

20th Commonwealth Auditors-General Conference

Accountability for the 21st Century

– the powers and responsibilities of Commonwealth Auditors-General

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*With thanks to Ron Richards of my Office
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**Ian McPhee
Auditor-General for Australia**

I Introduction

The Australian National Audit Office's (ANAO) contribution to the discussion on Sub-theme 1 (the powers and responsibilities of Commonwealth Auditors-General) complements the lead paper presented by the UK Comptroller and Auditor General.

In sharing our experiences on the evolution of our respective audit powers and responsibilities, colleagues will not be surprised at the commonality of the issues raised as we position ourselves to assist Parliaments in the 21st century in fulfilling their accountability role to their constituents. It is essential that our audit reports and related audit services are designed to meet the evolving needs of Parliaments, executive governments and public sector entities.

As with other Commonwealth countries, the Australian public sector operates in an increasingly challenging and complex environment. For example, at Australia's federation in 1901 there were eight Departments of State, no statutory authorities or companies.¹ Today, we have 19 Departments of State, 61 prescribed agencies, 3 Departments of the Parliament, 63 statutory authorities and 26 government owned / controlled companies — there were many more companies, some 234 in 2004, but this number has reduced significantly through privatisation.²

The challenge for the ANAO, and we expect for other national audit institutions, is that this represents not only an expansion of government, but also a fundamental change in the nature of the bodies charged with delivering government programs and services. Public service delivery in the 21st century is characterised by increasingly complex inter-relationships between: government agencies; different levels of government; and the private sector including not-for-profit.

The traditional distinction between the public and private sectors is increasingly being blurred, with the concept of 'integrated government' being applied to government service delivery and the achievement of 'public' outcomes. Privatisation, corporatisation and outsourcing have greatly added to the changes witnessed in the past 25 years or so.³

This changing environment has required changes to the public sector itself resulting in an increased focus on efficiency and better ways to deliver government programs and services, and accountability. Associated with these initiatives has been a shift from a heavily 'administrative' public service culture to a 'managerial' approach that has sought to eliminate unnecessary

rigidity in public administration, allowing agencies the flexibility to tailor solutions to particular government policy outcomes.

This change has been characterised by a progressive move away from substantial, centralised control by 'central' agencies, to an environment in which individual departments and agencies have prime responsibility for tailoring program management and delivery arrangements to most efficiently and effectively achieve the outcomes sought. This naturally brings forward its own set of challenges but does impose, amongst other things, a tighter discipline with direct control of staff numbers by individual agency heads, and closer integration into financial budgeting processes.

In Australia, the legislative reforms and the substantial devolution of employment powers to agency heads have been accompanied by major comparable reforms of financial management, including the *Auditor-General Act 1997*. This Act, and related financial management accountability legislation, introduced a modern financial management framework emphasising performance, propriety and accountability.

Both from a public sector management and an audit perspective, the devolution of financial authority and the employment powers was undertaken in the context of substantial strengthening of accountability for performance in terms of program efficiency and effectiveness.

Overlayed on the financial and employment reforms there are additional challenges which contributed to the evolving complexity of public administration in Australia — these challenges include:

- the expectations of citizens are rising faster than the capacity of governments, and their public services, to respond;
- the level of scrutiny of the manner in which public servants made and implement decisions is far greater than in the past;
- the communications revolution means that Ministers (and the public servants who serve them) face a need to respond far more speedily than in the past. Paradoxically the tyranny of distance has been replaced by the tyranny of immediacy – making the process of public administration far more pressured; and ⁴
- A whole-of-government approach to the delivery of government goods and services.

This increasing complexity of the public sector environment presents challenges to audit organisations in ensuring that we meet

the needs and expectations of Parliaments, elected governments and our audit clients.

To set the scene I will briefly outlining the key elements of the Australian audit legislation under which we operate, highlighting my audit mandate, the ANAO vision and measuring our performance. The paper will then deal with issues associated with an expanding audit role in this increasingly complex and challenging environment and the measures taken to meet the expectations of Parliament, including an expanded audit assurance role (in addition to the financial statement audit mandate) as well as providing a catalyst for improving public sector administration. Finally I will touch on some issues associated with auditing whole-of-government and cross-jurisdiction arrangements.

II The ANAO — setting the scene

Australian audit legislation — key points

The Australian audit legislation — the *Auditor-General Act 1997* — is reasonably recent and provides me with the mandate to conduct financial statement audits and performance audits of Australian Government agencies, authorities and companies.

