

Australian Society of CPAs, Canberra

**Meeting the Challenges Facing the  
Australian National Audit Office  
(ANAO)**

4 September 1995

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## **INTRODUCTION**

One of my first tasks in the ANAO was to focus the Office on the public sector environment, of which we are an integral part, and assess not only the impact and implications for us of the significant changes that have been occurring but also to think about how we could contribute to its future development.

Understanding the environment in which you work is a major challenge for any organisation. As part of the overall framework of public administration, we need to pay close attention to the legislative environment that is now moving closer to reflecting the developments of public sector reforms since 1983. That environment includes the Corporations and Taxation Laws as they apply to the increasing number of Government Business Enterprises (GBEs).

The third environment, and one no doubt of greatest interest to this audience, is that encompassing financial management, accounting and auditing. It is the one in which we have the greatest involvement with the Professional Bodies and with the relevant private sector organisations with which we are endeavouring to create a close relationship. The final environment I will discuss is that of the Office itself. The ANAO has been through a rather turbulent period of adjustment, reflecting in large part the demands of the changing external environments and the inevitable variations to the way in which it does its business, if only because of the opportunities offered by, for example, information technology. The immediate challenge, therefore, is to understand the business we are in and where it is going. As well, we need to have a better understanding of the needs of, and our responsibilities to, our various stakeholders, principally the Parliament. I seem to have the unfortunate habit of reminding people that Parliament is comprised of all elected representatives of the people, of whom most are usually on the Government side.

It should not be surprising that, after seven years or so as Chair of the recently replaced Information Exchange Steering Committee (IESC), I would also be concerned about the pervasive effect of communications and computing technology on both our internal and external environment. And, after only four months into my appointment, this view has been overwhelmingly confirmed. I regard developing the necessary personal abilities and professional skills in these and other areas within the ANAO as also being one of our greatest challenges in the foreseeable future. That means the emphasis has to be largely on developing and attracting people with the capability and commitment to add value within the audit environment.

## **THE PUBLIC SECTOR ENVIRONMENT**

Meeting the challenges of the 1990s 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 on the structure and work of the ANAO. The reforms include:

- a focus on outcomes;

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- 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.

The ANAO is well placed to make a significant contribution to the development and implementation of many of the 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 MAB/MIAC in the various publications such as `Building a Better Public Service and `Ongoing Reform in the Australian Public Service.

## Building a Better Public Service

You will recall that the major themes identified in Building a Better Public Service are:

- 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 in the MAB/MIAC context. 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 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

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developments are likely to have important ramifications for the way public services are provided and accounted for in the future.

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 focusing 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 management, the Executive and the Parliament. I will expand on this approach later in talking about our new audit product.

## Risk Management

I have stressed in a number of public forums that Risk Management is an important, and one could say pervasive, element underlying many of the reforms which have taken place. I have noted that the ANAO is a strong supporter of the concept of risk management and indicated that 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 will be 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 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.

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

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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 Governments 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 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.

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 the ANAO does understand and apply the concepts and principles underlying the recently released draft Guidelines and recognises 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 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.

## **THE LEGISLATIVE FRAMEWORK**

The evolving reform environment over the last twelve years is now being reflected in four bills which are the three replacements of the current Audit Act and the replacement of the Public Service Act. These Acts will provide the legislative framework for public management (administration) into the next millennium.

There are at least two matters within this framework which are particularly relevant to this address. 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

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(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.

Correspondence within each of the FMA and core and the CAC and non-core categorisations is by no means perfect. There are some CAC bodies which probably should be categorised as core government - for example, some regulatory and advisory bodies, and there are some FMA bodies that arguably might be considered as non-core - for example, the commercial businesses of the Department of Administrative Services. These may well be aberrations and I would not be surprised if, over a period of time, those CAC bodies performing core activities were to become FMA Agencies. Conversely, there is likely to be some movement the other way as FMA agencies become CAC bodies and CAC bodies are privatised.

That is, the proposed framework would enable the 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 APS 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.

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 and includes the requirement for a Fraud Control Plan. 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 require the establishment of Audit Committees, that is for all agencies and wholly owned entities. As well, both Bills place an onus on individuals to promote ethical behaviour. In 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. In this regard, I commend to you the recent address by Dr Michael Keating entitled `Public Service Values. Dr Keating also foreshadowed a MAB/MIAC publication to help guide staffs appreciation of ethical conduct with suitable case studies.

