Address to the 2004 program for Officials of South-East Asian Parliaments – Australian National University

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1. Profiling the ANAO

Introduction

Included as an attachment is an outline of various elements of the organisation profile of the ANAO. As a federation, Australia’s States and Territories are independent of the central government which we usually refer to as ‘the Australian Government’. Each State and Territory has its own Auditor-General who is independent of the Auditor-General for Australia. Each has its own audit legislation, and audit program. As such, there is a questionable capacity to undertake joint audits of programs that impact at local, state and federal levels. The closest we have come to joint audits is to agree on common audit topics, audit criteria, and a common reporting date in specific areas of government activity. Auditors-General normally meet twice a year to discuss matters of mutual interest, including sharing of experience and common methodologies and audit approaches, in a forum which is known as ‘The Australasian Council of Auditors-General’.

Role

The office of the Auditor-General of the Commonwealth of Australia dates back to the beginning of Federation, being created by the Commonwealth Parliament in 1901. However, our experience in performance auditing could be said to be less than one-quarter of that period. The Auditor-General, through the ANAO, provides an independent review of the performance and accountability of Commonwealth public sector in its use of public resources. Through the delivery of an integrated range of high quality audit products that are timely, cost effective and consistent with public sector values and ethics, the ANAO aims to meet the needs and expectations of the Parliament, the Executive and audit clients and to add value to public sector performance and accountability. As with other public sector organisations, the ANAO expects to be judged both by its results and the manner in which it achieves those results.

The ANAO provides independent assurance to the Parliament, the Executive, Boards, Chief Executive Officers (CEOs) and the general public on the financial statements and financial administration of Commonwealth public sector entities. The ANAO also aims to improve public sector administration and accountability by adding value through an effective program of performance, including business support process, audits and related products, for example, Better Practice Guides (BPGs). A growing element of the ANAO’s value adding activities is the communication of the ANAO’s activities and their outcomes through representation at a range of Parliamentary committees, agency audit committees and Boards of government authorities and companies. The ANAO also seeks opportunities to contribute to the development of the accountability framework, including better practice and standards in public sector accounting and auditing, and through professional and other audit bodies in Australia and overseas.

Legislation

The Auditor-General Act 1997 is a robust piece of legislation founded on the important notion of audit independence. The Act establishes the Auditor-General as an ‘independent officer of the Parliament’ – a title that symbolises the Auditor-General’s independence and unique relationship with the Parliament. Consequently,
while the ANAO is part of a changing auditing landscape, currently challenging both public and private sector auditors, it is also set apart from it due to its statutory independence. This is one of the ANAO’s major strengths that enhances its reputation, credibility and effectiveness.

The Act outlines the mandate and powers of the Auditor-General and the functions of the ANAO, as the external auditor of Commonwealth public sector entities. Specifically, Part 4 of the Act governs the activities undertaken by the ANAO. These activities are described in some detail later in this paper. However, it is important to note that, even where the Act provides extensive powers for information-gathering (Part 5), the Parliament has expressed concern about the lack of audit access to, and reporting on, confidential information, particularly that classified as ‘commercial-in-confidence’ in contracts with the private sector. In addition, there has also been a question about access to the premises of private sector contractors. This concern resulted in some enhancement of the Purchasing Guidelines put out by the Minister for Finance and Administration, but no changes to the relevant Act.

I should also mention that Part 5 of the Act also imposes penalties for making false statements, etc and for disclosing information obtained in the course of performing an Auditor-General function when not actually performing that function. As well, there are ‘public interest’ tests in relation to the inclusion of ‘sensitive information’ in public reports with involvement of the Attorney-General in issuing a certificate stating that disclosure of information would be contrary to the public interest for reasons set out in sub-section 37(2) of the Auditor-General Act.

Mandate

The Auditor-General has a broad mandate, currently enshrined in the Auditor-General Act 1997, to audit the financial statements of all Australian Government entities, and subject to some qualifications, for example in relation to Government Business Enterprises, to undertake performance audits of those same entities. A particular challenge in public sector auditing is the increasing tension over the role of national audit offices and the boundaries between government policy and its implementation. The Commonwealth Auditor-General’s performance audit mandate stops short of review of Government policy decisions (see later). The scope of a performance audit may, however, incorporate the audit of information leading to policy decisions, an assessment of whether policy objectives have been met, and an assessment of the results of policy implementation both within the administering agency and, externally, on other involved bodies.

Contribution to the Parliament

The Parliament is the ANAO’s primary client. The ANAO’s interaction with both individual parliamentarians and parliamentary committees provides the opportunity to ensure that financial and performance audit products and services are tailored to Parliament’s needs. The ANAO’s relationship with the Parliament is crucial to its ability to maintain the quality and relevance of the ANAO’s audit products. It is the Parliament that makes the ultimate decision on the ANAO’s resources. This is important for signalling the independence of the Auditor-General by removing the issue of fee dependence between auditor and auditee in the Commonwealth public sector. This is clearly a different relationship to that experienced in the private sector. Nevertheless, all ANAO products are fully costed as an important part of its accountability to Parliament. As well, we provide assistance to individual
Parliamentarians and Parliamentary Committees on request. Staff exchanges have also resulted in mutual benefit.

