The Provision of Audit Services to the Public Sector: Establishing Sound Corporate Governance and Auditing Practices

19 May 2003

Pat Barrett
Auditor-General for Australia
INTRODUCTION

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.
This paper begins with a discussion of the ANAO’s audit approach, and the ways in which we are supporting the public sector in the changing governance environment. It then moves to an analysis of significant governance and audit issues in the changing accountability framework. The third section of the paper focuses on establishing sound practices and developing useful solutions for the issues currently challenging our audit clients. The paper also includes a number of case studies that highlight particular public sector experiences in the changing environment.

1. THE AUSTRALIAN NATIONAL AUDIT OFFICE’S AUDIT APPROACH

Role of an independent Auditor-General

Much of the current scrutiny of the profession in Australia and internationally has focussed on the importance of audit independence. In the context of the Commonwealth, independent audits are not only important, but the Office of an independent Auditor-General is also an essential element of our system of democratic government. The Auditor-General provides vital assurance as to the transparency and accountability of public sector operations, as well as providing guidance and leadership in relation to some basic elements of good governance. This is particularly important in a more demanding public sector involving changing governance and management pressures in a riskier environment.

Independent financial and performance audits give the public confidence in both the public service and our system of government. As the former Secretary of the Department of the Prime Minister and Cabinet noted in an address marking the centenary of the Australian Public Service (APS), an ethical and accountable approach to public sector leadership requires ‘a strong system of checks and balances, including a powerful Australian National Audit Office’.

As with other public sector organisations, we expect to be judged both by our results and the manner in which we achieve those results. In this regard, we give as much attention to ensuring that our own operations demonstrate transparency, integrity, accountability and proper stewardship of public resources as we expect of our audit clients. It is a difficult but necessary discipline that contributes to our performance and credibility.

Legislation

While there continues to be debate over the extent to which audit independence and associated issues should be regulated for the profession, the ANAO works within a robust legislative framework founded on the Auditor-General Act 1997 (the Act). The Act provides for the Office of the Auditor-General and the ANAO to support Parliament and the public sector. 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. The Act also outlines the mandate and powers of the Auditor-General and the functions of the ANAO, as the external auditor of Commonwealth public sector entities.
The Auditor-General’s mandate extends to all Commonwealth agencies, authorities, companies and subsidiaries with the exception of performance audits of Government Business Enterprises (GBEs). Performance audits of wholly owned GBEs may only be undertaken at the request of the responsible Minister, the Finance Minister or the JCPAA. The JCPAA subsequently undertook a review of the Act to reinforce the important notion of independence and to enhance the ANAO’s capacity to perform efficiently and effectively.

The Act is a robust piece of legislation that has generally been recognised as better practice audit legislation in Australia and overseas. Consequently, while the ANAO is part of the changed contemporary auditing landscape currently challenging both public and private sector auditors, we are also set apart from it due to our statutory independence. This is one of our major strengths, which enhances our reputation and effectiveness. But it has to be constantly reinforced by all stakeholders.

**Auditing the public sector**

The ANAO provides independent assurance on the financial statements and financial administration of Commonwealth public sector entities to the Parliament, the Executive, Boards, Chief Executive Officers (CEOs) and the public. To many, this is the essence of public sector auditing. However, we also aim to improve public sector administration and accountability by adding value through an effective program of performance audits and related products including Better Practice Guides (BPGs). As well, communication of our activities and their outcomes through representation at a range of Parliamentary Committees, agency audit committees and Boards of government authorities and companies, is a growing element of our value adding activities. We also seek opportunities to contribute to the development of the accountability framework, including better practice and standards (as well as harmonisation) in public sector accounting and auditing, through professional and other audit bodies in Australia and overseas. Involvement and communication are important drivers for the organisation, supported by an intensive and extensive audit work program.

**Integrated planning and delivery**

The ANAO is committed to providing an integrated auditing framework that draws on the strengths of each side of our business; that is, financial (assurance) and performance audits. These audits are tailored to the assessed situation (needs) of public sector organisations. The approach capitalises on intelligence gathered in each area of administration and allows us to target areas for audit activity that add most value. In addition, it allows us to assess the value of our products over time, and to fine-tune our outputs to deliver required results. Our objective is to deliver high quality audit products that maintain and improve the high standards and professionalism of our audit and related services. These are the means to contribute to better governance.

Like all public sector agencies negotiating the challenges of the changing governance environment, the ANAO has strengthened its own business practices to respond to new needs and directions. The ANAO has responded to the changed environment on two levels: both strategically and tactically. On the strategic level, we have given renewed
attention to relationship management that demonstrates integrity and transparency, as well as to well-targeted products and services that provide assurance and value for money. On the tactical level, we have focussed on ensuring that our work continuously improves as we demonstrate accountability to Parliament, in terms of our legislative responsibilities, and for overall results to all our stakeholders.

In recent years, the ANAO has strengthened its assurance function and extended its advisory role. By reinforcing its traditional functions, while remaining open to new approaches and innovation from its public and private sector colleagues in Australia and internationally, the ANAO is well placed to lead and guide in the contemporary public sector environment within our resource capabilities.

Audit work program

As part of its commitment to transparency, and in seeking to remain at the forefront of developments affecting the profession and its audit clients, the ANAO builds regular and ongoing liaison with relevant stakeholders into its annual schedule of activities. The most important of these, in terms of setting strategy for the Office over successive financial years, is the development and discussion of the ANAO’s annual audit work program.

There is obviously little discretion about the approximately 290 financial statement audits conducted each year. However, audit topics for the more than 60 performance and other audit products conducted each year are generally selected on two grounds: the capacity of an audit to add the greatest value in terms of improved accountability, economy, efficiency and administrative effectiveness; and the desire to ensure appropriate coverage of entity operations within available audit resources over a reasonable period of time.

Public sector bodies do not operate in isolation from the wider community. Therefore, a wide range of issues can impact on the public sector as a whole and on individual Commonwealth bodies. The ANAO recognises the reality of this situation and, accordingly, continually monitors the broader environment so that important issues can be identified and taken into account in the development of its annual audit work program. As well, with its direct involvement with entities in audit activity and through regular liaison with entity management, including through audit committee activities, the ANAO is able to take into account specific entity issues.

The administrative (and policy) themes including the challenges that confront the public sector continually change, reflecting a range of developments in the broader economic and social environment. Annual themes are identified as a basis for selecting topics to ensure that the audit program is targeted appropriately to add value to (improve the performance of) public administration. An important part of this planning process is the early engagement of relevant stakeholders, including agency heads, and the Parliament, through the JCPAA, to ensure that the work program is optimally targeted.

For 2003-04, our audit coverage responds to emerging issues of interest to Parliament, and themes include:
• HR management including Workforce Planning;
• Financial management and reporting;
• Performance management and measurement;
• Procurement and contract management;
• Application of Information Technology & Resources; and
• Service delivery.

Responding to a changing global environment

In setting its audit work program for the 12 months ahead, the ANAO therefore has particular regard to the most significant business risks and administrative challenges facing public sector managers, as well as to the broader global environment. This allows us to target areas that will add most value, and to anticipate trends for the future. For 2003-04, our draft performance Audit Work Program also reflects current issues of importance relating to Defence preparedness and security in a period of heightened tension and potential threats; organisational governance, following the Australian and international experiences of corporate failures; and programs to meet the needs of communities in rural Australia as a result of drought.

Taking the first of these latter issues as an example, in response to the changing security environment internationally, the ANAO has already heightened its focus on defence and security through its recent performance and business support process audits. For example, the ANAO recently conducted a review of physical security arrangement in Commonwealth agencies.4 The review found that agencies had made reasonable progress towards meeting their physical security responsibilities, as outlined in the Commonwealth's Protective Security Manual. This typically resulted in the establishment of a protective security control framework capable of limiting their exposure to, and the consequences of, their identified physical security risks.

The audit was undertaken at a time when Australia and its Commonwealth agencies operated in a heightened international threat environment. The events of 11 September 2001 in the United States of America initiated action by some agencies to reconsider their risk profiles and, accordingly, their security arrangements. However, recent domestic and international security events, such as the military activities in Afghanistan, the Bali bombing in October 2002, and the military activities in Iraq have renewed the need for Commonwealth agencies to move to a more proactive protective security approach. Commonwealth agencies must acknowledge that threats and risks once thought unlikely to affect them must now be considered as possibilities. Rather than reacting to certain events, agencies should be informed as to their specific exposures, and take a strategic and thorough approach to addressing their identified risks, including relevant national security risks.

In response to the changing global environment, the ANAO has also focussed on aviation security5 and border integrity6 in recent performance audits, finding considerable scope for improvement in each case. Both audits also highlighted the
importance of robust corporate governance in public sector agencies. The audits found that, while the strategic arrangements aimed at protecting people and borders were sound, they were not being effectively put into operation on the ground. Aspects of these audits are set out in the Case studies below:

Case study 1. Supporting national security and preparedness through a targeted audit program.

Aviation security in Australia

Terrorist attacks in the United States on 11 September 2001 reinforced the importance of the security of aviation operations globally, including in Australia. September 11 demonstrates the potential for catastrophe, where the repercussions are still being felt globally. Accordingly, the ANAO conducted a follow-up audit into aviation security in Australia, in order to determine how well aviation security standards were being met in an environment of heightened threat.7

Overall, the ANAO found that the Department of Transport and Regional Services (DOTARS) responded well to the events of 11 September 2001 with a prompt escalation of the aviation security measures and effective oversight of their implementation. The regulatory framework for aviation security is comprehensive.

However, although DOTARS’ monitoring regime is essentially sound, the quality of monitoring in practice is variable. In addition, the action DOTARS takes to correct non-compliance could be improved. As the body with regulatory responsibilities, DOTARS could show more pro-active leadership to effectively engage the various organisations and people involved in delivering aviation security, particularly as security relies on everyone playing their part to ensure an effective outcome. The greatest challenge for DOTARS, particularly in light of recent events, is to effectively encourage a strong security culture throughout the industry.

Case study 2. Border Integrity

Drug detection in air and containerised sea cargo and small craft

Australia’s offshore maritime area of more than nine million square kilometres presents a considerable risk for Customs. The detection of illicit drugs concealed in air and sea cargo or imported by small craft presents a considerable challenge for Customs. Given the high volume of cargo entering Australia, it is neither feasible nor practical for Customs to examine all cargo consignments. Similarly, it is not possible to continually monitor all points of entry along Australia’s vast coastline. Customs relies on its intelligence capabilities, risk assessment strategies and cooperation with law enforcement agencies and other organisations to detect illicit drugs being imported into Australia.

The ANAO found that, overall, the administrative effectiveness of Customs’ drug detection strategies for air, containerised sea cargo and small craft is sound, particularly in terms of its intelligence structures and systems, law enforcement cooperation, governance arrangements and response capabilities.

However, the ANAO also found considerable variation across regions in the number of cargo reports screened, assessed and targeted for examination. By law, industry must give Customs advance notice of cargo being imported into Australia. Customs, to meet the commercial imperatives of moving cargo, aims to release cargo on arrival of the vessel or aircraft provided a physical examination is not required. To achieve this, Customs requires airline and shipping companies to provide cargo reports in advance of the vessel’s arrival. Cargo reports contain general information about loading ports, suppliers, receivers and description of the cargo. On receipt, these cargo reports are then assessed by Target Selection Officers who decide, based on a combination of profiles and other risk indicators, whether the cargo will be released immediately from the border, or held for further examination.
The ANAO considered that there would be benefit in Customs determining the optimum number of cargo reports that should be processed by each region, and providing assurance that risk management practices are being applied consistently across regions to ensure high-risk targets are selected for examination.

Only a very small proportion (on average, less than half of one per cent Australia-wide) of air and sea cargo being imported into Australia is targeted for examination by Customs. The ANAO considered that Customs needed to review its level of targeting, in comparison to overall volumes received, to ensure it adequately reflected the effective application of its risk management strategies for detecting illicit drugs.

The ANAO also considered that Customs’ drug detection strategies would be improved when risk management at the operational level was fully implemented. Developing performance measures that indicated the effectiveness and impact of its drug detection initiatives would also allow Customs to assess its strategies and ultimately the policy that the strategies, processes, systems and procedures underpin.

