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**Auditing Challenges into the Next  
Millennium – An Australian  
Perspective**

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## **INTRODUCTORY REMARKS**

As the title of the address suggests, my main focus today is about the various challenges that face Auditors-General through the 1990s in an environment of change. In Australia and elsewhere, the past decade has been a period of quite significant change in public administration. Some are suggesting that this is simply the forerunner to even greater change - only time will tell of course. An imperative for all of us is to engender the culture, the professionalism and the flexibility in our organisations to be able to adjust quickly and credibly to such change.

My remarks will cover the following broad areas:

- the role of Auditors-General and the importance of maintaining such a role in a changing public sector management environment;
- a broad overview of significant changes which have taken place, and are likely to take place in the future, in that environment relevant to Auditors-General;
- some of the implications and particular challenges these pose for Auditors-General; and, finally
- the possible impact which improvements in information technology, in particular, will increasingly have on the public sector auditor.

## **THE ROLE OF AUDITORS-GENERAL**

While there are variations in the mandate, focus and operating arrangements across countries, the fundamental role of Auditors-General or their equivalents in democratic systems of Government is substantially the same. That role is to provide the elected representatives of the community (the Parliament) with an independent, apolitical and objective assessment of the way the Government of the day is administering the mandate and resources approved by democratic processes.

In most, if not all, systems of Government, the concept of accountability is of fundamental importance. By accountability I mean:

‘a direct authority relationship within which one party accounts to a person or body for the performance of tasks or functions conferred, or able to be conferred, by that person or body.

In my view, Auditors-General are an essential element in the accountability process by providing that unique blend of independence, objectivity and professionalism to the work they do. While the support of legislation is desirable in these respects, a particular challenge is not having to rely on it. My aim is to be, in essence, the Auditor by choice of public sector agencies and entities.

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While there are broad similarities in the role and functions of Auditors-General or their equivalents, there can also be some important differences. To illustrate, I will contrast some operational aspects of the U.S. General Accounting Office (GAO) and of the Australian National Audit Office.

The General Accounting Office (GAO) has a direct and unequivocal relationship with, and responsibility to, the U.S. Congress. This accountability is fulfilled by providing a variety of services, particularly the conduct of audits and evaluations of Federal Government programs and activities. I understand that many GAO reviews are made in response to specific Congressional requests. The GAO is also mandated to undertake work requested by Committees of Congress and, as a matter of policy, it assigns equal status to requests from ranking minority members. The GAO also has a policy of responding to requests from individual Members of Congress. Other reviews undertaken by the GAO are initiated pursuant to standing commitments to Congressional Committees and some reviews are specifically required by law. The GAO's mandate is very wide and extends to every Federal Government program. Under the 1985 budget law, the GAO still monitors spending and recommends to Congress how to cut the federal deficit. In Australia, this tends to be done by the Department of Finance. As I understand it, the mandate of the GAO extends to the conduct of program evaluations or program results reviews covering work that evaluates how effectively programs and activities are meeting intended goals and purposes.

The mandate of the Australian National Audit Office (ANAO) is to undertake audits of financial statement and performance audits of public sector agencies and programs. Our mandate does not extend to examining matters of Government policy, for example to assess whether the objectives of a proposed, new or ongoing program are proper, suitable or relevant<sup>3</sup> but is simply focussed on examining the administrative efficiency and effectiveness of the administration of Government agencies and programs. The Federal Parliament is the ANAO's primary client and the results of all audits undertaken are reported to the Parliament. However, the ANAO also recognises it has a responsibility to provide an auditing service to both the Executive Government and to the Boards and management of public sector agencies.

The legislative arrangements for the appointment of the Auditor-General and the establishment of the ANAO means that the Auditor-General is statutorily independent of the political environment. However, under current legislation, the Auditor-General is appointed by the Governor-General on the advice of the Government not under any advice from the Senate, as in the United States. As a matter of policy, the ANAO does not respond to the requests of individual Members of Parliament. And when it conducts audits at the requests of Government Ministers, the results of these audits are reported to the Parliament. In this way the outcomes of our work are transparent, thus providing the Parliament and the community with a very important source of information about the way public resources are being administered.

While the Federal Parliament is our primary client, the way the ANAO also contributes to development of public administration is primarily through agreeing with management of an agency on ways in which improvements to the administration of programs can be effected during the audit process itself. While we have in place a quite rigorous regime of Parliamentary review and scrutiny, in my experience improvements in performance and accountability of public sector agencies are less likely to occur where there are

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differences, particularly fundamental differences, between the ANAO and an agency which is the subject of audit.

We therefore endeavour to work closely with agency management to achieve an outcome both parties are at least broadly able to agree. This is not a case of settling for a low level compromise solution which is in no ones interest. It is a matter of ensuring good communication and understanding of the issues and mounting a compelling argument. There is general acceptance that there is no benefit to anyone from a poorly performing program.

There are similarities in the way in which the independence of the Office of Comptroller-General and of the Office of Auditor-General is assured. In the case of the Comptroller-General, who, as I noted earlier, is appointed by the President with the advice and consent of the Senate, the occupant can only be removed by impeachment or joint resolution of Congress, which requires the Presidents signature.

The independence of the Office of Auditor-General is assured by the fact that the Auditor-General can only be dismissed by the Governor-General (this position being the representative of the Queen of England) on the request of a joint sitting of both Houses of the Federal Parliament. Not surprisingly, this has never happened and quite frankly I do not wish to envisage the situation where such a process would need to occur.

The fundamental point I want to make from these requirements is that our elected representatives have long recognised the need for a source of independent assurance and advice to assist them in meeting their own responsibilities to the general community. While, from time to time, concern has been expressed about apparent attempts to lessen that independence, I am very confident that good sense will continue to prevail and that the independent role played by Auditors-General will be preserved into the future. Auditors-General can reinforce this situation by high quality audits adding real value to overall public administration.

In Australia, the role and functions of Auditors-General has been a subject of much debate over many years. The events in Australia during the 1980s which saw the financial collapse of a number of companies, including some owned by State Governments, brought more sharply into focus the importance of having a viable and effective external audit function which has close links to Parliament. At the Federal level, and to a varying extent at the State Government level, this debate unfortunately has still not been translated into improved laws which govern the roles, responsibilities and operations of Auditors-General. This in itself is a matter of some concern for overall accountability and assurance to the general public. There is, however, legislation currently being debated in the Federal Parliament which, when passed, will provide a solid legislative base for my office well into the next century. I will deal with that legislation in more detail later.

What is of more importance, however, is that Auditors-General are firmly focussed on their role in the changing framework to ensure our ongoing relevance and credibility with the assurance that should provide to the Government, the Parliament and the people. At the end of the day, our credibility is mainly a product of the quality of the work we produce and our efforts must continue to be focussed on that goal. However, as the U.S.

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Management Guru, Tom Peters, noted in Australia last year, creating world class quality products may get you into the stadium but it does not necessarily get you into the game or even to score points. In other words, we have to market ourselves and those products. Along with other elements of the public sector, we will have to communicate better with our clients or customers and respond to their needs. Such comments are not the stuff of the traditional Westminster system on which many of our public sectors are based.

With those broad introductory remarks, let me now address the ways that Auditors-General do contribute to our changing environments and the areas in which we will need to lift our game even further as we proceed into the next millennium. In doing so, I will often draw on the approach being followed in the ANAO to illustrate the point I am making. This is simply because of my obvious familiarity with the Australian situation, despite having only just recently taken up appointment as the Federal Auditor-General, and because I am confident that the ANAO is well placed to continue to make a valuable contribution to public administration in Australia at the Federal level.

## II THE CHANGING PUBLIC SECTOR ENVIRONMENT

It should go without saying that we need to understand the environment in which we work. The temptation to auditors and evaluators is to regard themselves as somehow outside that environment, unaffected by it, instead of being an integral part of it. In Australia, meeting the auditing challenges into the next millennium should be considered in the context of the various reforms in public sector administration which have created the need for change in the work culture of the public service and impacted markedly on the structure and work of the ANAO. The reforms include:

- a focus on outcomes;
- the matching of authority with responsibility through a process of devolution;
- risk management, including the use of accountability as a management focus;
- alterations to the framework for financial resource management and reporting; and
- alterations to the framework for human resource management, including greater staff management flexibility, equal employment opportunity and other human resource management initiatives as well as performance appraisal and the rewarding of good performance through performance pay.

These reforms are not endemic to Australia and would be very familiar to many of the participants in this conference.

The ANAO is well placed to make a significant contribution to the development and implementation of many of these reforms. The Office recognises that the reforms to date apply just as much to it as they do to any other government organisation. We appreciate that in setting our priorities we have to take into account the directions set by the Management Advisory Board (MAB) and its Management Improvement Advisory Committee (MIAC) in the various publications such as *Building a Better Public Service* and *Ongoing Reform in the Australian Public Service*.

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## Building a Better Public Service

A reasonable summary of the major themes identified in *Building a Better Public Service* is as follows:

- Making performance count: by looking closely at client needs and service quality, evaluating achievements, rewarding good performance at all levels, learning from and building on past performance, and being accountable;
- Leadership: emphasising the key responsibilities of agency heads in managing for results, and clarifying the roles of central agencies and other mechanisms for sharing knowledge and experience; and
- Strengthening the culture of continuous improvement: through better people management and development, and by embedding attitudes in a culture that unequivocally seeks to find better ways to achieve desired results.

The ANAO must, and be seen to, own these elements of the strategic base for the ongoing reform program, as well as reflecting these themes in the audits that it undertakes. By so doing, I am very confident that the Office can be an important catalyst in the ongoing public sector reform agenda. We will be seeking to have such an involvement, particularly with those bodies that are setting strategic directions, such as MAB/MIAC. As well, we need to work closely with agencies on developments such as One Stop Shops, for example the recently established AusIndustry and involvement of the private sector in delivering Government services as in the provision of case management for the unemployed. There are also changing arrangements for Commonwealth/State relations in regard to program responsibilities under the auspices of the Council of Australian Governments (COAG). These developments are likely to have important ramifications for the way public services are provided and accounted for in the future. I understand this is similar to the situation emerging in the United States as part of the National Performance Review.

The ANAO is committing increased resources to identify areas of best practice as well as identifying those areas where improvements in administration are required. Best practice guides on topics as diverse as grants administration, internal audit and the sale of Commonwealth assets, have been produced by the ANAO. In my view, it is by focussing our attention more on best practice models and ways that administration can be improved, rather than simply highlighting areas of deficiency, that the ANAO can be of greatest assistance to agency management, the Executive and the Parliament. I will expand on this approach later in talking about our experiences in balancing the competing focuses of our work and on a new audit product which we are currently developing.

## Risk Management

It is my view that Risk Management is an important, and one could say pervasive, element underlying many of the reforms which have taken place. A useful way of defining

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a risk management approach is that it is one that identifies all material areas of possible loss/error/opportunity, assesses the benefits and costs of the available options and enables informed judgements about the level and costs of risks involved in achieving cost-effective outcomes.

The ANAO is a strong supporter of the concept of risk management and the reasons for this are quite straight forward.