**Independence**

Corresponding with public sector changes, the role of the Auditor-General and the place of auditing in democratic government have also changed. While the accountability imperative remains constant, the role of the ANAO has evolved to take account of, and respond positively to, the ongoing public sector reform agenda. In today’s environment, the ANAO’s role includes providing independent assurance on the overall performance as well as on the accountability of the public sector in delivering the Government’s programs and services and effectively implementing a wide range of public sector reforms. The importance of the independence of the Auditor-General in this respect cannot be overstated. As the public and private sectors converge; as the business environment becomes inherently riskier; and as concerns for public accountability heighten; it is vital that Auditors-General have all the professional and functional freedom required to fulfil, fearlessly and independently, the role demanded of them. Section 8 of the Auditor-General Act confirms this.

The independence of the Commonwealth Auditor-General is a key feature of our democratic system of government. Three elements are crucial to reinforcing the independence of the Office: the powerful *Auditor-General Act 1997*; direct financial appropriation as part of the Budget process; and the ability of the Auditor-General to develop and set professional auditing standards for his/her Office. In practice, the latter are largely those set by the Australian Auditing and Assurance Standards Board (AASB), which are now being converged with the International Auditing and Assurance Standards. The ANAO takes an active role in commenting on the development of, and changes to, these standards.

The way in which the ANAO performs its functions further reinforces its independent status. The ANAO operates in an advisory capacity, rather than participating directly in decision-making by public sector managers. While ANAO officers are encouraged to ‘stand in the managers’ shoes’ in order to understand the complexities of the particular business environments under review, it is for the managers themselves to decide whether or not they will act on ANAO or other advice with reference to their particular risks and opportunities. This is one essential difference between management consultancies and the public sector audit approach. The ANAO’s ‘observer status’ as public sector auditors reduces the risk of conflict of interest issues arising in the course of its work. However, that does not absolve the ANAO from any responsibility to the Parliament for its views and actions.

A particular issue exposed in various reviews of corporate governance has been that of audit independence, which is at the heart of an effective governance framework. The debate over audit independence is not new, although it has attained an increased profile in the wake of the recent corporate difficulties and collapses in Australia and internationally. Audit bodies, and the accounting profession worldwide, have been actively engaged in clarifying and reinforcing independence for many years. This is illustrated by the international study undertaken on behalf of the International Federation of Accountants (IFAC) last year aimed at restoring credibility and confidence in the profession.

While the ANAO takes a professional interest in this ongoing debate, it is also set apart from it by virtue of its statutory and functional independence. Nevertheless,
there is also an operational imperative, with the ANAO outsourcing a proportion of its audit work to private sector accounting firms. As well, with the increasing use of such firms by the public sector for internal audit, the ANAO is often dependent on their work in coming to an audit opinion on organisations’ control environments and financial statements. In the latter respect, the ANAO has to be satisfied as to the quality of the work done under the requirements of the auditing and assurance standards.

The principles of audit independence in Australia are detailed in the Professional Statement F1, entitled ‘Professional Independence’, released by CPA Australia and The Institute of Chartered Accountants in Australia (ICAA) in 2002. Compliance with the Professional Statement F1 by CPA and ICAA members has been mandatory since 31 December 2003. Under F1, independence is defined as:

a) Independence of mind—the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgement, allowing an individual to act with integrity, and exercise objectivity and professional scepticism; and

b) Independence in appearance—the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm’s, or a member of the firm’s, integrity, objectivity or professional scepticism had been compromised.

The concept of auditor independence in Australia is further strengthened by the provisions of Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) (CLERP 9) Legislation 2004 which incorporates the following measures designed to enhance auditor independence:

- the role of the Financial Reporting Council (FRC) will be expanded to cover oversight of the audit standard setting process and monitoring and advising on auditor independence;
- auditors will be required to meet a general standard of independence and make an annual declaration that they have maintained their independence;
- disclosure will be required of certain matters in relation to all non-audit services;
- restrictions on certain employment and financial relationships will be introduced and/or enhanced;
- auditors will be required to rotate after five years (and up to seven years where Australian Securities and Investments Commission (ASIC) relief has been granted);
- auditors will be required to attend company Annual General Meetings (AGMs); and
- ASIC will be given a power to impose conditions on auditors’ registration.