This act extensively revised the 1901 act (drawn up at Federation) separated out the audit function and the government's financial management arrangements. The now standalone *Auditor-General Act 1977* expanded the traditional audit role to encompass independent reviews of the performance and accountability of the Australian Government public sector in its use of public resources. Under the 1997 Act, the ANAO delivers a range of audit products to meet this responsibility and respond to the expectations of the Parliament, the Government and the public sector entities that we audit.

A critical priority for the ANAO is making a key contribution to the system of public accountability by serving as the external auditor of the Executive Government with a duty to report directly to Parliament on the financial stewardship and the economy and efficiency of the operations of Commonwealth entities. The audit assurances that government agencies perform their functions efficiently and effectively is the additional mandate, mentioned above, not provided for in the 1901 Act. In the Australian context, performance audits examine public entities' operations, resources, information systems, performance measures, monitoring systems, governance arrangements and legal and other compliance. These

audits play an important role in improving the efficient administration and management practices of public sector entities.

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

To fulfil this additional responsibility effectively, the ANAO is required not only to assess performance objectively, but also to make constructive recommendations for improvements to program or agency performance.

The ANAO's effectiveness is based on two fundamental factors:

- the special relationship between the Auditor-General and Parliament based on the Office of Auditor-General being '*an independent officer*' of the Australian Parliament; and
- the (audit) independence provided for under the *Auditor-General Act 1997* which allows for my Office to provide independent assurance to the Parliament, the Government and the public generally on the financial statements, financial administration and accountability of Australian Government public sector entities. The independence of my reporting role is enhanced further through my audit reports being tabled in Parliament and attracting parliamentary privilege.

The ANAO's relationship with Parliament

I place great store on enhancing our already very good relationship with the Parliament and Parliamentary Committees. The ANAO actively seeks to engage Ministers and other parliamentarians by briefing them on our work and audits conducted in their areas of responsibility and interest.

The ANAO is also proactive in assisting Parliamentary Committees through our work generally and providing assistance on issues where we have relevant audit experience. In particular, the ANAO has a special relationship with the Parliamentary Joint Committee on Public Accounts and Audit (the JCPAA). Both the *Auditor-General Act 1997* and the *Public Accounts and Audit Committee Act 1951* recognise this relationship.

The JCPAA provides a formal link from the ANAO to the Parliament, particularly as the audit committee to the Parliament. Broadly, the JCPAA:

- approves the proposed appointment of the Auditor-General and the independent Auditor of the ANAO;
- reviews all ANAO reports;
- reviews the annual resource requirements and operations of the ANAO; and Advises the Auditor-General on the Parliament's audit priorities.

The independence of the Auditor-General

The independence of the Auditor-General is protected by legislation, and is critical to the effective discharge of my responsibilities. The *Auditor-General Act 1997* establishes the statutory Office of the Auditor-General and the ANAO and specifies:

- that the appointment of the Auditor-General requires the support of the Government and the Parliament (the Joint Committee of Public Accounts and Audit) ;
- a 10 year, non renewable, appointment for the Auditor-General;
- the Auditor-General can only be removed if agreed by each House of Parliament in the same session, on the grounds of behaviour or physical or mental incapacity;
- the Auditor-General is an independent officer of the Parliament and the Auditor-General may not be directed by Ministers or Parliament as to audits to be undertaken (however, I am naturally responsive all requests from the Parliament and its Committees); and
- the Auditor-General has wide powers of access to people and papers in undertaking audit responsibilities.

To sum up, the Auditor-General has a statutory mandate to audit the financial statements of all Australian Government controlled entities and with few caveats has complete discretion in the selection of performance audits in public sector entities. The reason for this privileged position is to allow the Parliament to be directly informed by the Auditor-General on whether public administration is being conducted efficiently in accordance with legislation, and also the announced policies of the Government.

The ANAO's vision

Our vision — *to be recognised as an international leader in the provision of independent public sector audit and related services.*

The ANAO is well regarded internationally as a progressive audit institution that employs contemporary approaches in its auditing

and related activities. The ANAO aims to add value to public sector performance by contributing to:

- **Improvement in public administration** through independent assessment of the performance of public sector activities including the scope for improving efficiency, and administrative effectiveness.
- **Assurance** — independent assurance of public sector financial reporting, administration, control and accountability.

To ensure the ANAO is delivering relevant, cost effective services and products to our key clients, the ANAO has developed a framework for measuring and reporting on performance using a balanced score card approach. Our four Key Result Areas are: our clients; our products and services; our people; and our business performance. The ANAO:

- Benchmarks its audit and support functions against appropriate public and private sector organisations;
- Sets performance targets and measures with an emphasis on achieving identified outcomes;
- Maintains a quality assurance program for audit products and services; and
- Reports on its performance against these performance measures and targets in its annual report to Parliament.