Both of these audits highlight the importance of well-integrated governance arrangements to ensure coherent and effective corporate approaches to achieving organisational goals and objectives.

The ANAO will continue its focus on security preparedness in the future, as noted earlier. As well as the Office’s regular suite of Defence and Customs audits, performance audits of Australia’s counter-terrorism coordination arrangements, and the effectiveness of CrimTrac are listed in the ANAO’s draft Audit Work Program for 2003-04.

Focus on transparency

Openness and transparency are essential elements of accountability, which is, rightly, at the heart of an effective public governance environment. The ANAO reinforces its own commitment to openness and transparency through its website, which lists all publications, including the audit work program and the Office’s corporate plan, as well as through its participation in entity audit committees, discussions with Parliamentary committees, and the publication of biannual audit activity reports, as well as other activities earlier discussed. Each of these strategies is aimed at ensuring that the ANAO is open, transparent and accountable.

Support for agencies

Independence is important for the ongoing credibility of the Auditor-General but, it should also be noted, so are meaningful relationships with a range of stakeholders including the agencies we audit.

It is vital that the ANAO continues to be an active participant in the public sector’s negotiation of the changed governance environment. While, in the past, the ANAO’s prime focus may have been on ensuring compliance with legislation (the ‘watchdog’ function), this has now been subsumed as part of a broader approach to assist agencies in improving public sector administration, including dealing with the emerging governance and accounting changes. To be successful in the changing entity environment also
requires considerable understanding of those changes and what is driving them. In particular, this requires considerable cooperation between the Office and our audit clients as, together, we address the challenges before us.

Our relationships are managed responsively with the realisation that there is no single approach that will guarantee success. The ANAO’s clients are extremely varied, and this often necessitates tailored approaches. Audit bodies can no longer afford to take the traditional ‘big stick’ approach, although the need for powerful independent review bodies supported by robust legislation should also not be understated in the current governance climate. However, the ANAO emphasises the importance of building strong relationships with agencies and other stakeholders to foster a culture of accountability, founded on accepted principles, in preference to a more prescriptive approach. In a rapidly changing world, prescriptive approaches often cannot keep pace with the demands for effective performance and a greater emphasis on results.

We also encourage agencies to make early contact where they are faced with new or difficult administrative issues, such as any new accountability requirements and governance directions. Our experience across a range of issues both in Australia and overseas allows us to assist agencies in understanding the opportunities and risks inherent in diverse management approaches. We are always mindful, however, of the need to maintain our independence whilst assisting agencies at the ‘front end’ with, say, observed better practice. It is for public sector managers to make their own decisions on whether or not to accept ANAO advice based on the particular risks and opportunities pertaining to their particular business environments.

**Products - designed to be relevant and state of the art**

In order to meet its clients’ changing needs in the new governance environment, the ANAO has moved towards a more strategic, risk-based audit approach. Our goal is to add value through audit products that are state of the art. We encourage innovation within a clearly defined auditing standards framework. The ANAO is committed to working closely with our national and international colleagues to ensure that we remain at the leading edge and that we have the right mix of assurance, compliance, accountability, and performance products at any point in time and over time.

**Audit product continuum**

ANAO audit products run the continuum from high-level performance audits that may target particular issues across the APS, to the traditional financial statement and financial control and administration products that provide assurance as to the stewardship of public funds in individual agencies. Demonstrating effective stewardship of public resources held in trust is a key consideration in setting a public sector corporate governance approach.

The ANAO also disseminates better practice through a series of Better Practice Guides (BPGs), model financial statement reports (AMODEL) and Business Support Process (BSP) audit reports on a range of issues challenging the contemporary APS. For example, the ANAO recently released a BPG on internal budgeting designed to assist
managers responsible for making decisions on the allocation, use and administration of resources. An updated ANAO BPG on public sector governance is also scheduled to be released in the near future. Our reports are regarded as authoritative. Our annual audit of the Consolidated Financial Statements and our assessment of agency control structures, for example, provide a unique overview as to the ongoing financial performance of almost 300 Commonwealth entities.

Cross portfolio audits

Recent years have seen an increase in the number of ‘across the board’ issues and cross-portfolio audits undertaken that compare experiences in a range of agencies and entities. For example, the ANAO has recently undertaken cross portfolio analysis of, among other things, compliance with the 2001 Senate Order on commercial-in-confidence considerations in relation to listing of departmental and agency contracts valued at $100,000 or more on the internet. Other recent cross-portfolio audits include the management of Commonwealth guarantees, warranties, indemnities and letters of comfort; energy efficiency in Commonwealth agencies’ operations; and the payment of accounts and Goods and Services Tax administration by small Commonwealth organisations. Our ability to compare operations across the public sector, and sometimes with the private sector, as well as our statutory independence, are significant strengths and add value to a wide range of stakeholders.

In terms of benchmarking services, our products currently comprise functional reviews of the major corporate support areas. The overall results of these reviews are published generically and tabled in the Parliament. At the audit client level, a customised report is provided to all entities participating in the benchmarking study. Our most recent benchmarking studies have covered the following areas: the internal audit function; the finance function; and managing people for business outcomes. Finally, as well as benchmarking and analysing public sector performance, we compare our own performance to that of our peers in Australia and internationally. This is both a learning and accountability experience for the Office.

Investing in the future

As well as actively participating with its national and international colleagues in debates surrounding the new governance and auditing environment, the ANAO is seeking to ensure that it is well placed to lead and guide in the future from its audit activities. The latter can provide considerable better practice and benchmarking material which is supplemented from the close association we have with other Audit Offices and professional bodies.

A major current focus at the ANAO is the implementation of a workforce planning initiative that is designed to provide a more rewarding professional environment for staff, as well as to maintain and enhance the skills of our own people. Elements of the workforce planning strategy include a rewards and recognition program, the definition and promotion of ANAO culture and values, identification of ANAO specific capabilities, new recruitment and selection procedures, workforce reporting, career development frameworks, and other targeted staff retention strategies. Our aim is to
achieve the optimum fit between our people, our skills and the work required of us. Our ultimate aim is to ensure that the ANAO remains an employer of choice for people with appropriate professional skills and/or experience.

In the longer term, the increased privatisation of the public sector impacts directly on public sector audit as, for example, it has the potential to reduce the size of the Auditor-General’s mandate. In my case, legislation provides that my financial statement audit mandate includes wholly owned Commonwealth companies or companies in which the Commonwealth has a controlling interest. As a result, the full sale, or sale of a controlling interest, in, say, a Government Business Enterprise (GBE) will invariably reduce the number and nature of those entities subject to a financial statement audit by my Office.

The problem that this creates for many Auditors-General is a diminution of opportunities to maintain particular knowledge, understanding and even skills of audit staff which, in turn, has implications for staff retention and recruitment. A particular challenge is created where there are only one or two entities involved in one area, for example, in communications. As well, the loss of any sizeable GBE, such as the Commonwealth Bank, can also have an adverse impact on skills maintenance in addition to retention of particular skills.

It is important that the ANAO ensures that it has the expertise required to undertake audits in emerging areas. For the ANAO, this means striking a balance between building and maintaining specialist skills in-house, and developing effective alliances and partnerships with other professional organisations in both the public and private sectors and with specialists in relevant industry and other groups. The practical issue is that we cannot expect to have all required skills in-house.

The increased scrutiny of corporate governance frameworks in both the public and private sectors has led to a corresponding demand for training in this aspect of administration. The Big 4 accounting firms have been working with corporate boards to enhance awareness of the impact of the new rules for business and industry. As mentioned in the Introduction, the Australian Stock Exchange (ASX) and Standards Australia have developed better practice principles and corporate governance standards respectively. The ANAO is developing an update of its BPGs on corporate governance, as also noted earlier. As well, we continue to work with client agencies in promoting identified better practice and disseminating lessons learned from across the public and private sectors.

In addition, an important new area of ANAO activity in building skills for the future is the introduction of the Graduate Certificate in Performance Auditing, which is a joint initiative of the ANAO and the University of Canberra. While performance audit has had a well-established role in public administration for at least 20 years, training has so far been largely ‘on-the-job’. Such training has been complemented by some excellent analytical materials from other organisations, such as the Australian Bureau of Statistics, and other audit offices.
The Graduate Certificate course aims to enhance the professional development of both public and private sector auditors, and to provide a nationally and internationally recognised qualification in this increasingly important field for graduates. As the governance and auditing environment becomes ever more complex and dynamic, such expertise will undoubtedly be invaluable. This has been an important initiative, as part of our strategy for the future, which involves working with others for our mutual benefit to ensure we have the capabilities for meeting our legislative imperatives and other required results.

2. GOVERNANCE AND AUDIT ISSUES

Recent years have seen a considerable re-evaluation of governance frameworks for both the public and the private sectors, and an increased focus on determining and implementing the elements of ‘good governance’. New Public Management (NPM) reforms have led to the public sector adopting, and/or adapting, private sector models and frameworks to achieve the Government’s objectives, while at the same time a series of corporate collapses both in Australia and internationally have heightened attention on the importance of good governance for investor and consumer confidence. The changing environment has significant consequences for both public and private sector auditors, given the increased emphasis on establishing and demonstrating sound control systems, sound risk management and on achieving a suitable balance between conformance and performance requirements. Auditors themselves have also been the focus of considerable scrutiny, with attention particularly being directed at the concept of auditor independence.

Challenges in public sector governance

What is good governance?

Good governance is important for all organisations, including private corporations, government departments and agencies, GBEs, and not-for-profit or community groups. Governance encompasses agency management, the structure and operation of boards, as well as the values, behaviours and relationships between organisations and their stakeholders. In the public sector, governance also relies heavily on the systems, processes, policies and strategies that direct operations; assure quality; monitor performance; and manage accountability obligations to stakeholders. However, for both public and private sector organisations, governance is about more than just having the right structures and frameworks in place, it is about ensuring that principles of good governance are integrated throughout the organisation so that whoever manages or governs exercises ultimate authority within an organisation that is open, transparent, ethical, accountable, and fully aligned in terms of its governance objectives.

Corporate governance in the private sector tends to emphasise the role, structure and rules relating to boards of directors, especially in their accountability relationships with shareholders in ensuring the organisation’s financial performance. By contrast, public sector governance is a broader concept, driven by the breadth and complexity of the powers and responsibilities of public institutions and multiple levels of accountability. Governance of public organisations therefore combines external accountability for, and
internal control over, the delivery of efficient, effective and ethical services. Financial performance and ‘shareholder value’ (or equivalent concepts) are important, but are generally not seen as important as demonstrating effective stewardship of public resources in an open and transparent manner.

The following four key attributes of good governance are widely acknowledged in relation to the public sector:

- **Transparency/Openness**: Openness is required to ensure that stakeholders can have confidence in the decision-making processes and actions of public sector entities, in the management of their activities, and in the individuals within them. Being open through meaningful consultation with stakeholders and communication of full, accurate and clear information leads to effective and timely action, and stands up to necessary scrutiny.

- **Integrity**: Integrity comprises both straightforward dealing and completeness. It is based on honesty and objectivity, and high standards of propriety and probity in the stewardship of public funds and resources, and management of an entity’s affairs. It is dependent on the effectiveness of the control framework and on the personal standards and professionalism of the individuals within the entity. It is reflected both in the entity’s decision-making procedures and in the quality of its financial and performance reporting.

- **Accountability**: Accountability is the process whereby public sector entities, and the individuals within them, are responsible for their decisions and actions and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure. In effect, accountability is the obligation to answer for a responsibility conferred.22

- **Stewardship**: Public officials (ministers, public servants and office holders) exercise their powers on behalf of the nation. The resources they use are virtually held in trust and are not privately owned. Officials can therefore be regarded as stewards of those powers and resources. It is important to govern public sector organisations so that their capacity to serve government and the public interest is maintained, and preferably improved, over time. This includes financial sustainability and the efficient, effective and ethical management of resources, as well as less tangible factors, such as maintaining the trust placed in the organisation and/or government as a whole by the general public.