Client focus

It is vital that the ANAO continues to be an active participant in the public sector’s negotiation of the changing Australian Government Public Service (AGPS) environment. While in the past the ANAO’s prime focus may have been on ensuring compliance with legislation, including parliamentary appropriations, this has now been subsumed as part of a broader approach to assist agencies in improving public
sector administration. To be successful, this approach requires considerable cooperation between the ANAO and the agencies and other bodies with which it deals. This means that our relationship management strategies are given particular prominence, with links being constantly formed and strengthened, particularly with our major clients. The ANAO does this through a range of activities including assistance to parliamentary and agency audit committees, liaison with state/territory and international counterparts through forums such as the International Organisation of Supreme Audit Institutions (INTOSAI) and the Australasian Council of Auditors-General (ACAG), and ongoing interaction with the accounting profession, particularly through the major accounting bodies.

Such is the strategic importance of meeting clients’ needs, it comprises the first of the ANAO’s four key results areas on its balanced scorecard. The objective is to satisfy the needs and expectations of the Parliament, the Executive Government and audit clients in relation to performance assurance and accountability. The ANAO aims to do this by enhancing our dialogue and relationship with all members of Parliament and Parliamentary committees—particularly the Joint Committee of Public Accounts and Audit (JCPAA)—so that they are well informed about the ANAO’s activities (a short explanation of the role of the JCPAA is provided on page 7). As well, this should better place us to provide them with timely and constructive assistance, including secondment of ANAO staff to assist parliamentary committees in reviewing matters relevant to our audit reports. The ANAO also strives to build on its product and professional relationships with the Executive Government and each of its audit clients so that it can continue to meet their audit related needs and contribute to public sector reform in our particular areas of knowledge and expertise.

It is important that the ANAO works cooperatively with agencies to gain genuine acceptance and implementation of its recommendations. We need to do so if the ANAO is to be effective, add value, and maintain its credibility as an agent of change. The ANAO’s preferred approach is to encourage agencies to take necessary remedial action and improvements by acknowledging and reinforcing any action taken by them in the course of our audits. ANAO officers endeavour to meet formally and informally with agency senior management throughout the year. In particular, the ANAO promotes their interest and involvement at the start of each audit and in planning processes to facilitate progress and completion of the audit as well as commitment to its findings and recommendations. Finally, the ANAO aims to meet its clients’ needs by periodically reviewing the relevance and mix of its products and services, striving for innovative approaches and continually improving the quality and effectiveness of its products and services. The above initiatives are aimed at securing the engagement and commitment of all stakeholders to the ANAO’s work and its reports.

In addition to the contact referred to above, the ANAO also builds regular and ongoing liaison with its stakeholders into its annual planning process. The most important aspect of this, in terms of setting strategy for the Office over successive financial years, is the development of the ANAO’s annual audit work program (AWP). Information on the selection basis and process of the AWP is included in its Introduction. However, I would like to stress here the extensive discussion that takes place with agencies and the Parliament, notably with the JCPAA, which has the responsibility to bring together audit suggestions from the Parliament and makes recommendations to the Auditor-General in the context of the annual AWP. In this respect, I should observe that Section 8 of the Auditor-General Act states that the Auditor-General is not subject to direction from anyone in relation to:
(a) whether or not a particular audit is to be conducted; or
(b) the way in which a particular audit is to be conducted; or
(c) the priority to be given to any particular matter.

A particularly important facet of the ANAO’s ongoing work with stakeholders is the relationships that have developed with the audit committees of individual agencies. Financial legislation introduced in January 1998 required all Australian Government bodies to establish an audit committee. The ANAO sees its relationship with audit committees as one of partnership. Senior ANAO staff routinely observe and participate in meetings of these committees. Through this mechanism the ANAO seeks to: develop its linkages with overall agency review processes; co-ordinate the ANAO’s AWP with the range of ongoing internal agency review activities; and strengthen the effectiveness and credibility of audit committees in the eyes of both internal and external stakeholders.

Finally, senior executives at the ANAO have targets for Parliamentary liaison built into their individual performance agreements. The ANAO’s ultimate aim is to be accessible to Parliament and the AGPS to enhance the reach and significance of its work and to maintain its relevance and credibility through the acceptance, and implementation, of its audit findings and recommendations. Our particular emphases are on remedial action as necessary, better practice and achievement of required results while reflecting public service values and ethics.

**ANAO Accountability**

**Annual report**

The ANAO’s annual report is the most public and comprehensive mechanism for demonstrating our accountability to the Parliament. The ANAO aims to include an analysis of achievements to date, as well as perceived challenges for the future. In this way, the ANAO provides Parliament with a comprehensive overview of its performance over the preceding financial year and an indication of areas of priority and commitment for the future.

The annual report includes an assessment of the Office’s achievements against its annual balanced scorecard. The scorecard incorporates the ANAO performance indicators set out in its Portfolio Budget Statements. The annual scorecard is explained in further detail later in this paper in relation to our performance.

Each year, the ANAO’s annual report also includes results of quality assurance processes including peer reviews and benchmarking activities. It also includes commentary on the key strategic issues targeted by the ANAO for the next 12 months. This commentary, together with the publication of the results of the ANAO’s audits every six months in the activity reports, allows the ANAO to contribute to contemporary debate on a broad range of issues facing the AGPS. Importantly, the commentary also provides a focus for ongoing discussion with the Parliament (notably the JCPAA), in setting appropriate strategies for the future.