III Meeting the audit challenges in the 21st century

Historically auditing has been very focused on the audit of financial statements. A quote I came across as a student portrays a view of auditing circa 1950.

"As recently as 1942, a committee of English experts, in discussing the future of auditing in Britain, wrote, somewhat intemperately: Attempts to persuade the accountancy profession to take a wider view of their public responsibilities have so far met with little success....there is little or no evidence during the last twenty or twenty-five years to show that the professional accountant, qua professional accountant, has produced a single idea of value to industry or the State. He has merely ticked and cast and trusted in God".⁵

Fortunately, there have been some positive developments since then! In the ANAO's case we endeavour to 'leverage off' our audit work to extend our reach to improve public administration. Our series of Better Practice Guides (BPGs) and our newsletters *AuditFocus* and *Opinions* are important levers in this regard. We

also attend as observers at clients' audit committee meetings to provide independent input to the committees' deliberations as well as bringing a broader public sector perspective to the discussion. More recently, the ANAO is widening its assurance role to meet the Government's requirement to provide independent assurance on specific matters such as the current status of the major Defence capital acquisition projects. I will also canvass some whole-of-government and cross-jurisdictional audit issues.

Let me deal with each of these in turn.

The ANAO's Better Practice Guides

The ANAO produces Better Practice Guides (BPGs) to assist in promoting improved public sector management and accountability. Because of the ANAO's unique position we are able to compare operations across the public sector (and sometimes with the private sector) allowing us to add value to a wide range of stakeholders. This 'across-the-board' view is becoming more important as agencies increasingly develop individual approaches to deal with common issues, shades of re-inventing the wheel. In some cases, agencies are employing the same consultants to provide the same, or similar, advice.

While we have used our BPG's and newsletters as key ways to 'leverage-off' our knowledge and experience in the interests of better public administration, they also assist in balancing the harder edges of objective audit assessments. Additionally, the BPG's provide a normative model that establishes the audit criteria for future audits. Additionally, they can reduce the level of audit resources required to conduct our audits. Perhaps the most significant BPG example of this was our guide on Preparation of Financial Statements by Public Sector Entities which not only assisted agencies, but also assisted the ANAO to streamline our own financial statement audits.

Our BPGs are also increasingly becoming important source documents for managers operating in an environment of devolved authority and responsibility. Indeed, they are of particular value to small agencies that find it difficult to develop and maintain in-house expertise on the wide range of public sector management issues, and which, in the past, have tended to rely heavily on detailed legislative and policy frameworks and guidance from central agencies.

Our program for BPGs is based on the ANAO's understanding of the emerging issues that are likely to impact on the performance of the

public sector. BPGs may be produced in conjunction with a performance audit or, alternatively, a BPG might be prepared as a result of a perceived need to provide guidance material in a particular area of public administration. Importantly, BPGs add value by bringing together lessons learnt across the public sector.

Our all time 'best sellers' have been:

- *Developing and Managing Contracts: Getting the Right Outcome, Paying the Right Price* (February 2007 – developed in collaboration with the then Department of Finance and Administration);
- *Implementation of Programme and Policy Initiatives: Making implementation matter* (October 2006 – developed in collaboration with the Department of Prime Minister and Cabinet); and
- *Preparation of Financial Statements by Public Sector Entities* (April 2006).

And, our two most recent BPGs — *Public Sector Internal Audit: An investment in Assurance and Business Improvement* (September 2007), and *Fairness and Transparency in Purchasing Decisions: Probity in Australian Government Procurement* (August 2007) — are also receiving good feedback. Upcoming, we intend to update our BPG on the administration of grants in the light of our recent audit activity on grants administration.

***AuditFocus* Newsletter**

In addition to our BPGs, the ANAO publishes the '*AuditFocus*' newsletter which is designed to distil key messages from recent audits for busy public sector executives. These newsletters are also receiving good feedback from public sector managers. Our latest edition published in April this year focused on project management, administration of grants, measuring program performance and protective security.

Building on this information flow

The ANAO also has a range of other products designed to assist our audit clients by providing guidance for resource and financial management and compliance; these include:

- Client newsletters;

- Client seminars to assist in the preparation of financial statements and exchange ideas and discuss problems; and
- ANAO on line – <http://www.anao.gov.au> — provides information on the ANAO, the full text of current audit reports tabled in Parliament, Better Practice Guides and speeches.

