

Occasional Paper

The Future Direction of Audit

31 May 2002

Pat Barrett
Auditor-General for Australia



INTRODUCTION

The governance environment is changing for both the public and the private sectors. Recent corporate collapses in the private sector are again leading to calls for strengthened internal and external control and scrutiny. Although not driven by the same imperatives, the public sector governance environment is also changing. Citizens have higher expectations of government and the public service and demand more effective, efficient and economical levels of service. Public sector managers are responding to the demands of their particular operating environments by streamlining and adapting traditional ways of providing services, and by taking advantage of partnerships and similar alliances that blend the public and private sectors.

The new ways of delivering public services, based to an increasing extent on private sector management models, have implications for accountability. An 'accountability continuum' has emerged which traverses a range of governance arrangements and structures. To continue to be relevant, both public and private sector auditors need to both understand and contribute to the changing governance environment to be able to anticipate new directions and the demands of various stakeholders. Provided we have sufficient understanding of the new public sector business environment, we can contribute proactively to change – responding through better managing our people and developing our systems to produce the products that will meet emerging needs.

The Australian National Audit Office (ANAO) has a dual role in terms of reporting on the financial management and overall performance of the public sector. Our first aim is to provide independent assurance as to the operations of the public sector. This is the more traditional 'watchdog' audit role. Our second role is to suggest improvements to public administration. Increasingly, it is this second, advisory role that is most important for a public sector challenged by diverse governance issues. Some see a conflict between the two roles for an external auditor. However, Lord Sharman recommended in the United Kingdom context¹ that auditors should seek to combine the roles in ways that do not compromise independence. He noted that the auditor must seek to maximise the benefits derived from insights obtained by close inspection of public bodies.²

While diverse governance approaches may now be required by the dynamic nature of the contemporary public sector environment, one lesson remains constant: sound process will lead in most cases to good outcomes. Results count but it is also important how those results are achieved. For the ANAO, the key issue is getting the balance right between tradition and innovation in order to provide the guidance and leadership demanded by the times. The independence of the office of the Auditor-General and our reputation for balanced, forward-looking reports is what sets us apart and gives us the opportunity to contribute fully to the mapping of new governance demands and their effective implementation.

This paper begins with a discussion of the contemporary convergence of the public and private sectors. It then turns to an analysis of governance in the changing public sector environment, and outlines the ANAO's strategic and tactical responses to that change. The paper concludes with a discussion of some possible trends for the future and the ANAO's responses to these developments.

1. CONVERGENCE OF THE PUBLIC AND PRIVATE SECTORS

The convergence of the public and private sectors in Australia and overseas has occurred as a direct consequence of the introduction of contemporary public sector reforms identified broadly as New Public Management (NPM). The most significant of these reforms, in terms of their far-reaching effects on governance arrangements, has been the trend toward the outsourcing of functions and the greater focus on the contestability of services in the public sector. These reforms were largely based on the premise that greater efficiency and lower costs could be achieved by applying private sector practices to public sector service delivery. In some cases, this means that private sector management models have overlaid traditional public sector activity. In others, the private sector has become fully incorporated in the delivery of public services through contract, cooperative and partnership arrangements.

The convergence of the public and private sectors provides the opportunity for public sector agencies to gain from specialist expertise and international better practice in complex and dynamic areas such as information technology and communications. However, convergence also brings into sharp focus the differences between the two sectors. For example, public sector agencies have very different legal and accountability requirements. Legal responsibilities are defined by specific functional statutes as well as general requirements outlined in legislation such as the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*. Private sector agencies have specific obligations under corporations law, trade practices legislation as well as relevant State/Territory legislation.

Commonwealth agencies have their primary accountability to the Executive and the Parliament. Private sector companies, however, have as their primary responsibility the provision of shareholder value. While there are obvious potential tensions when the two sectors work together, there are also opportunities for both parties to benefit, particularly in an era of globalisation. As auditors, our goal should be to use our knowledge and experience of the impact of convergence across the public sector to assist our clients in achieving their aim of doing their business better within the public sector accountability framework, however that is developed and applied.

Expectations of citizens

Access to services

The convergence of the public and private sectors, together with improved access to information and communication technologies, has mutually reinforced citizens' expectations of more responsive public sector service delivery. The introduction of service charters, for example, has strengthened the client focus of Commonwealth agencies and reinforced, in the minds of the public, the similarities between the two sectors. More citizens are gaining access to internet technology and, as this number increases, the demand for government services over the internet can also be expected to increase dramatically.

A growing number of citizens and businesses has now developed the skills to effectively interact online – e-mailing friends, booking travel, buying goods and services, and conducting banking and personal finances online – from home, at work,

while travelling, and at times convenient to them. These developments raise the expectations of individuals and increase their demands for the same type and level of service from government as they receive from the private sector – virtually on demand. Governments worldwide are focussing on harnessing the opportunities created by new technologies, while managing the risks inherent in this new form of service delivery. Government use of new technologies is discussed later in this section of the paper.

Participation in decision-making

These more actively engaged citizens are also participating more fully than ever before as partners in public sector decision-making and service delivery. This has been the trend in, for example, both Canada and Australia for some time, and has significant consequences for both the public sector at large and, specifically, for its auditors. The challenge is to tailor traditional notions of governance to make room for diverse stakeholders while still ensuring robust accountability to Parliament. This is not always straightforward, as it becomes increasingly difficult to separate the concept of ‘the public interest’ from the interest of community participants actively engaged in service delivery. As one commentator posits:

*Can the principles of individual and collective Ministerial responsibility and accountability to the taxpayer through Parliament hold when the boundaries between the public and community sectors are more blurred? Can the multiple accountabilities and ambiguities in partnership arrangements be tolerated?*³

I would contend that multiple accountabilities can be tolerated, provided all parties, including the Executive, commit fully to the notion of ultimate responsibility to the Parliament for the stewardship of public resources.

Australian governments, in particular, have had a long history of dealing with and, in some cases, providing financial assistance to, community-based advocacy or interest groups. This is particularly the case in the health, welfare and environment fields where community based organisations as well as business are actively involved in the design and delivery of publicly funded services. This adds to the complexity of program delivery but can result in cost sharing and service delivery innovations if well managed. Making room for citizens in governance is challenging, but as one commentator has noted:

*Australia and Canada are perhaps better prepared for the challenges of horizontal management than many other nations due to the long-standing complex patterns of cooperation between levels of government created by federalism and experiences in employing alternative service delivery mechanisms, especially within the community sector.*⁴

The ANAO recently conducted a performance audit of the Natural Heritage Trust (NHT) – a two billion dollar program administered jointly by the Departments of the Environment and Heritage, and Agriculture, Fisheries and Forestry – which involves State/Territory agencies, local government, non-government organisations and community groups in program delivery. The emphasis was on participation. In this case, the ANAO found that it was difficult to make an assessment of the NHT’s achievements over time as the implementation of the NHT performance information system had fallen substantially short of what was originally intended. In particular, the ANAO found that there was significant variation in the approach to the management of performance information across the States/Territories.

It is important that agencies learn from their experiences to date with the NHT, and use these lessons to inform other partnered programs in the future. For example, the National Action Plan for Salinity and Water Quality, which is also delivered through bilateral agreements, aims to develop integrated management plans in priority catchments with targets and standards agreed between the Commonwealth and the States/Territories. Developing effective partnerships will be crucial to the program's success. One test will be to provide real meaning to the notion of the "common good". Such developments have important implications for the nature of the governance model, a subject that is now receiving considerable attention in national and international forums.

Value for money

One of the key expectations of Australian citizens is obtaining greater value for money from government services. Value for money is more than simply realising the lowest price. It involves maximising overall value for the taxpayer and ensuring proper accountability for the use of public resources. This includes consideration of less tangible elements such as client satisfaction, the public interest, honesty, justice, and privacy and equity. In meeting the challenge of obtaining value for money in a climate of sectoral convergence, it is imperative that public sector agencies entering into partnerships with the private sector have a full appreciation of risks to the public resources with which they have been entrusted. Such risks include taking advantage of opportunities as well as avoiding, for example, degradation, inefficiency and loss of resources and performance.

Experience has shown that, while convergence offers opportunities for increased efficiencies, savings and other benefits do not flow automatically from the adoption of private sector practices. Indeed, convergence brings some significant risks. For example, market-testing of services, competitive tendering and contracting-out can, and has, separated policy development from service delivery with some unfortunate, unintended consequences, such as in the Federal Government's Information Technology (IT) Initiative. Ensuring value for money returns from convergence therefore requires the recruitment and retention of people with different or enhanced skill sets. Convergence puts the public sector in direct competition with the private sector in the labour market and, consequently, agencies need to adapt through effective corporate governance and workforce-planning practices to ensure that the attendant risks are well managed and the public interest is protected into the future.