**Client surveys**

Another important performance management and assessment mechanism is a survey of agencies and entities conducted separately from the Office. After each performance audit is tabled, feedback on the audit process is sought independently from the senior manager responsible for the audited program by means of a questionnaire and
An independent consultant performs this evaluation. The results of the most recent survey were positive, with key indices at their highest levels since the survey was commenced in 1997–98. Agency managers continued to support the ANAO’s efforts to move to a more ‘value adding’ approach. They also referred to the value of ANAO reports and recommendations in providing assurance and in obtaining leverage to facilitate particular organisational strategies and activities. This survey is one of the most direct and credible ways that the ANAO has to test that its ongoing commitment to relationship management is achieving required results.

In addition, as well as the regular contact that the ANAO has with the JCPAA and other Parliamentary committees, the ANAO conducts face-to-face surveys of parliamentarians. These surveys are conducted periodically to help ensure that the ANAO is ‘hitting the mark’ in terms of its product mix. They also provide greater assurance that the ANAO will continue to be able to respond to the challenges of the future, and that it has a shared understanding of appropriate standards of accountability to lead and guide agencies into the future.

**Other External scrutiny**

In addition to the afore-mentioned review, and quality assurance procedures discussed later in this paper, the ANAO is subject to several layers of other external scrutiny, including those applying to all other AGPS agencies and entities. The most important of these are:

- the JCPAA, in reviewing all the ANAO’s reports to Parliament as well as its annual budget; and
- the Independent Auditor of the ANAO, who carries out both the audit of the ANAO’s financial statements and selected performance audits.

The JCPAA is a statutory committee with members from both houses of Parliament and has particular responsibilities for the ANAO. The JCPAA carries out its own inquiries and reports; considers and reviews the operations, reports and performance of the ANAO; reports to the Parliament about the Auditor-General’s functions and powers; is involved in the selection of the Auditor-General and of the ANAO’s independent external auditor; and makes recommendations to the Parliament on the annual budget for the Office. The Committee reviews all ANAO reports with the senior audit staff involved and examines a selection at quarterly public hearings. The JCPAA may also conduct more broadly based inquiries into matters arising from an audit. The independent external Auditor conducts both financial statement and performance audits of the ANAO. Copies of the latter are included on our web site.
2. Adopting an Integrated Audit Approach

The ANAO’s range of products aims to provide assurance that the risks facing the Australian Government Public Sector (AGPS), and the management of its finances and programs, are being adequately addressed through an integrated audit approach. The ongoing challenge for the ANAO is to strike the right balance of audit activity across the public service to fulfil the ANAO’s statutory obligations, while meeting the particular needs of Parliament and individual agencies. The key to this outcome is understanding the Parliament’s priorities and the business/functional imperatives of agencies that are creating a need for audit examination.

The ANAO is committed to delivering high quality audit products. The integrated audit approach applied by the ANAO is designed to address any expectation gaps in ANAO coverage. First, at the broader level across the public sector, the ANAO needs to ensure that its product mix and coverage are tailored to the environment in which it operates and to the accountability needs of the Parliament. As the AGPS environment changes, so do the associated accountability arrangements. The ANAO’s audit product mix also needs to reflect Parliamentary concerns about compliance issues where there are perceived gaps appearing, as well as inadequacies being reflected in public administration.

The Parliament wants general assurance that the public service is working well. Further, Parliament wants to know how public administration can be improved. The ANAO seeks to provide such assurance on the state of the AGPS and to contribute to improvements in the AGPS through the provision of a range of quality audit products. Those products are based on a thorough audit planning process, designed to address emerging issues in the AGPS, and to provide sufficient coverage of activities.

The second layer of the integrated audit approach occurs at the agency level where the ANAO aims to ensure that its audit services assist public sector entities to improve their performance and accountability, as well as to better manage their functions and/or business.

The ANAO is committed to an integrated auditing framework that draws on the strengths of both the assurance and performance audit sides of its business. The approach capitalises on intelligence gathered in each field and allows the ANAO to target areas for audit activity that add most value to overall public administration.

Range of audit products

The Auditor-General’s mandate extends to 257 public sector bodies, including Australian Government agencies, authorities, companies and their subsidiaries. These audit clients include Budget-dependent agencies involved in the delivery of core public services, and commercially oriented entities such as Government Business Entities (GBEs). The Auditor-General Act 1997 provides the authority to undertake financial audits, performance audits, and to provide other information support services, including the development of BPGs. Performance audits of wholly owned GBEs may only be undertaken at the request of the responsible Minister, the Finance Minister or the JCPAA. The Finance Minister is to consult with the responsible Minister before making such a request. However, the Auditor-General can ask any of these three parties to make such a request (Section 17 of the Auditor-General Act).
The ANAO aims to provide well-targeted products and services that provide both assurance and value for money. The ANAO also attempts to provide an audit product continuum as a strategic approach to better governance. The ANAO fills the gaps between high-level performance audits and traditional financial statement audits with BPGs and BSP audits covering a range of issues challenging the AGPS. The range of products currently produced by the ANAO includes the following major activities, starting with performance audits that need to be put in the context of our overall audit effort. All our products are placed on our web site, indicated on the title page of this Paper.