First, managing risk is an essential element of good management practice, particularly in today's climate of increasing financial constraint, greater competitiveness and contestability for both advice and services. The overriding aim of all the ANAO does is to improve public administration and the accountability framework through which its own performance will largely be judged. Managing risk efficiently and effectively reflects one concrete way in which this can be achieved. In this regard, the ANAO is interested to see whether agency management has assessed the organisational risks in a structured manner and planned accordingly. Cost/benefit analyses are an important part of managing risk. It is not cost effective, nor appropriate, to cover every risk. As good managers we should all look to continuously assess risks, assign priorities and probabilities and establish a controlled environment for managing those risks.

Second, the concept of risk management is fundamental to our own auditing activities in the conduct of both performance and financial statement audits. In undertaking our financial statement audits, professional accounting and auditing standards require the ANAO to first identify, and then assess, risks which exist in the organisation subject to audit. It is only in this way that our resources are applied to those areas of greatest risk, in this case the risk of material misstatement of the financial statements. On the performance audit side, the ANAO has in place planning practices which help identify a range of risks in public sector entities. This approach ensures that we focus our resources on areas of greatest risk to achieving the required results. I will return to this topic a little later.

As well, the ANAO has a range of basic safeguards in place which help ensure that we are not exposed to unnecessary risks. These include, for example, the risk of issuing an incorrect audit opinion, or a performance report which lacks sufficient supporting evidence. Another area of increasing risk is our responsibilities under the Corporations Law. The corporatisation of greater numbers of public sector entities, coupled with the Government's decision to privatise or partly privatise a number of these entities, means that we are all subject to the full umbrella of the Corporations Law responsibilities and potential liabilities. As the external auditor of these entities, the ANAO is very well attuned to the increased level of risk in this arena, for example in due diligence processes related to asset sales. An interesting situation has emerged from the landmark AWA audit negligence case in Australia where it has been reported that:

*...auditors who neglect to follow their firms audit manual could be found in breach of contract and liable for hefty litigation action, with penalties reaching millions of dollars.*

The point is that if our audit manual requires us to follow certain steps - and we do not take those steps - we may be found negligent and liable for damages. To me it also

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emphasises the importance of keeping that manual up to date in terms of our current procedures and practices.

The need to be cognisant of, and observe due processes which ensure procedural fairness (or natural justice as some of us have been more used to referring to them) is another area of risk the ANAO deals with and has to manage on a day to day basis.

The point I want to stress in briefly discussing these examples is that public sector auditors do understand and apply the concepts and principles underlying risk management and recognise fully the real issues and challenges which the public sector must deal with in managing risk. It is not only an exercise in not exposing our public sector organisations to undue criticism, challenge or financial loss but also in clearly showing we are managing our resources efficiently and effectively. We need to be able to provide positive assurance to the various stakeholders in the latter respect as well as about ethical conduct, probity and equitable treatment.

## Creating Two Public Services

To put some of my more important points in context, I hope you will bear with me repeating some of my address to last years Annual Conference. For those of us who inherited the traditional Westminster style of public administration, we have largely adopted the changes that have taken place in the United Kingdom (UK) as that style has evolved over time. Key elements of that approach have been clear ministerial responsibility to the Parliament, an apolitical and ethical career public service and the independence of statutory bodies. In recent years, the Next Steps program has promoted the separation of policy and administration and the concomitant shift in the responsibility of Ministers for policy and of Agency Heads for administration. This has engendered considerable debate in the UK and elsewhere about the real dichotomy between policy and administration and the political practicality of ministerial divorcement of responsibility for so-called administrative or public sector management issues. Experience suggests the distinctions have not been so clear cut as, for example, agencies have been involved in the provision of policy advice. In this respect the following observation last year by two Australian academics is relevant:

*... most program managers do policy while doing implementation. In practice the two tasks or functions are almost inevitably intermixed, with the result that there are very few pure or ideal type policy-free managers or management-free policy advisers.*

Nevertheless, the notion of two public sectors has been pursued; one being concerned primarily with the development of policy and the other primarily with the delivery of services.

The public sector concerned with policy is broadly equivalent to the traditional Westminster model. In some ways, the administrative model is broadly equivalent to the type of system countries such as Sweden have employed for over 400 years. Therefore, in essence we have nothing new in conceptual terms. However, this separation has focussed greater attention on the application of commercial principles or the discipline of



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the market to the traditional administrative model and the issue of contestability in the provision of public goods and services. In New Zealand this approach has been pursued in relation to the policy model as well. In my experience, all advice is contestable, at least to some degree. Once contestability becomes a real issue, there is almost a concomitant consideration of privatisation. This in turn leads to questions about what are core and non-core public sector activities. Of course, these are not new debates but it is fair to say that the more recent governance changes have concentrated the mind somewhat. They involve more than old wine in new bottles.

In Australia at the Federal level at least, the notion of core and non-core applies broadly to the distinction between policy and administration, but not exclusively so. The question of privatisation is basically about whether the particular activity needs to be carried out within government for any of the accepted reasons, such as in the public good. The public monopoly justification has been steadily eroded particularly with the imposed regulatory frameworks and more open competitive environments, including the global market. Application of market disciplines and commercial approaches to non-core activities has almost been axiomatic but has also found at least partial acceptance in some core activities. These have important implications for auditing approaches where management and accounting techniques have much in common with those in the private sector. There is also a growing impact on the demand for similar auditing skills and experience.

In Australia, we have not attempted to define the core public sector per se. However, this is occurring on a case by case basis. Our Constitution does provide a broad indication of core activities. Government decisions on particular activities range from whether they are to be budget funded and performed by departmental structures or by statutory bodies or at even more arms length to government to the point of privatisation. Paralleling these decisions is a continuum of commercialisation ranging from simple user charging through to full corporatisation of particular activities. A characteristic of non-core functions is largely reflected by the extent they are exposed to competition from the market. Further, while it does not automatically follow that corporatised activities will be privatised, the corporate format can make it easier to do so. The two strategies of commercialisation/privatisation therefore, should not be confused, but unfortunately they often are. As an important aside, I should mention a concern recently expressed by our Ombudsman about a 'no mans land' of accountability which is developing between departments and contractors as more and more government services are privatised.

In Australia at the Federal level, we have used the policy/administration dichotomy in the non-core public sector basically to focus attention on quality service delivery. To the extent that performance and accountability of the relevant functions is enhanced by the adoption of more commercial (private sector market oriented) approaches, these have been implemented, particularly where the activities are in direct competition with those in the private sector. The key issue is not whether a particular function is basically policy or administration but whether commercial methods can improve its performance and accountability. Not surprisingly, the latter can be more easily demonstrated with the delivery of goods and/or services.

Put simply, there are considerable opportunities to improve public sector performance and accountability by the use of more commercial approaches and techniques across a range of activities, particularly those involving goods or service delivery. The latter is a means to an end not an end in itself. It is important that we are able to demonstrate clearly that government objectives are being achieved efficiently and effectively and

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remain appropriate to the policy priorities and circumstances of a changing society. But, as well, we have to show that we are just as capable of successfully adapting as the private sector so that the following perception is revised:

It has become a commonplace that successful organisations develop the capacity to learn and to adapt to a changing environment, and that business organisations are better able to do so than public ones.

I am inclined to agree with Robert Behn of Duke University that the following are three of the 'big questions for public management today:

1. Micromanagement: *How* can public managers break the micromanagement cycle - an excess of procedural rules, which prevents public agencies from producing results, which leads to more procedural rules, which leads to ...?
2. Motivation: *How* can public managers motivate people (public employees as well as those outside the formal authority of government) to work energetically and intelligently towards achieving public purposes?
3. Measurement: *How* can public managers measure the achievements of their agencies in ways that help to increase those achievements?

Against this general background, there are a number of implications, opportunities and challenges for auditors arising from this new environment. I will mention a few of these and then discuss the proposed legislation that underpins the reforms in Australia.

I note that Osborne and Gaebler listed some 36 alternatives to conventional service delivery through public service networks. Many of these cases involved variations on contracting out, plus other suggestions such as working with State and Local Governments, voluntary organisations, and cooperation with commercial firms in program delivery. They also covered alternatives such as persuasion of individuals and influencing the market. A common feature of these is that not only is the size of the government sector reduced but so is direct control and auditability of the activities.

Charles Handy described a future where there would be three classes of workers in organisations. First, there would be a relatively small core of permanently employed professionals, second, a proportion of temporary and possibly part-time assistants, and third, a considerable amount of work outsourced to consultants and contractors. As I will expand on later, to some extent the ANAO is already operating this way, although the proportions within each group will continue to change. We are also encountering situations where it is difficult to access the corporate knowledge of our auditees about events or transactions of particular audit interest because it is held or partly held by staff who have already moved on. Not surprisingly, as a result public sector managers are increasingly focussing on the development and maintenance of their corporate data bases as a key element impacting on the future of their business.

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Another challenge for the ANAO in the move to increased contracting with the private sector for the provision of government services is our ability to access the relevant records. At present we do not have a legislative provision similar to that which I understand applies in the USA that guarantees access by government auditors to the private sector service providers records. However, we currently encourage the inclusion of a suitable access clause in contracts of this nature. At the time I was preparing this presentation, the Western Australian Commission on Government was calling for the introduction of legislation to allow that States Auditor-General to scrutinise goods and services which were traditionally publicly financed but had been contracted out to the private sector.

## Devolution and Decentralisation

Devolution (the passing of decision making powers from central to line agencies and the passing down of these powers to officials at lower levels of an organisation) has been a strong feature of the continuing public sector reforms in Australia, along with decentralisation (the physical movement of functions to more widely dispersed locations). These concepts have in fact been well accepted in some sections of the public sector in Australia but not as well between central and regional or area offices of particular agencies. As well, there has already been a number of cases where action has been taken or is planned to re-centralise powers, authority and responsibilities. In my view this is not a reflection of any deficiency with the concept of devolution per se, but rather it is more a fine tuning of the process based of experience in its application. There are clearly some powers and functions that are not readily amenable to being devolved, for a whole range of valid reasons, just as there are some that offer clearly transparent benefits and others that fall into the grey areas in between. There is clearly legitimate concern about the absence, or inadequacy, of suitable management information systems which would credibly support an environment of devolved authority.

The concept of one stop shops, mentioned earlier, embraces a mixture of centralisation at a decentralised level (locality) with devolution of decision making, supported by centralised specialist expertise for those functions that are technically complex or so infrequently encountered that their provision on a decentralised basis is not cost effective. One of our ongoing challenges is to assist agencies to determine whether their chosen method of service delivery meets the cost-effectiveness test. There is a learning period for all concerned. An audit office can be both a catalyst for, and disseminator of, answers to such questions. Our problem is to ensure we have the appropriate insight and expertise.

Another area where there is growing interest in the public sector in Australia at present, as part of our continual search for more cost-effective solutions in devolved environments, is that of information technology data warehousing. This reflects a recognition of information as a corporate asset, the maintenance of its integrity and the requirement for access, including sharing of data at all levels and across areas of organisations. Warehousing techniques facilitate the storage of data in a form suitable for use across the organisation concerned for common business operations. Replication of such data for day to day use helps preserve reliability and availability of the information concerned wherever it might be required.