The ANAO has found that value for money results can be particularly difficult to determine where commercial-in-confidence provisions of contracts apply. With the increased convergence of the public and private sectors, demonstrating transparency, accountability and the ethical use of resources has the potential to become clouded unless the Commonwealth takes a proactive and consistent stance to the scrutiny of contracts involving public funds. As one commentator noted:

while [Commercial-in-Confidence] may be good for business, it is inimical to the fragile processes of participatory democracy.⁵

In general, the roles and responsibilities of both public and private sector partners in relation to Commercial-in-Confidence issues require clarification. All parties involved in service delivery must clearly understand their accountability requirements and their ultimate responsibility to the Parliament. The ANAO has undertaken a number of

audits in this area to date. One report, entitled *The use of confidentiality provisions in Commonwealth contracts*⁶, found that there was a lack of consolidated government-wide guidance available to agencies on the use of confidentiality provisions in contracts. The audit found a number of weaknesses in the ways in which agencies generally deal with the confidentiality provisions in contracts. There was a lack of clarity in terms of the specific information that should be regarded as commercial-in-confidence in contracts, and agencies were addressing commercial-in-confidence issues in a less than rigorous or risk-managed way. This was threatening accountability and frustrating Parliamentary Committees and other forums of review⁷. The ANAO made a number of recommendations in the report aimed at enhancing the management of commercial-in-confidence issues in contracts.

The commercial-in-confidence issue was revisited by the ANAO in the recent audit of the implementation of a Senate Order of 20 June 2001⁸ that required all agencies covered by the *Financial Management and Accountability Act 1997* to list contracts over \$100 000 in value on the internet. The Order requires that agencies indicate, amongst other things, whether contracts contain provisions requiring the parties to maintain confidentiality of any of its provisions or whether the parties regard any provisions of the contract as confidential. The Senate Order also requests the ANAO to conduct an examination of a number of such contracts, and to indicate whether any inappropriate use of confidentiality provisions is detected. The Government had indicated that agencies should comply with the Order as it was committed to the transparency of Commonwealth contracts. The ANAO found that overall there was a positive response to the Senate order. There was also pleasing indications that a number of agencies were developing more detailed guidance to assist staff in determining aspects of contracts that might need to be protected as confidential. This is a step in the right direction, although agencies still have some way to go.

Resolution of this issue is just one of the challenges facing agencies negotiating the converging governance landscape. Commercial-in-confidence issues have challenged both agencies, and their auditors, in terms of our ability to provide assurance as to the administration of public resources. A related issue is that of Cabinet confidentiality and collective responsibility for administrative decisions. Documentation for the Ministerial appraisal process and detailing of the reasons that particular decisions were made is generally not available. Successive governments have supported the conventions of Cabinet confidentiality and collective responsibility by the practice of not disclosing the deliberations of, or reasons for, decisions by Cabinet and its committees.

The lack of documentation surrounding the Ministerial appraisal process and the lack of information on reasons for decisions highlights a tension between the standards expected for public administration and the normal Cabinet conventions. This precluded the ANAO from forming an opinion as to whether the Federation Fund proposals that were selected from those considered by the Government were likely to represent best value for money in terms of the program objectives. This is a tension for government and the Parliament to resolve. As public sector auditors, we will be guided by the accountability standards that Parliament indicates are appropriate.¹⁰ However, in a changing governance environment, accountability issues are constantly emerging, and, if addressed, are likely to be considered in the 'traditional', accountability framework or in a more private sector influenced environment.

Responsive service delivery

New service delivery arrangements

Traditionally, the public sector has performed its business in a fragmented way, with discrete agencies having monopoly responsibility for particular areas of interest. The challenges of this approach in terms of efficiency and effectiveness were noted as many as 25 years ago in the context of the Coombs Royal Commission¹¹. The Commission noted that multi-faceted issues, such as rural poverty, tended to be considered through a range of distinct and differing departmental 'lenses'¹². The issue is still relevant, with the Prime Minister observing recently that a particular challenge for the future of the Australian Public Service is:

the capacity of departments to successfully interact with each other in pursuit of whole of government goals and more broadly, for the entire Service to work in partnership with other bureaucracies, with business and with community groups as resources and responsibility are devolved closer to where problems or opportunities exist.¹³

As well as contemplating the benefits of public and private sector convergence, many agencies in Australia, like their counterparts overseas, are currently reconfiguring the way that they do business to take advantage of opportunities for networked or 'joined up' service delivery with other public sector agencies. Canada has experimented with networked partnership arrangements to good effect. The United Kingdom has indicated that 'joined-up government' is central to its modernising government initiative.

The use of new technology in enhancing service delivery and its implications for auditors will be discussed later in this paper. However, in contemplating the trend toward networked service delivery, it is pertinent to note the increased availability of 'one-stop-shops' or, in the case of electronic interfaces, 'no-stop-shops'. One-stop-shops allow citizens one point of contact with any number of agencies that have aligned to provide complementary service and assistance. For example, Centrelink has taken advantage of purchaser/provider arrangements to form links with policy agencies in order to provide integrated services to over 6 million clients. In some instances, one-stop-shops have been extended beyond the Commonwealth to include other levels of government and the community sector. For example, the NHT (discussed previously) was founded on a one-stop-shop approach involving State/Territory agencies, local government and non-government bodies. The ANAO examined some of the challenges of this approach in its recent audit of the NHT.

While there are potential benefits in this type of approach, there is also a need to clarify the governance arrangements that are intended to support the demonstration of accountability. Traditional public sector accountability arrangements do not fit these diverse forms of partnerships. Consequently, there is a need for tailored, innovative approaches based on a full appreciation of the risks and benefits involved, if there is to be credible accountability for both the results and the manner in which they are achieved.

Private financing

A further convergence issue with implications for governance is that of the use of private sector financing (PFI) in public sector areas such as infrastructure, property, defence and information technology. Private financing has been explored in a number

of countries in response to fiscal pressures. It gives rise to additional challenges and demands for public accountability and transparency because of the substantial shifts in risk. The potential liabilities accruing to governments may be substantial. The United Kingdom has made substantial use of private financing to harness private sector management expertise in the delivery of public services. Up to the present, contracts for about 400 PFI projects have been signed by central and local government for procurement of services across a wide range of sectors, including roads, rail, hospitals, prisons, office accommodation and IT systems. The aggregate capital value of these projects is estimated to be some £Stg 20 billion¹⁴. Since 1997, the National Audit Office has published twenty-four reports on these projects. The key lessons learned in terms of value for money from these audits are that:

- the price must be in line with the market;
- the contract must provide a suitable framework for delivering the service or goods specified; and
- the cost of the privately financed option (taking into account risk) should be no more than that of a publicly funded alternative.¹⁵

The evaluation of the costs and benefits of private financing are not straightforward. This is because the government can usually borrow funds at a lower rate than most private organisations. The real potential benefit from private financing lies in the cost savings of the total package and/or the transfer of risk. This latter point was fundamental to the UK approach. The logic was that the contractor was best placed to manage the particular risks involved. Nevertheless, there is always the concern that the ultimate risk always rests with the public sector to the extent that the public sector has over-arching and enduring accountability responsibilities regardless of the commercial relationships it enters into to achieve its objectives.

In Australia, the States/Territories rather than the Commonwealth have undertaken most private financing to date. Victoria and NSW, in particular, have used private financing arrangements for road and associated infrastructure projects. State Audit Offices have noted difficulties in establishing clear financial benefits from the private financing approach and in one case in NSW, Parliament was denied access to the contract deed between the public sector roads authority and its private sector partner.¹⁶ This further highlights the tensions inherent in the convergence of the public and private sectors that I raised earlier in relation to commercial-in-confidence.