Attending clients' audit committee meetings

In recognition of the pivotal role audit committees play in the governance framework of public sector organisations, Australian federal legislation requires all government entities to establish an audit committee. Given this legislative requirement, the ANAO holds the view that representatives of the ANAO attending audit committee meetings (as an observer) does not compromise audit independence; rather, it facilitates an unrestricted, frank and confidential exchange of information with the external auditor through out the year. Indeed, our attendance at these meetings provides a proactive independent input on a committee's deliberations, bringing with it a broader public sector perspective.

I must stress however the ANAO representative is an observer, not member (of a committee) responsible for decisions. My objectives for ANAO staff attending Audit Committee meetings are:

- to contribute the ANAO's knowledge and experience to the agenda of the meeting;
- to inform, and be informed, of any significant issues arising which have the potential to have an untoward effect on the integrity of financial reporting or administration of the agency; and, to the extent practicable, agree on steps to overcome such issues, or to minimise their effect;
- to encourage open discussion on issues affecting the performance of agencies through the mature handling of information and providing appropriate recognition to information from the agency considered as part of the audit of the agency;
- to advise the Committee of the auditor's responsibilities in relation to the financial statement audit — the planned scope and timing of the audit, and significant findings from the audit (qualitative aspects of the accounting policies, any significant difficulties encountered, material weaknesses and other significant matters); and of any scheduled performance audits and their objectives; and

- to outline the proposed audit coverage, including:
 - audit scope, objectives;
 - focus to cover risks of material statement and outline any fees;
 - management's responsibilities in respect to the detection of fraud;
 - relations with internal audit;
 - reliance on management and impact on internal entity resources;
 - the engagement letter and Audit Strategy Document;
 - the effectiveness of the internal controls structure and risk management;
 - emerging accounting policy, accounting and auditing issues; and
 - ongoing issues from previous audits and any areas of disagreement with management, focus on resolution.

Expanding the audit assurance role

The Australian public sector has had a performance management framework since the mid 1980s but it is expected to receive a stronger focus in light of the new Australian Government's commitment to give greater emphasis to performance benchmarks in terms of how government policies are implemented over the next three years.

This sentiment was captured in the Government's *'First 100 Days'* document — *'We intend to produce regular report cards of the Government's performance...'*⁶ Additionally, the Federal Government has put State Governments on notice that they are expected to report on progress made on plans to improve service delivery in areas such as health and aging, productivity, infrastructure, business regulation and competition, housing and indigenous reform and water reform.

What does this mean for the ANAO?

Well, for a start, it is a positive development to see such a strong emphasis on program performance. This will be good for program outcomes and good for public administration. It is also expected government agencies will be more attuned to the ANAO's message on how program performance may be improved.

Defence's major capital acquisition projects

Further, we witnessed some early moves under the previous government when the JCPAA, with bipartisan support, recommended that the ANAO undertake an annual audit of the Defence's major capital equipment projects. This is similar to a UK initiative. Currently Defence and the ANAO are working on the form of a joint report which will report on schedule, cost and capability delivered through major acquisition projects. This will allow a portfolio perspective on these projects, which both organisations see as a positive development.

We see this as an audit assurance assignment, separate from our usual assurance role in relation to financial statements, which is designed to provide greater accountability to Parliament on major Defence capital equipment projects.

The ANAO is working with Defence to develop effective data collection and assessment procedures covering the cost, schedule and performance of each Defence major acquisition project. This involves a pilot containing nine projects and the production of an initial report to Parliament in November 2008. In subsequent years, the ANAO will work with Defence to increase coverage to 30 projects. However, this would be subject to the quality of DMO's management reporting systems and controls, and DMO's ability to provide the ANAO with relevant and timely access to information relating to each of its major capital acquisition projects.

Other potential assurance activities

In the run up to the last election there was a deal of media coverage regarding government advertising explaining government programs and a possible role for the ANAO in vetting this expenditure.

We are currently consulting with Government on the kind of independent assurance that can be provided in relation to advertising, given that the ANAO is well placed to provide assurance that this type of expenditure meets the government policy and approved guidelines.

Given the Government's focus on measuring public sector performance this may well develop into new areas where the Government is seeking independent assurance on reports provided by agencies in meeting specific performance benchmarks. As mentioned above we already have the Defence major capital acquisition projects as our first example of this.

Auditing 'whole-of-government' delivery of services

The other change we have seen in recent years is a more collaborative approach to public administration necessitated by the need for more global solutions to policy issues. Business and the wider community reasonably expects that government programs and services will be delivered, increasingly, in a seamless way; and this includes cross-government or jurisdictional boundaries.