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A recent report of a Ministerially established Information Technology Review Group, entitled *Clients First*, found that there was:

*...room for reform in how the Government used Information Technology to develop policy and conduct its administration. However, the greatest potential lay in transforming the quality, range and relevance of Government client service delivery.*

The review placed considerable emphasis on commonality and interoperability to enable maximum flexibility and reduction of duplication. It also stressed the benefits of pursuing cross-agency uses of information technology (IT) in the interests of greater efficiency and better client service delivery. (I will come back to a fuller discussion of the new IT challenges towards the end of this presentation.) As I see it, implicit in the adoption of these concepts is an acknowledgment that there either needs to be some reining-in or at least re-tuning of the previously devolved decision making powers for public sector major Information Technology acquisitions, or we need to find better mechanisms and inducements for facilitating co-operation between our public sector agencies.

A long-centralised function that is currently undergoing review is the provision of Commonwealth public service payroll services. Our Department of Finance recently announced that it is testing the private sector market to determine whether there are cost efficiencies to be gained in contracting out this function. However, it is a good example of a whole-of-government approach to a basic service which takes advantage of considerable economies of scale, is a convenient single point of contact for the financial community, and is a standard interface connecting to all financial management systems. For some years now the Department of Defence has been systematically testing the contestability of the provision of its non military services under its Commercial Support Program.

Devolution and decentralisation bring with them a significant reduction in prescribed rules and procedures to be followed, consistent with the concept of allowing staff maximum flexibility to meet the needs of the customers/clients they serve. Rules can often simply be abolished, or replaced with more general, non mandatory guidelines. This poses an increasing and fairly obvious challenge for auditors. It calls on auditors to exercise a lot more of their professional judgement. It also brings an increased emphasis on ensuring that the public sector managers operating in a devolved environment have been provided with the necessary training, tools and information systems to enable them to manage their operations. The Auditor-General of Canada has expressed the relationship succinctly as follows:

*Accountability also implies a specific, very strict procedure. Empowerment is not just a random process. The delegator must give the delegate the authority, resources and control needed to achieve the results they have agreed on. Without those tools, the delegate cannot be held accountable. Similarly, the delegate must demonstrate that those resources and that authority have been used properly and must give an accounting of the results.*

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The growth in the size and complexity of the public sector over recent decades has led to a perception that there has been a shift in the application of our Westminster accountability principles. Today there is an increased realisation that it is no longer practical to expect a Portfolio Minister to be aware of or accept personal responsibility for every action or decision taken by his or her Department. With devolution and a growing focus on clients service, there is a higher expectation of personal professionalism, equitable, ethical and ecologically friendly service delivery and individual responsibility/accountability of public servants for achieving the outcomes and results desired by the Government of the day.

## The Legislative Framework

The evolving reform environment in Australia over the last twelve years is now being reflected in four bills that the Federal Government has proposed or intends to propose to our Parliament that will refocus public sector administration at the national level. These are the three replacements of the current Audit Act and the replacement of the Public Service Act. These bills, when enacted, will provide the legislative framework for public management (administration) into the next millennium.

The replacement statutes comprise

- the Financial Management and Accountability (FMA) Bill 1994;
- the Commonwealth Authorities and Companies (CAC) Bill 1994;
- the Auditor-General Bill 1994; and
- proposed changes to the Public Service Act 1922 announced by the Government in August 1995.

There are two matters within this framework which I particularly want to mention. The first is that the FMA Bill and the CAC Bill broadly reflect a basic distinction between core agencies of Government and non-core bodies controlled by Government. The split reflects, inter alia, a general acceptance that some activities should only be performed under the close and direct control of the Executive, whereas others by their very nature require a degree of independence from the Executive. CAC bodies have a corporate (legal) identity separate from that of the Commonwealth and hold money and other assets on their own account, while FMA bodies are agents of the Commonwealth in that they do not own money or assets separately from the Commonwealth. These Bills will form the basic legislative framework within which the ANAO will conduct its audits. However, as I indicated earlier, the Corporations and Taxation laws have also become relevant to a number of CAC organisations with the attendant demands they place on all concerned.

The proposed framework will enable the federal public sector to further address the fundamental issue of what is core and non-core business and the apparently different requirements for dealing with such a dichotomy. This is an issue which, in the future, if not already, has the potential to result in further challenges for the ANAO, for the

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Australian public sector generally and indeed for the Parliament and others interested in public administration. At the very least we must recognise and understand the different performance and accountability imperatives facing managers and contribute to the best means of responding to them, as I noted earlier.

The second aspect of the new legislation I wish to draw attention to is the explicit provisions for accountability of Agency Heads. The FMA Bill requires Chief Executive Officers to promote efficient, effective and ethical use of Commonwealth resources. The CAC Bill specifies standards relating to acting honestly, exercising a degree of care and diligence, disclosing pecuniary interests, using inside information and other matters. Both Bills place an onus on individuals to promote ethical behaviour.

In the case of the FMA Bill, the individual is the Chief Executive. For incorporated bodies, there is an onus on each Board member to operate within specified ethical standards. In the reform process, the emphasis is on the promotion of ethical behaviour and the key to ethical behaviour is ensuring that all decisions reflect public service values and are transparent to the extent that proper confidentiality/privacy concerns allow. A recent address by Dr Michael Keating (Secretary, Department of Prime Minister and Cabinet) entitled *Public Service Values* provides further details and also foreshadows a MAB/MIAC publication to help guide public sector staffs appreciation of ethical conduct with suitable case studies. Again, the challenge to the auditor is to contribute to that guidance as well as to promote it. In this respect I am in complete agreement with the Auditor-General of Canada who recently said:

*I propose as a starting point the principle that 'public service is a public trust. I believe this principle is central to any discussion of ethics in government.*

The legislation to replace the Audit Act is currently in our Upper House, the Senate. The Senate is currently controlled by the Opposition and minority parties and it has proposed a number of amendments to the Bills which the Government to date has found unacceptable. I do not propose to detail these amendments but there is one issue which has emerged which may be of general interest.

There is a section in the Bill dealing with the appointment and powers of the Auditor-General which allows the Attorney-General, a Government Minister, to stop a report containing what is described as sensitive information going to the Parliament. Concern has been raised that this provision in some way restricts the powers and privileges of the Parliament as provided for in Australia's Constitution. Perhaps not surprisingly, legal advice on this matter varies, in part I suspect, because there have been no judicial rulings on the relevant section of the Constitution.

The Senate is still grappling with this matter which some see as being an important test as to whether the Parliament is prepared to limit its apparent Constitutional rights. The issue goes beyond the Auditor-Generals Bill and may require some general legal remedy across relevant legislation. Whatever the outcome of these deliberations, the ANAO looks forward to the passage of the legislation in the near future. Parliamentary endorsement of the financial management approach will be a major milestone in the overall public sector reform agenda taking us into the next millennium.

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The new Public Service Act will complete the overall public management legislative framework and will significantly influence the environment in which we operate in Australia. The main features of the proposed legislation include:

- a statement of general principles of public administration, in particular that the Australian Public Service (APS) should be politically independent, merit-based and cohesive;
- the provision of a clear statement of the Governments and Parliaments expectations of the APS; and
- consistency with changes that have occurred in the management of the APS, offering a more flexible employment framework in keeping with the operating environment of the 1990s and beyond.

The ANAO will have an important influence on, and will contribute to, the efficient and effective implementation of the Acts finally passed. Our emphasis will be on facilitation as well as on compliance in a more accountable environment. ANAO staff must fully comprehend the intent and contribution of the Acts to the overall public management and policy environment if we are to add real value to their implementation.

The ANAO will be focussing its attention in the coming months on how it can best contribute to this change process, having established its strategic directions on the basis of clearly identifying our own core and non core business, as well as having, for many years, undertaken audits against differing regulatory environments and the corporate knowledge that goes with it.

### **III THE ACCOUNTING AND AUDITING ENVIRONMENT**

The second environment which will help to shape the future directions of audit offices is that created by the general accounting and auditing framework. I will look at this from both an external and internal perspective, that is outside and inside the ANAO.

#### Relating to the External Influences

The ANAO is well-placed to contribute to developments in the accounting and auditing framework which impacts on the public sector in Australia. We will also endeavour to have some influence on future directions being considered by the accounting profession by seeking representation on relevant committees and by submissions on proposed changes to practices, procedures and standards. Our emphasis will be on ensuring consistency, credibility and cost-effectiveness. As well, we would expect to continue to make contributions to relevant international forums such as the International Organization of Supreme Audit Institutions (INTOSAI) and the Asian Organisation of Supreme Audit Institutions (ASOSAI) where I am a member of both Governing Boards.

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## *Accrual Reporting*

An area where the ANAO has already made, in my view, a significant contribution and where there is even greater potential in the future, is in accrual reporting and particularly whole of Government reporting.

The transition from cash reporting to modified and then full accrual reporting, as distinct from accrual accounting, has been a particularly difficult one for some departments and agencies in Australia. The ANAO has, in my observation, contributed significantly to the situation whereby all departments at the Federal level will this year be reporting on a full accrual basis with no more than a handful at this point in time facing the possibility of any adverse commentary in the audit opinion on their financial statements.

That leads me to introduce the question of whole of Government reporting. With the introduction of whole of Government reporting in a number of jurisdictions already, and the release earlier this year of Exposure Draft 62 by the Australian Accounting Research Foundation (the accounting professions standards setter), I suggest it is a matter of when, not if, that whole of Government reporting will be introduced into the Australian Commonwealth Government arena. Indeed, the Joint Committee of Public Accounts recently concluded that:

*The Government should articulate a clear vision for the future of financial reporting in the Commonwealth, incorporating whole of government reporting, accrual management and, possibly, accrual based budgeting.*

The Committee went on to recommend that the Government should commit itself to the preparation, at least annually, of whole of government reports for the Commonwealth. The Committee has also announced a further inquiry into fiscal responsibility legislation and whole of government reporting. This is likely to give greater impetus to the growing focus on the accountability of government as a whole.

The ANAO is uniquely placed to make a significant contribution in the Commonwealth arena to the development, introduction and presentation of whole of Government reporting. I think it is important that the Office be closely involved in its preparation if only to support its credibility. We would be looking to avoid what would probably now be qualification of such reporting. The aim should be to produce a readily understood document that is consistent in definition and coverage with a minimum requirement for explanation of the figures and how they might reasonably be interpreted.

Discussions have been held with our Department of Finance and agreement reached that the ANAO and that Department will cooperate fully in the lead up to and the introduction of whole of Government reporting, whenever the Government and the Parliament determine it is appropriate for it to be introduced. The Joint Committee of Public Accounts endorsed my suggestion that it would be appropriate to also consult with interested parliamentary committees, which may help refine the form and content of whole of government reports. For our part we are committed to dedicating a number of staff to ensure that the ANAO plays its part in this regard. For example, we have just



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agreed to place a senior officer with that Committee to assist its examination of financial reporting issues.

## *Accounting and Auditing Standards*

The ANAO also recognises the need to contribute to the development of accounting and auditing standards. We have always taken an active role in the development of such standards, and our contribution in this area will continue, and indeed increase, through the ANAOs participation on a recently formed body known as the Urgent Issues Group (UIG) of the Australian Accounting Research Foundation. An ANAO representative is a member of this group as a nominee of the Australian Council of Auditors-General. This Council is made up of the Auditors-General of the Commonwealth, the States and Territories, as well as our colleagues from New Zealand, Papua New Guinea and Hong Kong. As the name suggests, the UIG has a charter to consider accounting issues which require particular attention because of, for example, divergent practices. The UIG is unable to alter any Accounting Standards but may interpret them and may look at areas that they do not cover. Application of consensus views of the UIG is mandatory for the profession, including the public sector.