Within the Commonwealth, the Department of Finance and Administration has established a specialist Private Financing Unit to assist agencies. The guidelines issued by the Department note that:

*While private financing has the potential to deliver net benefits to the government, the arrangements often involve a more complex set of operational, management and financial risks than traditional approaches. Accordingly, the development and assessment stage of private financing proposals warrants more detailed and specialist analysis.*¹⁷

The Department of Defence is currently considering using private financing arrangements for asset procurement. Initial planning began in 1998, and an organisational effectiveness branch has been set up to give advice on implementation. Any future privately financed arrangements will exclude financing of capabilities for delivering lethal or combative force. Private financing may be appropriate, however, for

the purchase of new and replacement capital equipment as well as Defence facilities, logistical support and IT programs. The model currently being reviewed by the Department recommends that private financing be considered for all capability proposals unless it clearly does not demonstrate best value for money.¹⁸

For agencies, private financing poses significant challenges in terms of accountability. Agencies need to demonstrate the net benefits from adopting private financing as well as the satisfactory management of risks. For auditors, the net benefits may well involve intangible benefits that may not be easily verified. In addition, the risks need to be managed in a transparent way that enables full disclosure of the probity arrangements in place. Of particular interest is any cost/benefit evaluation, the basis used for risk allocation and access to information in possession of the private sector. This can be complex and is not without resource implications.

Government use of new technologies

Advances in technology have also offered new opportunities to harness the benefits of convergence and alliance-making both between, and among, the public and private organisations. For example, the UK's 'joined up government' strategy recognises that planning for improved electronic service delivery offers the opportunity to break down departmental boundaries and alter the 'silo-based' delivery modes traditionally associated with government departments and agencies acting independently. A fundamental principle of the UK strategy is that citizens needing or wishing to interact with government should be able to do so whenever they choose. In addition, citizens should not need to understand the way in which government is structured in order to secure the services they need. Nor should they necessarily have to deal with a number of government departments individually in order to progress a particular course of action.

The UK's online 'Government Gateway' enables government to join up in a coherent way. Once a citizen or business registers with the Government Gateway, they can perform secure electronic transactions with any of the connected departments using a single identity from a single point of entry. Behind the scenes, many separate departments and transactions may be involved, but all the client (citizen) will experience is one identity, one point of access, and one consolidated transaction. Security of the new system has been a high priority for the UK Government Gateway and the authentication of transactions is crucial. A digital signature system has been developed which verifies the user and confirms the transaction has not been tampered with en route. Legislative changes have affirmed that the legal status of the digital signature is as binding as the traditional written signature. The UK's vision is that government should not be about what works for the departments but what works for the people. The aim is that the complexity of dealing with government disappears, while at the same time the Gateway provides security and benefits for government.¹⁹

In Australia, the e-government strategy – 'Government Online' – has similar aims. The program is administered by the National Office for the Information Economy (NOIE) and recognises that:

Getting Government Online is a natural and important step in the development of government and community interaction The Government must develop more and better services online – integrated services that break down the barriers of government structure and jurisdiction, and services that meet the real needs of individuals and businesses.²⁰

Due to Australia's size and population distribution, the provision of government services to rural and regional Australia is a strategic priority. Government Online has expanded the one-stop-shop concept discussed earlier to the creation of 'virtual agencies' online. The Government Online initiative provides the potential for better coordination and for improved advice and information flows based on a whole-of-government perspective. This is particularly important when considering broad, contentious issues with complex implications for competing stakeholders in the wider Australian community. The issue has parallels in the UK where the goal of local level integration has also been a public policy theme – particularly in terms of local government service delivery. Finally, there are additional benefits from the active involvement of the IT industry, which not only assists in achieving efficient and effective outcomes, but also fosters industry development and international competitiveness. In an increasingly global marketplace, this is essential.

Rapid advances in technology offer both opportunities and challenges in the converging business environment. In my experience, a major risk inherent in the shift to electronic delivery and decision-making is that of security. In addition, there are accountability issues for agencies, and consequent evidentiary issues for their auditors, when traditional forms of record-keeping are overtaken by the outputs of new technology.

E-mail creates not only opportunities for more responsive business management, but also some significant challenges. For example, the Managing Director of the Commonwealth Bank recently claimed in an address to information technology leaders that e-mail 'could ruin companies' and that high technology had 'failed to deliver promised productivity improvements'. He noted that e-mails 'create enormous legal risk' because 'one sentence written by one employee [out of 34 000 employed by the Commonwealth Bank] could bring the company down'.²¹

The delivery of services via the internet also introduces new risks and exposures that can result in a legal liability for government. Well-designed security and privacy policies can minimise such risks and liabilities, while informing agencies' clients of important aspects of the standard of service they can expect to receive. The benefits associated with a radical re-thinking of the structures and manner in which government services are delivered to citizens could be considerable. The message I am endeavouring to convey is that there are commensurate risks which have to be managed well within a robust control environment that is central to sound corporate governance.

- *e-permanence*

Transacting business in the electronic environment, whether acting as an individual agency, in partnership with the private sector, or other government agencies, also raises the issue of record-keeping, and particularly the provision and maintenance of electronic records. The use of e-mail in decision-making is often not supported by record-keeping protocols able to withstand independent scrutiny. My Office has been incorporating review of electronic records in its auditing methodology for some time now. For example, in the absence of an adequate suite of supporting hard copy documents, the ANAO reconstructed and analysed the electronic e-mail record to establish the decision-making trail in its investigation of the probity and effectiveness of the decision to include Magnetic Resonance Imaging (MRI) machines²² that were 'on order' in the 1998 budget.

In the public sector at the moment, we have a three tiered hierarchy of records as follows:

- hardcopy documentation (traditional paper file based records);
- electronic or digitally based information (including diaries and e-mail archives); and
- oral communications which may or may not be supported by notes.

While the format in which information is gathered may change, the accountability obligations on public service officers do not. The ANAO has undertaken an Assurance and Control Assessment (ACA) audit of record-keeping^{23 24}. The audit assesses record-keeping policies, systems, and processes in terms of good business practice, requirements under the *Archives Act*, relevant Government policies, and professional record-keeping principles. As well, it identifies some better practices and strategies organizations can adopt to manage the transition to an e-government environment. The audit findings will assist guide future developments by National Archives.

A critical factor identified was to view record-keeping strategically as part of information management more broadly, and to view records as a corporate asset. Record-keeping helps in servicing clients and in dealing positively with legal and other risks. Tied in with broader information management, record-keeping assists overall business performance.

As well, records are an indispensable element of transparency, and thus of accountability, both within an organisation and externally. Records are consulted as proof of activity by senior managers, auditors, members of the public or by anyone inquiring into a decision, a process or the performance of an organisation or an individual. As we move towards the era of e-government, ensuring the creation and maintenance of appropriate electronic records will be equally as important as ensuring appropriate security and privacy in electronic transactions between governments, citizens and the business community. This is necessary for the confidence of all stakeholders.

Summary observations on convergence

The Australian Government has identified the greater involvement of the private sector in public service delivery as core policy. Increased contestability of functions, outsourcing, privatisation and commercialisation have all become features of public administration. These new approaches present different accountability risks that require appropriate accountability responses to achieve the twin goals of improved efficiency and effectiveness while maintaining proper standards of accountability. The public service legislative framework has changed with the intention of allowing managers increased flexibility to respond to the particular dynamics of their business environments.

Greater flexibility in management, and corresponding increases in personal accountability, have become central features of the current administrative arrangements. For example, personal responsibility has been delegated to the heads of agencies now known as Chief Executive Officers (CEOs). . This approach reflects the private sector management model. It also creates new opportunities and risks that require effective and appropriate corporate governance frameworks if the public interest is to be protected without stifling the benefits offered by the new flexibilities.

Values and ethics are a very important part of Commonwealth administration. The *Financial Management and Accountability Act 1997* requires Chief Executive Officers to promote the efficient, effective and ethical use of Commonwealth resources for which the Chief Executives are responsible. The *Public Service Act 1999* sets out values and the APS Code of Conduct for Commonwealth employees. However, in contractual arrangements, it is often very difficult to enforce conditions relating to values and ethics on private service providers. Interestingly, some Commonwealth contracts are now including clauses that seek to apply the relevant sections of the Public Service Act to private sector employees. It is difficult to envision how the disciplines could be applied in practice. However, if it is an indication of intent, and goodwill, the legal imperative may not prove to be particularly relevant.

One approach is to endeavour to create partnerships with bodies that have a shared culture, including values and ethics. At a minimum, there needs to be a shared understanding of what is acceptable behaviour in a public sector context, as well as appropriate corporate governance arrangements in place to at least manage adherence where this is critical to the success of the initiative or material to the risks involved. The ANAO will continue, as part of our Audit Strategy, to conduct performance audits that examine the appropriateness of corporate governance arrangements in individual agencies. Such audits take into account those factors which bear directly on appropriate accountability and outcomes being achieved. In many cases, the former are integral to the latter.

The convergence of the public and private sectors has introduced new opportunities, but also some significant risk management issues for public sector administration. Technological advances and renegotiated service delivery mechanisms have created a more dynamic environment in which citizens can participate as full players in the new governance environment. This encourages cost sharing and innovation, but also challenges traditional notions of accountability and responsibility.