**Performance audits**

The aim of a performance audit is to examine and report to the Parliament on the economy, efficiency and effectiveness of the operations of the administration of the Australian Government and to recommend ways in which these may be improved. Such audits are best described as an independent, objective and systematic examination of the operations of a body for the purposes of forming an opinion on whether:

- the operations have been managed in an economical, efficient and effective manner;
- internal procedures for promoting and monitoring economy, efficiency and effectiveness are adequate; and
- improvements might be made to management practices (including procedures for promoting and monitoring performance).

The Explanatory Memorandum to the Auditor-General Bill made it clear that “The Auditor-General’s ‘performance audit’ functions do not extend to examining, or reporting on, the appropriateness of Government policy.”

Performance audits are conducted in all ministerial portfolios with the main concentration being directed to portfolios with significant Government outlays or revenues. Performance audit reports, including Business Support Process audit reports, are tabled in the Parliament (61 in 2002-03, and 57 in 2003-04). All recent performance audit reports are placed on the ANAO’s homepage at [http://www.anao.gov.au](http://www.anao.gov.au), and are also summarised in the ANAO’s series of six-monthly activity reports. They are also listed progressively in each performance audit completed.

The JCPAA reviews all our reports, as noted earlier, and makes a selection of up to five each quarter for public hearings and report. This is an important element of accountability and is indicative of our performance, particularly in the implementation of our recommendations. In my view, this is a key performance measure for the ANAO. We do have follow-up audits to review the extent to which our recommendations are being implemented, or have been implemented. Our representation on entities’ audit committees also provides an opportunity to review this outcome as well. Ministers also provide regular reports to the Minister for Finance and Administration on this issue. However, the JCPAA public hearing process is probably the most effective action, particularly where the Committee itself
institutes a follow-up process, including its own separate inquiry and report on occasions.

Performance audits often involve assessments of governance, probity and the quality of management in individual agencies. While the auditor’s professional opinion in these cases is derived from compliance with rigorous standards, and therefore provides a high level of assurance, the audit does not provide complete assurance as to the entities’ operations. This ‘expectation gap’ is a complex issue that challenges the profession as much as it challenges our immediate range of stakeholders. Different perceptions and requirements inevitably arise which need to be addressed. However, all entity comments are included in our reports which aids the Parliament’s, and the general public’s, understanding of the issues.

In 2002–03, the average time taken to complete a performance audit was 11 months, with a range from 5.2 to 15.5 months. The average cost was $310 000 with a range from $112 000 to $631 000. The important point is that we fully cost all our products, which is included in each report, as noted earlier.

**Business Support Process audits**

General performance audits include what we call BSP audits. Assurance is provided to a greater extent through the conduct of BSP audits that examine business processes which support the delivery of outputs by public sector agencies. The focus of BSP audit reports is essentially the efficiency and effectiveness of the accountability, control, and compliance mechanisms and systems operating within public sector agencies. The audits are generally conducted in a number of agencies, with findings reported in generic terms to Parliament and on an individual basis to client agencies. Output from these may also include BPGs. BSP audits replaced what we described as financial control and administration audits, and assurance and assessment control audits, previously undertaken by the ANAO.

An important area of interest in those general performance audits is fraud control. The ANAO has had a long term policy of referring matters of fraud to the Australian Federal Police for investigation in accordance with sub-section 36(2) of the Auditor-General Act, and therefore has only limited forensic audit capability. Nevertheless, we have conducted a series of audits examining the ways in which entities deal with fraud control, including having appropriate fraud control plans. However, we are having to think strategically about the need for future forensic auditing capability, as this has become an important element of the assessed ‘audit expectation gap’ related to internal control. The focus of the Unites States Sarbanes-Oxley legislation (Section 404) on Internal Control has had an impact on thinking in Australia in this respect, with greater attention being given to this element as an aspect of better practice requiring greater audit attention.

**Cross-agency audits**

The ANAO has sought to maximise its efforts and the value added to public sector administration through an increased focus on cross-agency audits. These audits are designed to provide an analysis of performance across the public sector. They are conducted on agencies where there are shared objectives, shared service delivery or, simply, a sharing of common issues. These audits are important as agencies
increasingly find new methods to deal with shared issues, and form alliances and partnerships, including with the private sector, to deliver government services. This approach is also becoming more important with the greater use of a ‘whole-of-government’ approach to public administration.

