

Panel Discussion: Performance Audit Reports

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Performance audits play an important role in reporting the effectiveness of programme administration and providing a stimulus for better public sector performance. This panel discussion will explore recommendations from recent performance audits and implications for the public sector.

Key Message:

Performance Audits provide a stimulus for better public administration.

Our role today is to provide a brief overview of the principles that apply to performance auditing, cover the history of the performance audit mandate for both the Australian and the ACT Offices, and provide an insight into the reports we have done recently, and key messages arising from our audits.

Performance Auditing Framework

Auditing, and accounting, are amongst a group of mature professions because their roles have been long established and change has tended to be incremental.

- However, the adoption of performance auditing in the public sector in Australia was one of the more significant new additions to the traditional auditing role.
- The other change we have seen within the profession has been the expansion of other assurance services to include sustainability reports.
 - : to date, in the public sector context, we have not seen a significant demand for such reports, but that may change going forward given the focus on environmental and sustainability issues today.

The principles of auditing are the same whether a financial statement or a performance audit is being conducted

- In a financial statement audit, the auditor's objective is to enable the auditor to express an opinion whether the financial statements are prepared, in all

material respects, in accordance with the applicable financial reporting framework.

- In a performance audit, the auditor's objective is to express an opinion whether, in all material respects, the administration of a particular programme or entity has been carried out economically and/or efficiently and/or effectively.

While the principles may be the same, there are some noteworthy differences:

- For a financial statement audit in Australia, the financial reporting framework is defined by 2 statements of accounting concepts and some 48 accounting standards
 - : The auditing requirements for financial statements are established by some 33 auditing standards
 - : For both financial reporting and auditing, the Australian standards are based on international standards
- For a performance audit, the (public sector) management framework or model is only broadly defined (and certainly not to the same extent as financial reporting frameworks).
 - : The performance auditing requirements in Australia are currently established by only 2 standards (AUS 806: Performance Auditing, and AUS 808: Planning Performance Audits) - with other standards to be adapted as necessary;
 - : There are no international standards which define management frameworks or relate directly to performance auditing.

Thus, while both financial statement and performance audits adopt the same principles, the operating frameworks and standards are much less defined for performance audits.

The current Australian auditing standard on Performance Auditing does, however, require the auditor to be satisfied, amongst other things, that there are suitable criteria to enable the auditor to assess the activities subject to audit, for there to be sufficient appropriate audit evidence to draw reasonable conclusions.

- The Australian Standard on Performance Auditing is currently subject to review by the AUASB, under a Task Force headed by Mike Blake, Auditor-General for Tasmania.

One difference worth mentioning is that when it comes to accounting policies to be adopted by the entity in preparing its financial statements, an auditor is expected to have a view as to the appropriateness of these policies

- In fact, in one of the revised standards to be issued internationally on *Communications by the Auditor with those Charged with Governance*, the auditor is expected to discuss significant accounting policies and practices with those charged with governance.

However, in a performance audit context, the auditor is generally prohibited from commenting on the policies adopted by executive government

- This is properly to avoid the auditor becoming embroiled in political debates on the merits of government policy
- That said, performance audits can influence governments to change policies, particularly those bearing on public administration, or to inform decisions in relation to budget allocations.

Performance Auditing Mandate

At the Australian Government level, the Auditor-General has had a performance audit mandate since 1978.

- And, in that context, it wasn't a sure thing that the ANAO would be given the responsibility to undertake performance audits. Other candidates considered by the 1976 RCAGA at the time were the Public Service Board, the Treasury and a new agency (the Office of Policy Analysis and Administrative Management). The ANAO was favoured over these bodies, however, due to the recognised need to have an authority independent of departments to prescribe the basis of reviews, to establish expected standards of performance where these are measurable, to make comparisons and generally to judge and report on performance.

The ACT Auditor-General's office has had a performance audit mandate since its inception in 1990. This mandate, and the necessary powers to implement it, was reinforced in the *Auditor-General Act 1996*.