The Government has committed to pursuing the benefits of partnership approaches both between, and among, the public and private sectors. A range of approaches from the application of elements of private sector management models, to partnerships, and right through to fully outsourced arrangements has reconfigured the contemporary governance landscape. Advances in technology have served only to accelerate the impacts of these changes. The key challenge for agencies is to ensure that, in taking advantage of the various opportunities of the new environment, they do not lose sight of their ultimate accountability to the Parliament, and beyond the Parliament to the Australian public.

2. GOVERNANCE IN A CHANGING PUBLIC SECTOR ENVIRONMENT

A key to achieving sound governance in the changing public sector environment is to take an adaptive and responsive management approach. The Auditor-General has an important role to play in the governance framework in terms of providing assurance and advising on change and its impacts across the public sector. In this regard, the ability of the Auditor-General to investigate and report, freely and fearlessly, is crucial. Administrative process is a means to an end, and the essential challenge is for managers to balance efficiency and effectiveness imperatives with the need for accountability to all stakeholders. Accountability mechanisms should be tailored to the individual risks identified for each particular program or outcome. A particular issue requiring increased attention as the public sector becomes more 'privatised' is contract

management. In recent years, the ANAO has considered and reported on a range of contract management experiences – some positive, and others less so, basically reflecting the lack of commercial experience and skills in the public service.

Audit independence and standard setting

Independence

Corresponding with public sector changes, the role of the Auditor-General and the place of auditing in democratic government have also changed. While the accountability imperative remains constant, the role of the ANAO has evolved to take account of, and respond positively to, the public sector reform agenda. In today's environment, our role includes providing independent assurance on the overall performance as well as the accountability of the public sector in delivering the government's programs and services and implementing effectively a wide range of public sector reforms. I cannot overstate the importance of the independence of the Auditor-General in this respect. As the public and private sectors converge; as the business environment becomes inherently riskier; and as concerns for public accountability heighten; it is vital that Auditors-General have all the professional and functional freedom required to fulfil, fearlessly and independently, the role demanded of them.

In the context of the Commonwealth, the independence of the Auditor-General is an essential element of the system of democratic government. The main arms of government are founded on the notion of the separation of powers between the legislature, the executive and the judicature. However, as noted in the House of Representatives Practice

as Ministers must be, or become, members of the legislature, there is a combining and overlapping of the legislative and executive functions.

...

Although this fusion of powers in the Westminster tradition may be regarded as a strength, it is also recognised as a potential danger. It is accepted to be undesirable for all or any two of the three powers to come under the absolute control of a single body.²⁵

The Auditor-General and his or her Office, therefore, represents an essential element of the system of checks and balances that underpins the notion of democracy in Australia. Reports from the Auditor-General ensure that the Parliament, and beyond it the Australian citizenry, has a degree of assurance in relation to the proper administration of Commonwealth resources in the public interest, however that is defined. As one commentator has noted:

The essence of a democratic Parliament is that the policy and performance of government must be open to scrutiny, open to criticism, and finally open to the judgment of the electors.²⁶

In a report last year to the Canadian Parliament, the former Auditor-General of Canada quoted a British academic who said that 'of about 190 nations in the world, only 25 achieved total probity and reasonable efficiency, thanks to the scrutiny and audit conducted by the properly elected Parliament'. While he believed that the United Kingdom would rank in the top five, he went on to say:

...if anything went wrong with the National Audit Office, its people, its methods, and the power it can wield in Parliament through the Public Accounts Committee, the slide out of the top five, and maybe out of the top 25, would be underway pretty well instantly, and might be unstoppable. And you could hardly single out an institution in the land that's more crucial in those terms than the National Audit Office.²⁷

We in Australia have much to be grateful for with our system of democracy, but there is no room for complacency, particularly in an environment of increasing risk and growing levels of fraud and corruption.

Systems for managing fraud and conflict of interest are very important regardless of whether a service is delivered through the public or private sector. Conflict of interest is particularly topical at the moment with three former Ministers being engaged as consultants by the private sector to deal with their former agencies. There has been concern expressed in the Parliament about the absence of protocols in this area. Within agencies involving close interaction with the private sector, the question of the value of intellectual property and commercial-in-confidence information is increasingly subject to probity considerations. Probity advice is crucial in the conduct of large-scale privatisations and outsourcing.

Probity remains a crucial issue for public sector agencies and is a major factor underpinning community expectations of public sector service delivery. The ANAO has had requests for probity audits in the past and has responded, such as in relation to the probity audit of the policy process for private involvement in Magnetic Resonance Imaging Services within the Department of Health and Aged Care (referred to earlier). The ANAO currently has audits underway examining a range of topics including probity and conflict of interest arrangements amongst other issues. These are crucial elements of corporate governance. The need for separating probity advice from probity auditing has been recognised at the State, as well as at the Commonwealth, level.

The *Auditor-General Act 1997* provides a robust legislative framework for the Office of the Auditor-General and the ANAO. The Act establishes the Auditor-General as an *'independent officer of the Parliament'* – a title that symbolises the Auditor-General's independence and unique relationship with the Parliament. The Act also outlines the mandate and powers of the Auditor-General, as the external auditor of Commonwealth public sector entities. The Auditor-General's mandate extends to all Commonwealth agencies, authorities, companies and subsidiaries with the exception of performance audits of Government Business Enterprises (GBEs). Performance audits of wholly owned GBEs may only be undertaken at the request of the responsible Minister, the Finance Minister or the Joint Committee of Public Accounts and Audit (JCPAA).

The Act is a robust piece of legislation founded on the important notion of audit independence. Consequently, while the ANAO is part of the changed contemporary auditing landscape affecting both public and private sector auditors, we are also set apart from it due to our statutory and financial independence. This is one of our strengths and consequently supports our credibility.

The international organisation of national audit bodies – INTOSAI – has recently explored the issue of audit independence in the international context. An INTOSAI Task Force noted that national audit bodies *'play a vital role in holding governments accountable to legislatures and the public for their stewardship of public funds, and*

helping to ensure the transparency of government operations²⁸. They observed, however, that:

*The interpretation and effective application of [the concept of audit independence] and of related constitutional/ statutory guarantees are very much affected in practice by the particular political and civil society structures and systems of countries within which [national audit bodies] operate. For example, ... independence has little meaning in an environment where proper checks and balances do not exist or are severely limited. It is also dependent, to a considerable extent, on the degree of democratisation of the environment in which [national audit bodies] evolve.*²⁹

The debate over audit independence is not new, although it has attained an increased popular profile in the wake of the collapse of Enron in the United States, and, to a lesser extent, of HIH Insurance in Australia. Audit bodies and the accounting profession worldwide have been actively engaged in clarifying and reinforcing professional and functional independence for many years. The United States General Accounting Office (GAO) has noted that, since the mid-1970s, costly, well-publicised, and unexpected business failures – such as the US savings and loan crisis and resulting government bailouts – have raised questions about what the public expects from an independent audit of public companies and how well the audit function meets those expectations. The GAO commented that:

*the globalization of business, the increasing complexities of business transactions, and advances in information technology have challenged the relevance and usefulness of traditional financial reporting and the auditor's role in servicing the public interest.*³⁰

More recently, the United States Comptroller General and head of the GAO announced significant changes to auditor independence requirements under the US Government Accounting Standards. The new standards deal with a range of auditor independence issues, with the most significant changes relating to the rules associated with non-audit, or consulting services. The standards, which will come into effect later this year, have had a mixed reception from the accounting profession. The American Institute of CPAs (AICPA) has raised concerns about the proposed restrictions on current practice, and the potential for confusion with a range of overlapping standards. The profession is working closely with the GAO in addressing these concerns. As the Chairman of the AICPA noted in a recent memo to AICPA members:

*Independence is a cornerstone of the profession, and we support independence standards that are meaningful, comprehensive and protect the public interest.*³¹

In the United Kingdom as well, a number of high profile company failures in the 1980s and 1990s (including the Bank of Commerce and Credit International) has focussed attention on corporate governance requirements, including the role and responsibilities of auditors. Company directors in the UK are now required to review and publicly report on the effectiveness of their system of controls for safeguarding shareholders' investment and company assets. The UK Treasury has recently introduced comparable requirements for UK public sector bodies to provide an additional safeguard against mismanagement.