An ANAO representative is also a member of the Legislative Review Board of the Foundation. While the Boards main concentration is on legislation and other regulatory activity in the commercial sector, this membership has helped the Board, and the profession, to look more closely at developments in public sector legislation such as the FMA and CAC Bills.

My aim is to support acceptance of, and commitment to, the view that the public sector should be exemplary in its accounting practices and adherence to relevant standards and ethical behaviour. However, it is important that we endeavour to ensure those standards adequately reflect the nature of public administration where there are clear differences to the public sector. While I support the principle of one Auditing Standards Board, there must be a facility to recognise and deal with such differences by exemption, valuation or even separate standards.

## *Partnering with the Accounting Profession*

Another area of importance to the ANAO is its partnership with, and contribution to, the accounting profession. As a significant provider of auditing services, the ANAO recognises the importance of developing and maintaining close links to professional accounting and auditing bodies in Australia, such as the Institute of Chartered Accountants, the Australian Society of Certified Practising Accountants and the Australian Institute of Internal Auditors. On the financial statement side, the large majority of our audit staff is a member of one or two of these organisations. In my view, it is essential that National Audit Organisations are both seen to be involved in the development of thinking on accounting and auditing issues as well as involved on the ground, so to speak, in the implementation of professional attitudes, approaches and techniques.

There is a number of common issues where audit offices need, in my view, to take a lead in close partnership with the Profession, such as corporate governance and internal

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control. I should perhaps also add the use of derivatives which has attracted a lot of interest from our Parliament and a call for assurance about financial instruments that derive their value from other instruments. In this respect I concur with the following view:

*Auditors should understand the characteristics of derivatives that may have an impact on how the audit of an entity that uses them will be conducted. Characteristics that auditors will need to consider include their off-balance-sheet nature, their complexity, the leverage involved, their illiquidity, the absence of clear accounting and tax rules, the legal risks and the operational and control risks.*

The ANAO is considering drawing together high level representatives from the Profession to address the requirements of good corporate governance defined succinctly by the Auditor General of British Columbia as follows:

*Effective governance is governance in which boards of directors, or their equivalents, exercise good leadership in directing the activities of an Organization. Having it is a key step in achieving better accountability and better performance by government agencies.*

Closely related to the issue of corporate governance is that of a quality control environment. The ANAO has accepted Price Waterhouses four key themes necessary for the development of a strong control environment as follows:

- 1) high priority by executive management to controls;
- 2) strong controls culture;
- 3) compliance/self-assessment audit; and
- 4) strong systems and product development methodologies with controls focus.

The important observation is that a successful outcome requires leadership from executive management in driving a control culture throughout the organisation. Both strong Audit Committees and risk management plans are indicative of such a culture.

We are well aware of the work of the Treadway Commission in the United States as well as that of the Cadbury Committee in the United Kingdom and their recommendations on internal control. Within Australia, the two major accounting bodies have recommended that a management responsibility statement be introduced into General Purpose Financial Reports as an extension of the Directors Statement and should contain a representation on the adequacy of financial reporting internal controls and that the auditor should express an opinion on that management assertion. The next development is an expected exposure draft on 'Reporting on Internal Control, by the Auditing Standards Board of the Australian Accounting Research Foundation, due for release later this year or in early 1996. In that respect I was interested in the guidance provided by the GAOs 1994 Yellow

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Book on four aspects of internal controls that may affect the auditors work which I have abbreviated as follows:

1. *Control environment* is the overall tone set by top management to reflect its attitude, awareness and actions relative to internal controls.
2. *Safeguarding controls* are controls that prevent or detect on a timely basis unauthorized transactions and unauthorized access to assets resulting in possible losses material to the financial statements.
3. *Controls over compliance with laws and regulations* are important to auditors in identifying the types of potential mis-statements that could occur and the factors that could affect the risk of material mis-statement.
4. *Control risk assessments* are critical in determining the nature, timing and extent of audit tests to be performed.

## *Leveraging Peer Support*

Another area where the ANAO seeks to add value is in the context of our responsibilities and obligations as part of the wider international group of national audit offices. As I noted earlier, the ANAO is a member of the International Organization of Supreme Audit Institutions (which comprises over 170 Auditors-General and their equivalent) and the Asian regional grouping of INTOSAI known as ASOSAI (which comprises 24 countries primarily in the Asian region).

Over a long period of time, the ANAO has made a significant contribution to the work of these organisations through the development of standards and other relevant publications. The ANAO has also hosted a number of seminars and conferences which involve the attendance of member countries where a range of common interests are discussed. Another area where the ANAO has contributed has been in the provision of training for individuals and groups from a large number of countries in both financial statement and performance auditing. Individual training programs have been up to twelve months duration. In addition to the above, my involvement as a Director of the International Consortium on Government Financial Management provides strong links with financial controllers, Auditor-General equivalents as well as similar private sector and academic interests from a wide range of countries.

However, given the ever-increasing demands placed on us to fulfil our statutory responsibilities, our ability to continue to make a contribution in the international arena is becoming increasingly difficult, and is something we currently have under review. My aim is to concentrate on those areas where we have made real progress in auditing practices compared with our peer group and also use our involvement in international forums at home and abroad as part of our staff development program.

The ANAO also maintains close links with its counterparts in the States and Territories. It does this in a formal sense as a member of the Australasian Council of Auditors-General,

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which I referred to earlier. Regular meetings of the Council are held which provide a valuable opportunity for Auditors-General to discuss matters of common interest and concern. A numbers of Centres of Excellence and technical groups have also been established which focus on particular areas of auditing or related matters. These activities provide a very useful way for Audit Offices to learn from each other and to assist in identifying ways in which we can continue to improve our products and our practices.

In addition, we will be exploring available options for increasing the number of joint reviews we undertake with our State and Territory colleagues in order to further add value at both levels of public administration. This is most likely to occur in the performance audit area. I regard these links as important for our future strategic management of the audit function particularly within the context of the approach to program development and delivery being taken by the Council of Australian Governments (COAG), such as for the Better Cities and Housing Program.

## *Joint Audits*

To give you a little of the background of what we are doing in relation to the conduct of joint audits, in March 1989 the Joint Committee of Public Accounts recommended that:

*The Commonwealth Auditor-General explore with State Auditors-General the advantages of joint audits.*

Although we have done some exploring in this area since then, it remains largely uncharted, but in my opinion still presents significant opportunities for us to develop closer cooperation between our respective Audit Offices and mutual auditees.

The Committee observed that funding provided at the Commonwealth level that is passed through a Commonwealth Department to a State Department (often via a State Treasury Department) and perhaps even further to a Local Government and on to, say, a community based service delivery organisation, presents a number of challenges in terms of the provision of audit assurances on how those moneys were expended. Due to mandate limitations the ANAO is unable to follow the dollars through to their ultimate destination. State Auditors-General also have boundaries on their mandates. However, no-one wants a situation where the recipient is audited up to several times in connection with what may be a single grant or payment. (For example, by internal and external auditors each at Commonwealth, State and Local Government levels and by the entity's own internal and external auditors.)

What we do not have in Australia at present is an equivalent of the US Single Audit Act where, as I understand it, one audit is conducted that meets the varying needs of all the respective players. At the moment we rely heavily on co-operation and in some cases formal agreements covering the provision of financial certifications, but the value for money or performance auditing side seems largely not to be addressed. One of our challenges for the future will be to assist in determining the appropriate, workable mechanisms for ensuring a balanced, comprehensive audit coverage within the overall risks faced with payments of this nature, whether that be via introduction of a Single Audit Act type of provision or a coordinated mix of audits.

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In addition to the mandate limitations mentioned above, in practice we have found that the conduct of joint audits is inhibited by the secrecy provisions in the respective Auditor-General Acts. We find that one Audit Office usually cannot disclose information about its auditee to another Audit Office, except and until it formally reports to its respective Parliament - and it is then generally limited to disclosing only the information contained in the tabled report. It is also not always easy to coordinate the timing of reports, due to varying Parliamentary timetables and resourcing priorities of the respective Audit Offices.

Given this situation, our challenge will be to conduct complementary audits in parallel with one or more of the seven State and Territory Audit Offices where the audit reports are tabled simultaneously.

## The Way we do our Business

So far I have outlined the various ways in which we are endeavouring to understand and contribute to our external environment. Now I would like to turn to the ANAOs own internal environment. This section of the presentation examines some of the more important strategic issues and approaches we are taking towards our two main businesses of auditing financial statements and carrying out performance audits in order to meet the likely challenges we face for at least the remainder of this decade. I will also cover some of the important issues we will have in common with our stakeholders. And, finally, I will outline areas of management focus where we are endeavouring to develop both the capability and flexibility to respond quickly and robustly to the inevitably different environment in the next millennium.

We have just completed a comprehensive bottom-up and top-down review of our Corporate Plan. In common with the approach taken by other public sector agencies in Australia we have established our vision, role, values, priorities, environment and key results areas with expected outcomes. Our vision is:

*...to be valued by the Parliament, the Community and Commonwealth Entities as a major contributor to achieving excellence in public sector administration and accountability.*

In short, we see our business as being more than auditing per se. In that sense, it is very much an outcomes oriented vision which I have chosen to short-hand as adding value. My own vision for the ANAO is that:

- (1) it will be the organisation that people first think about when looking for independent advice on accountability for performance of the Commonwealth public sector.
- (2) it will be an organisation for which people want to work.
- (3) it will be recognised and respected for the quality and professionalism of its work.

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Our two business units cover financial statements and performance audits respectively. We are currently re-assessing our Regional Office presence and structures, as well as our Corporate Services and Information Management functions. The key word is integration. We are endeavouring to create an integrated environment which is able to leverage off the combined people and other assets of the Office. This is also the image we wish to project to our various shareholders.

## *Auditing Financial Statements*

Two years ago the ANAO saw the need to draw the distinction between its core and non-core business and to make decisions on the resourcing of financial statement audits based on that distinction. Fortunately for me, I was able to be involved in the final preparation of the definition of our core business and in its ultimate agreement. As it happens, the distinction between core and non-core business equates reasonably closely with the dichotomy between agencies as defined in the Financial Management and Accountability Bill and other entities which are captured by the Commonwealth Authorities and Companies Bill.

As I indicated earlier, the broad dichotomy between core and non-core government activities has given rise, in the literature, to the notion of two public services, one that operates in the more traditional Westminster style and one that functions similarly to businesses in the private sector. The ANAO would still argue strongly for the application of public service values and ethics across such a division. However, the performance measures and accountability for such performance do have significant differences. Even if you do not accept the notion of two public services, it cannot be denied that those Government activities that are conducted in a more commercial or predominantly commercial mode have somewhat different imperatives and require other forms of control or oversight in terms of how they are to be held accountable.

We have decided as a policy position that the conduct of financial statement core activities will be undertaken by ANAO staff provided that we have the necessary professional capability and demonstrated performance. Our recruitment and personal development policies are being progressively redesigned to ensure we do. On the other hand, non-core financial statement audits will be undertaken utilising, if cost-effective and appropriate, private sector expertise. I say this from the perspective of an organisation that has almost halved in size in the last three years and contracts out more than 20 percent of its total running costs for private sector audit services. Of critical importance is that, whatever delivery method is used, the Auditor-General has, and will continue to have, the ultimate responsibility for the conduct of financial statement audits.