**Increased focus on governance**

The focus on governance is not new, although it has attained an increased popular profile in the wake of the collapse of companies in both the United States and Australia, which typically, latterly, revealed poor governance practices. Audit bodies and the accounting profession worldwide have been actively engaged in clarifying and advising on governance frameworks for many years. However, recent events have put the issue on to a different plane with higher-level expectations being generated, particularly by governments and the general public.
Where companies have failed, the problem has often been the lack of sound goals and objectives, an absence of openness and transparency, the deficiency of values and ethics and strong internal controls, and poor risk management. This is not to say that good governance will always guarantee successful business performance. The Counsel assisting the HIH Royal Commission was recently reported as arguing that corporate Australia should aspire to improved moral and ethical standards rather than tick-a-box corporate governance.23 There is increasing evidence that behaviours consistent with good governance (for example, leadership, communication, encouraging difficult questions to be asked, and holding people to account) increase the probability of positive and sustainable outcomes24.

Over the past five years, a program of major financial and other reforms across the Australian Public Service (APS) has also resulted in an increased focus on corporate governance in the public sector. This started with the replacement of the Audit Act 1901 with the Financial Management and Accountability Act 1997 (FMA Act), the Commonwealth Authorities and Companies Act 1997 (CAC Act) and the Auditor-General Act 1997. The FMA and CAC Acts clearly state where accountability is centred in organisations – typically with the Chief Executive Officer (CEO) in FMA agencies, and with the Board in CAC agencies. The reform package culminated with the implementation of an accruals based outcomes and outputs model with full integration of accrual based budgeting, management and reporting.

For the public sector in particular, recent changes driven as a result of the implementation of NPM reforms with an impact on governance arrangements are:

- streamlining of the budgetary and financial systems, including less centralised control over resourcing and budgeting;
- placing a greater emphasis on results, rather than inputs;
- the application of systematic approaches to risk management;
- increasing contestability and competition in the delivery of programs including legislative implementation and the contracting and oversight of service delivery; and
- enhancing service delivery and relationships with stakeholders, particularly citizens.

To these, I would add the challenges of creating and maintaining an adequate accountability trail in an increasingly electronic business environment. Transacting business in the electronic environment, whether acting as an individual agency, in partnership with the private sector, or other government agencies, also raises new challenges for governance.

While the format in which information is gathered may change, the accountability obligations on public service officers do not. The ANAO has recently undertaken an Assurance and Control Assessment (ACA) audit of record-keeping25. The audit assessed record-keeping policies, systems, and processes in terms of good business practice, requirements under the Archives Act, relevant Government policies, and professional
record-keeping principles. As well, it identified some better practices and strategies organisations can adopt to manage the transition to an e-government environment. The audit findings will guide future developments by National Archives.

A critical factor identified was the need to view record-keeping strategically as part of information management more broadly, and to treat records as a corporate asset that requires constant attention and proper maintenance. Record-keeping helps in servicing clients and in dealing positively with legal and other risks. Tied in with broader information management, record-keeping assists overall business performance. Unfortunately, history shows that, in a pressured environment, record-keeping lapses, despite its importance for both internal and external stakeholders. This is a challenge for the governance framework.

As we move towards the era of e-government, ensuring the creation and maintenance of appropriate electronic records will be equally as important as ensuring appropriate security and privacy in electronic transactions between governments, citizens and the business community. This is necessary for the confidence of all stakeholders, and particularly for assurance of the Parliament.

The ANAO has recently conducted an audit of the management of e-Business in the Department of Education, Science and Training (DEST). As part of the audit, the ANAO examined IT Governance, the effectiveness and efficiency of e-Business, and the management of quality, risk and controls. Selected findings are set out in the case study below:

Case study 3. IT Governance in DEST.

In common with the governments of many other countries, the Australian Government is committed to modernising public administration, particularly through the use of Information Technology (IT) and the Internet. The Australian Government's strategy to make 'all appropriate services available online via the Internet by 2001' is outlined in the Government Online agenda. An October 2001 survey conducted by the Australian National Office for the Information Economy (NOIE) indicated that all agencies, including DEST, met the government's targets.

The objective of the ANAO's audit was to determine whether DEST had effective governance practices for its IT and e-Business; had adequate systems in place to measure the efficiency and effectiveness of its IT and e-Business; implemented and maintained appropriate quality standards and controls, including risk management, to achieve maximum benefit from its IT and e-Business. The audit examined education and training services provided, or managed, by DEST via IT or the Internet.

The ANAO concluded that DEST's management of its Internet presence and its e-Business was sound. Where improvements could be made, such as in measuring the benefits of, and assuring the quality of, its e-Business systems, DEST was addressing these aspects with the introduction of new methodologies.

The ANAO also found that governance arrangements for IT and e-Business in DEST were satisfactory in that responsibility for budgets and structures had been clearly articulated; the role of committees was appropriate; and IT and e-Business was included in the internal audit program and was monitored by DEST's Audit and Business Assurance Committee. However, the ANAO recommended that the relevant committees at DEST would benefit from regular review to assess their achievements.
In relation to record keeping, the ANAO concluded that while DEST did not currently fully comply with legislative and policy requirements for its electronic records, it was implementing appropriate systems that should allow it to comply with these requirements by late 2003.

Overall, the ANAO considered that DEST had developed a management culture that encouraged a focus on quality in relation to its IT and e-Business. The Department regularly benchmarked its IT performance against that of comparable external organisations with generally favourable results. Surveys of internal stakeholders were also favourable.

**Boards – parallels between public and private sectors**

It is worth noting that boards within the public sector face many of the same challenges as boards in the private sector, regardless of their different accountability requirements. In both the public and the private sector, boards are charged with monitoring performance, demonstrating accountability to stakeholders, setting clear values and codes of conduct, and providing leadership and guidance at the strategic level. In the public sector, there are three main forms of boards: management boards; advisory boards; and committees or boards formed under strategic partnership agreements between two or more agencies.

Management boards are largely associated with those agencies subject to the CAC Act, and particularly with GBEs. These boards are reasonably similar to boards within the private sector, with the CEO reporting to the Board, which is in turn accountable to either a Minister and/or shareholders, respectively. The general conduct of directors of corporate management boards is also subject to the provisions of the Corporations Law that is, for company GBEs but only the CAC Act for statutory authority GBEs.

Advisory boards are generally associated with agencies subject to the FMA Act. The FMA Act confers legislative responsibility on a CEO for the efficient, effective and ethical use of resources. Therefore, in the absence of any legislation to the contrary, boards established by agency CEOs are advisory only, with the CEO retaining legislative responsibility for the administration of the agency. The CEO may also choose to establish an Executive Board to assist with building, and/or renewing, the corporate governance of the agency, including strategic planning and risk analysis and treatment. Such a Board may be devolved the necessary authority and responsibility, with commensurate accountability, from the CEO.

The third form of board found in the public sector is that of the committee, often formed under a strategic partnership agreement, which oversees corporate governance arrangements where two or more agencies have responsibility for the coordinated delivery of particular services to users. For example, the Department of Heath and Ageing and the Health Insurance Commission have established a strategic partnership agreement for the management and administration of Medicare and the Pharmaceutical Benefits Scheme. The ANAO recently conducted an audit of the agreement and found that it:

*incorporates essential elements of a governance framework for the relationship, including joint management structures, a performance monitoring and reporting*
framework, and protocols for communication between the policy agency and the administrative agency.  

For the public sector, it is particularly important that establishing robust governance frameworks is given attention as the APS embeds joint, or multi, agency responsibility for program outcomes that may be spread over a number of separate agencies, including private sector partners.

The ANAO supports the traditional audit view that boards should not be involved in operational, or day-to-day, management. Rather, they should initiate strategic links across program, functional or business units and actively seek out and/or endorse opportunities for adding corporate value to the agency. As well, they should support the CEO in seeking to set the tone for the corporate culture. Fundamentally, the board’s role should be one of strategic leadership and stewardship, rather than one of day-to-day management.

**Additional challenges for the public sector**

While the pressures of the changing governance environment impact equally on the public and private sectors, there are some particular challenges faced by GBEs in negotiating the new environment. Henry Bosch has identified these as:

- complex structures, including the legislation that establishes and controls GBEs involving an elaborate set of relationships between Parliament, Ministers, boards and CEOs;
- ad hoc intervention by Minister, or other parts of government or the political process. Such intervention should, for the purposes of accountability, be clearly recorded and reported where an external direction or request to the board of a GBE is likely to have a material impact on the achievement of the organisation’s commercial goals;
- unclear or conflicting objectives, where economic objectives are often confused by the addition of divergent, and sometimes conflicting ‘community service obligation’ requirements;
- direct appointment of Chairs and CEOs by, or on the advice of, Ministers. This can work well in practice, but may challenge notions of loyalty and independence, and undermine the effectiveness of the board; and
- selection of government board members. Board effectiveness will be reduced if some directors are suspected of owing a special loyalty to those who influenced their appointments, and if it is believed that board discussions cannot be conducted in confidence.

**Getting the right balance – conformance and performance**

As noted earlier, an ongoing challenge for both private and public sector entities is achieving the ‘right’ balance between conformance and performance at particular points in time and over time. This balance is determined by leadership decisions, values and
identified preferences and should be understood, and achieved, throughout the organisation as well as ethical values and good conduct practices are meant to be.

It is generally accepted that a degree of trade-off exists between conformance and performance. For example, an undue emphasis on compliance breeds a risk-averse culture that inhibits exploitation of emerging opportunities. At the same time, it is apparent that a solid conformance control structure, embedded in risk-management, protects an entity from ‘corporate governance delinquency’\(^{29}\), and the possible severe impacts of this on individual and organisational performance. This is not simply, nor should be, a ‘box-ticking’ exercise. Nevertheless, reference to a check list of better practice can focus the mind on issues that need to be addressed, particularly when an organisation is under pressure to perform.

I think most would agree that, in the past, the tendency in the public sector has been to focus primarily on ensuring conformance with legal and procedural (including budgetary and financial) requirements rather than striving for exceptional performance. This has encouraged a risk-averse attitude among public servants. It has been observed that such an environment has largely focussed bureaucratic attention on process rather than on achieving the stated objectives of governments. It is also said that there needs to be a cultural change in the public sector if public servants are to focus more on achieving required results and to be accountable for their performance, including effective management, rather than avoidance, of risks.

Put another way, the implied view is that the APS could have been more effective in constructing robust control structures aimed at assuring achievement of defined outputs and outcomes, as well as being more responsive in providing more efficient client-oriented services. Attention is now being given to addressing government programs and services directly to public sector clients, as citizens, and not the other way around. The notion is to deliver services seamlessly to citizens, including across government levels. And this is being gradually achieved.

This concept of ‘clients as citizens’ demonstrates the particular challenges faced by public sector agencies in negotiating the changing governance environment. While it may be appropriate, even desirable, for citizens to be considered as clients in terms of service delivery, with all of the advantages that private sector models may offer in this regard, it is less desirable in terms of meeting the public sector’s accountability requirements. There is generally a higher standard of accountability demanded of the public sector in relation to its clients – to whom it is ultimately responsible as citizens and taxpayers – than there is in the equivalent relationship between private sector entities and their clients. That is, there is more to client relationships than a marketing imperative.

**Audit issues**

**Redefining the boundaries**

With the shift to NPM, public sector managers have been coming to terms with the need to marry private sector models and techniques with public sector accountability
requirements. As the auditors of the public sector, the ANAO has been working with agencies to provide guidance on areas of highest significance and/or greatest concern. At the same time, it has been responding to the pressures brought to bear on the profession and its clients by the series of recent corporate collapses, and parallel reviews and reforms, as noted earlier.

The initial responses by regulators and related authorities have been aimed at the private sector. These have included the Sarbanes-Oxley Act and the upgraded corporate governance requirements of both the New York Stock Exchange and NASDAQ in the United States. In part, this action has set an initial benchmark of public expectation of the various authorities concerned.

Australia has responded with the recommendations of the Ramsay Report\textsuperscript{30} concerning auditor independence. This was largely accepted in the Corporate Law Economic Reform Program, Paper No. 9 (CLERP 9) process\textsuperscript{31}, which had a broader mandate and provided a range of suggestions building on those of the JCPAA in its review of independent auditing by registered company auditors\textsuperscript{32}. The JCPAA’s Report No. 391 proposes a framework that would broaden the scope of the audit function to include, for example, corporate governance, risk management, internal control issues or other performance type issues. Business, Professional and shareholder groups have broadly endorsed the ASX Corporate Governance Council\textsuperscript{33} voluntary guidelines on governance, ethics and disclosure\textsuperscript{34}. Common themes in these reviews and reports have been a focus on audit quality issues, including independence, auditing standards, and oversight and enforcement issues.

