volumes of documents with a powerful search engine. Our latest enhancements to the system have improved the indexing of documents for searching purposes from 4,000 documents a day to up to 95,000 an hour. While our more significant investments in terms of dollars has been in IT, a range of other initiatives such as the constant update of our key policies; the introduction of a graphic style manual; and the strategic use of editors has also had a positive impact, particularly with staff who have joined the office more recently. Most importantly, the collective efforts in Learning and Development by our audit experts, and the office
more broadly, continue to receive much positive feedback from staff who have recently joined the ANAO.

For our performance audits, we are driving hard at getting clarity around our communication of audit findings and structure of our reports as early as practicable through the introduction of ‘whiteboard’ sessions with the executive to get alignment on the best way of communicating the key findings in our reports. We also continue to focus on project management due to the challenges in bringing these reports together in a constrained time period of some 11 months.

While our reports are well regarded and have been very influential in changing the Government’s approaches to public administration in a range of key areas (e.g. grants administration, Parliamentary entitlements, greater emphasis on program implementation), I am keen to pursue avenues to continuously improve the quality of our work and the insights we provide. In other words, we are seeking to extract the maximum leverage from the resources entrusted to my office for the benefit of the Parliament and public administration.

I have also flagged a number of areas to the Joint Committee of Public Accounts and Audit where consideration might be given to enhancing the mandate of the Auditor-General. Principal amongst these are:

- audits of recipients of Commonwealth funding – enhancing external accountability arrangements that will allow the Auditor-General to ‘follow the (Commonwealth) money trail’ across jurisdictions and audit the recipients of Commonwealth funding in certain circumstances; and allow the Auditor-General to audit contractors’ performance of their contractual obligations when assisting in the delivery of programs and services
- performance audits of Government Business Enterprises (GBEs) – removing the current restrictions on the Auditor-General undertaking performance audits of GBEs
- assurance activities – giving explicit recognition in the Auditor-General Act to assurance activities which are recognised by the auditing standards issued by the Australian Auditing and Assurance Standards Board.
We have also suggested a number of options that would involve greater audit scrutiny of key performance indicators.

At a professional level, staff in my office are involved, and encouraged to become involved, in relevant professional associations so that the office gains the benefit of being across current developments; and we can contribute our experience for the benefit of the profession. I have just completed a two-year term as the ACT President of the Institute of Public Administration Australia, and am currently deputy chair of the Australian Auditing Standards Board.

Further afield, as an element of the Australian Government’s aid program, my office is assisting the Audit Institutions of Indonesia and Papua New Guinea in passing on our experience in both financial statement and performance auditing. We have staff seconded in both countries, and also second staff from both offices to work in the ANAO. We also have links with Audit Institutions in the Pacific region, the Asian region, and globally.

**Concluding remarks**

My office has an important role and we have been influential in providing assurance around the integrity of financial reporting and highlighting government programs that need attention. We have been constructive in suggesting the way forward through our recommendations, and our better practice guides. Our views have been listened to, and acted upon.

By being interconnected at a professional level, by taking a wider view and going the extra distance in promoting better public administration, and by assisting the Parliament through both our financial statement and performance audit programs, we make a strong contribution in delivering on our mandate.

We are absolutely independent in undertaking our audit role but very willing to provide our perspective to the Parliament and the Government on how public administration can be improved. During my time as Auditor-General, we have managed to maintain effective working relationships with key stakeholder groups. We are fortunate to meet many members of Parliament as they become involved in Parliamentary Committee work early in their careers in Parliament. This assists
greatly at a later time when they become Ministers and audit issues arise in their portfolios.

It is important that I should also indicate that no Government or other Member of Parliament has ever sought to improperly influence my presentation of audit findings. As you would expect, from time to time there have been fairly robust discussions where Ministers and CEOs have strongly presented their perspective, but properly done, this generally adds to the understanding of the issues on both sides. Occasionally, it also adds a bit of colour, but most importantly it reflects well on our system of government here in Australia and the respect for our institutional arrangements.

For a budget of $78 million, against government receipts and outlays each in excess of $300 billion, in my view, the community is well served by the Australian National Audit Office.

Thank you.