The point I would like to emphasise is that the ANAOs aim, by allocating its own resources mainly to the audits of core Government, is to consolidate its expertise and experience in that particular area of public sector activity. There is no doubt in my mind that by doing this, we are increasingly able to provide a more focussed and value added service to public sector entities and to the Parliament alike. At the same time, we are gaining valuable experience and exposure to the oversight and management of audits of private sector-type activities and issues. This is essential to ensure we have the capacity to adjust quickly to any move to a more contestable and commercially oriented environment.

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Mr Wayne Cameron, the then Acting Auditor-General in New Zealand put it succinctly by stating that:

*... it is important to be able to adapt to change by anticipating the accounting, management and commercial skills that will be required for the conduct of audits, whilst still maintaining a parliamentary, public perspective.*

## *Performance Auditing*

To add value in a climate of continuous improvement and ongoing public sector reforms in Australia is the major challenge of the ANAO , both now and into the future.

Performance auditing is an area with a continually evolving role and one that offers significant potential to add value. It is also an area which traditionally has received much greater prominence in the media and elsewhere. Performance audits, by their very nature, generate greater debate and controversy than do financial statement audits. This does not mean that performance audits are in any way better or worse than financial statement audits. I would contend that any consolation/ affirmation provided by the green tick for performance is just as important for managers as it is in financial audits. In my view, they both play an essential role in the accountability framework within our system of Government and aim to provide assurance to both the Executive and the Parliament about the efficient and effective administration of public sector agencies.

The main problem seems to be the sensitivity associated with performance audits as they often go to the heart of management practices. However, as we all appreciate, management is not an exact science. This is a shorthand way of saying that there are, legitimately, often differing points of view on the way in which programs can be managed. Because of these views, it is incumbent on the ANAO, with the assistance of management, for performance auditors to have a clear understanding of the goals, objectives and priorities of any area subject to audit and that performance criteria/measures are, as far as practicable, agreed up-front. This should be a reasonable expectation in the program evaluation climate that has been built up in the Australia public sector, particularly over the last five years or so.

The ANAO regards performance auditing as core business, and as such, these audits will continue to be delivered primarily using ANAO resources. Importantly, however, these resources are and will continue to be supplemented on a needs basis, by private sector people who have particular skills and experience. Over the years, the ANAO has engaged a wide range of expertise from the private sector, including medical practitioners, taxation specialists, construction industry consultants, statisticians and engineers, to assist in particular audits. As we have done in the past, we will also be looking for agency representation on our performance audits not only as a source of intelligence and understanding of an agency's programs and structure but also as a means of personal development for all concerned. Knowledge and expertise can transfer both ways with mutual benefits.

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With limited resources at its disposal and a huge number of public sector programs within its mandate, the ANAO undertakes a rigorous strategic planning process and risk assessment for the purposes of identifying areas which will be subject to performance audit. Over recent years the ANAO has made a concerted effort to be more open and consultative in the development of its performance audit programs. This involves extensive consultation with all key stakeholders. These include Parliamentary Committees, individual Parliamentarians, Ministers, Ministers Offices, industry groups and representatives, the community and of course public sector agencies themselves. The ANAO assesses the benefits of conducting a performance audit against a number of criteria and weighs the results of this analysis against the resources it has available. It then undertakes a preliminary analysis or study before finally deciding whether or not to commit its resources, and of course those of an agency, to a full performance audit.

The need in the future is to ensure closer co-operation and communication between the ANAO and agencies on performance audits. There is considerable mutual interest in the outcomes. Confidence needs to be promoted in those outcomes for all stakeholders including, importantly, the Parliament. I have indicated to ANAO staff that, while I regard Financial Statement Auditing as our bread and butter, performance audits offer considerable scope for adding real value to public administration.

Careful presentation may ameliorate the more sensational style of media reporting we have sometimes witnessed which can engender friction and legitimate concern for positive outcomes. We will be focussed on producing balanced reports which add value by identifying good or best practice and indicating improvements that can be made from experiences elsewhere.

As Professor Ian Ball stated:

*The more constructive your role can be the better, assuming that your real goal is to see government performance, and its reporting, enhanced.*

## *Costs of Audits*

In keeping with our aim of adding value, we keep a very close eye on the costs of our performance audits. I am pleased to say that we appear to be doing well by international benchmarks in that the average cost of ANAO performance audits reported in the three years 1992-93 to 1994-95 compares favourably with those of the United Kingdom National Audit Office, Office of the Auditor-General of Canada and United States General Accounting Office. Although there are a number of difficulties in making cost comparisons, our analysis indicates we are producing our performance audits at one of the lowest costs around. However, like our overseas colleagues, we continue to strive to maximise the value of the dollars we invest in our performance audits and will keep our focus on this aspect of our operations, particularly through our internal and external benchmarking and continuous improvement programs.

## *Across-the-service Audits*



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Another of the recommendations of the 1989 JCPA Report was that:

*The Auditor-General initiate each year a number of efficiency audits spanning more than one program or agency.*

In my view, performance audits form part of the continuum of review activity. Each of the various types of review has its merits and its limitations and the point I wish to stress is the overriding and continuing challenge for the ANAO to avoid duplication and ensure coordination with other players on the whole gambit of review activity. A particular characteristic of our performance audits and recently introduced accountability audits is that we are able to readily draw on the knowledge we gain in auditing the whole of the Federal Government's operations to make across-the-service` comparisons between the various agencies.

This occurs in two ways. Firstly, we conduct our financial, performance and accountability audits across a wide spectrum of public sector entities. This exposes our staff in a general way to a diverse range of management styles and differing solutions to common problems. Secondly, we undertake specific across-the-service performance and accountability audits where we focus in depth on selected issues that are common to a range of agencies.

We are uniquely placed in this regard and can advise both Parliament and our auditees on general trends in administration and on where the examples of best practice within a particular field of interest are to be found. As mentioned earlier, for some years now the ANAO has included in its performance audit reports sections which identify best practice models where these are encountered, or has produced a separate report or publication as a best practice guide. Often these have been drawn from the collective experiences of the Office in encountering less than optimal practices within agencies and the perceived need to fill a gap in the provision of guidance to all agencies who may be undertaking similar functions.

As I also alluded to earlier, one of my aims for the ANAO within the context of adding value to and improving public administration is to further increase our focus on the identification, reporting and promotion of best practices.

A big challenge in doing this, of course, is to find the right balance between compliance and facilitation, or the appropriate trade off between independence and consultation to achieve maximum accountability and performance. Our performance audits have traditionally been targeted at areas or functions where we had perceived that we could add the most value by conducting an audit. That is, we identified areas with possible deficiencies for which there was no indication that corrective action was in train or planned for the near future. In conducting our audits we concentrated on the apparent deficiencies within the system or program, quickly passing over any aspect that appeared to be working satisfactorily in favour of more detailed examination of the problem` areas, in keeping with our aim of adding most value for the investment we make in performance audits. We have also been mindful of the old adage that:

*`If it aint broken, dont fix it!*

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Within this context, our reporting of best practice models tended to be based on identifying their absence within a particular application or function, with the ANAO typically developing the model it thought would best meet the situation and recommending this to the auditee and the Parliament. That is, we developed our normative model or test program of what we expected to find if the organisation was well managing the particular function or activity under review.

It has been a much rarer occurrence to report best practice models actually encountered and working in place in organisations, simply because we have not focussed on this area, for the reasons I outlined above, and have not so far invested the resources necessary to document, compare, test and report on what may or may not in the end turn out to be the definitive best practice model in a particular area. In practice we often find that an organisation may have pockets or selected parts within its processes that are at the leading edge but we cannot point to the whole entity or even particular divisions, branches or sections and hold them out as representing best practice.

Of course one could also argue that our auditees (and the Executive Government) have a natural interest in making it more widely known (and indeed a willingness to do so) where they are at the forefront of practices and that other entities, such as the Central Agencies in the Commonwealth, also have a role to play in this area. This brings me back to the need to find the right balance for the Audit Office in this arena. The big question is, do we add most value by concentrating on deficiencies or would we ultimately achieve more in the long run by conducting systematic, cyclical, holistic audits of programs or functions where we devote just as much of our resources to proving that an aspect of an operation is well run as we have in the past to identifying and documenting where this is not the case?

In this regard it is relevant to note that in 1989 the JCPA identified that it would take more than 40 years to conduct a single cycle of performance audits of every, then existing, Government program costing \$10m or more, so I think the answer for us is to continue to target our performance audits where there are real opportunities to improve performance but also to continue to identify and promulgate best practice wherever and whenever the opportunity arises. This includes closely cooperating with the other players, both major and minor, on the best practice field.

Within the context of our limited resources, another balancing act that we are faced with concerns determining the right mix between serving our primary client, the Parliament, whilst at the same time also assisting our other clients, the Departments and agencies we audit. There is considerable scope for tension to develop in this area. However, it is not a new issue and no doubt arises from time to time in every Audit Office around the world. Even our private sector auditing colleagues are faced with the need to balance the interests of the shareholders with those of the team managing the entity.

Two other issues commented upon by the JCPA in relation to performance audits are the timeliness of reporting and the extent of follow-up that occurs on previous audits.

## *Timeliness of reporting*

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The JCPA was concerned at the time taken to complete our performance audit reports and recommended that we trial the condensing of the processes of conducting and reporting audits to a period of six months. Although we have completed some performance audits within this timeframe, our larger efficiency audits on average still take around a year to complete. However, we continue to search out and implement improvements that assist in ensuring our products are timely. We also advise Parliament twice annually the titles of forthcoming reports and proposed tabling dates.

## *Follow-up Audits*

Another balancing act, which we take into consideration in our annual audit strategic planning, is in determining what resources we should devote to the follow-up of our previous performance audit reports. There is a strong temptation to devote our energies to greenfields areas and issues we have not previously tackled. The JCPA, however, reinforced Parliament's view about the value of independent follow-up of our reports. It recommended:

*The Auditor-General devote significant resources to follow-up of performance audits, and adopt a systematic approach to follow-up of performance audit findings.*

We have tabled more than 250 performance audit reports over the last six years. To follow them all up is an immense task. Of necessity, we have been selective in our follow-up activities, concentrating on those where there are indications that progress in implementing the agreed recommendations has been slow. In seeking the right balance, we are again guided by our perception of whether we can add value by conducting a specific follow-up audit. In practice, most of the agreed recommendations are implemented before or shortly after the report is tabled. Procedures are also in place where Departments report quarterly through their Portfolio Minister to the Minister for Finance on their progress with implementation of the recommendations. Performance audit reports may also be referred to Parliamentary Committees with Portfolio responsibility for the subject area to examine and the JCPA undertakes an examination of those reports not referred to other Committees.

A quick check of the series titles we publish in the back of our performance audit reports indicates to me that over the last few years we have certainly increased our numbers of follow-up audits.

## *Performance Measures*

My final point is about one area of performance auditing which will receive greater attention in the future. We are all aware of Parliamentary and other criticisms of program performance information. While there has been slow improvement in the quality and scope of performance measures, most program managers recognise the growing pressure to provide reasonably comprehensive and credible performance information for accountability purposes.