The focus on corporate governance in Australia has continued with the establishment of a review led by Mr John Uhrig AC into the corporate governance of statutory authorities and office holders, with particular attention being paid to those that impact on the business community. A specific focus of the review is on a select group of agencies with critical business relationships, including the Australian Taxation Office, the Australian Competition and Consumer Competition, the Australian Prudential Regulation Authority, the Reserve Bank of Australia, the Australian Securities and Investments Commission, the Health Insurance Commission and Centrelink.

The Uhrig review will address the following issues:

- existing governance frameworks;
- existing Government stewardship;
- good governance; and
- governance going forward.

In addition to analysing existing governance arrangements, the review will also address the selection process for board members and office holders, the mix of experience and skills required by boards, their development requirements and their relationship to Government. An expected outcome of the review is the development of a broad template of governance principles. As a second stage to the process, and following the
review, the Government will assess statutory authorities and office holders against these principles. Reforms will be undertaken on a whole-of-government basis. The review was announced by the Prime Minister in November 2002, and was to report within six months.\textsuperscript{35}

While the Sarbanes-Oxley Act has precipitated a strictly regulated approach to deter and punish corporate fraud and corruption in the United States, there has been a recognition that such a regime is not required for the Australian business environment. The United States has long tended to favour a strict rules-based approach to corporate governance, while in Australia the preference has been for a principles-based approach, which relies on co-regulation between Government, the business community and the accounting and auditing profession. In the latter respect, the recent ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, referred to earlier, have also resurrected debate about conformance and performance and unnecessary compulsion, including the costs involved. The essential point was made by Stephen Harrison, CEO Institute of Chartered Accountants in Australia, that the document will be of little value:

\ldots unless companies take seriously their responsibility to the public and shareholders by adopting transparent governance and reporting processes in conjunction with their primary obligation to achieve sustainable growth and profits for their company\textsuperscript{36}

It would not be difficult to frame similar sentiments for the public sector. However, the Parliamentary Secretary to the Treasurer has made it clear that the issue is one of enforceability with ASIC being given an infringement penalty power.\textsuperscript{37}

Reform of corporate governance practices has been a focus in Australia since 1996, by way of the Federal Government’s CLERP processes; and laws already in existence against fraud and illegal behaviour. In summary, it is a movement towards what Onora O’Neill calls ‘intelligent accountability’:

\textit{Intelligent accountability \ldots requires more attention to good governance and fewer fantasies about total control. Good governance is only possible if institutions are allowed some margin for self-governance of a form appropriate to their particular tasks, within a framework of financial and other reporting.}\textsuperscript{38}

\textbf{International harmonisation of accounting and auditing standards}

An issue given particular prominence in the debate over reform of the accounting and auditing environment is that of the harmonisation of international accounting standards. The next 18 months are shaping up as challenging times for the profession, with significant work still to be completed on the harmonisation of Australian Accounting Standards with International Standards. The official description is the ‘adoption’ of International Standards. While the accounting profession as whole will be busy with this work, the public sector has the added task of considering the harmonisation of Government Financial Statistics (GFS) with Australian Generally Accepted Accounting
Principles (GAAP). These initiatives are an indication of the gradually being accepted notion of ‘one set’ of standards or at least one standards setting body.

A similar indication is apparent in the area of auditing standards under the International Auditing and Assurance Standards Board (IAASB). Under the CLERP 9 Proposals for Reform, the Government will expand the responsibilities of the Financial Reporting Council (FRC) to oversee auditor independence requirements in Australia, including auditing standard setting arrangements. The latter will be achieved by reconstituting the existing Australian Auditing and Assurance Standards Board (AuASB) with a government appointed Chairman under the auspices of the FRC. Auditing standards will have the force of law on the same basis as accounting standards. The Professional bodies have some difficulties with these latter proposals, noting that auditing standards already have the force of law through the Companies Auditors Liquidators Disciplinary Board (CALBD) under the Corporations law. As well, ‘Australianising’ auditing standards having specific Corporations Act backing would undermine the aim of harmonisation with International Auditing Standards.

Adoption of International Accounting Standards by 2005

In July 2002, the FRC announced its support for the adoption by Australia of international accounting standards (to be called International Financial Reporting Standards - IFRS) from 1 January 2005. The FRC is established under the Australian Securities and Investments Commission Act 2001. It is the peak body responsible for the broad oversight of Australia’s accounting standard setting process for the private, public and not-for-profit sectors.

The FRC supports the Australian Accounting Standards Board (AASB) and the AASB’s work towards harmonising its standards with those of the International Accounting Standards Board (IASB). The FRC recently required the AASB to refer to the adoption of international standards. Following the announcement by the FRC, the AASB announced its convergence (now adoption) strategy, which includes the decision to continue to issue one series of sector-neutral Standards applicable to both for-profit and not-for-profit entities, including the public sector. No one pretends that the transition will be easy. Some critics have raised issues about the costs involved, as well as the resulting quality of accounting information and its contribution to good corporate governance.

From a private sector viewpoint, a single set of high quality accounting standards which are accepted across major international capital markets would greatly facilitate cross-border comparisons by investors, reduce the cost of capital, and assist Australian companies wishing to raise capital or list overseas. From a public sector perspective, a single set of high quality global accounting standards that require comparable information would aid transparency and accountability. In particular, over time, they would facilitate an improved comparison between the operations of the public sector and private enterprise for those functions and services that could be provided by either group, whether in partnership or separately. A single set of high quality auditing standards would also enhance the reputation and credibility of the auditing profession and help restore public confidence in it.
There is no room for complacency in meeting the timetable for the adoption of international accounting standards by 1 January 2005. For accounting purposes, this effectively means that organisations will have had to make the shift to the new framework by 1 July 2004. This is a major issue for the public sector. It will be a significant challenge for agencies to meet these tight timeframes, and will depend in large part on the extent to which agency audit committees have come to terms with the implications of the revised standards for corporate governance and reporting. At the Federal Government level, the onus is particularly on the Department of Finance and Administration, in conjunction with the ANAO, to provide suitable guidance material, as well as organise timely awareness-raising web-based and face-to-face information sessions, such as implementation workshops.

**Harmonisation of Government Financial Statistics and Generally Accepted Accounting Principles**

The work required by the profession to respond to the challenge of harmonisation of International Accounting Standards is significant, and requires consideration of public sector issues within the sector-neutral standards. In addition, the public sector will also need to come to grips with the harmonisation of GFS and Australian Generally Accepted Accounting Principles (GAAP). The aim of this work is the development of an Australian accounting standard for a single set of government financial reports to reduce existing levels of confusion, and to aid transparency.

The recommendation from the Budget Estimates and Framework Review for the harmonisation of GFS was taken up by the FRC in December 2002, when it announced the broad strategic direction for public sector accounting standard setting. The FRC announced:

> The Board should pursue as an urgent priority the harmonisation of Government GFS and GAAP reporting. The objective should be to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.\(^{45}\)

**Current Reporting Frameworks**

At the close of each financial year the Government currently prepares two key financial reports:

- the Commonwealth Government of Australia Consolidated Financial Statements (CFS) which are prepared and audited pursuant to sections 55 and 56 of the FMA Act to present the financial results and the financial position of the Commonwealth; and

- the Final Budget Outcome Report (FBO Report) which is prepared pursuant to section 18 of the Charter of Budget Honesty Act 1998 (the Charter) to present Commonwealth budget sector and Commonwealth general government sector fiscal outcomes for a financial year.
Each financial report serves different purposes and is based on different sets of external reporting standards. Consequently, the two reports provide significantly different figures for most items. This has created confusion in Parliament and, more broadly, in the general community. The Budget itself is prepared on both bases with a reconciliation table for major aggregates. However, this appears to have only added to the confusion and problems of interpretation. The JCPAA recently reviewed the issue of accrual budget documentation in Report No. 388, and made eleven recommendations aimed at enhancing the quality and consistency of information included in accrual budget documentation.

The CFS are prepared on an accrual basis in accordance with applicable Australian Accounting Standards (AAS), including *Financial Reporting by Governments* AAS 31, and other mandatory professional reporting requirements in Australia and statutory requirements. The CFS is a general-purpose financial report, which discloses the assets controlled, and liabilities incurred, by the Government, the Government’s revenues and expenses, and its related cash flows. Reporting under this framework provides a consolidated overview of the financial performance and position of the Government.

Consistent with the requirements of the Charter of Budget Honesty, the FBO Report is based on the Australian Bureau of Statistics accrual GFS framework as well as on AAS. The Charter also requires that departures from applicable external reporting standards be identified.

The FBO Report, which is required to be produced within three months of the end of each financial year, is unaudited and comprises:

- general government sector budget aggregates with an analysis of final budget outcomes;
- Commonwealth financial statements in accordance with GFS;
- unaudited general government financial statements in accordance with AAS 31, *Financial Reporting by Governments*; and
- updated federal financial relations data.

An explanation is also provided in the FBO Report of the key differences between the GFS aggregates and their counterparts prepared on the basis of Australian Accounting Standards. However, as with the Budget, this has not removed problems of interpretation nor confusion about which are the ‘real’ figures.

**Harmonisation processes**

As noted earlier, the CFS and FBO reports serve different purposes and are based on different sets of external reporting standards. The CFS are prepared on an accrual basis in accordance with applicable AAS, including AAS 31 – Whole of Government Reporting. Whereas the FBO report, consistent with the requirements of the Charter, is based on the GFS as well as on AAS.
The Budget Estimates and Framework Review recently completed by the Department of Finance and Administration (Finance), and approved by the Government recommended that Finance continue to work towards the development with the AASB of an Australian Accounting Standard for government that is harmonised with the GFS framework.

As discussed earlier, the drive for harmonisation comes from the desire to have one outcome-reporting framework. The use of two frameworks often results in confusion and difficulties in interpreting information, as also noted. While a considerable amount has been done to harmonise the reporting frameworks, significant differences remain, including in respect of the treatment of: revaluation of assets; foreign exchange gains and losses; interest flows related to swaps and other financial derivatives; and acquisition of defence weapons platforms. As Professor Alan Barton of the Australian National University has noted, the two systems:

... show rather different results. Parliament does not know which one to believe. The task of harmonizing these two systems into a single quality one is an urgent task.

The ANAO supports harmonisation towards a single reporting framework as a means of overcoming user concerns. The development of such a framework through an industry specific accounting standard is primarily a matter for the AASB’s due process for promulgating accounting standards. However, its development will need the support of respective stakeholders involved in public sector accounting. In this respect, the ANAO is represented on the Treasury Heads of Treasuries Accounting and Reporting Advisory Committee’s (HOTARAC’s) Working Group for GFS/GAAP Convergence. The Group has identified eleven differences between the two frameworks. Following analysis of these differences, the Group concluded that a number of the GFS concepts could be readily accommodated within an Australian Accounting Standard for the public sector. However, some GFS treatments are not easily reconciled with the latter. This Group will provide suitable material and suggestions to the AASB for any action they may wish to take in the standards arena. These issues also need to be considered in the broader context of Australia’s commitment to adopt international accounting standards by 2005.

Real time auditing

An additional challenge for the public sector is the shift towards ‘real time’ or early intervention auditing. The ANAO seeks to assist agencies expeditiously, and both technological developments and responsive relationship management can assist us in this. The trend towards real time auditing may have some implications for audit independence; however, ‘real time’ products and services are also of increasing value to our audit clients and consequently require further analysis as part of our strategic planning processes. This is particularly the case in terms of our financial statement audit approach.

Over recent years, the timeframe for the preparation of financial statements by Commonwealth agencies has been significantly compressed. The Charter of Budget Honesty Act 1998 requires that the Final Budget Outcome Report be tabled in Parliament.
by 30 September each year. To meet this deadline, the financial statements of all material entities must be prepared and audit-cleared by 15 August. This continues to pose significant challenges for all entities involved, including the ANAO.

Most major Commonwealth entities do not meet better practice standards at present. As noted in the most recent report on financial statements across the Commonwealth, entities took on average 65 days to produce signed financial statements. This reflects the fact that a number of agencies are continuing to struggle to achieve ‘hard closes’ prior to the end of the financial year.