In line with these developments, the UK National Audit Office's role has expanded to include annual comment on 'Statements of Internal Control' that UK government

departments must now publish with their financial statements. Departmental statements must include a risk assessment and a report on the effectiveness of their risk management strategies³². The focus on audit independence and objectivity has also affected internal auditors, with the Institute of Internal Auditors reviewing the role of internal and external auditors in light of the pressures and developments in the changing public sector environment³³.

In Australia, the Ramsay report, which was released in October 2001, foreshadowed the current high-profile focus on audit independence worldwide.³⁴ The report recommended that the *Corporations Act 2001* be amended to include a general statement of principle requiring auditors to be independent. It also recommended that an independent supervisory board, the Auditor Independence Supervisory Board (AISB) be established to monitor implementation of, and compliance with, the new regime and international developments in relation to auditor independence. It was envisaged that the AISB would benchmark to test the adequacy of internal systems and processes of Australia's largest auditing firms. In particular, the wide range of personal, business and financial relationships that may arise between an accounting firm and its audit client came under focus. The report's aim was for Australia to continue to work towards achieving an audit regulatory environment that is in step with international standards.

The issue of audit independence will come under further scrutiny with the JCPAA's recent decision to launch an inquiry into this topic. The JCPAA will examine whether government should intervene to regulate the auditing profession. The issue of auditor independence is also likely to be considered as part of the royal commission into the collapse of HIH. We have already seen the separation of audit and consulting activities in major accounting firms. There is growing pressure for the exclusion of audit firms from other activities within the same organizations. For some years, there has been general acceptance of the desirability of those firms not being engaged both as internal and external auditor. In my view, the questions about possible conflicts of interest, audit rotation and selection of auditors are central to the roles and responsibilities of audit committees as part of the corporate governance framework. One challenge is therefore how to strengthen those roles to enhance their effectiveness and credibility in the eyes of both internal and external stakeholders.

In a similar manner, in the United States, a panel of audit effectiveness was established in 1998 to thoroughly examine the current audit model. The panel completed a comprehensive review and evaluation of the way that independent audits were performed. In handing down its report, the panel considered that both the profession and the quality of its audits were fundamentally sound. However, the panel also made recommendations in relation to auditor independence. These recommendations centred on the need for potential conflict of interest issues to be clearly identified and treated at the commencement of any audit activity, and reviewed, as necessary, in the course of audit work. The panel noted that:

*Independence is fundamental to the reliability of auditors' reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if audits were not independent in both fact and appearance. To be credible, an auditor's opinion must be based on an objective and disinterested assessment of whether the financial statements are presented fairly in conformity with generally accepted accounting principles.*³⁵

The recent series of high profile Australian corporate collapses including HIH, One.Tel and Ansett have renewed attention to the issue of the roles and responsibilities of both private and public sector auditors in the Australian context. Citizens are more aware of governance issues than ever before. Of particular recent interest has been the focus on personal accountability of Directors whose performance bonuses may be inversely proportional to trends in share prices and company profits. The public expects that auditors will alert shareholders or other stakeholders to the fundamental soundness (or otherwise) of business entities. It should also be noted, however, that the mere fact that auditors are independent will not save companies from collapse or agencies from the impacts of poor management. As noted in a recent legal update on corporate governance:

It is clear that the most rigorous and independent audit will not save a company with poor management and business practices from insolvency.³⁶

This view was endorsed recently by the Chairman of the Australian Securities and Investments Commission who noted that, when it comes to a company's compliance and accounting standard, '*the final buck stops with the board*' rather than with company auditors.³⁷ Auditors do, however, have a very important role to play in terms of providing advice that draws on their broad range of experiences across both the public and private sectors. Any concern and/or suggestions should be conveyed in the audit management letter.

However, I cannot overstate the fact that the ANAO operates in an advisory capacity, rather than participating directly in decision-making by public sector managers. While I urge my officers to 'stand in the managers' shoes' in order to understand the complexities of the particular business environments under review, it is for the managers themselves to decide whether or not they will act on ANAO advice with reference to their particular risks and opportunities. This is one essential difference between management consultancies and the public sector audit approach. Our 'observer status' as public sector auditors reduces the risk of conflict of interest issues arising in the course of our work. Nevertheless, that does not absolve us from any responsibility for our views and actions.

Mandate

One particular challenge in this environment of change is the increasing tension regarding the role of national audit offices and the boundaries between government policy and its implementation. The Commonwealth Auditor-General's performance audit mandate stops short of review of Government policy decisions. The scope of a performance audit may, however, incorporate the audit of information leading to policy decisions, an assessment of whether policy objectives have been met, and an assessment of the results of policy implementation both within the administering agency and, externally, on other involved bodies. The issue was given some prominence at the Federal level following two performance audits my Office undertook relatively recently on property sales and IT outsourcing.³⁸

The audits attracted a significant amount of comment. Some of this focussed on the difficulties of negotiating the grey area between investigating government performance and commenting on public policy matters. Problems can arise where policy is difficult to separate from implementation, as was the case in both of the audits mentioned above. Professor Richard Mulgan, an academic at the Australian National University, sums up the nub of the issue:

Performance audit assumes a clear distinction between policy objectives (set by elected governments) and policy implementation (carried out by servants or contractors). Auditors are assumed to leave the objectives to government and confine themselves to the efficiency, effectiveness and probity with which these objectives have been implemented. However, because the lines between policy and implementation, or between ends and means, are blurred and contested, the extent of the Auditor-General's jurisdiction is similarly open to question.³⁹

One 'positive' to come out of this debate is the recognition that government policy objectives need to be stated in less ambiguous terms, to assist in making perceived distinctions between policy and implementation reasonably clear. The performance audit mandate is an essential element of the accountability process in all public jurisdictions. However, performance auditing is not a static process and there will be a continued emphasis on improving our service to Parliament as our role is reconfigured and redefined in the changing governance environment.

Standards

Under the *Auditor-General Act 1997*, I am required to set auditing standards with which individuals performing Auditor-General functions must comply. This gives the ANAO the flexibility to set its own agenda and to develop appropriate auditing tools for the contemporary environment. In setting the standards, I acknowledge the commonality of professional requirements between private and public sector auditors and, as such, the ANAO auditing standards are formulated with regard to the auditing standards issued by the Auditing and Assurance Standards Board of the Australian Accounting Research Foundation (AARF). Consistency with international standards, including the INTOSAI Auditing Standards, is also a consideration.

The current ANAO Auditing Standards incorporate the codified Auditing Standards and Auditing Guidance Statements issued by the AARF. Amendments to standards and guidance standards are automatically incorporated into the ANAO Standards. In this context, and our broader role in the accounting environment, it is important for the ANAO to contribute to the process of setting these Standards. Such involvement also gives us the opportunity to reflect distinctive public sector issues in the standard setting process.

A project to harmonise Australian Standards with International Standards issued by the International Accounting Standards Committee is currently being undertaken within this standard-setting framework. The aim is to ensure that compliance with Australian Accounting Standards results in compliance with International Accounting Standards to enhance reporting. While the project is founded on our commonalities, it has also highlighted some major differences as the public sector has particular issues that require special consideration. The International Federation of Accountants' (IFAC) Public Sector Audit Committee has highlighted three issues for special consideration in this regard:

- non-exchange revenue;
- social policy obligations; and
- budget reporting.

These issues are yet to be resolved.

The current focus on audit independence is also affecting auditing and accounting standards bodies worldwide. For example, the Institute of Chartered Accountants in Australia (ICAA) and CPA Australia recently issued a Professional Independence Exposure Draft that proposed a series of specific measures aimed at achieving a greater degree of audit independence. In addition, IFAC recently released its updated Code of Ethics for Professional Accountants featuring new rules on independence. The new rules distinguish between principles that affect professional accountants in public practice and those employed in business and industry. In updating its Code of Ethics, IFAC has set out a conceptual framework that focuses on the factors that pose a threat to independence for all assurance engagements and the safeguards that should be put in place to preserve auditor independence.

The ANAO will have a significant ongoing role within IFAC as the Deputy Auditor-General, Mr Ian McPhee, has recently been appointed to IFAC's International Auditing and Assurance Standards Board (IAASB). The IAASB, which replaces the International Auditing Practices Committee, is responsible for establishing International Standards on Auditing for the world's accountants. Its members include practicing accountants, academics, and representatives of the business community and the public (governmental) sector. There are two Australian members.

Balancing efficiency and accountability

Accountability is fundamental to our democratic system of government. The increased participation of the private sector in public sector management requires proper accountability for the stewardship of public resources. The 'privatisation' of the public sector neither limits nor obviates the need for accountability to stakeholders. Rather, new players in the accountability chain, less direct relationships between stakeholders and service providers, and greater flexibility in decision-making, strengthen the need for accountability regardless of the manner in which it is determined.