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Parliamentary endorsement of the financial management approach will be a major milestone in the overall public sector reform agenda. I am also looking forward to the new Public Service Act which will complete the overall public management legislative framework. The proposed Act will significantly influence the environment in which we all operate. 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.

I have previously indicated that the ANAO will have an important influence on, and will contribute significantly 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 focusing 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 that.

## **THE ACCOUNTING AND AUDITING ENVIRONMENT**

The third environment which will help to shape the future directions of the ANAO is the general accounting and auditing framework.

The ANAO is well-placed to contribute to the accounting approach and auditing as being undertaken within the public sector. As well, we will endeavour to have some influence on future directions being considered by the 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.

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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. The ANAO has, in my observation, contributed significantly to the situation whereby all departments 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 Commonwealth Government arena. Indeed, the Parliamentary Joint Committee of Public Accounts (JCPA) 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 the Department of Finance and agreement reached that the ANAO and that Department will co-operate 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



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introduced. The JCPA 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 agreed to place a senior officer with the JCPA to assist the Committees 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. The ANAO has always taken an active role in the development of such standards. And our contribution in this area will continue, and indeed increase, through the ANAO's 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 an Accounting Standard but may interpret them and may look at areas not covered by Standards. 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. You are probably aware that one of my newly appointed National Business Directors, Ian McPhee, is currently chair of the Public Sector Accounting Standards Board. Ian brings to the ANAO considerable experience and understanding of standards setting which will also be of advantage in the auditing standards arena.

## Relating to the Accounting Profession

Another area of importance to the ANAO is its relationship with and contribution to the accounting profession. As a significant provider of auditing

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services, the ANAO recognises the importance of developing and maintaining close links to professional accounting bodies in Australia, the Institute of Chartered Accountants (ICA) and the Australian Society of Certified Practising Accountants (ASCPA). On the financial statement side, the large majority of our audit staff is a member of one or both of these organisations. We are discussing with ASCPA the possibility of forming an Audit Office Chapter of the Society.

A number of our staff are involved in the Centres of Excellence established by the ASCPA, including myself (Public Sector). Within our resource capacity, we are looking at increasing our involvement in these areas. I have already noted Ian McPhee's position as Chair of the Public Sector Accounting Standards Board (PSASB). I will also be seeking to put forward a nominee from the ANAO for a position on the Auditing Standards Board later this year.

## 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. In this context, 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).

I am a Director of the International Consortium on Governmental Financial Management whose membership includes financial controllers and Auditor-General equivalents as well as similar private sector and academic interest. Their conferences usually attract considerable interest and involvement by a wide range of countries. As well, they have a strong development role in the Asian, Pacific and South American regions.

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.

However, given the ever-increasing demands placed on us to fulfil our statutory responsibilities, our ability to continue to make a contribution to this area 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

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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, 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 Program.

## **THE ANAO'S INTERNAL ENVIRONMENT**

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 ANAO's own internal environment. This section of the address 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.

### **The Way We Do Our Business**

We have just completed a comprehensive bottom-up and top-down review of our Corporate Plan. In common with the approach taken by other Agencies 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.

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As indicated earlier, 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. This division broadly equates to a notional split between what can be termed core Government activities (Defence, Trade, Foreign Affairs, Treasury, Taxation, Immigration etc) where there is general acceptance that activities should only be performed under the direct close control of the Executive Government, and non-core activities which, of their nature, require a degree of independence from the Executive, for example, where the organisation concerned is expected to operate in a competitive environment.

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 designed 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. 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 ANAO's aim, by allocating its own resources mainly to the audits of core Government, is to consolidate its

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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 focused 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.

## *Performance Auditing*

This is 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, particularly over the last five years or so.

The ANAO regards performance auditing as core business, and as such, these audits will 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 well, we will 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.

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

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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 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 focused on producing `balanced reports which add value by identifying good or best practice and indicating improvements that can be made from experiences elsewhere.

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.

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 W.A. 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.

In the performance audit sphere in the Commonwealth, performance indicators need to be available and which can be commonly agreed, at least in the first instance between managers and auditors. We will know whether we are arguing the performance criteria, or measurement against those criteria. Auditors will be reporting against management assertions that particular

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performance measures were achieved. You know what your outcome measures should be. But we will want to see that such indicators exist and that they do what you 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.

## *Audit Strategy Documents*

In line with our aim to foster open communication and co-operation, 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 administration and outline proposed audit coverage.

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 overseeing 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.

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 encourage 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.