A ‘hard close’ is generally associated with the traditional ‘close of the books’ process for the production of financial reports for outside regulators. It typically involves performing reconciliations; searching for undetected accruals or transactions processed in the wrong period; verification of physical balances; and analysis of transactions and balances to detect errors arising from misclassification or misposting. It may also include obtaining independent appraisals and estimates for balances not able to be determined by other means. Better practice organisations undertake a ‘hard close’ only where there is an external, regulatory requirement to produce financial statements. For most Commonwealth organisations, this will be their annual financial statements.

To increase their capacity to meet the 15 August reporting deadline, agencies now aim to have as much of their financial statement preparation (including audit clearance) as possible finalised prior to 30 June. There has consequently been a shift away from peak workload periods by undertaking a ‘hard close’ before financial year-end, where entities are in a position to do so.

This is in line with the ANAO’s BPG on Building Better Financial Management Support, which advocates a shift away from peak workload periods. The BPG also notes that world best practice organisations have reduced the total time for the financial statement preparation process to two days. Finally, it indicates that it is now common practice to produce financial reports within five to seven days of the end of the reporting period. At this stage, both of these outcomes would be somewhat ambitious for most public sector organisations.

To move towards best practice, entities need robust accounting systems and processes in place that allow the performance of a hard close several months before the end of the financial year. The achievement of hard closes in March, for example, will continue to be encouraged. The development of improved accounting systems and processes will also ultimately mean more robust financial information for decision-making and management demand for hard closes on a regular basis throughout the year.

The achievement of these tighter timeframes by agencies also requires some shift in audit practices from *ex post* to *ex ante* or at least a real time audit process. This means that the ANAO has in many ways had to mirror its client agencies in terms of responding to the new time pressures on the production of financial statements. A shift to real time auditing can be more valuable to our clients as issues can be identified and brought to the attention of management early. Nevertheless, with the move to real time auditing we also need to remain conscious of the need to manage potential conflicts of interest. The
early identification of issues for the attention of management is actively encouraged. However, care needs to be taken that auditors remain separate from the decision-making framework to protect their independence.

The timeframe imperative for reporting purposes has received further impetus from the recent requirement that financial reporting be improved progressively over the next three years, including having a target for agency submission of financial statements to Finance no later than 20 calendar days from the end of the financial year. The implementation timetable for this recommendation requires submission of audit-cleared financial statements for the next three years by 15 August 2003, 30 July 2004 and 20 July 2005 respectively. The recommendation came out of a Budget Estimates and Framework Review conducted jointly by Finance and the Department of the Treasury and which was announced in November 2002 with Government acceptance.

I will now move from framework issues and challenges to canvass some related operational practices.

3. ESTABLISHING SOUND PRACTICES

The accounting and auditing profession plays a key role in identifying and promoting better practice amongst its clients. Increased scrutiny of governance frameworks in both the public and the private sectors has heightened the need to establish sound practices and processes to enhance the likelihood of ongoing business success, as well as to provide assurance to clients and other stakeholders. Guidance in relation to board, audit committee and CEO effectiveness, risk management, and performance management and assessment is particularly in demand as organisations negotiate the new governance environment. Innovative administrative structures, such as partnerships and alliances across and between the public and private sectors, are also necessitating a re-evaluation of traditional management approaches. In this regard, the ANAO continues to work closely with its clients in bringing together lessons learned across the APS. It also participates actively in debates with Parliament and the profession over the future direction of audit, both in this country and internationally.

Establishing sound governance practices

A well-governed organisation should ensure that internal performance and accountability frameworks support effective and transparent decision-making. Key elements of internal performance and accountability frameworks include:

- documentation of the objectives, roles and powers of the board or executive committee, and other corporate committees;
- corporate and business planning arrangements that aim to make conformance and accountability integral to the way the organisation goes about meeting its business objectives;
- performance planning and monitoring arrangements;
- internal audit and review processes and functions;
- fraud control plans and processes;
- up-to-date and consistent rules relating to financial and other delegations; and
- clear and widely communicated policies on handling conflicts of interest, and standards of professional and ethical behaviour.\textsuperscript{52}

As a general indicator, an organisation with sound governance practices will have staff and management who know, understand and communicate clearly their own roles, powers and responsibilities and how these relate to others in the organisation. Who is accountable for what remains a major issue for the public sector.

As part of its research for the forthcoming BPG on Public Sector Governance, the ANAO held interviews with CEOs of a number of CAC and FMA entities, focussing on the main governance issues considered important by these leaders. They included:

- boards and the governance framework – including factors affecting public sector governance; tensions in public sector governance; roles and responsibilities; board charters; board independence; partnership arrangements; selection and remuneration of boards; performance appraisal; and conflicts of interest;
- audit committees and audit independence;
- the control environment – particularly risk management; and
- monitoring and assessment – performance reporting.

It is useful to examine these issues in a little more detail.

**Board and CEO effectiveness**

An important first step in establishing sound governance arrangements is clarifying the roles and responsibilities of all the links in the internal accountability chain. A well-governed organisation will have integrated its internal and external accountability requirements, and clearly identified responsibility for same, from the board and/or CEO down. It is also important that governance arrangements give effect to achievement of broader standards and expectations for internal and external credibility (reputation) and stakeholder confidence.

Boards have prime responsibility for corporate governance within those organisations in which they exist. As explained earlier, CEOs of public service agencies may choose to establish Executive or Advisory Boards which could be devolved similar roles and responsibilities by the CEO. In recent times, board performance has been under considerable scrutiny from both Parliament and the media.

As regulators, Royal Commissioners, investors, shareholders, creditors and the public sift through the remains of recently collapsed companies, a common theme is emerging. That is, large corporations do not fail solely because of market or economic circumstances (it may be a factor, but large companies if well run, are remarkably resilient even in harsh times) but rather through bad management, ‘out of control’ CEOs, and boards not performing.\textsuperscript{53} As Sir Adrian Cadbury has noted, ‘underperforming boards are a greater threat than dishonest ones’.\textsuperscript{54}
While there is the need to keep corporate governance in perspective (good corporate governance will not necessarily prevent business failure), the underlying message is very clear:

Corporations should strive to achieve a culture of governance; and resist the temptation to give formal, rather than substantive, compliance to the principles of good governance.55

As noted earlier, the culture of governance should start at the top, with the board having overall responsibility for corporate governance and typically delegating day-to-day operations and administration to the CEO and the management team. On a personal level, individual directors who intend to contribute to an effective, high performing board must as a minimum:

- be familiar with their individual duties and responsibilities, including being aware of, and complying with, legal, ethical, fiduciary and financial responsibilities;
- have a full understanding of the workings of the board and the role of their fellow directors, as well as the relationship between the board and various stakeholders;
- be across current thinking and practices dealing with strategy, risk management, compliance and performance; and
- be prepared to have their own performance as directors assessed, individually and/or collectively.56

In addition to the above skill requirements, and the readiness to develop them further, board effectiveness relies on: access to appropriate, timely and accurate information; sufficient time to allow directors to carry out the specified duties; and directors with a willingness to ask questions that go to the fundamental core of an issue.57

At the collective level, there is an overriding requirement for a board to act as a cohesive team, to come to collective decisions, to question and test management proposals and actions, and thus to create an atmosphere that sets the tone for the organisation. As the Chairman of the Australian Securities and Investment Commission (ASIC) recently observed that, more than ever, directors need to understand and act on:

- the importance of transparency and disclosure. When there is a true commitment to both it is very difficult for dishonesty to take root. While companies cannot divulge trade secrets or commercial strategies prematurely, it is critical that transparent processes are in place for decision-making at all levels;
- the importance of accountability to external stakeholders and within our own workplaces; and
• **finally, vigilance.** Vigilant defence of what we individually know to be right is our only real safeguard against the insidious erosion of institutional values which are taken for granted.\(^{58}\)

**Audit committees**

Review by an effective, committed and competent board or CEO is an important way of ensuring organisational health and monitoring progress. A second important form of review which, like board and CEO effectiveness, has been the focus of much recent scrutiny, is internal and external audit. Audit committees, along with other executive and corporate committees (such as remuneration committees, finance committees, and consultative forums) are a vital part of organisations’ governance structures. Effective audit committees are fundamental to stakeholder confidence in organisations’ corporate governance, including risk management and internal controls.

The role and function of the audit committee was a focus of the Government’s latest CLERP paper. CLERP 9 identified best practice principles for private sector audit committees including the following, which mirror the ANAO’s own BPG on audit committees\(^ {59}\):

- audit committees should have a formal written charter adopted and approved by the Board. The charter should stipulate the structure of the audit committee; the membership requirements of the committee; the nature and scope of the audit committee’s duties; and the processes to be used by the audit committee in discharging its duties;
- audit committee members should be independent; financially literate; and at least one member should have accounting or related financial expertise;
- there should be a regular schedule of meetings with a system of reporting to the Board, and a formal process for reviewing external reporting on the company (including external audit);
- a formal process for assessing internal procedures for determining, monitoring and assessing key risks should be established;
- the audit committee should clarifying its role in relation to the company’s external auditors. In particular, it should make recommendations to the Board on the appointment, reappointment or replacement, remuneration, monitoring of effectiveness and independence of the external auditor. It should review, assess and report in the annual financial report on non-audit service provision by the external auditor, with particular consideration of whether these services compromise auditor independence; and
- the audit committee should review and assess key areas relating to the internal audit of the company.\(^ {60}\)

As with Executive Boards and/or Boards of Management, it is also important that audit committees select appropriately qualified people and rotate them on a regular basis.
In order to maintain independence, most authoritative commentators recommend that, in the private sector, either the audit committee comprises only independent directors, or includes at least a majority of independent directors. The fundamental position is that an audit committee should be in a position to discuss matters with auditors freely and frankly without the constraint of having senior management on the committee. As Chris McRostie, the chief executive of the Institute of Internal Auditors, has commented:

*To maintain independence from management and ensure all information gets to the board, the internal auditors should be hired, fired and remunerated by a board audit committee that doesn’t include management. Only 38 per cent of chief audit executives now report directly to the audit committee.*

Professor Keith Houghton, now at the Australian National University, has a similar view:

*Increasingly audit firms are recognizing that management may be a stakeholder, but it is not the ultimate client.*

For many years, I have been gently advocating that public sector agencies should similarly appoint independent members to their audit committees, including giving consideration to the selection of an independent member to chair those committees. At the very least, I would suggest that the Board Chair or agency CEO should not chair the committee. The ANAO has such an independent chair for its own audit committee.

**Risk management**

I have already noted the importance of risk management as an integral component of each organisation’s corporate governance framework. Audit committees, boards and CEOs should regularly review risk management strategies in setting and refining the organisation’s direction for the future. As one commentator has noted:

*Effective risk management means being able to anticipate, prepare for and mitigate adverse outcomes, without eradicating, or unnecessarily hindering, beneficial risk-taking. Letting risks get out of hand, or being rendered powerless by not taking any risk, can destroy organisations.*

The goal of all agencies should be to embed a culture of risk management in their organisation so that the consideration of risks, and risk mitigation strategies, becomes virtually second nature to all concerned. This is particularly important as the nature and significance of risks for the public sector changes, particularly as the public sector itself changes. The lack of suitable risk management practices generally is often a feature of ANAO audit reports highlighting scope for administrative improvement at all levels of the organisation as part of an enterprise-wide risk management approach.

Many public sector managers are still coming to grips with the notions of insurable and non-insurable risk. In addition, the devolution of authority and accountability to agency heads and the recent changes to financial and industrial legislation, together with contracting out and contestability, has significantly increased the risk profiles of public
sector agencies. The issue is not confined to top management but there should be considerable leadership shown in this approach.