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One of the States, Western Australia, has been reporting Performance Indicator information and that has now been audited under the provisions of their *Financial Administration and Audit Act 1985*. The 1993-94 Annual Report of the Auditor-General states that the WA Parliament was provided with opinions of the relevance and appropriateness of key performance indicators for 42 public sector agencies. The approach to the audit of performance indicators was stated to involve close attention to the objectives of agencies and comment being made, where it is considered necessary, that agencies are not reporting on all key objectives required by their relevant legislation, mission or program statements.

Good management practice dictates that performance indicators be developed for all major programs and performance against these be measured periodically. We will know whether we are arguing the performance criteria, or measurement against the criteria. Auditors will be reporting against management assertions that particular performance measures were achieved. Our auditees know what their outcome measures should be. But we will want to see that such indicators exist and that they do what they claim they do. I note also that most of us are still some way away from having agreed performance measures that we would confidently attest to as providing a comprehensive indication of the results we achieve.

As stated in the report of the Western Australian Auditor-General:

*It is recognised that the production of satisfactory performance indicators is a gradual developmental process that may stretch over several reporting periods. Moreover, it is likely that most agencies will continue to refine their indicators over time.*

I am also acutely aware of an incisive observation made in the Consortiums recent Public Fund Digest in relation to the use of Total Quality Management (TQM) as a performance measure as follows:

*It was disconcerting to auditees if findings of inadequate performance measurement and improvement were being reported by auditors not subject to a similar requirement. Key to earning the auditees respect appeared to be evidence that the auditors themselves had or were making significant efforts to implement and report on TQM procedures within their own departments.*

## *Audit Strategy Documents*

In line with our aim to foster open communication and cooperation, the ANAO prepares and presents Audit Strategy Documents, or ASDs, to audit committees and/or senior management as part of the audit process. In a financial statement context ASDs provide management with a succinct but comprehensive outline of how the ANAO is to undertake its audit, at what cost and the timeframes involved. Performance audit ASDs provide very useful information on the risks as seen by the ANAO in the main areas of Commonwealth administration and outline proposed audit coverage.

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In my view (having of course until recently been a recipient), these documents provide management with a useful independent, external perspective of the risks associated with programs and agency operations. They also contribute to the policy of no surprises. In the latter respect, we will be endeavouring to indicate which agencies will be involved in generic or across the service audits in their ASDs. However, if this is not possible, we will be seeking to provide the maximum possible notice for planning purposes. Unfortunately, the timing will not always suit everybody but we will do our best to accommodate those with particular difficulties.

Our ASDs are increasingly providing a focus of mutual interest and discussion with departmental and agency audit committees. On the question of audit committees, I note in passing, that the ANAO is very encouraged by the number of audit committees that have been established in departments and agencies but more particularly by the work being undertaken by these committees in oversighting not only the audit aspects in their bailiwicks, but more broadly, the financial management responsibilities as well. There is of course always room for improvement, and the ANAO has and will continue to actively encourage audit committees to take an ownership role in respect of the annual financial statements of their respective agencies as well as the broad financial and management framework which underpin them. All agencies will be required to formally establish audit committees when the new Auditor-General Act is passed.

A small number of departments and agencies have shown some reluctance to embrace the notion of full participation by officers of the ANAO in their audit committees. I will be encouraging those agencies to follow the example of the majority which have seen the benefit of the ANAO participating fully in the deliberations of committees, while stopping short of actual membership.

We are continually reviewing the thrust and content of our ASDs to ensure that they remain relevant and constructive, thereby continuing to serve as a useful linkage between the ANAO, Agency management and Boards of Directors.

## *Audits of Financial Controls And Administration*

I am particularly keen to implement a program of audits, to be known as audits of financial controls and administration, which will be used to address common areas of administration across public sector entities. The ANAO will use these audits, and with the assistance of the agencies themselves, to identify areas of best practice of areas such as procurement, accounts processing, performance measures and indicators, travel and related expenses. I have recently written to heads of Departments and agencies advising them of my intention to conduct these audits, and I am pleased to say that I have already received extensive positive feedback. I have also had discussions with members of the Joint Committee of Public Accounts and the House of Representatives Committee on Banking, Finance and Public Administration where I have had a similar response.

The types of activities this program will address, while individually not material in many agencies, collectively represent a significant element of public sector administration and account for a significant level of expenditure each year. Resource implications also will often go further than just cost. Apart from issues of regularity and value for money, the

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audits will consider any issues of probity and propriety of officials behaviour that may arise.

Essentially, these audits will focus on those core or housekeeping activities that are vital for good management. These include guidelines, instructions, monitoring practices, systems development, integrity and ethical checklists and audit trails. The audits will adopt an empathetic approach, ie. we will not be ensuring that all is as dotted and crossed, but rather, that platforms and mechanisms have been appropriately implemented. In part, the decision to undertake these audits is based on an apparent Parliamentary perception that devolution of management authority under the Public Sector Reforms has not been matched by commensurate evidence of accountability. The audits are seen as providing at least some measure of the required assurance. However, they are intended to add value by, for example, providing best practice guides. We will also be looking carefully at possible different practices linked to the nature and size of agencies.

While the results of these audits will be reported in the normal way to Ministers, departments and agencies, it is intended that the Reports to Parliament will be generic in nature in order to provide the Parliament with a better perspective of areas of best practice, as well as areas where improvement is warranted. Therefore, the intention is to mention by name only those organisations which have demonstrated approaches and practices that might be useful elsewhere.

In taking this approach I am mindful of a comment made by Wayne Cameron that:

*Another subtle lesson from the interaction with Parliament is that the Auditor-Generals Report must be a careful balance of encouragement and critical review. It is possible for the Auditor-General to slow the pace of change, or to change the tide, by being overly critical of what is being done.*

Explanations of the approach we propose to take and the outcomes we would wish to achieve will be published in the near future in an ANAO Circular to Agencies. We will also be conducting seminars and workshops not only to ensure that there is general understanding of the nature and intent of these audits but also to obtain ideas and feedback from our auditees.

## Accountability to the Parliament

No discussion of the role of the ANAO would be complete, of course, without a comment on our relationship with, and contribution to, the deliberations of the Parliament.

Parliamentary review and scrutiny in its various forms is, of course, central to our democratic system of Government. For the Parliament to do its job effectively, it needs to be well informed. One important way, but by no means the only one, for the Parliament to be informed is through the work of the ANAO. While our audit reports do this in a visible way, the ANAO also has an important role in assisting Parliament, being

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Parliamentary committees and individual Parliamentarians, to keep abreast of and improve their knowledge of the public sector.

The ANAO does this in a number of ways including:

- providing briefings to Parliamentary committees and individual Parliamentarians, of whatever political persuasion on audit reports and on developments in the public sector;
- assisting Parliamentary committees in their enquires through submissions, and in the case of the Joint Parliamentary Accounts Committee, as an observer on its Inquiries; and
- by providing staff on a secondment basis to Parliamentary Committee Secretariats.

In dealings with Parliament, as with public sector agencies, the ANAO has an obligation and indeed a responsibility to act in an apolitical, impartial and objective manner. I suggest that the ANAO performs this difficult balancing act well.

In addition, it is accountable for its performance with every audit report tabled as well as through the expectations established by the Audit Strategy Documents discussed earlier. The interesting future challenge will be in establishing a cooperative and accountable relationship with any audit committee of Parliament. In many ways, we have such a relationship with the Joint Committee of Public Accounts at the moment. And it works well.

## *Reporting for Better Performance*

Real accountability comes with openness or transparency. This is a discipline on governments as well as on the bureaucracy. Transparency largely occurs through public reporting. It is the most tangible indication of our performance. And it is in our reports that we can add considerable value to public management. If we are to continue to be successful in adding value the ANAO must ensure that all its reports are objective, fair and balanced, but above all, are presented in such a way as to facilitate, or be a catalyst for, improved performance. Putting aside for the moment the difficult question of how one measures improved performance as a result of an audit report, I consider that for the most part at least, improvements are generated where agency management, Government and the ANAO can agree on the recommendations flowing from an audit. It follows that improvements in performance and accountability are less likely to occur where there are differences, particularly fundamental differences, between the ANAO and the department or agency which is the subject of audit.

The Background Statement to the Symposium on Performance Auditing and Performance Improvement in Government held in Paris in June of this year stated:

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*Many member countries perceive a possible tension between greater accountability through performance auditing and improving the performance of the public sector. For example performance may be compromised through additional controls imposed because of problems identified by auditors, through audit reports encouraging risk adverse rather than performance orientated management and generally by relationships between auditors and auditees which become too adversarial.*

As mentioned earlier, I am committed to ensuring that the ANAO will be placing increasing emphasis on identifying areas of best practice, as well as noting areas where, in our opinion, improvements can be made or are necessary for good management.

We have a fine line to tread. It is not so different in Australia to what Simon Robert and Christopher Politt have said about the United Kingdom Audit Office, that:

*In a sense, the NAO is performing a continuous balancing act: it needs its reports to be controversial enough to remind Parliament and (the ) public of its usefulness, yet not so controversial as to arouse the punitive instincts of ministers and departments.*

## Relating to Other Stakeholders

As I indicated earlier, other than Parliament, our major stakeholders importantly include agencies. We need to complement their accountability processes. We can do this in a number of ways which I will now discuss.

### *Complementing Internal Audit*

The ANAO has long been a very strong supporter of the need for a viable and effective internal audit function in the public sector. This is consistent with International Auditing Guideline (IAG 10) *Using the work of an Internal Auditor*, as well as with the Australian Accounting Research Foundations Statement of Auditing Practice (AUP 2) which states, inter alia, that:

*The external auditors general evaluation of the internal audit function will influence his/her judgement as to the likely use which may be made of the work of the internal auditor.*

The ANAO strongly believes that internal audit is an integral element of the internal control structure within agencies. Our overall aim is to establish a cooperative relationship with internal audit. In this way we can build on rather than duplicate the important work that internal audit does.



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Our relationship with audit committees, which I alluded to earlier, is a very important element of this, as it is audit committees which generally have responsibility for overseeing and directing the work of internal audit within departments and agencies.

In building such a relationship it is necessary for the ANAO from time to time to review the operations of internal audit and, where appropriate, to suggest areas where improvement could be made. Perhaps, not surprisingly, this can result in a degree of tension between internal audit and the ANAO. To me, this simply means that both parties need to establish an environment which promotes open consultation and dialogue and ensures that all parties are aware of the respective responsibilities of each other.

One way in which this can be promoted is the continuing use, where circumstances permit, of the involvement of internal audit in ANAO audit teams. Such an arrangement is clearly not always possible, or even desirable, but it is one which the ANAO, and I would hope agencies, are looking at on a case by case basis.

Another avenue worth exploring is the secondment of staff, on an exchange basis or otherwise, to the ANAO and vice versa. The ANAO sees secondments as a valuable professional development opportunity for staff and will continue to look for opportunities to second staff to outside entities for varying periods.

## *Integrating Performance Audits and Program Evaluations*

In terms of making the best use of resources, the performance audit and the evaluation functions are integral to the accountability process and must therefore have regard to one another. They share reasonably common goals in that they are both fundamental links in the accountability continuum from inputs to outcomes, and both aim to better program management and accountability by looking at value for money, albeit from different perspectives, notably administrative versus policy effectiveness.

