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Public Sector Auditing Practices, Perspectives, Challenges and Capacity Development

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This paper presents a brief overview of the role of the Australian National Audit office (ANAO) and its contribution to public administration in the Australian context.

Background

The Australian Government public sector administrative arrangements are underpinned by:

- recent legislation, which is largely principles based;
- a settled budgetary framework; and
- a considerable degree of devolved authority to agency heads to manage public sector agencies in an efficient, effective and ethical manner.

Traditionally, the financial management reforms in Australia have been driven by changes to the budgetary arrangements;

- most changes have been incremental, dating back to the mid 1980s;
- the adoption of accrual budgeting and an outputs-outcome framework in 1999-2000 was a (more significant) step change.

The ANAO has been supportive of the financial management reforms, and further changes in prospect to harmonise accounting standards and Government Finance Statistics presentations of budgetary and financial information.

The financial management reforms have been complemented by changes to legislation concerning the management of the Australian Public Service, including workplace relations.

The mandate of the Australian Auditor-General

The Auditor-General has a legislative mandate to audit the financial statements of all Australian Government controlled entities.

The Auditor-General also may undertake performance audits of all entities other than Government Business Enterprises (GBEs). In the case of GBEs, the Auditor-General may be requested by the Parliamentary Joint Committee of Public Accounts and Audit or the responsible Minister, to undertake an audit of a GBE.

The ANAO audits the financial statements of some 260 entities from our large publicly listed telecommunications company, Telstra, to very small statutory entities. We provide Parliament with two reports a year on financial statement issues.

The ANAO also undertakes about 50 performance audits each year, tabling each report in Parliament as soon as practicable after it is completed. Performance audits comment on the efficiency and effectiveness of public administration, but, appropriately, do not comment on the merits of Government policy.

The ANAO also produces Better Practice Guides (available on www.anao.gov.au), on topics such as:

- Administration of Grants
- Audit Committees
- Business Continuity Management
- Building a better Financial Management framework;
- Corporate Governance
- Developing policy advice
- Preparation of financial statements by public sector entities

In addition, we have recently commenced a newsletter, *AuditFocus*, to capture succinctly the lessons from our audit experience for busy public-sector executives.

We seek to be objective in our reporting and constructive with our recommendations.

- the ANAO adopts Australian Auditing Standards which are largely based on International Standards of Auditing.

Performance Audit Coverage

Performance audit topics are chosen having regard to:

- risk and materiality;
- portfolio coverage;
- key themes such as project management, grants administration, security of systems; and
- requests or suggestions made by the JCPAA, other Parliamentary Committees, Ministers, and Members of Parliament.

Issues commonly raised in our reports concern:

- governance;
- risk management;
- project or contract management;
- performance reporting;
- IT security; and
- Compliance with the financial management framework.

We make recommendations for improvement, of which some 94% are accepted by agencies.

In some cases, there is close linkage between our work, agency responses, and decisions taken by Government in the budget context. For example, audits have had an impact on:

- savings in the Budget in the benefits payments due to improved control arrangements;

- additional funding for the Australian Taxation Office to improve the integrity of the Tax File Number, and thus taxation administration;
- additional funding for managing quarantine effectiveness;
- additional funding for certain security measures;
- additional funding for innovative approaches to assisting needy families in farming communities during periods of drought; and
- funding for improved record-keeping in one of our larger agencies.

Relationship between the Auditor-General, the ANAO and the JCPAA

The Parliamentary Joint Committee of Public Accounts and Audit (JCPAA) is established by statute and has a special relationship with the Auditor-General and the ANAO. For example, the JCPAA

- may advise the Auditor-General of the audit priorities of the Parliament;
- examines all reports of the Auditor-General;
- considers the resourcing and budget estimates of the ANAO; and
- may reject a Government proposal in relation to the appointment of the Auditor-General – this recognises the special relationship between the Office of the Auditor-General and the Parliament;

Neither the JCPAA, nor the Government, may direct the activities of the Auditor-General. They may, however, request the Auditor-General to undertake an audit or audits.

Inquiries based on Audit Reports

The JCPAA undertakes two main types of inquiries:

- ‘round table’ inquiries of 3 or 4 audit reports in one day involving the ANAO and the audited agencies;
- in-depth inquiries which may be based on several audit reports or some other significant matter concerning public administration; and may be undertaken over several months;

The ANAO meets with the JCPAA during the year to advise on those audit reports which would be most suited to inquiry.

The ANAO staff also meet with the Committee to provide a private briefing on the audit issues ahead of the public inquiry, and provide evidence to the Committee during the course of the inquiry.

Conclusion

The ANAO's role is to report to Parliament on the performance of public sector agencies through a programme of performance and financial statement audits undertaken in a way that improves the quality of Australian Government public sector administration.

The ANAO has supported the financial management reforms in Australia, and provided the stimulus for many changes resulting in better public administration and service delivery.