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## *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 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 are dotted and `t's 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.

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 your ideas and feedback.



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## 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 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 enquiries 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 co-operative 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

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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 management 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.

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.

## Relating to Other Stakeholders

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 co-operative relationship with internal audit. In this way we can build on rather than duplicate the important work that internal audit does.

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.

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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.

I can assure you that, in setting performance audit priorities, the ANAO does pay 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. 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,

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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 ANAO's 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 to look across agencies to identify common difficulties but more importantly to identify best practice. I will illustrate this point later in the discussion of our new audit product.

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.

## Particular Management Imperatives

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, who lectured me at Stanford University, 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

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certainly have the latter and we can create the former. In this respect, the Office is focusing 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. As many of you here would be well aware, 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 ANAO's 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 where we may fall short of quality management standards, and we plan to do more in this area in the future.

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## *Coming to Grips with IT*

No strategic management discussion would be complete without at least some reference to the impact of information technology..

It might seem a little trite to say, but it is nevertheless a fact, that information technology in its broadest sense has a fundamental impact on our business, and therefore it is essential the ANAO 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 significant strategic advantage. The public sector is truly the biggest information industry in the country.

The ANAO is currently exploring ways in which it can contribute more in areas such as new IT systems as part of its ongoing review of how best to meet its auditing responsibilities in this important area. As well, it is developing its own capabilities with IT tools not only for better strategic management but also for its audits. We will be shortly putting up the ANAO's `home page on the Internet with access to details about our Corporate Plan, Corporate Structure and recent reports published. Depending on any other future initiatives aimed at facilitating access to government information, we will be further exploring the use of the Internet in disseminating relevant papers, guides, circulars and reports. We have also recently installed a new `Office system which we will be aiming to integrate with our other auditing systems which are also now being put in place.

A key element of the ANAO's 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 ANAO's financial statement audit responsibilities. Our association with Price Waterhouse in no way impinges upon our professional relationship with your Department or, indeed, on our independence. The approach has also been adopted elsewhere for both internal and external audit purposes. We have done a lot of work to customise the product to the public sector environment.

The benefits of this new strategic direction are twofold. This technology will enhance our capacity to work more closely with you in the provision of audit

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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 you in meeting your financial statement and related responsibilities.

In order to ensure the smooth transition of the technology into the ANAO an implementation program covering a 2-3 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 ANAO's commitment in meeting your needs 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 you and your officers 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 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. The emphasis is on teamwork and good communication. Implementation is co-ordinated 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 ANAO's 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

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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 designed 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.

## **CONCLUDING REMARKS**

The ANAO seeks to be valued as a source of independent and apolitical audit assurance and advice to the Parliament and the community. Through the provision of professional auditing services and public reports we aim to assist public sector organisations in achieving their goals. Our accent has to be on the quality and integrity of those services and reports. That requires a total commitment to the personal development of our staff and the clear recognition of their contribution. The Office needs confidence in itself and its professionalism and demonstrated teamwork if it is to generate confidence and support from its stakeholders.

The ANAO has in the past, and will continue in the future, to review aspects of the public sector reform agenda while continuing to be a strong supporter of it. I see no contradiction in this, noting that the need for accountability (by the ANAO and other review mechanisms) continues to be an integral part of those reforms. We recognise that the ANAO is central to assurances to the Parliament and the general public about accountability for the use of resources in the Commonwealth Public Sector.

In order to add value to a changing public sector administration, the ANAO must, both in its own management and in carrying out its audit program, contribute to and understand, the various reforms and other improvements which are an integral part of the environment in which we operate. We have to develop a good knowledge of that environment. That includes having a better understanding of the business of individual agencies and entities. We will aim



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to communicate better with all our stakeholders. Our policy will be one of `no surprises.

Some might be inclined to suggest that the notions of adding value and performing an audit function are mutually exclusive, basically because of a perception that audits are about `telling where you have got it wrong or, worse still, about `nit-picking criticisms. There will undoubtedly be many occasions where the ANAO identifies areas where improvement is considered necessary and, indeed, hopefully in only a few instances, where performance is poor or even unacceptable. Our emphasis will be on remedying those situations. The ANAO will not have all the answers. But together we may well have.

I consider the mandate of the Australian National Audit Office provides a unique opportunity for it to contribute positively to the development, operations and performance of the Commonwealth public sector - in other words, adding real value to public administration. That is my message to ANAO staff and a challenge for the Office in the immediate and foreseeable future.