Some agencies, such as the Australian Taxation Office (ATO), have formalised their approaches to risk management in corporate statements disseminated to all staff. The ATO’s Corporate Management Practice Statement on Risk Management outlines the ATO’s policy for ensuring that risk management is embodied in all ATO activities and provides direction for its implementation. It also sets out the ATO risk management policy, responsibilities, accountabilities, reporting requirements, and provides guidance for implementing risk management. The ATO’s Statement notes that:

The ATO is committed to the proactive management of risk as a key strategy to meet our business intent and to be a leading Government agency. Our aim is to achieve best practice in managing risks that threaten our objectives. We believe that risk management will assist us to meet our business intent in an environment where:

- we have scarce resources;
- we can’t do everything;
- we operate under self assessment principles; and
- we have to deal with what is material.64

CPA Australia conducted a survey of 30 public sector agencies from the three tiers of government in 2001.65 Commenting on the survey results, Adam Awty, the public sector policy adviser for CPA Australia observed that risk management:

Is now becoming entrenched within the public sector and is resulting in better performance. CPA Australia’s survey results show that the public sector has moved to address risk management and is now more accountable, better managed and a better service provider than it was in the mid-1990s. ... . The challenge for the future is to develop mature methodologies such as risk-performance indicators and benchmarking. Public-sector agencies also need more sophisticated skills to monitor, communicate and link risks directly with corporate objectives.66

While there were many positives in the survey, one disturbing response was that less than half of the organisations covered considered that their corporate culture considerably, or significantly, assisted individuals to encourage their peers to take responsibility for identifying risks. There obviously needs to be a common understanding of the organisation’s risk-taking culture and approach, including risk tolerance, and expected standards of conduct.

The key to developing an effective risk control framework lies in achieving the right balance so that the control environment is not unnecessarily restrictive, nor unduly encouraging to risk averse behaviour. As one commentator observes:

All organisations face the central problem of autonomy and control. ... . Too much autonomy and too little control can undermine coordination and prevent the delivery of a consistent service and product. Too much control at the centre can
The control structure must provide a linkage between the agency’s strategic objectives and the functions and tasks undertaken to achieve those objectives. A good governance model will include a control and reporting regime that is geared to the achievement of the organisation’s objectives and which adds value by focussing control efforts on ‘the big picture’ and not simply on particular processes. Finally, it must be kept in mind that control is basically a process – a means to an end – and not an end in itself. It impacts on the whole organisation; is the responsibility of everyone within the organisation; and is effected by staff at all levels – not just by management. Effective control is neither accidental nor incidental. It is endemic to accountability and performance.

Fraud control

An essential consideration in setting any organisation’s internal control efforts, is defining its fraud risk profile. Organisations have no room for complacency, particularly in an environment of increasing risk and complexity, and growing levels of fraud and corruption. The Commonwealth Fraud Control Guidelines note that fraud is the most expensive category of crime in Australia, and that it is costing the community between $3 billion and $3.5 billion per year. The ANAO’s 2000 survey of fraud control arrangements in APS agencies identified the total value of fraud cases against the Commonwealth for the period 1998-99 conservatively at $146 million.

The ANAO takes a risk-based approach to the identification of fraudulent behaviour across the whole of government. It is fair to say that both the public and private auditing standards require an audit to be designed to obtain reasonable, but not absolute, assurance that a material misstatement due to fraud will be detected. There is no guarantee that we will detect all incidences of fraud, indeed to attempt to do so would be cost-prohibitive. However, we aim to ensure that our approach gives us adequate coverage of areas of risk. This is important to all of our stakeholders, especially Parliament, and consequently is an ongoing focus for our work.

Commonwealth agencies are expected to set their own approaches to fraud control taking account of the Commonwealth Fraud Control Guidelines issued by the Attorney-General’s Department and in consultation with other relevant bodies, including the Australian Federal Police (AFP).

CEOs and/or Boards of Directors of Commonwealth agencies are accountable to their Ministers or Presiding Officers for fraud control within their agencies. This is in line with their responsibilities under the FMA Act and the CAC Act. CEOs of agencies are also required to certify in their agency’s annual reports that they are satisfied that their agency has prepared fraud risk assessments and fraud control plans, and has in place appropriate fraud prevention, detection, investigation, reporting and data collection procedures and processes that meet the specific needs of the agency and comply with the Commonwealth Fraud Control Guidelines.
In an increasingly complex environment, characterised by increased partnerships between and across the public and private sectors, agency CEOs are also expected to be proactive in terms of preventing and detecting fraud against the Commonwealth where outsourced functions are provided by external service providers. As the Commonwealth Fraud Control Guidelines note:

*Agencies are to put measures in place to ensure that external service providers meet the high standard of accountability needed as part of the Commonwealth’s procurement framework.*

The ANAO recently conducted a performance audit of fraud control arrangements in the Australian Customs Service. Selected findings are set out in the case study below:

### Case study 4. Fraud control arrangements in the Australian Customs Service.

Fraud control is an important element of Customs’ regulatory responsibilities and goes beyond simply monitoring the effectiveness of financial controls and revenue. It requires developing and fostering a ‘fraud-aware’ environment and the highest standards of ethical behaviour. Customs’ Fraud Control Policy aims to ensure that systematic and comprehensive fraud prevention and control arrangements are in place. Customs’ Fraud Control Plan 2001 is designed to be the basis for ongoing monitoring and coordination of fraud control activities and is an important component of Customs’ overall risk management framework.

In 2001-02, Customs:

- collected $4.5 billion in customs duties;
- administered over $430 million in tariff concessions and $93 million in duty drawbacks to industry;
- cleared 4.14 million air cargo consignments and approximately 1.38 million sea cargo consignments; and
- processed over 17 million people through international airports and seaports.

The ANAO recently conducted a performance audit of Customs’ fraud control arrangements and found that Customs has developed and implemented a fraud control framework for preventing, detecting, investigating and reporting internal and external fraud. Overall, the administrative effectiveness of Customs’ fraud control arrangements was sound. However, the ANAO considered arrangements could be strengthened through, among other things, enhanced performance management and review mechanisms.

The ANAO also found that Customs was managing the risk of fraud through outsourced service delivery arrangements effectively. The ANAO reviewed four major contracts relating to IT services, Coastwatch surveillance activities, and internal audit. The ANAO found that Customs had a number of safeguards in place to limit the potential for fraudulent activity in relation to contractual arrangements.

Increased attention is also being given to the issue of potential fraud due to the introduction of a new auditing standard in 2002 that explicitly requires auditors to consider, document and communicate with management on the issue of fraud. AUS210 was developed as part of the international effort to increase the possibility of fraud detection by auditors. It is similar to the relatively new United States’ standard SAS99
which the American profession has made much of, as rejuvenating the accounting culture in the United States and a focus on anti-fraud and corporate responsibility.

The audit standard clarifies the auditor’s role in detecting and preventing fraud, and sets out basic principles and essential procedures required of auditors in relation to this matter. For example, it requires auditors to make an assessment of the organisation’s fraud risk factors and, if the fraud risk is high, the audit has to be upgraded to allow for that risk. However, there is still no expectation that all fraud will be detected by an audit. Indeed, the standard states that:

*The primary responsibility for the prevention and detection for fraud and error rest both with those charged with the governance and the management of an entity.*

There are lessons to be learned by both the public and the private sectors in this important area of the governance framework, and the focus on this area is likely to continue in the future as service delivery arrangements become more complex. The shift towards e-government, with its related security risks and challenges, as well as its opportunities, will also strengthen the need for innovative and effective fraud controls. Interestingly, a recent global study into fraud, which is the eighth in a biennial series, indicates that:

...internal controls, management review and internal audit remain the most useful fraud prevention and detection factors.

**Performance management and assessment**

The final element of any robust corporate governance framework is performance management and assessment. The Federal Government has emphasised performance information as an integral part of its public management reforms. The main objective is to improve accountability and to track achievement of short, medium and long term results. The move to an accrual-based outcomes/outputs framework was designed to ensure a focus on:

*Resource management, with a focus on measuring performance, in terms of what is being produced, what is being achieved, and what is the cost of individual goods and services.*

A fundamental starting point, once the key elements of the governance framework have been settled, is the design and implementation of good score-keeping systems, such as balanced scorecards or executive snapshots. These systems should, firstly, translate the organisation’s strategies into key operational indicators and, then, systematically report on the health of the business both in terms of operational responsibilities and its future directions. This provides the feedback loop on the effectiveness of organisational strategies, and the basis for communicating with staff and other stakeholders on how the agency is travelling. Without such a performance-reporting framework, there is a very significant risk of unfortunate surprises, and belated, often expensive, recovery action. The emphasis is on ensuring prompt and effective decision-making.
The ANAO recently reviewed performance information in Portfolio Budget Statements (PBSs) in ten APS agencies. Better practice was identified in relation to the Australian National Training Authority (ANTA), which is a statutory authority within the Education, Training and Youth Affairs portfolio. Aspects of ANTA’s information management and monitoring arrangements are set out in the case study below:

**Case study 5. Performance information management arrangements - ANTA.**

<table>
<thead>
<tr>
<th>ANTA’s main role is to facilitate an integrated national vocational education and training system, through providing Commonwealth, State and Territory ministers with policy advice, and advice on mechanisms to achieve this national focus. Its primary outcome is to ensure that the skills of the Australian labour force are sufficient to support internationally competitive commerce and industry and to provide individuals with opportunities to optimise their potential.</th>
</tr>
</thead>
<tbody>
<tr>
<td>In developing its outcomes and outputs framework, ANTA relied on guidelines from the Department of Finance and Administration. These guidelines were adequate as ANTA has specific, well-defined objectives and this provides agency staff with a clear focus and relatively straightforward tasks associated with the development of PBS performance information.</td>
</tr>
<tr>
<td>Appropriate PBS performance information management arrangements should exist so that performance information can be collected, collated and monitored by the agency. This allows the output areas to receive timely performance feedback and implement strategies to ensure that the expectations of the government and the agency are met.</td>
</tr>
<tr>
<td>The ANAO found that ANTA has PBS information collected, collated and reported under contract. ANTA makes PBS performance information (as well as other information on vocational education and training) generally available in its Annual National Report. Its Annual Performance Report, which is approved by the Board and submitted to the Minister, also addresses PBS performance information. Internally, the ANTA Board receives reports on progress against outputs twice annually. As well, corporate management and the Board receive regular business reports that address specific PBS performance information issues.</td>
</tr>
<tr>
<td>ANTA’s contractor is also required by contract to audit the quality of the data in the reports. This increases confidence that the performance information is valid, reliable and accurate, allowing Parliament to make a realistic assessment of agency achievements and administration.</td>
</tr>
</tbody>
</table>

Increasingly, performance information addresses both financial and non-financial measures, as well as more complex social and environmental measures. Commonwealth agencies are required to report annually on their environmental performance and contributions to Ecologically Sustainable Development (ESD). Reporting against the Triple Bottom Line, and corporate sustainability reporting, is also increasingly prevalent amongst leading edge private sector organisations. In 2003, the Department of Family and Community Services (FACS) will be producing its first Triple Bottom Line report, and Defence will be producing a Public Environment Report.

Sustainability reporting is not without its challenges in combining economic, social and environmental data, and requiring consideration of both short and longer-term impacts of decision-making on complex eco-systems and societies, for which critical thresholds have yet to be determined.
For APS agencies, guidance is available from Environment Australia on ‘greening’ operations and reporting on sustainability. For the private sector, Environment Australia has produced a framework for public environmental reporting. The Global Reporting Initiative (GRI) is well regarded, and a useful first port of call. The Institute of Chartered Accountants in Australia (ICAA) has also recently released a series of case studies on environmental management accounting in the Australian context.

In many ways, reporting on corporate governance raises many of the same challenges as reporting on sustainability, with its similar emphasis on intangibles. In the case of governance, it includes consideration of concepts such as ethics, values and trust; while in the case of the environment, it includes social, cultural and ecological values. Nevertheless, there is a push towards benchmarking governance performance by scoring governance practices across both companies and countries. Interestingly, there has also been support for the development of a Management System International Standard for Corporate Social Responsibility. It should not be surprising that auditors are likely to use such measures in assessing an organisation’s performance in such areas.