The concept of accountability is not exclusive to the public sector. No one doubts, for example, that the boards of private sector corporations are accountable to their shareholders who want some kind of return on their investment. It is the nature and extent of that accountability which public sector commentators would contend distinguishes the two sectors. Of note, it is the adoption or adaptation of private sector approaches, methods and techniques in public service delivery, which has highlighted trade-offs between the nature and level of accountability and private sector cost efficiency. Accordingly, the essential issue, as is so often the case in public administration, is to achieve an appropriate balance between accountability and efficiency given the particular parameters of the situation at hand. Achieving this balance is imperative when the convergence of the private and public sectors focuses attention more sharply on both the similarities and the differences between the two sectors.

Materiality

Of particular concern in the public sector is the issue of materiality. It has to be recognised that financial statement audits aim to detect only material errors or misstatements. Materiality is the technical term for the threshold for determining the seriousness with which omissions or misstatements in financial statements will be regarded by auditors. To aim to detect all errors or misstatements would be cost prohibitive.

An analysis of materiality assists us in setting our strategic audit approach from year to year. Materiality is particularly important in relation to the issue of fraud or waste of taxpayers' funds, which is of concern to our stakeholders, especially Parliament, and consequently is an ongoing focus for our work. The ANAO takes a risk-based approach to the identification of fraudulent behaviour across the whole of government. There is no guarantee that we will detect all incidences of fraud. However, we aim to ensure that our approach gives us adequate coverage of areas of risk. For 2001-02, the level of materiality adopted by the ANAO in planning for the Consolidated Financial Statements (CFS) audit was approximately 5 per cent of the average Net Results for the CFS over the previous 3 years, or \$400m. It has to be said that this is a figure which creates some unease among a number of Parliamentarians.

In the event that financial statement auditors have concerns with matters arising in the course of an audit, they are encouraged to bring those concerns to the attention of their team leader, who can consider whether to examine the issue further as part of the audit, or whether to defer it to a subsequent audit or, if appropriate, and it is an issue likely to apply to a number of agencies across the APS, consider referring it for an assurance or performance audit. Consequently, the fact that an issue is regarded as not material for the purposes of financial statement audit does not mean that it is immune from review by the ANAO.

This is particularly important in light of the new auditing standard in relation to fraud. The Auditing and Assurance Standards Board (AuASB) recently issued Auditing Standard AUS 210 "The Auditor's Responsibility to Consider Fraud and Error in an Audit of a Financial Report", with the aim of clarifying the auditor's role in detecting and preventing fraud, and setting out basic principles and essential procedures required of auditors in relation to this matter.

AUS 210 was developed as part of the international effort to increase the possibility of fraud detection by auditors. AUS 210 contains the following specific elements:

- the standard emphasises the distinction between management fraud and employee fraud, and expands the discussion of fraudulent financial reporting;
- when planning an audit, the auditor will be required to discuss with other members of the audit team susceptibility of the entity to material misstatement in the financial report resulting from fraud or error; and
- the auditor will be required to consider, as part of the planning process, the accounting and internal control systems that management has put in place in order to address the risk of material misstatements in the financial report arising from fraud or error.

In line with the requirements of the new standard, all auditors will need to increase their efforts in the consideration of fraud and error in financial reports. There are now clear requirements for auditors to consider, document and communicate with management on the issue of fraud.

Outsourcing processes

A feature of the changing public sector environment has been the outsourcing of many functions that, it is judged, the private sector can undertake more efficiently than the public sector. Outsourcing advocates point to the opportunities offered in terms of increased flexibility in service delivery; greater focus on outputs and outcomes rather than inputs; the freeing of public sector management to focus on higher priority activities; encouraging suppliers to provide innovative solutions; and cost savings in providing services.

There have been some successes, for example, the outsourcing of human resource management functions in the Department of Finance and Administration was assessed as positive for the agency's core business, and the agency won a worldwide outsourcing achievement award.⁴⁰ In addition, a recent audit of the management of Commonwealth national parks found significant benefits both in terms of savings to the Commonwealth and in increased employment opportunities in some rural and remote communities⁴¹.

However, outsourcing also brings risks. My Office's experience has been that a poorly managed outsourcing approach can result in higher costs, wasted resources, impaired performance and considerable public concern. For example, an ANAO audit of the implementation of IT outsourcing across the public sector found that benefits realised by agencies were variable and that costs were well in excess of the amounts budgeted⁴². A subsequent inquiry into the issues raised by the ANAO noted that:

*Priority has been given to executing outsourced contracts without adequate regard to the highly sensitive risk and complex processes of transition and the ongoing management of the outsourced business arrangement.*⁴³

The main message from this experience is that savings and other benefits do not flow automatically from outsourcing. Indeed, the outsourcing process, like any other element of the business function, must be well managed to produce required outputs and outcomes and must be suitably transparent to protect public accountability.

In addition to the immediate impact of outsourcing on public accountability, the transition to outsourcing arrangements has other significant effects over the longer term. For example, there is a particular risk that incumbency advantage may reduce the level of competition for subsequent contracts. Incumbents may have greater information and knowledge about the task than either potential alternative service providers or the Commonwealth agency directly involved. The risk becomes more pervasive when the outsourced activity has a significant impact on core business, or where competition in the market is limited.

The customer relationship with the business also changes following outsourcing. It is important that the ongoing customer relationship is subject to appropriate pricing arrangements and that private sector competitors are given the opportunity to bid for government business. In the appropriate circumstances, the use of competitive tendering and contracting promotes open and effective competition by calling for offers that can be evaluated against clear and previously stated requirements to obtain value for money. This, in turn, creates the necessary framework for a defensible and accountable method of selecting a service provider. In addition, it should facilitate the best outcome for customers who, it should be noted, are also taxpayers and citizens.

Asset sales

A key issue in my performance audits of the sale of Commonwealth assets – particularly Commonwealth businesses – has been the role of financial, legal and other private sector advisers in the sale process. In Australia, the privatisation process itself is now subject to extensive outsourcing under multi-million dollar advisory contracts. This places considerable emphasis on contract management and balancing commercial interests with the overlaying public accountability requirements of the public service. One of the key outcomes from our privatisation audits has been the identification of opportunities for significant improvements to both the tender process and the management of the contract itself⁴⁴. The implementation of improved processes can lead to improved overall value for money and project quality management in subsequent sales. In short, the emphasis is on better practice to add value to public administration as a major audit objective. As the Chief Secretary of the United Kingdom Treasury noted recently:

*We have a duty of care to the taxpayer to eliminate poor procurement methods and to ensure value for money improvements. For every pound saved in procurement is a pound more for front line public services like hospitals, education, fighting crime and investing in transport.*⁴⁵

Overall, there have been mixed results from the greater use of private sector practices. Some \$50 billion has been raised in asset sales, which has contributed to debt reduction and provided the funds for pressing policy initiatives such as environmental protection and community services in rural areas. However, many public sector businesses were established to provide services or products that were important to the public interest. The sale of these businesses does not end the public interest in the provision of these services and products, and this is often reflected in ongoing regulation of the relevant business or industry. Accordingly, where government has seen a public interest need for the regulation of privatised companies or industries in which privatised companies compete, Auditors-General can perform an important accountability function in examining and reporting on the public sector's performance in regulating privatised businesses and / or administering government contracts with these businesses.

Contract management

I noted earlier that sectoral convergence highlights the fact that there remain (necessary) differences that are often reflected in the area of contract management. By contract management, I mean the whole process from the initial release of tenders through to ongoing contract performance monitoring and review, including transition arrangements. The nub of these differences is that taxpayers' dollars are at stake. For instance, it is crucial that the process of awarding contracts ensures open and effective competition as well as achieving value for money outcomes. The process must be adequately documented, with the reasons for the selection of particular contractors written up and able to withstand parliamentary, and other, scrutiny. Contracts must be put in place with qualitative and quantitative performance standards clearly specified. Performance standards should include appropriate arrangements for monitoring and reviewing contractors' performance.

External scrutiny, for example, through the public reporting and activities of Auditors-General, is essential. This ensures that public accountability is not eroded, by default, through contracting out. Just as it is incumbent upon public sector agencies to ensure

that they have a sound understanding of the commercial nature of any contract, private sector entities entering into commercial relationships with the Commonwealth need to recognise that there are overlaying public accountability issues that need to be addressed. These are issues that may not normally be pertinent to purely private sector transactions. For this reason, all outsourcing contracts should include access provisions sufficient to meet performance and financial statement auditing requirements. The ANAO has produced a number of audits and two better practice guides on the issue of contract management in an attempt to assist agencies and their private sector partners in this very complex and fast-growing area.