Cross-agency audits are conducted where aspects of performance management or control arrangements across the AGPS are to be reviewed by the ANAO as a performance audit. Issues can be identified for cross-agency coverage in the course of a financial statement audit, where that issue is identified as likely to apply to a number of agencies across the AGPS. The ANAO considers that the ability to leverage off experience and knowledge gained from these multi-agency audits provides a significant return for the audit effort involved. Topics covered, or planned to be covered, via cross-agency audits in the current Audit Work Program include annual performance reports, intellectual property, special accounts, performance management, fraud, workforce planning, outsourcing of legal services, and Internet service delivery.

**Assurance auditing**

Financial statement audits express an opinion on whether financial statements of Australian Government entities have been prepared in accordance with the Government’s reporting framework and give a true and fair view (in accordance with applicable Accounting Standards and other mandatory professional reporting requirements) of the financial position of each entity as at year end, and the results of the entities’ operations and the entities’ cash flows. In 2002–03, the ANAO conducted assurance audits of 257 entities.

In addition to the audit opinion on the financial statement, the ANAO provides each client with a report that deals with the results of the financial statement audit process. A report is also provided to the responsible Minister. The ANAO also provides two cross-entity assurance reports each year to Parliament. The first details the results of an assessment of the control structure of major entities, while the second provides a summary commentary on the results of all financial statement audits undertaken in the 12-month audit cycle ending in October of each year.

**Information Technology (IT) Audit**

For many years, the ANAO has invested in the use of technology to provide more efficient and effective audit products to the Parliament. The ANAO’s IT Audit section exists to provide an integrated audit support service to all business units within the ANAO, with responsibility for management and delivery of both performance and assurance audit activities. The ANAO’s long-standing practices of integration of information technology specialists into its audit teams, reflects comments made in late 2000 by the then United States Public Oversight Board.

In its report, the Public Oversight Board also noted that integration of IT specialists with auditors should include “…assessing the risks of erroneous information affecting a financial statement, the adequacy of controls, and the tests designed for operating effectiveness”. This mirrors the overriding objectives for the IT Audit section, which are to provide independent IT assurance through the identification and
assessment of risks presented by the adoption, and use, of new and emerging technologies within AGPS entities.

Specifically, the IT Audit section provides the following services:

- technical consultancy and advice on IT risks, controls and emerging issues;
- review and assessment of client corporate and business IT systems, processes and procedures; and
- technical audits over networks, operating platforms and database management systems; and the use of computer-aided audit techniques to interrogate and analyse data.

The results of these services include a number of value-adding recommendations for the individual clients. These are aggregated, with other recommendations relating to internal controls, and tabled in Parliament as part of the ANAO’s annual ‘Controls Report’ to provide the Parliament with an overview of the strength and weaknesses in its IT environments. The report for 2003-04 was tabled in Parliament on 30 June last.

**Better Practice Guides**

The *Auditor-General Act 1997* (Section 23) gives the authority for the Auditor-General to provide information to public sector bodies. This has facilitated the development of a program of Better Practice Guides (BPGs) (as well as client seminars) designed to assist public sector agencies in improving their performance. BPGs aim to improve public administration by ensuring that better practices employed in some organisations are promulgated to the whole of the AGPS. The ANAO is in a unique position to compare operations across the public sector, and sometimes with the private sector, allowing it to add value to a wide range of stakeholders. This is important as agencies increasingly develop individual approaches to deal with common issues, often a matter of virtually re-inventing the wheel. In some cases, they were employing the same consultants to provide the same, or similar, advice.

The program for BPGs is based on the ANAO’s understanding of the emerging issues impacting on the performance of the public sector. BPGs may be produced in conjunction with a performance audit or, alternatively, a BPG might be prepared as a result of a perceived need to provide guidance material in a particular area of public administration. The development of BPGs may involve examining practices in the public and private sectors, in Australia or overseas. BPGs have recently been produced on topics such as model accounts, the management of scientific research and development projects, governance in the AGPS, Goods and Services Tax (GST) administration, management of Parliamentary workflow, managing learning and development in the AGPS, internal budgeting, administration of grants, and the development of policy advice.

BPGs are important outputs in the achievement of the ANAO’s outcome of ‘Improvement in Public Administration’. BPGs add value by bringing together lessons learnt across the public sector and have been well received by program managers looking to learn from the experiences of others. BPGs also provide a very
valuable source of audit criteria for future audits, which is their justification from an audit viewpoint. That is not to say that they need to be undertaken by the ANAO. However, BPGs can be often completed at a relatively small marginal additional cost to that of the audit.

BPGs and similar publications are becoming increasingly important source documents for managers operating in an environment of devolved authority and responsibility. These documents are of particular value to small agencies that find it difficult to develop and maintain in-house expertise on the wide range of public sector management issues, and which have tended to rely heavily on detailed legislative and policy frameworks and guidance from central agencies. The ANAO has often worked with other agencies in the production of some BPGs, including the recent guides developed on Goods and Service Tax (GST) Administration, compiled with the Australian Taxation Office,\textsuperscript{14} and on annual performance reporting prepared in association with the Department of Finance and Administration.\textsuperscript{15}

\textit{Information services}

The ANAO also provides information services, including assistance to Parliament, national and international representation, and client seminars. Assistance to Parliament includes the provision of submissions to Parliamentary committee inquiries and reviews and briefings on audit reports tabled in Parliament.