The name given to describe this priority at the Federal level in Australia is 'whole-of-government', denoting:

*'... public service agencies working across portfolio boundaries to achieve a shared goal and an integrated government response to particular issues. They can focus on policy development, program management and service delivery.'*⁷

There are benefits of whole-of-government intervention however, there can be negative effects unless they are compensated for. Challenges in auditing these arrangements may include:

- Lack of clear leadership;
- Blurred lines of accountability; and
- Difficulties in measuring overall effectiveness and impact.

In the broader scheme of things we should not lose sight of the real benefits that traditional organisation structures deliver in terms of governance, accountability and the coherent and efficient delivery of services, and the extent of co-operation and coordination that currently occurs between and among agencies.

In other words, whole of government solutions have an important role, as do the more conventional arrangements between and among agencies, to cooperate in the delivery of public services. As is generally the case, it is not a question of all or nothing. Rather it is a question of determining how best to respond to the increasing demands to integrate policies, programs and services.

In the light of these developments it is important from an audit perspective to know 'who is responsible for what'; whether there is a common goal or whether agencies have discrete responsibilities; and which agency provides the leadership?

The arrangements are evolving, requiring ongoing consideration of governance and delivery issues. Of paramount importance, though, is that there is clarity of roles and responsibilities to allow for the effective and efficient delivery of services to citizens.

Auditing across jurisdictions — nationally and globally

As mentioned earlier, the Australian Government is looking to strengthen the State governments' accountability for their expenditure of federal monies on areas such as health and aging, productivity, infrastructure, business regulation and competition, housing and indigenous reform and water reform.

My audit mandate does not extend to 'chasing the money' through the State system however I can provide assurance to the federal Parliament in relation to whether federal agencies are effectively monitoring these activities. There is also scope to join with my State counterparts in conducting 'cross-jurisdiction' joint reviews on selected activities.

On the more global front the ANAO is collaborating with 12 other audit agencies (Austria, Brazil, Canada, Estonia, Greece, Indonesia, Norway, Poland, Slovenia, South Africa, USA and the UK) in an audit of climate change initiatives. Our collaboration will occur within 'clusters' where there are common themes within the broader group — for example: mitigation, science and technology, or adaptation. The objective is to coordinate the auditing and reporting of selected climate change topics in order to exploit the collective resources and insights of participating international audit organisations in addressing a global problem.

To support both the national audits and the coordinated elements, the partners are collaborating in developing and applying relevant audit guidance. The aim is to build lasting strategic partnerships with the groups working with international bodies such as the IPCC and UNFCCC to achieve this.

The planning for the audits commenced this year and the national audit will be carried out in 2009 with joint reporting occurring in 2010.

IV Concluding Comments

The theme running through the paper is that national audit institutions have an important role to play in providing that independent view of the performance and financial management of government entities, thus assisting Parliaments in fulfilling their accountability role to their constituents.

In the 21st century we need to be alert to the opportunities to provide other assurance services that can contribute to providing assurance to Parliaments and other key stakeholders on the performance of key government programs.

By providing an effective audit service, it enhances our own standing and influence, particularly with Parliament, but also with public sector bodies. How we position ourselves to meet the requirements of Parliaments in the 21st century is critical. Momentum is important; it is much easier to influence the debate if you are well regarded and influential than if you have to battle all the way. And the only way to sustain momentum over time is by being clearly independent, delivering quality services that are well regarded and being constructive in formulating recommendations for change.

Thank

you.

Notes:

- ¹ Kirby, The Hon Justice Michael AC CMG, *Public Funds Beget Public Accountability*, University of Canberra, Corporate Governance ARC Research Project Corporate Governance in the Public Sector Dinner, High Court of Australia, Canberra, 9 March 2007, p.
- ² Department of Finance & Deregulation website *Chart of 99 Agencies under the FMA Act and Chart of 89 Bodies under the CAC Act*
- ³ Kirby, The Hon Justice Michael AC CMG, *Public Funds Beget Public Accountability*, University of Canberra, Corporate Governance ARC Research Project Corporate Governance in the Public Sector Dinner, High Court of Australia, Canberra, 9 March 2007, p. 7
- ⁴ Shergold, Dr Peter, Do Sighs Really Matter?, a speech delivered at the IPAA National Conference 'Does Size Really Matter' 14 September 2006, p. 2
- ⁵ The Future of Auditing", Anonymous, *The Accountant*, Volume 106, January 17, 1942, p 31.
- ⁶ Australian Government, February 2008, *First 100 Days: Achievements of the Rudd Government*, Foreword, p. 1
- ⁷ Management Advisory Committee Report 2004, *Connecting Government Whole of Government Responses to Australia's Priority Challenges* p. 4