In setting performance audit priorities, the ANAO pays increasing regard to the programs of evaluations in agencies, and seeks to rationalise its coverage. The ANAO also has regard to other reviews being conducted whether by Parliament, by Committees, by independent Commissions or Bureaus or by other internal groups such as for Budget reviews. Having identified the risks through its Audit Strategy Document processes I mentioned above, the ANAO takes particular care to ensure that its proposed audit coverage will not unnecessarily duplicate the work undertaken in the many other forms of reviews that are or may be scheduled to be undertaken. By this I mean that we examine the results of previous reviews and we also look at the plans for future reviews to minimise any potential overlaps. I stressed unnecessary duplication because not all planned reviews go ahead, and some proceed much later than initially planned. Those that do proceed may be conducted in a subject area that interests us yet not completely cover our primary concerns. On most occasions, however, we find that we can rely on these other reviews and can therefore turn our attention to other identified high priority areas, or we use the previous reviews as a base for building up further improvements in the subject area.

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The continued improvement in Portfolio Evaluations Plans and Departmental/Agency Evaluation plans assists the ANAO in its preparation of its Audit Strategy Documents. The presence of both these planning documents improves the assessment of the coverage by evaluations and performance audits within each portfolio. That said, I do not consider that such an approach in any way undermines my independence. I do not seek to duplicate evaluation work. However, if we see a gap in coverage, or the quality of work does not meet ANAO standards, then we would not feel constrained from looking at an area covered by an evaluation.

I have just mentioned ANAO standards. I wish to refer to two aspects of those standards in particular. The first is the external auditors independence. Independence adds credibility to a review process. Furthermore, independent people are more likely to ask the hard questions and press for answers, whereas there is always a risk that internal reviews may take too much for granted. I have suggested many times that program evaluations can benefit greatly by having at least one external party involved to provide an independent perspective. I have also indicated that, in my view, a quality evaluation is the best protection for a well performing program.

The second aspect I wish to mention is the issue of audit evidence. We are sometimes told that we do not really understand the program environment. Our response is that the requirement for evidence is a strong discipline and that there are many opportunities to consult in the audit process where evidence can be made known and views discussed. Put another way, there is a strong discipline in having to explain to an external person what you are doing and why. There is a lesson for auditors in this situation as well, as the following quote indicates:

*Unquestionably, what frightens auditors as they move from certification into value for money assessments, and within the latter from economy through efficiency to effectiveness, is the difficulty in satisfying normal professional standards of evidence and the increasing risk associated with the greater use of judgement as opposed to supportable facts.*

I would like to emphasise that evaluations are much more likely to be useful to users as well as to the ANAO if these standards were also to be applied therein. A poor evaluation is counter-productive and a waste of resources.

There is another aspect of the ANAOs performance audit role which might be more widely considered for the program evaluation process, in terms of adding real value, that is, cross-portfolio reviews. The ANAO has the ability to look across agencies to identify common difficulties but more importantly to identify best practice. As mentioned earlier in the discussion on our new audit product, we will be putting increasing emphasis on this approach.

The ANAO has undertaken a number of reviews of the program evaluation process. I envisage that the ANAO will continue to monitor the health of the evaluation process in the future and to promote its importance in the accountability process.

## Some Management Initiatives to Cope with Change

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As with other agencies, our focus is on improving the quality of our work, importantly through the quality of our resources. We are committed to continuous improvement and this is reflected in the work of our breakthrough teams. They have many of the characteristics of the so-called Hot Groups described by Professors Harold Leavitt and Jean Lipman-Blumen in the latest Harvard Business Review. In short, these are creativity, capability and productivity. Hot Groups require an hospitable internal environment and a challenging external one. We certainly have the latter and we can create the former. In this respect, the Office is focussing particular attention on its two major resources, information technology (IT) as an enabler and our people. I will now discuss these three imperatives in turn.

## *Accent on Quality*

Both Business Units have in place a number of arrangements which involve staff at all levels in identifying areas where practices and products might be improved. Our experience to date indicates quite clearly that these programs are adding value to the quality of our work and our working environment.

We are also looking at the question of quality accreditation. The Commonwealth quality policy of 1992 requires suppliers of goods and services to the Commonwealth to be certified under the International Standards Organisation series of standards. A number of agencies have either obtained accreditation or are in the process of doing so. We are also aware that a number of private sector accounting firms have gone down the path of accreditation for all or some of their services.

The questions we have asked ourselves are: given our own initiatives towards better management and audit environment, the ANAOs position as a Commonwealth service provider, and being an organisation that should be expert in its knowledge of agencies, should we not be taking an informed decision about our own position and quality accreditation? Would accreditation be another mechanism to ensure our practices are sound and a way of demonstrating ANAO expertise to our stakeholders? Might I say that these are easy questions to ask but are not so easy to answer.

From research we have undertaken, it seems that the experience of other organisations is that the more successful applications of quality accreditation have used accreditation to achieve significant improvement and cultural change. Other more mercenary and perhaps less thoughtful applications seem to have been costly and have not produced the degree of change and improvement sought. Some private sector organisations have introduced accreditation to satisfy Government tender requirements and use it as a marketing tool in private sector markets. From what they have told us however, they are not in a position to measure in any convincing manner whether accreditation is a factor in winning new business.

At this point in time, we have made the decision that improvement in the quality of both our management and our audit products is our primary objective. Accreditation, per se, is a secondary objective which we will keep under periodic review. We have also used the accreditation framework to conduct a preliminary gap analysis to help us identify areas

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where we may fall short of quality management standards, and we plan to do more in this area in the future.

## *Automated Financial Statement Software*

A key element of the ANAOs future Information Technology Strategy is to re-equip auditors with current, state of the art hardware and integrated audit technology software products. Over the next 2-3 years, the ANAO will also be making significant enhancements to the way we plan and execute our financial statement audits by integrating information technology into all phases of the audit process. The ANAO sees this change as positioning it as a leader in public sector auditing and best practice in financial statement audit methodologies.

The ANAO has entered into a strategic relationship with the international accounting firm, Price Waterhouse, which will involve the ANAO and Price Waterhouse working together in the development and delivery of state of the art technology software products that will best meet public sector auditing requirements and the ANAOs financial statement audit responsibilities. Our association with Price Waterhouse in no way impinges upon our professional relationship with agencies or entities or, indeed, on our independence. The approach has also been adopted elsewhere for both internal and external audit purposes such as by the Australian Taxation Office, Australian Customs and Audit New Zealand. We have done a lot of work to customise the knowledge-based audit planning tool to the public sector environment. This is part of a suite of software tools which centres on the automation of the entire working paper process from preparation and review to report generation.

The benefits of this new strategic direction are twofold. This technology will enhance our capacity to work more closely with public sector organisations in the provision of audit services and will enable us to further improve our work practices leading to an increase in the overall effectiveness of the audit process. We also will have access to a wider range of relevant information and material, thus enhancing our ability to assist those organisations in meeting their financial statement and related responsibilities.

In order to ensure the smooth transition of the technology into the ANAO an implementation program covering a two to three year period is envisaged. This will involve piloting the new technology in conducting a selected number of financial statement audits during 1995-96, with full implementation of the technology occurring during 1996-97.

I am confident that this important initiative will build on, and progress the ANAOs commitment in meeting the needs of its auditees as well as those of the Parliament, in auditing the financial statements of Commonwealth public sector entities, and we look forward to working closely with our auditees to ensure maximum benefits are gained from it.

The use of IT tools will also continue to be a crucial element of our performance audit methodology. For many years now, our performance auditors have drawn on a suite of automated tools to assist them carrying out complex audits. These tools include survey

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software, database packages for data analysis, and data interrogation systems. The Performance Audit Business Unit is now also about to appoint a staff member to examine, amongst other things, the benefits of integrating groupware products into the audit process in order to better share information and assist the review and audit management process. The ANAO will also continue to take advantage of new automated analysis techniques as they become available in order to continuously improve the quality and efficiency of its performance audits. Which brings me to the final management imperative I would like to address today, at least briefly which in no way reflects its importance. To the contrary, it is a topic in itself.

## *Developing our Staff*

Of course, as with any other organisation, our future is our staff. With this very strongly in mind we have put a great deal of effort into developing a People Development (PD) Strategy which will assist all levels of ANAO staff to meet the challenges which face us in the future. The Board of Management oversees the priorities outlined in the strategy. Implementation is coordinated by the PD section which liaises with our business unit PD committees. Our program of staff training activities is developed against Individual Development Plans. These plans are in integral part of the ANAOs performance enhancement activities. Other inputs to the training program come from the Quality Assurance process, business unit indicators, overseas experiences and the proposals from the continuous improvement groups. Skills are also enhanced through secondments and interchanges with other agencies, the private sector, the Parliament and State and international audit bodies. Where we are working with the private sector, transfer of technical and management skills are an integral part of the agenda (as part of the contract).

As mentioned earlier, our recruitment and professional development activities are being progressively redesigned to ensure that our staff have the capability to meet future challenges. We have specified a minimum annual professional training requirement and established appropriate follow-up reviews by supervisors. Complementary to these initiatives is a current review of our system of rewards and recognition. While I am well aware of the debates and some disquiet about performance pay, it is also a tangible expression of recognition that performance has been better than could have been expected.

Under the auspices of the new workplace agreements, we will be looking for tangible means of rewarding at least performance that is exemplary. As well, we will be examining innovative ways of recognising performance in a suitable and acceptable non-monetary form. I am aware of the various institutional rewards available for nominated individuals or projects, including those provided by the Australian Society of Certified Practising Accountants in the accounting field for public sector organisations. I particularly support the notion of Good Practice Awards as suggested by MAB/MIAC. I also agree with the latter's conclusion that we need *...to develop an integrated and strategic approach to managing peoples performance*.

## **IV EFFECTIVELY USING INFORMATION TECHNOLOGY**

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No discussion of the Audit Challenges into the next millennium would be complete without at least some reference to the impact of information technology on the nature of our audits as well as on the audit processes themselves, and, not least to say, on the way we manage ourselves.

It might seem a little trite to claim, but it nevertheless has to be stressed, that information technology, in its broadest sense, is having a fundamental impact on the business of government, and therefore it is essential the public sector auditor recognises this and responds accordingly. IT is, of course, a means to an end and can facilitate the use of information in all its various forms. The information that any organisation has is one of its major assets and the proper management of this commodity can provide it with a strategic advantage. The public sector is probably the biggest information industry in all our countries.

Processing power, storage capacity, speed of information access and computer communications are all advancing rapidly and are now being interweaved with the substantial innovations in the communications industry.

## Changing the way Agencies do their Business

The view in Australia, as no doubt in other countries, is that technology has and will continue to play a significant part in achieving improved service delivery and fundamentally changing the way in which, individually and increasingly collectively, agencies will do business. An important challenge lies in developing an across the service environment that not only leads to improved client service but will also produces significant cost savings. It almost goes without saying that the drive to do more at less cost is an imperative in Australia as it is apparently in all public sectors.

By way of example of how an individual departments business can be substantially altered, the Australian Department of Social Security (DSS) is set to begin a trial of its own electronic banking card which eventually could independently process the Departments multi billion dollar annual welfare payments. (I should mention in this context that Australians have shown themselves to be early adopters of information technology based banking services).