A well-governed organisation should be able to embed its performance management and assessment structures and processes through:

- effective corporate and business planning. Such plans – down to and including individuals’ performance plans and agreements – should be aligned and mutually supportive. This reduces scope for confused objectives or gaps in performance planning and monitoring;
- a clear and robust budgeting and financial planning system, overseen by an appropriately constituted and resourced finance committee or equivalent, or by the peak board or executive committee itself. In the current Commonwealth environment, this will include addressing the financial and non-financial aspects of the organisation’s specified outcomes and outputs;
- a structured and regular system of performance monitoring. This system should be aligned with the organisation’s outcomes and outputs structure, and generate information that is appropriate to both internal performance management needs, as well as external reporting requirements;
- consideration of whole-of-government and cross-agency issues in policy and program delivery. Increasingly, Commonwealth organisations are working in an environment characterised by projects that cut across individual agency boundaries. This raises issues of joint or shared accountability, risks and responsibilities that can affect governance arrangements – especially where major initiatives (such as Australians Working Together) are concerned; and
- a structured, detailed and integrated approach to risk management. As discussed earlier, this is an aspect of the management task that is of growing importance in the Commonwealth. For public sector managers, risk management goes beyond assessing, monitoring and responding to financial or fiduciary risks. In the public sector context, it is important that both operational risks (such as contract administration) and policy risks (from competing stakeholder interests) are managed effectively.
The issue of effective performance management and measurement in a complex multi-party program was reviewed by the ANAO in its recent audit of the Innovation Investment Fund administered by the Industry Research and Development Board and the Department of Industry, Tourism and Resources. Corporate governance was a focus of the audit, and associated issues are set out in the case study below:

**Case study 6. Innovation Investment Fund.**

The Innovation Investment Fund (IIF) program is designed to redress the low level of provision in Australia of high-risk venture capital for small new technology-based companies commercialising research and development. The objective of the audit was to determine whether the Industry Research and Development Board (IRDB) and the Department of Industry, Tourism and Resources were effectively managing the IIF program.

The audit focused on corporate governance arrangements for program administration, the selection process for awarding licences, the safeguards to protect the Commonwealth's financial interests, management of licence agreements, and program performance management. The audit also examined program results to date from available data.

Implementation of the IIF program involved challenging and unique issues of public administration, including those arising from investment by the Commonwealth in a market traditionally regarded as high risk and the Commonwealth having dual roles of program administrator and investor. The ANAO concluded that overall management of the program was largely effective, although there were areas that warranted improvement. As well, there was considerable development in the early stage venture capital market since the initiation of the IIF program, consistent with the program's objectives.

**Corporate governance**

The corporate governance arrangements for the program were generally robust, with roles and responsibilities of the various parties clearly articulated in program guidelines and licence agreements with the fund managers; appropriate arrangements to address responsibilities for financial management; and sound procedures to manage the potential for perceived and actual conflicts of interest.

The arrangements for delivering the program were complex and involved a degree of convergence of the public and private sectors in delivering an outcome for the Commonwealth. Partners in program provision included the IRDB, AusIndustry, five wholly owned Commonwealth companies, IIF fund managers, and private investors. Experience demonstrates that sound corporate governance frameworks enhance the ability to achieve required program outcomes in such an environment.

**Risk management**

Risk treatments had been put in place including selecting fund managers using due diligence procedures; drafting governing documents for program administration; establishing wholly-owned Commonwealth companies to limit liability against the Commonwealth; implementing conflict of interest procedures for IR&D Board and FMC members; and restricting related party transactions through licence agreements. However, risk assessments and consequential treatments were not supported by a sufficiently systematic approach to risk management and monitoring, which would have been beneficial given the unique and high-risk aspects of program administration. The governance framework for the program would also have been strengthened by developing a program plan that outlined both the strategies to achieve each of the program objectives and appropriate performance measures to measure and report achievements.

Corporate governance frameworks were less effective in relation to the administration of the 30 per cent private health insurance rebate by the Health Insurance Commission (HIC), the Department of Health and Ageing (Health), the Australian Taxation Office
(ATO), the Department of Finance and Administration (Finance) and the Department of the Treasury (Treasury). The ANAO also conducted an audit of the administration of the Private Health Insurance Rebate (PHIR). Selected findings are set out below:

**Case study 7. Administration of the 30 per cent private health insurance rebate.**

The 30 per cent Private Health Insurance Rebate (PHIR) is a financial incentive for individuals to purchase health insurance cover. The rebate provides for a reimbursement or discount of 30 per cent of the cost of private health insurance. It is available to all Australians who are eligible for Medicare and have private health insurance. The objective of the audit was to determine the effectiveness of Commonwealth Government agencies' administration of the rebate.

Health, HIC and the ATO worked together effectively in the implementation phase of the PHIR to meet the Government's tight timeframe for implementation. HIC had only six weeks to implement systems to support the PHIR, while ATO had only a few days to draft legislative amendments required to support the premium reduction option. Notwithstanding the complexity and significant scale of this task, the agencies implemented the scheme in time to allow eligible persons to receive the rebate from the Government's announced commencement date of 1 January 1999.

Health, HIC and the ATO developed a clear and common understanding of their respective roles and responsibilities. However, this understanding was not formalised in a timely manner, as agreements between the agencies were not finalised until 2.5 years after the commencement of the PHIR. The delay in finalising the Health-ATO agreement partly reflected a disagreement between the agencies about funding. The absence of formal agreements, together with shortcomings in consultative arrangements, contributed to Health obtaining only limited performance information on HIC's and ATO's administration of the PHIR for the first 2.5 years of the scheme. However, with the finalisation of formal agreements with HIC and ATO in mid 2001, Health developed a sound basis for assessing HIC's and ATO's overall administrative performance for both internal management and external reporting purposes.

Both of these case studies demonstrate the importance of robust corporate governance frameworks for effective administration. Where multiple stakeholders are involved, the need for sound frameworks that clearly set out the roles and responsibilities of all parties is emerging as a particular challenge.

**Establishing sound auditing practices**

**Audit independence**

Audit independence is at the heart of an effective governance framework. As discussed earlier, there has been much recent scrutiny of the issues of audit independence. The debate over audit independence is not new, although it has attained an increased popular profile in the wake of the recent corporate skirmishes 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. However, recent events have put the debate onto a different plane with higher-level expectations being generated, particularly in relation to compliance.

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 not insignificant 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, we are often dependent on their work in coming to an audit opinion on organisations’ control environments and financial statements.

As discussed earlier in this paper, 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 standards for his/her Office.

Recently, Senator Murray outlined what he considered to be the four fundamental pre-conditions for more generic auditor independence as follows:

- the appointment process must be objective, on merit, and not influenced by improper considerations;
- security of tenure has to be guaranteed for a known and viable period;
- ending the appointment must be subject to known and proper criteria, not capricious or improper considerations; and
- remuneration has to be sufficient to ensure that the task can be properly fulfilled, sufficient to prevent improper inducements being attractive, and sufficient to cover reasonable risk arising from the task.86

The Statement of Auditing Standards AUS 1 requires an auditor not only to be independent, but also to appear to be independent. For the purpose of this Statement:

\[
a) \text{actual independence is the achievement of actual freedom from bias, personal interest, prior commitment to an interest, or susceptibility to undue influence or pressure; and}
\]

\[
b) \text{perceived independence is the belief of financial report users that actual independence has been achieved.87}
\]

While AUS1 provides guidance to auditors when considering independence, the recently released Professional Statement F1, entitled ‘Professional Independence’88 addresses the principles of independence with support for its application by the CLERP 9 proposals. Compliance with the new Professional Statement F1 has been required since 1 January 2003. The ANAO supports the Ramsay Report89 recommendation that the auditor should make an annual declaration, addressed to the board of directors, that the auditor has maintained his/her independence in accordance with the Corporations Act 2001 and the rules of the professional accounting bodies. I should note that, pursuant to that Act, the Auditor-General is a registered company auditor.

The issues relating to independence are difficult and are still to be resolved, particularly in the light of the recent report on HIH (which, inter alia, reinforced independence of auditors) and the Government’s intended legislative proposals following the CLERP 9
discussions, referred to earlier. The need for active ongoing discussion is clear. The Government has indicated it will consider recommendations in the CLERP 9 legislation which is expected to be introduced to Parliament early in the Spring Sittings.90 As the United States Panel on Audit Effectiveness noted in its review of the current audit model:

Independence is fundamental to the reliability of auditors’ reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if audits were not independent in both fact and appearance. To be credible, an auditor’s opinion must be based on an objective and disinterested assessment of whether the financial statements are presented fairly in conformity with generally accepted accounting principles.91

There is growing pressure for the exclusion of audit firms from other activities (non-audit services) within the same organisations. For some years, there has been general acceptance of the desirability of those firms not being engaged both as internal and external auditor. The Government indicated that it will amend the law to require mandatory disclosure in a company’s annual report of fees paid for the categories of non-audit services provided. As well, there will be a requirement for a statement in the annual report as to whether the audit committee is satisfied that the provision of non-audit services is compatible with auditor independence. Such amendments will impact on both the public and private sectors.

In my view, the questions about possible conflicts of interest, audit partner rotation and selection of auditors are central to the roles and responsibilities of audit committees as part of the corporate governance framework. One challenge is therefore how to strengthen those roles to enhance their effectiveness and credibility in the eyes of both internal and external stakeholders. However, I note that an ASIC survey of auditor independence found that ‘it was not normal for the level of non-audit services to be given consideration by the board or the audit committee’92. In fact, usually the Chief Financial Officer was the primary person responsible for engaging the external auditor in these roles.

Reverting back to the auditor rotation issue, the survey also indicated that ‘the vast majority of respondents did not have a policy of rotating audit firms’.93 While the Government’s proposal under CLERP 9 relates to the compulsory rotation of an audit partner (lead engagement and review partners), the reduction from a 7 to a 5 year period is seen as creating problems in Australia. With the increased outsourcing of public sector audits to the private sector, this could also be a problem for the former, particularly if the policy is not just directed to listed entities (as does Professional Statement F1). The Parliamentary Secretary to the Treasurer recently indicated that it has been decided to give ASIC a power to relieve companies of the 5 year requirement.94

The recent series of high profile Australian corporate collapses have also renewed attention to the issue of the particular roles and responsibilities of both private and public sector auditors in the Australian context. Citizens are more aware of governance issues than ever before. Of particular recent interest has been the focus on personal
accountability of directors and senior executives whose performance bonuses may be inversely proportional to trends in share prices and company profits. The public expects that auditors will alert shareholders or other stakeholders to the fundamental soundness (or otherwise) of business entities. It should also be noted, however, that the mere fact that auditors are independent will not save companies from collapse or agencies from the impacts of poor management. As noted in a recent legal update on corporate governance:

*It is clear that the most rigorous and independent audit will not save a company with poor management and business practices from insolvency.*

This view was endorsed recently by the Chairman of the Australian Securities and Investments Commission who noted that, when it comes to a company’s compliance and accounting standard, ‘the final buck stops with the board’ rather than with company auditors. Auditors do, however, have a very important role to play in terms of providing advice that draws on their broad range of experiences, which may range across the public and private sectors. Any concern and/or suggestions should be conveyed in the audit management letter and/or discussed directly with the board of directors, who actually appoint the auditors in the private sector. One issue is whether, how, and to what extent, should the contents of such a letter be conveyed to other stakeholders.

However, I cannot overstate the fact that the ANAO operates in an advisory capacity, rather than participating directly in decision-making by public sector managers. While I urge my officers 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. Our ‘observer status’ as public sector auditors reduces the risk of conflict of interest issues arising in the course of our work. Nevertheless, that does not absolve us from any responsibility to the Parliament for our views and actions.

The ANAO, in its submission to the JCPAA Review (Report No 391), indicated that there is a range of steps that could be taken to strengthen the independence of auditors and provide greater public confidence in their performance and the role that they have in adding credibility to financial reports prepared by companies, including:

- underlining the independence of auditors in statute;
- enhancing the role of audit committees in corporate governance;
- improving the disclosure of ‘other services’ provided by auditors;
- encouraging the profession to tighten current guidelines on ‘other services’ work that auditors are able to undertake;
- encouraging the rotation of auditors after a suitable time period, for example, seven years; and
encouraging the wider involvement within the profession of users and preparers of financial statements and reports, particularly in the setting of auditing standards and guidelines.

These options for enhancing the independence of auditors could be pursued under the current co-regulatory model or through other forms of statutory, or non-statutory regulation. However, the ANAO stressed that these are matters for decision by the government and the profession co-operatively, given the level of interdependence between both parties in current arrangements. A similar observation could be made about a number of related issues, some of which have not been discussed here such as proportionate liability (agreement reached by Federal and State Governments, announced on 4 April) and professional indemnity insurance. These are important risk management issues for both the public and private sectors.