ANAO staff also organise and participate in conferences, seminars and workshops to share expertise and disseminate better practice and lessons learnt from the auditing activity. A growing element of this role is communicating the ANAO’s activities and outcomes through representational activities with a wide range of stakeholders and contracts, including Parliamentary committees, boards of government authorities and companies, as well as professional organisations.

The ANAO also produces a quarterly magazine, \textit{Opinions}, published to provide audit clients with details of recently completed performance audits and BPGs. It also lists audits scheduled for completion in the near future and information on developments in financial reporting and disclosure. These are important complementary initiatives as part of our overall audit approach, to meet our assurance and performance objectives.

\textit{Comment}

The success of the ANAO’s integrated approach to auditing providing assurance to the Parliament, is shown by the ANAO’s positive results against its key performance indicators over time, in particular, parliamentarians’ satisfaction with the ANAO and its products.
3. Concluding remarks

The Australian National Audit Office (ANAO) occupies a unique position as the external auditor for the Commonwealth of Australia. Public reports from an independent Auditor-General ensure that the Parliament, and beyond it the Australian citizenry, has a degree of assurance in relation to the proper administration of Commonwealth resources. The ANAO has a dual role in terms of reporting on the financial management and overall performance of the public sector. Our first aim is to provide independent assurance. This is the more traditional ‘watchdog’ audit role. Our second role is to suggest improvements to public administration. Increasingly, it is this second, advisory role that is most important for a public sector which, in the proper pursuit of greater efficiency and effectiveness, is challenged by diverse governance issues which are growing in complexity.

External shocks have led to the governance and audit environment being reconfigured for both the public and the private sectors. The ANAO is adjusting its own approach at the same time as it is responding to agencies’ needs for greater guidance in an increasingly complex environment. The ANAO’s approach – for itself and for its clients - is built on the four principles of good governance in public sector agencies. These are: transparency; integrity; accountability; and stewardship. We adhere to these principles as we aim to get the right mix of audit products to provide adequate assurance and improve administration, which also assists us to guide agencies in dealing with their own challenges.

In the last two years, scrutiny of the auditing profession worldwide has been intense. In Australia, we have seen the latest chapter of the Government’s Corporate Law Economic Reform Program (CLERP) focus on strengthening the financial reporting framework, with attendant implications for the profession in both the public and private sectors. The Australian Stock Exchange (ASX) has taken an active interest in refining governance arrangements for Australian companies. Standards Australia has released a draft corporate governance standard. We have also seen the Joint Committee of Public Accounts and Audit (JCPAA) release its review of independent auditing by registered company auditors, and its review of the Auditor-General Act 1997, which enshrines the statutory independence of the Commonwealth Auditor-General.

While the ANAO is integral to the changing governance environment, it is also set apart from it due to its unique independent position within the Commonwealth. While it shares the profession’s concern over issues such as independence, the role of audit committees and boards, and the harmonisation of accounting and auditing standards internationally, it also faces unique challenges due to the particular dynamics influencing public sector administration. Concepts such as trust and ‘the public interest’, as well as the often-competing concepts of citizens versus clients, and citizens as clients, have significant implications for the public sector. The ANAO is responding to these challenges as it participates in broader debates over the challenges facing the profession at large in achieving greater confidence, respect and support from its various stakeholders.
ATTACHMENT

ELEMENTS OF THE ANAO’S ORGANISATION PROFILE

The Auditor-General Act 1997 establishes the mandate of the Auditor-General to undertake audits in public sector bodies. The Auditor-General's mandate extends to some 300 public sector bodies. The Auditor-General Act 1997, the Financial Management and Accountability Act 1997 (FMA Act) and the Commonwealth Authorities and Companies Act 1997 (CAC Act) provide authority to undertake financial statement audit and related services. The Auditor-General Act 1997 provides the authority to undertake performance audits and to provide other information support services, including development of better practice guides.

The above mandate underpins the ANAO’s outcomes and outputs, which are set out in the Figure below.
Top Level Structure

The top level organisation structure under the Auditor-General comprises a Deputy Auditor-General and two Group Executive Directors in each of the two Service Groups (that is, assurance and performance audit). Two other key positions are the Executive Directors for Corporate Management, and Research and Development. With the exception of the Research and Development position, all of the other Senior Executives comprise any Executive Board of Management to assist the Auditor-General in performing his/her statutory functions.