DSS has joined an electronic banking network that processes transactions for banks and other financial institutions and runs more than a third of Australias automatic teller machines. The electronic banking card will allow DSS clients to access funds through cash card ATMs without the need for separate bank accounts (welfare payments were previously directly credited to beneficiaries bank accounts). If the trials are successful client service will be significantly improved. DSS beneficiaries will not be hostage to the various government and bank charges attached to the bank accounts. Of course the changing nature of the payment systems and the associated risks create implications for the auditor. More on that later.

Another example which might be of interest is the new Automated Job Selection (AJS) project of the Department of Employment, Education and Training (DEET). Touch screen technology is to be provided in all Commonwealth Employment Service (CES) Offices

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throughout Australia (over 2000 touchscreens) to enable jobseekers to search interactively for jobs. The screens will enable jobseekers to access all jobs in the national job database, not just in the local area. It is likely to be a catalyst for change in how government information services are delivered. This development may well change not only the nature of service delivery but also the organisation itself. Perhaps of even greater impact will be the new Education Network Australia linking schools, universities, other tertiary institutions and education and training providers across Australia as well as internationally.

In response to the increasing strategic importance of information technology the Australian Public Service is making significant efforts to ensure an environment exists in which the potential of information technology to enhance performance and bring about change may be realised. The Government has established three key approaches to advance information technology and maximise its contribution to overall reforms in the Australian Public Sector. These approaches are as follows:

- The appointment of a Chief Government Information Officer (CGIO).
  - à This is a recent appointment and central to the promotion of the Governments IT objectives. The Chief Information Officers functions include:
    - chairing the Information Policy Services Board (see below);
    - development of an Australian Public Service blueprint which builds on overseas experience , for more efficient and effective development and use of information technology;
    - taking a leading role in identifying, acquiring and promoting adoption of standard solutions to address common requirements across agencies, including facilitation through seed funding of joint projects;
    - promoting the lead agency concept whereby agencies active in a particular area receive assistance and increased funding to develop broader based solutions which have wider applicability across government;
    - facilitating development of cross agency applications to improve delivery of government services to clients and/or produce significant operational economies; and
    - identifying areas in which whole of government information technology standards are necessary and developing those standards.
- The establishment of an Information Services Policy Board (ISPB)

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This is a high level advisory body responsible to the Government for providing guidance on policies and strategic directions regarding information technology and related issues. Its forerunner, the Information Exchange Steering Committee (IESC) was established in 1985 to promote interconnectivity between agency computer systems and facilitate information exchange between Government agencies. The ISPB will assist the CGIO as follows:

In consultation with other relevant policy committees provide policy advice to government on information and communication service issues in general, including the Government's role in the provision and use of these services in a way which meets economic and social objectives:

- a) facilitating and promoting the adoption of an across government approach to the use of information services by departments and agencies, consistent with the current framework of devolved responsibility and accountability;
- b) identifying opportunities for co-ordination of infrastructure and delivery of services, and promote best practise among departments and agencies including the use of outsourcing and partnerships with industry;
- c) developing a vision for IT and information services in Government focussing on the delivery of client services to the public; and
- d) providing advice on, and fostering sound practices in relation to:
  - policies for across government approach to the development and use of information services, including IT, telecommunications and information networks;
  - the potential for the merger of smaller data centres and their support structures and the savings that can be realised;
  - the development of and revision of guidelines for agency corporate, information technology, telecommunications and procurement plans and the integration of all such plans into the corporate plan. Develop mechanisms to make such information available to industry in electronic form and facilitate their ready updating by agencies;
  - the implementation of more common standards in IT to enable better communication and access of information across agencies;
  - promote common benchmarking across agencies as a mechanism to improve efficiency and accountability;
  - overcoming administrative impediments in procurements, staffing and contracts to outsourcing and partnering with industry;



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- fostering a more innovative approach to the development of systems, support of legacy systems, delivery of services, including the use of the lead agency concept;
  - establishing, in consultation with the Australian Bureau of Statistics, a data base of information on the use of IT and information on the Commonwealths use of IT; and
  - being responsible for disseminating global information on the Commonwealths use of IT.
- The establishment of Acquisition Councils.

These Councils provide impartial advice to the head of agencies as well as assurances to Government that agency acquisition proposals for information technology (costing \$A10 million or more) represent value for money and take into account relevant Government policy. These Councils ensure government policies for procurement and industry development are taken into account.

Collectively, the Chief Government Information Officer, the ISPB and the Acquisition Councils will assist the Australian Government in achieving a well-co-ordinated , well structured, efficient and effective computing environment that will meet, for example, the objective of single window or one stop shop concepts of service delivery. There have already been suggestions that there is a need to establish an open government pilot project providing access to distributed electronic services throughout the Australian Government.

The importance of better inter and intra agency coordination of IT to service delivery and the cost to Government of information technology cannot be overstated.

## The Audit Challenges

The challenges facing auditors are , to say the very least, significant. For the ANAO I would broadly categorise the challenges into three main areas:

- developing methodologies and computerised tools to keep pace with the changes occurring in data management and communication in individual agencies;
- encouraging and assisting , where possible, the Australian Public Services efforts for across the service IT initiatives and innovation in individual agencies; and

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- ensuring we maximise the benefits of information technology in our own audit practice to improve audit quality and increase productivity.

I certainly could not assert that the ANAO has all the answers to these challenges but we have undertaken a number of strategic decisions to improve our game and further explore ways in which we can contribute and add value to the Australian Public Services initiatives, meet our auditing responsibilities in this important area and hasten the adoption of state of the art technology in the ANAO itself.

I noted with interest that the INTOSAI EDP Committee has recently released a good practice guide on developing IT strategies in Supreme Audit Institutions (SAIs). It is observed that such a strategy concerns audit staff as providers or recipients of information, direct users of systems, or through their audit work as reviewers of systems of audited bodies. I also noticed that the same committee has also prepared a draft guide on Information Security Review Technology. The methodology does not necessarily require information technology experts. The first tier was `informed value judgements on the security risks of the application under review. The second tier was quantitative methodologies. This is of interest to the ANAO as a recent report by a Parliamentary Committee commented that:

*Computer security should be the subject of express audit to assess its effectiveness.*

It went on to recommend that the ANAO should conduct security efficiency audits of computer systems and that the Office be given sufficient resources to do so.

In relation to INTOSAI communication, the Secretariat has been organising pilot operations on the Internet (World Wide Web) as an effective means of presenting INTOSAI. SAIs will be able to access a selection of INTOSAI documents of general interest. The General Secretariat has invited those SAIs wishing to participate in the pilot to contact them with their Internet address for registration. While the ANAO has had an Internet address for some time, I have only recently made arrangements for our `home page under the Commonwealth Governments entry point organised by the Australian National Library.

In meeting our auditing responsibilities, the financial and performance business units of the ANAO have incorporated into their strategic audit programs audit tasks to ensure appropriate audit coverage of information systems is achieved. Our aim is to ensure that the audit of information systems is not necessarily a separate audit task but is seamlessly integrated into all audit work ie both performance and financial audit, directed at agency and program level. We do use Computer Assisted Audit Techniques (CAATS) extensively but also rely on quality internal audits which are suitable test tools.

We also see it as part of our responsibility to contribute more in areas such as the development of new systems. We are currently exploring ways in which this is best achieved given ANAO resources cannot hope to cope with the substantial activity taking place across the Federal public sector. I see it as important , however, that, where

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possible we provide advice on the effectiveness of new systems, including the adequacy of their checks and balances. Encouraging internal audit work in this area has always been an important part of our strategy. I was impressed by the many papers presented at an INTOSAI working seminar in March this year on Performance Auditing of the use of EDP which included observations such as the following:

*It is necessary for auditors to examine systems development projects. An audit office has never been compromised for so doing but conversely there are examples where an office has been compromised for not having taken action. Unfortunately there is no universally accepted code of practice as to how and when auditors shall examine systems under development.*

The proceedings warned of the recurring dilemma about how the audit function should avoid capture in a project and be held responsible for decisions and outcomes. I agree that we are on safer grounds when indicating the sort of standards that are applied by others adopting best practice. In this respect, ISO 9000 is probably useful as a starting point for checklists. Perhaps I should leave the last word on this subject to John Adshead of the Office of the Auditor General of Canada as follows:

*There is no magic solution to delivering successful systems. There are common-sense guidelines that can provide assurance that a major project can be delivered on time, within budget, and satisfies the users requirements.*

In giving encouragement to information technology innovation, I expect my Office to develop an ability to identify best practice and assist by communicating it to other areas of the public service. I have also undertaken to help the Governments Chief information Officer where ever we can, particularly in any whole-of-government approach and systems development.

As mentioned earlier, a key element of the ANAOs Information Technology strategy is to re-equip auditors with current, state of the art hardware and integrated audit software technology. We have recently installed a new Office system which we are aiming to integrate with our other auditing systems which are now being put into place.

I also mentioned the initiative with Price Waterhouse. Groupware products are being used to share auditing and accounting guidance across the Office and we hope to make this facility available for access by our audit clients.

The use of IT tools will also continue to be a crucial element of our performance audit methodology and audit approach. We have taken advantage of available software products including survey software (borrowed from the GAO), database packages for data analysis, and data interrogation systems such as our in-house developed systems. Work has recently commenced in examining , amongst other things, groupware products into the audit process in order to better share information and assist the review and audit management process. The ANAO will continue to take advantage of new automated

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analysis techniques as they become available in order to continuously improve the quality and efficiency of its performance audits.

The pace and impact of information technology development will be I suspect the greatest challenge we face as we move into the next millennium.

## CONCLUDING REMARKS

I have traversed a lot of ground here today but I think the overriding message is really quite simple. That is, adding value by contributing positively to the responsibilities of the public sector generally and of individual managers within the public sector is the continuing challenge for the public sector auditor. To add value in a climate of continuous improvement demanded from an ever-changing public sector environment is the real challenge facing all of us. Increasingly that will be a function of just how well we use information technology for strategic and operational management.

I have outlined the strategic directions the ANAO has set and which will be kept under constant review. I am confident they reflect the basic requirements to achieve our goals. However, we cannot and should not try to proceed unilaterally. There needs to be a cooperative, and preferably a partner, relationship across public sector management as well as a working relationship with our elected representatives which allows all parties to draw on their respective skills and experiences to continually improve public sector performance and accountability. Ultimately that depends on the people involved.

Meeting these challenges will require the goodwill, assistance and cooperation of all parties, that is, the public sector agencies, individual managers, boards of directors, the Executive, the Parliament, and of course, the auditor. I am not so naive as to think that there will not be tensions and legitimate disagreements along the way. After all, we have not always agreed with some of the views of our own external auditors!

The changing features and culture of the public sector and accounting and auditing environments, in Australia and in many other countries around the world demands greater objectivity, ethics, professionalism and involvement from all Audit Offices. In my view, we have to be an integral part of any commitment to a Better Public Service. We are certainly well placed to contribute to the development of a robust accountability framework.

The challenges and opportunities for those of us charged with providing assurance on the performance of the public sector are indeed many and varied; some would even say daunting. However, I am sure I speak for all of my colleagues when I say that we look forward to working with all of you to meet the challenges and opportunities that lie ahead.

Within the focus of this address, these challenges for public sector auditors into the next millennium directly relate to the role of auditing in promoting good governance by improving public sector management. Perhaps we can all agree with our Canadian colleagues that:

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*The role of the auditor is to promote good government in this changing world.*