Performance Audit Coverage

The ANAO now produces around 50 performance audits a year and, from time to time, is requested by the Parliament or a Minister to undertake performance audits. The ACT Auditor-General's Office has a much smaller performance audit capacity, and produces 6-8 performance audit reports a year. The ACT Office also conducted other investigations and reviews which adopt the general principles of performance audits.

Performance audit topics are chosen having regard to:

- risk and materiality;
- portfolio coverage;
- potential audit impact;
- key themes such as governance, administration of border security, project management, service delivery and grants administration; and
- requests or suggestions made by Parliamentary Committees, Ministers, and Members of Parliament, and the ACT Assembly.

Recent performance audit topics include:

ANAO:

- *The Australian Taxation Office's Approach to Managing Self Managed Superannuation Fund Compliance Risks* (Report No 13, 1 November 2007).
- *Management of the FFG Capability Upgrade Project* (Report No 11, 31 October 2007)
- *Whole of Government Indigenous Service Delivery Arrangements* (Report No 10, 17 October 2007)
- *Australian Apprenticeships, Department of Education, Science and Training* (Report No 9, 4 October 2007)
- *Proof of Identity for Accessing Centrelink Payments, Centrelink, Department of Human Services* (Report No 8, 3 October 2007)

ACT:

- *The FireLink Project* (Report No. 5 / 2007, 28 August 2007)
- *Regulation of ACT Liquor Licences* (Report No. 4 / 2007, 28 June 2007)
- *Collection of Fees and Fines* (Report No. 3 / 2007, 25 June 2007)
- *Agency Implementation of Audit Recommendations* (Report No. 2 / 2007, 14 June 2007)
- *Credit Card Use, Hospitality and Sponsorship* (Report No. 1 / 2007, 21 February 2007)

We make recommendations for improvement, of which the very significant majority are agreed, or agreed with qualification, by agencies.

Our audit reports have underlined some key messages:

- good process delivers good outcomes;
- the importance of organisational self-awareness;
- the importance of sound governance;
- the importance of sound risk management;
- the importance of regular reporting/monitoring;
- the importance of sound records management and accountability processes;
- investment up front is more cost-effective than 'recovery action'
 - it can be tough when the spotlight stops on any organisation
- in contracting out, ensure the incentives for the private sector are appropriately aligned to the programme or project objectives;
- keeping an eye on cost-shifting in other jurisdictions.

Our audit reports have also identified a range of other influences that can make a positive difference to performance. These include:

- the interest of the CEO in good governance and good practices;
- having the right skills (number and level);
- being clear on expectations (and accountabilities)
 - encourage a culture of a self-evaluating/self-regulating system
 - encourage Internal Audit to review your systems;
- putting the blowtorch on critical assessments;
- having an effective Audit Committee
 - having the Audit Committee review and refer relevant ANAO/ACT AGO findings & recommendations to programme managers

Performance audits are also used by Parliament/ACT Legislative Assembly to inform its work on the operation of key programmes

- and Committees of the Parliament and the ACT Legislative Assembly commonly extend their inquiries into audit reports by considering both policy and administrative aspects of the programmes subject to audit.

Both audit offices are in a fortunate position to have an overview of the Australian Government public sector

- agencies expect us to bring our experience to the table
 - we also consider it is important for each office to leverage its experience for the benefit of the public sector
- : through the production of Better Practice Guides.

Three of the recent ‘best sellers’ in the ANAO Better Practice Guide range are:

- Developing and Managing Contracts — February 2007
- Implementation of Programme and Policy Initiatives — October 2006
- Preparation of Financial Statements by Public Sector Entities — April 2006

Conclusion

Both offices have had the mandate to conduct performance audits for more than two decades.

- performance audits are an accepted and important component of the landscape of public administration, and give a profile to the work of the ANAO and the ACT AGO;

- they inform Parliament/ACT Legislative Assembly and the public of the efficiency and effectiveness of major government programmes;
- they are a ready source of public information to aid the understanding of public administration, and
- importantly, they provide a stimulus for agencies to improve their performance.