**Negotiating convergence**

Reinforcing auditor independence is the need for contemporary auditing standards that reflect the modern world. Under the *Auditor-General Act 1997*, I am required to set auditing standards with which individuals performing Auditor-General functions must comply. This gives the ANAO the flexibility to set its own agenda and to develop appropriate auditing tools for the contemporary environment. In setting the standards, I acknowledge the commonality of professional requirements between private and public sector auditors and, as such, the ANAO auditing standards are formulated with regard to the auditing standards issued by the Auditing and Assurance Standards Board of the Australian Accounting Research Foundation (AARF).

Consistency with international standards, including the International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards, and those of the IAASB of the International Federation of Accountants is also currently under consideration. I reiterate that one set of internationally accepted auditing standards would be of considerable assistance to Auditors-General. In this regard, INTOSAI, through its Auditing Standards Committee, has established a working party to consider alignment between the INTOSAI standards and those of the IAASB. The ANAO is a member of that committee. The working party has already recognised the need for transitional arrangements to accommodate the different standards, experiences, mandates and operations of the more than 180 country members of INTOSAI. One aim is to ensure that, to the greatest extent possible, the standards being developed take into consideration the specific conditions of public sector audits.

In this converging environment, and in the context of our broader role in the accounting framework, it is important for the ANAO to contribute to the processes of setting these standards. Such involvement also gives us the opportunity to reflect distinctive public sector issues in the standard setting process. I note that, in relation to the issue of international harmonisation, the AASB Policy Statement (PS4) on International Convergence and Harmonisation, states that the AASB will take account of the interests of both the public and private sectors in Australia.
As discussed earlier, and reiterated in this paper, the ANAO supports the inevitable move towards harmonisation and a single international reporting framework. However, there should also be an acceptance that the issue is extremely complex, and will require substantial consideration of country-specific challenges and priorities. It would be neither appropriate nor desirable to simply replace national standards with a generic international framework. It may, however, be possible to incorporate international standards into existing national standards in an incremental way, with the reasons for any variations being noted where they occur. Partial harmonisation, or some other form of transitional arrangement, should be possible, although this is a matter that will still need to be resolved by the broader profession. I noted earlier that, in relation to accounting standards, the FRC now requires the AASB to refer to the ‘adoption’ of international accounting standards.

The push towards greater internationalisation or harmonisation is set to continue, with the Parliamentary Secretary to the Treasurer, Ian Campbell, recently proposing that Asia-Pacific countries embark on a formal program to integrate corporate and financial services regulation by 2007. The ANAO will continue to participate actively in debates amongst the accounting and auditing profession in this regard. It is important that public and private sector auditors continue to come together, as well as with our international colleagues, to review and refine our professional standards and practices.

**Maintaining effective relationships**

Being part of the profession is important in setting the ANAO’s auditing standards and priorities for the future. Equally important, however, are the links established between the Office and its audit clients, and particularly with its primary client, the Parliament. It is through these relationships that the ANAO identifies emerging governance and accounting issues and challenges; monitors risks and developments; and reviews the effectiveness of its current approaches. Maintaining effective relationships with audit clients and the profession also assists the ANAO in sharing and disseminating lessons learned and better practice from both the public and private sectors in Australia and internationally.

**Agencies’ audit committees**

The primary channel for communication between the ANAO and its client agencies are the agencies’ audit committees. ANAO representatives are invited as observers in regular audit committee meetings across the public sector. This is an important way for audit managers to keep up-to-date on the issues of most concern to agencies for which they have audit responsibility, as well as providing information on projects underway at the ANAO that may impact on that agency, and monitoring the implementation of recommendations from previous audit reports. Both assurance and performance auditors from the ANAO attend the meetings, ensuring that our integrated approach to audit planning and implementation is reinforced.

The audit committee also provides a vehicle for longer term strategic planning. As discussed earlier, the ANAO sets its audit work program for the year ahead with considerable input from stakeholders including client agencies. In practice, this means that the ANAO takes account of any comments provided on the draft work program via
the agency audit committee, as well as of any internal audit work planned for the year under review.

Working with the Parliament

A similar strategy is undertaken to ensure that the ANAO is scrutinising those issues of most significance to the Parliament. For the ANAO, Parliament very much sets ‘the tone at the top’ in terms of articulating acceptable levels of accountability for the APS. As part of its regular business, the ANAO provides briefings to Ministers, Shadow Ministers, Parliamentary Committees and their staff on audit reports tabled in the Parliament. ANAO officers also liaise closely with Committees, and staff may be seconded to assist Committees with more complex matters. Senior executives at the ANAO have individual targets for Parliamentary liaison, and the Office as a whole has performance targets linked the satisfaction of Parliament. For example, each year we aim to have JCPAA support for all of our reports tabled in Parliament. We aim to have 95 per cent of our recommendations supported by the JCPAA and other Parliamentary Committees.

The ANAO works hard to ensure that we are meeting Parliament’s needs. We monitor our progress in this regard by analysing the results of client satisfaction surveys, and building a strong and effective relationship with the JCPAA and other Parliamentary Committees. As well as guiding us in targeting and refining our annual audit work program, the JCPAA is, however, the main channel for formal dialogue between the ANAO and the Parliament. Our ultimate aim is to be accessible to Parliament and the APS to enhance the reach and significance of our work and to maintain our relevance and credibility.

The nexus between Parliament and an independent Auditor-General is a complex one. The Auditor-General, as an independent statutory officer, serves the interest of Parliament. However, recent years have seen an increasing tendency to direct requests by Ministers for audits of particular programs or issues. While this represents a useful measure of our ongoing relevance and credibility, it also has the potential to challenge the issue of the Auditor-General’s independence. The Office must ensure that, where direct requests for audits are accepted, such audits are in the public interest.

Direct requests for audits are also considered in light of the planned audit work program and potential resource implications. As discussed earlier, the audit work program is developed annually against the background of the APS environment, including the business risks that are likely to impact on the APS during the period under review. These risks are taken into account in identifying themes, such as corporate governance, to be addressed in the work program. The intention is to provide Parliament with an assurance, over time, of the performance of all public sector agencies. The ANAO will continue to work with the Parliament in setting the boundaries for an effective audit environment.
4. CONCLUDING REMARKS

I would like to conclude with some overall observations on the changing governance and auditing environment, and on some of the ways that the ANAO, as the public sector auditor, is preparing itself for the future in a changing auditing framework.

Changing the governance and auditing landscape

The accounting and auditing landscape has been under increased public scrutiny in recent years. In Australia, this has resulted in an increased focus on audit independence, and issues such as openness and transparency, integrity, and accountability. The ANAO is established under powerful legislation, which reinforces the Auditor-General’s position as ‘an independent officer of the Parliament’. In this regard, the ANAO is, to some degree, set apart from the current debate over audit independence.

In addition, the ANAO’s role as the primary external auditor for the public sector means that new rules and principles affecting the private sector are not directly relevant to its sphere of operations, except in those cases where the ANAO outsources financial statement audit to private sector firms. However, the ANAO, like many other parts of the profession, has been engaged for some years in ensuring that its own practices and processes compare well with those it recommends to its stakeholders and clients. The ANAO already has strategies in place to ensure that its processes are open and transparent, our staff exhibit the right behaviours, and that, where there is a demonstrated benefit, lessons from both the public and private sectors are adapted and applied.

As auditors for the Commonwealth, there are greater accountability requirements for the ANAO than for its private sector colleagues. While NPM methodologies extend many benefits to citizens in terms of access to higher quality service, APS agencies must also ensure that their clients are still recognised as citizens who expect value and results from their tax dollars, and who expect to be able to participate in setting the agenda for government, and consequently for the agencies that support it.

As governments continuously reassess their role in society, new and innovative approaches to policymaking and service delivery methods that increasingly involve the establishment of partnership arrangements need to be developed. This evolving environment is also drawing the private sector more readily into partnerships, mergers and alliances as a means of better coordinating economic activity and generating better results.

Consequently, networking or partnering is beginning to play a major role at the local, national and international levels and across all sectors of the economy for improved performance and effectiveness. Unfocussed and uncoordinated programs waste scarce resources, confuse and frustrate recipients and limit overall program effectiveness. The development of effective working relationships with stakeholders is, therefore, an important element in a well functioning public sector corporate governance framework and can help to identify, overcome and even avoid fragmentation and unnecessary overlaps in government programs.
As the governance and accountability environment becomes more complex, the ANAO performs a crucial function in providing assurance on performance across the public sector. This is important as agencies increasingly find new methods to deal with common issues, and form alliances and partnerships, including with the private sector, to deliver government services. Consideration of the corporate governance procedures underpinning these new more complex administrative arrangements, and promotion of better practice examples, is a key feature of many ANAO audit reports. As discussed earlier, it is important that the ANAO is responsive to significant changes affecting the public sector in setting its audit agenda.

To deal successfully with the challenges, we have to learn from each other. This requires a continuing open dialogue, and sharing of experiences from both the private and the public sector, in Australia and overseas. As the auditors for the Commonwealth, we will continue to play our part in contributing to broader debates over accounting and governance. In addition, we will continue to assist agencies in dealing with the challenges facing them. This is important so that Parliament can obtain maximum value from agencies’ financial statements, as well as be assured as to the effectiveness of agencies’ governance and accountability arrangements.

We have much to learn from the private sector and from international experience, just as the private sector has something to learn from us. The public service in general, and the ANAO in particular, is characterised by an emphasis on operational transparency, integrity, accountability and proper stewardship of public resources. This provides an excellent platform on which to build the new directions in accounting and auditing, and should, in turn, provide the level of assurance required by stakeholders, Parliament and the public. Harmonisation of national accounting and auditing standards with international standards and/or the adoption of the latter standards reflects the realities of global pressures and the greater convergence of various sectors of the economy. The pressure is very much on improved performance and achieving required results. However, this still should not be at the expense of due process, or the public interest, or at the expense of high level values, ethics and professional codes of conduct.
NOTES AND REFERENCES


3 In 2002-03, the ANAO committed to delivering a minimum of 50 performance audit products, 8 information services products (including BPGs and benchmarking studies), and 8 assurance audit products (including protective security audits, financial statement and attest opinion reports, financial statement related reports, assurance and control assessment audit reports, and compliance assessment audits) to the Parliament. This is in addition to the issue of 290 financial statement audit opinions.


8 http://www.anao.gov.au


20 For more information on the Graduate Certificate in Performance Auditing, see http://www.dmt.canberra.edu.au/flex/intensive/gradcertperfaud.html


23 Martin, Wayne QC 2003. Comment reported in *Time to Lift our Ethical Standards* West Australian – Business News. 16 April, p.66.

29 As rather colourfully described by Senator Murray, a prominent member of the Australian Senate.
37 Parliamentary Secretary to the Treasurer, Senator the Hon Ian Campbell 2003. Address to an ASIC Summer School. Sydney, 14 March, p.2
42 AASB Action Alert Number 52 – August 2002.
43 Haswell, Stephen and McKinnon, Jill 2003, IASB Standards for Australia by 2005: Catapult or Trojan Horse? Australian Accounting Review Vol 13 No 1, March. pp.8-16


63 Awty, Adam 2002, *A Check on Risky Business*, Public Sector Informant, Supplement to The Canberra Times, April, p.11.


49


75 Department of Finance and Administration 1999, *Review of Budget Estimates Production Arrangements*, July. Also referred to as ‘The Vertigan Report.’


77 The ANAO has recently concluded a performance audit of this issue – see ANAO 2003, *Annual reporting on Ecologically Sustainable Development*, Report No. 41, Canberra, 7 May (expected).


79 http://www.globalreporting.org

80 http://www.icaa.org.au/tbl


82 Dee, Bill 2002. *Handle with care – can corporations have social integrity*. The Australian Standard Vol 23 No 7, pp. 22-23


93 Ibid, p.6


97 New York Stock Exchange Corporate Accountability and Listing Standards Committee, 2002. *Report*. New York, 6 June, p.26. The Committee, among other matters, also proposed that listed companies must have an audit committee comprised solely of independent directors; the chair of the committee must have accounting or financial management experience; and audit committees must have sole responsibility for
hiring and firing the company’s independent auditors, and for approving any significant non-audit work by
the auditors.  p.21

98 See, for example, the Institute of Chartered Accountants in Australia 2003, *PI Insurance crisis forces
ICAA to lower its mandatory requirements*, Media Release, Sydney.  20 February.

99 http://www.intosai.org

p. 5.