Resources

Funding as at 30 June 2004 in relation to the above outputs is as follows:

<table>
<thead>
<tr>
<th>Output group 1</th>
<th>Output group 2</th>
<th>Output group 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Audit Services</td>
<td>Information Support Services</td>
<td>Assurance Audit Services</td>
</tr>
<tr>
<td>$20 768m</td>
<td>$1 453m</td>
<td>$37 729m</td>
</tr>
</tbody>
</table>

Number of staff at 30 June 2004: 300. More than half the ANAO’s staff are women.

The majority of ANAO staff are located in Canberra, with a small regional office in Sydney. The ANAO is organized internally into two audit services groups – Assurance Audit Services Group and Performance Audit Services Group – supported by a Corporate Management Branch, and a Research and Development Branch.

More than three quarters of ANAO staff have formal tertiary qualifications.

Accounting is a key qualification required in the Assurance Audit Services Group. Auditors in that Group are also encouraged to be a Member of a Professional Accounting body. About half the ANAO staff have accounting qualifications. The qualifications of performance auditors are quite diverse.

The ANAO also provides considerable training to ensure that all staff are competent in the use of information technology (IT) and related tools and methodologies. The latter have been growing in importance in the conduct of audits and in audit analysis over many years. For example, risk-based IT methodology leased from Ernst & Young is used in the conduct of our financial statement audits. As well, in assessing the efficiency and effectiveness of an entity’s sub processes which form their overall IT process, the ANAO has adopted a maturity model approach based on the Control Objectives for Information and Related Technology model (CobiT). We have also had access to a number of computer-based statistical packages used by the Australian Bureau of Statistics. This support is complemented by a relatively small group of IT specialist auditors that we have been endeavouring to expand over recent years.

The skill base is enhanced, as required, by the use of outside contractors. We also contract out a range of audits, particularly financial statement audits of non-core public sector entities, for example government business enterprises. However, we maintain strong oversight and quality assurance reviews over these audits. The reality is that the ANAO is ultimately accountable for them to the Parliament.
**Elements of the ANAO balanced scorecard**

<table>
<thead>
<tr>
<th>KRA 1 Meeting Clients' Needs</th>
<th>Target</th>
<th>KRA 2 Quality Products and Services</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parliament acknowledges the value of the ANAO contribution.</td>
<td>90% value role of ANAO(^1)</td>
<td>Business targets for number and mix of our products are met.</td>
<td></td>
</tr>
<tr>
<td><strong>Our Scorecard</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>KRA 3 Highly Performing People</strong></td>
<td></td>
<td><strong>KRA 4 Good Business Management</strong></td>
<td></td>
</tr>
<tr>
<td>The JCPAA’s satisfaction with the overall quality, timeliness and coverage of our products and services is at an acceptable level.</td>
<td>High level of satisfaction(^1)</td>
<td>Staff and supervisors acknowledge an improvement in the level of on-the-job performance.(^1)</td>
<td>85%(^1)</td>
</tr>
<tr>
<td>Public sector entities acknowledge the value added by ANAO products and services.</td>
<td>90% value role of ANAO(^1)</td>
<td>Full costs are allocated to audit products and services (performance audits)</td>
<td>100%</td>
</tr>
<tr>
<td><strong>KRA 2 Quality Products and Services</strong></td>
<td>Services and products meet cost and timeliness standards.</td>
<td></td>
<td>80% for all product types.</td>
</tr>
<tr>
<td>Our Scorecard</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>KRA 4 Good Business Management</strong></td>
<td>Implementation of Business Plan initiatives within agreed timeframes and standards.</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
1. These indicators will be measured through staff or client surveys.
2. This is an ANAO-wide target, which measures the number of staff leaving as a percentage of total ANAO staff.
3. Client surveys, ratings scale 1 to 5.
4. Subject to Government determinations.
NOTES AND REFERENCES

1 All agency audits are charged on a notional basis reflecting the full cost of understanding, and reporting on, each individual audit. While audit fees are charged for all audits of statutory authorities and government companies, these fee receipts are paid directly to consolidated revenue. The ANAO’s costs are directly funded by Parliamentary appropriation.


3 Institute of Chartered Accountants in Australia and CPA Australia, 2002. Professional Statement F1–Professional Independence, pp.2–3. While Professional Statement F1 reflects Australian conditions, it is based on the standard agreed in November 2001 by representatives of the 120 nations that comprise the International Federation of Accountants (IFAC).

4 The reforms outlined in the CLERP (Audit Reform and Corporate Disclosure) Legislation 2004 aim to enhance auditor independence, achieve better disclosure outcomes and improve enforcement arrangements for corporate misbehaviour, while fostering innovation and wealth creation. The Bill was introduced in the House of Representatives on 4 December 2003 and passed on 16 February 2004. It was introduced to the Senate on 1 March 2004 and passed on 25 June 2004.


8 See, for example, ANAO Audit Report No. 28 2003–04, ‘Audit Activity Report: July to December 2003’, Canberra, 12 February


15 ANAO 2004, Annual Performance Reporting, Better Practice Guide, Canberra, April