It is important that the ongoing business relationship between the public sector and the privatised business is defined by a legally enforceable agreement. The written contract must accurately reflect the understanding of all parties to the contract, and must constitute the entire agreement between the parties. Should this not be the case, the documentary trail supporting the authority for the payment of public money, the contractual performance requirements, incentives and sanctions may not be clear. Contractual performance is maximised by a cooperative, trusting relationship between the parties. This may take some time to secure. However, it should never be forgotten that such relationships are founded on a commercial basis in which the parties do not necessarily have common objectives. Accordingly, good commercial practice requires a contractual framework appropriate to the business relationship.

Although the public sector may contract out service delivery, this does not equate to contracting out the entire responsibility for the delivery of the service or program. It is each agency's responsibility to ensure that the government's objectives are delivered in a cost-effective manner. Contracts must clearly specify the level of service required. It should clearly define the relationship between the parties as well as their respective responsibilities. The contract should also set out the mechanisms for monitoring performance, incentives and penalties. Agencies should ensure that contract performance standards are in line with their broader service delivery responsibilities, including undertakings set out in Client Service Charters or other corporate documents. There should be no equivocation about either the required performance or the obligations of each party. I stress that this is as much about achieving the desired outcome as it is about meeting particular accountability requirements.

Managing the risks associated with the increased involvement of the private sector in the delivery of government services, particularly through contract arrangements, has required the development and / or enhancement of a range of commercial, negotiation, project and contract management skills across the public sector. Risks to be addressed by agencies include external risks such as legal issues, policy changes, contractor business failure and internal risks, such as lack of appropriate skills / knowledge for awarding and managing contracts, failure to meet performance targets, and management information system failures. These risks need to be analysed prior to the commencement of the contractual relationship as well as during the life of the contract. By using a sound risk management approach to support contract management, corporate governance is enhanced and, consequently, there is a greater assurance the risks are managed effectively. This is one of the major challenges facing contemporary public sector managers.

Sound business processes should lead to good outcomes and sound accountability

While the accountability regime should not stifle innovation or other management activity, it is important that appropriate mechanisms are in place to ensure the ethical and accountable use of resources. These mechanisms will vary depending on the particular business risks of individual program areas. While the business environment is changing, and the processes needed to effectively perform change accordingly, in my experience one thing remains constant: sound process leads in most cases to good outcomes – a point made earlier but worth reiterating at a time when managers are being urged to focus almost solely on results.

The ANAO has examined and reported on a number of different administrative responses to the changing public sector environment in recent times. Given its importance in an increasingly 'privatised' public sector, a particular focus has been the contractual arrangements. Agencies with the 'right' contracts, and appropriate contract management arrangements in place, generally find it easier to demonstrate progress towards organisational goals and objectives. One important lesson that the ANAO has learnt and constantly reinforces is that:

... clear identification and articulation of contract requirements at the outset can save considerable time, cost and effort later in contract management.⁴⁶

A common theme in reports examining contractual arrangements and procurement issues relates to the deficiency of project and contract management skills amongst agency decision makers. This is a significant concern given that some such projects involve substantial resources and complexities. ANAO reports in this area have flagged a need for care at all stages of the contract management process and, in particular, in relation to assessing value for money. One problem has been the lack of commercial, negotiation and risk management skills in the public sector but, equally, there has been a problem in ensuring that the private sector at least understands the public sector environment and its attendant demands.

For example, the ANAO considered the ownership and management of the Commonwealth Property Estate in a recent audit. The audit sought to assess the effectiveness of the management of the sales process for selected property sales, including the extent to which the Government's sale objectives had been achieved; review the long-term sale and leaseback arrangements for selected divested properties and whether they adequately protected the Commonwealth's interests; and identify principles of sound administrative practice to facilitate improved administrative arrangements for future property sales. We found that the sales program was successful in that total proceeds exceeded revenue targets by \$131 million or 15 per cent. However, we also found a number of areas where there was opportunity for improvement. These included contractual arrangements with external consultants; tender evaluation, including evaluation against Request for Tender criteria, and management of sale completion risk; and assessment of value for money during tender evaluation in sale and long-term leaseback transactions to the Commonwealth.⁴⁷

The Department of Defence's ability to manage major acquisition projects to meet military capability requirements on time and within budget has been the focus of ANAO and JCPAA consideration for some time. Most recently, my Office reviewed the status reporting of major defence acquisition projects and the validity of project status reports provided to the Government. The ANAO found that project status reporting does not

currently always indicate whether major capital equipment acquisition projects are meeting agreed timelines or cost performance and quality criteria. This means that Defence senior management lacks a clear view of actual progress on major projects and the attendant risks that are emerging.

Since Defence spends some \$2.2 billion a year on 200 major capital equipment projects with an approved value of \$35 billion, senior management monitoring and review of such projects is a major corporate governance issue. Project managers should be required to provide regular reports in a prescribed format that set out clearly the salient issues for senior management so that they might be addressed while still within the latter's capability. While this seems overly bureaucratic, experience in all sectors reinforces the need for such an approach as part of a sound control environment.

At the time of the ANAO's review, the Department of Defence was undertaking a pilot project to enhance its capability to deliver in this area. The aim is to change the project monitoring and reporting system from

*...one where proper project scheduling, maintenance of a costed project work breakdown structure and proper project reporting are virtually non-existent, to one where ... cost and schedule performance to date, current status and forecast to completion are reported monthly against a properly integrated schedule and project work breakdown structure; and reporting facilitates easy review by management.*⁴⁸

The ANAO will review the impact of the reforms in 12 to 18 months time.

Contract management experiences were more positive, for example, in relation to the construction of the National Museum of Australia (NMA), which was recently reviewed by my Office. In late 1996, the Government announced its commitment to establish new facilities for the NMA and the Australian Institute of Aboriginal and Torres Strait Islander Studies in Canberra. The project was allocated a budget of \$155.4 million and the Government decided to pursue a project alliancing strategy to achieve time, cost and quality objectives in the construction of both facilities. Project alliancing is a relatively new method of contracting that seeks to deliver a cost-effective outcome within a set time frame for a project through which the project owner – in this case the Commonwealth – shares project risks and rewards with the contractors.

The ANAO found that, overall, the contract management process was well handled by the Department of Communications, Information Technology and the Arts (DCITA). The process for the appointment of architects, building and service contractors, and exhibition designers complied with the Commonwealth procurement guidelines. The development and use of probity guidelines in the selection processes added valuable assurance. Successful project alliancing depends on skilful management of the particular risks involved. With respect to this project, the ANAO considered that appropriate financial incentives were in place to encourage 'best for project' behaviour from both the Commonwealth and its commercial alliance partners.

The ANAO also found that DCITA and its commercial alliance partners had sound processes and procedures in place to monitor appropriately the progress of construction and manage time, cost and quality requirements. Overall, the ANAO considered that DCITA managed the project well having regard to the project's magnitude, the agency's lack of experience with the relatively new project alliancing

approach and the tight timetable involved. The management of the construction of the NMA demonstrates the advantages of robust contract management in achieving value for money outcomes.⁴⁹ Importantly, there was shared understanding about what the latter involved for the partnership.

Some general observations on governance issues

Governance in the changing public sector environment is challenging to many national governments and international organizations such as the World Bank and the International Monetary Fund. The convergence of the public and private sectors has resulted in an 'accountability continuum' which challenges agencies as much as it does their auditors. In this respect, it is essential that external auditors are provided with every opportunity to comment, frankly and fearlessly, on the performance of public sector entities and perhaps even of private sector corporations. As the audit office with sole responsibility for the Commonwealth, the ANAO has a very important role to play in terms of leading and guiding agencies through the new governance landscape. Lessons learnt in relation to outsourcing and contract management, for example, are already significant. The key lesson to date, however, is one that predates the complexities of convergence and one that is likely to endure beyond it: that is, that sound business processes lead to good outcomes and robust accountability. These are matters of audit assurance both for the proper use of public resources and the results being achieved.

The convergence of the public and private sectors will continue to introduce new levels of complexity and risk to public sector agencies. Managing the new risks is crucial to the achievement of value for money – the primary gain from involving the private sector in the first place. Convergence has many different dimensions and involves a wide range of stakeholders including both non-government and community players. As discussed earlier in this paper, agreeing governance structures and demonstrating accountability are particular challenges in the new business environment. Agencies can outsource functions - in full or in part; however, Parliament insists that they cannot outsource their responsibility or overall accountability. Yet, practically, there is a question of just how accountable agencies can be, in the traditional meaning of the concept, if they have virtually no responsibility for the delivery of particular public services nor relevant information or experience.

The increasing participation of non-Commonwealth partners in public service delivery and decision-making raises challenges for the ANAO in terms of the boundaries of our mandate. These are examined on a case-by-case basis. To date, there have been no examples where an audit has not been possible. However, as new arrangements arise, there is a need for a tailored audit approach to deal with different service delivery arrangements. It is also important that my Office continues to participate actively in debates around the complexities of the changing public sector environment and their resolution.

3. IMPACT OF THE CHANGING PUBLIC SECTOR ENVIRONMENT ON THE ANAO AUDIT PRACTICE

Like all public sector agencies negotiating the challenges of the changing governance environment, the ANAO has modified its own business practices to respond to new needs and directions. The ANAO has responded to the changed environment on two levels: both strategically and tactically. On the strategic level, we have given renewed

attention to relationship management, strategic planning and new products. On the tactical level, we have focussed on developing our people, the tools they have available to them, and ensuring that our work continuously improves through a focus on quality assurance.

The ANAO has responded to the challenges of the future by strengthening its assurance function and extending its advisory role. By reinforcing its traditional functions, while remaining open to new approaches and innovation, the ANAO is well placed to lead and guide in the contemporary public sector environment. We are committed to a more responsive and strategic risk-based audit approach. Our goal is to have relevant products that are state of the art. We achieve this by having the right mix of people with quality skills, experience and expertise. Our ability to compare operations across the public sector, as well as our statutory independence, are both our comparative advantage and what makes us attractive to our staff.

The challenges that the Commonwealth public sector is currently facing are not unique. The trend towards the convergence of the public and the private sector is also underway in many countries, such as Canada, the UK, the US and New Zealand. We enhance our expertise and the quality of our advice by sharing our experiences with our audit colleagues in Australia and overseas. This helps us to ensure that we get the balance right between the 'watchdog' function for which we are traditionally known, and the 'advisory' role that adds value in the changing governance environment.

Focus on relationships

It is vital that the ANAO continues to be an active participant in the public sector's negotiation of the changed governance environment. While in the past the ANAO's prime focus may have been on ensuring compliance with legislation, this has now been subsumed as part of a broader approach to assist agencies in improving public sector administration. To be successful, this approach requires considerable cooperation between my Office and the agencies and other bodies with which we deal. This means that our relationship management strategies are given particular prominence, and links are constantly being formed and strengthened with our major clients. We do this through a range of activities including assistance to parliamentary and audit committees, liaison with our state/territory and international counterparts through forums such as INTOSAI and the Australasian Council of Auditors-General (ACAG), and ongoing interaction with the accounting profession.

Such is the strategic importance of meeting our clients' needs, it comprises the first of our four key results areas. Our objective is to satisfy the needs and expectations of the Parliament, the Executive Government and our audit clients in relation to performance assurance and accountability. We aim to do this by enhancing our dialogue and relationship with all members of Parliament, particularly the JCPAA and other Parliamentary Committees, so that they are well informed about our activities and so that we, in turn, can provide them with timely and constructive assistance. We also strive to build on our productive and professional relationships with the Executive Government and each of our audit clients so that we can continue to meet their needs and contribute to public sector reform.

It is crucial that we work cooperatively with agencies to gain genuine acceptance of our recommendations. This is essential if we are to add value and maintain our credibility. Our preferred approach is to give agencies encouragement, and to acknowledge and reinforce any action taken in the course of audits. We endeavour to meet formally and

informally with agency top management throughout the year. In particular, we promote their interest and involvement at the start of each audit and in our planning processes. Finally, we aim to meet our clients' needs by periodically reviewing the relevance and mix of our products and services, striving for innovative approaches and improving the quality and effectiveness of our products and services. The above initiatives are aimed at securing the engagement and commitment of all stakeholders to our work.

Products - designed to be relevant and state of the art

In order to meet our clients' changing needs, the ANAO has moved towards a more strategic, risk-based audit approach. Our goal is to add value through audit products that are state of the art. We encourage innovation within a clearly defined auditing standards framework. We work closely with our colleagues in Australia and overseas in ensuring that our work is well targeted and draws on examples of better practice. Globalisation produces new challenges as well as new opportunities. The ANAO is committed to working closely with our national and international colleagues to ensure that we remain at the leading edge and that we have the right mix of assurance, compliance, accountability and performance products at any point in time and over time.

In addition to leveraging off our Australian and international colleagues, the ANAO is committed to an integrated auditing framework that draws on the strengths of each side of our business; that is, financial (assurance) and performance audits. These audits are tailored to the assessed situation (needs) of public sector organisations. The approach capitalises on intelligence gathered in each field and allows us to target areas for audit activity that add most value. In addition, it allows us to assess the value of our products over time, and to fine-tune our outputs. Our objective is to deliver high quality audit services that maintain and improve the high standards and professionalism of our audit and related services. This means that we must build on our knowledge management capabilities, particularly in relation to information management, better use of technology-based systems and the maintenance of corporate memory. These are significant challenges into the future.

Promoting better practice

In terms of getting the 'right mix' for the contemporary environment, my Office has fine-tuned its focus on products that add value by bringing together lessons learnt across the public sector. In particular, our benchmarking studies and Better Practice Guides (BPGs) have been well received by program managers looking to learn from the experiences of others. BPGs serve a dual purpose: they provide a unique analysis of trends affecting the public service as a whole; and they provide a very valuable source of audit criteria for future work in related fields. BPGs aim to improve public administration by ensuring that better practices employed in individual organisations are promulgated to the whole of the public sector.

Depending on the subject and nature of information collected during an audit, BPGs may be produced in conjunction with a performance audit or an FCA audit. Alternatively, a BPG might be prepared as a result of a perceived need to provide guidance material in a particular area of public administration. Recent BPGs produced cover a wide range of topics including: contract management; planning for the workforce of the future; internet delivery decision-making; AMODEL non-commercial authority financial statements; life cycle costing; rehabilitation issues; and developing

policy advice. Two BPGs soon to be released are on performance management and information and an update on grant administration.

In terms of benchmarking services, our products currently comprise functional reviews of the major corporate support areas. The overall results of these reviews are published generically and tabled in the Parliament. At the audit client level, a customised report is provided to all entities participating in the benchmarking study. Our most recent benchmarking studies have covered the following areas: the implementation and production costs of financial management information systems; the finance function; and the internal audit function. We are soon to release a study on Human Resource Management. Finally, as well as benchmarking and analysing public sector performance, we compare our own performance to that of our peers in Australia and internationally.

The ANAO is uniquely placed to provide an analysis of performance across the public sector, as indicated earlier. This is important as agencies increasingly find individual methods to deal with common issues, and form alliances and partnerships, including with the private sector, to deliver government services. In considering the future of the Australian Public Service, the Prime Minister has indicated that:

*Whole of government approaches, collectively owned by several Ministers, will increasingly become a common response.*⁵⁰

Recent years have seen an increase in the number of 'across the board' and cross-portfolio audits undertaken which compare experiences in a range of agencies. For example, the ANAO has recently undertaken cross portfolio analysis of, among other things, internet security, the management of bank accounts, and performance information in Portfolio Budget Statements. Our ability to compare operations across the public sector, and sometimes the private sector, as well as our statutory independence, are significant strengths and add value to a wide range of stakeholders, including for our own staff, as already mentioned. This is instructive for our future audit strategies.

Follow-up audits

Until 1999, there was a requirement for Portfolio Ministers to submit periodic reports to the Minister for Finance and Administration to report on action taken on matters raised by the Auditor-General in ANAO audit reports. As part of this process, the Department of Finance and Administration undertook an assessment of the adequacy of these actions. The Prime Minister devolved this responsibility to agency heads in 1999, and there is now no formal requirement for the progress of implementation of ANAO recommendations to be reported in Parliament. However, these matters may be addressed through audit committees and the JCPAA.

The ANAO works closely with the various audit committees of public sector organisations to monitor the implementation of its recommendations. However, the most effective action is the JCPAA's quarterly public hearings on selected audit reports and any JCPAA inquiry conducted as a result of these reports. The JCPAA reviews all of the ANAO's reports. The ANAO also conducts its own follow-up audits to monitor the implementation of recommendations, as well as to report on any other emerging issues that may be of interest to Parliament. It is important to us that our recommendations are both accepted and implemented, and that Parliament and agencies consider that our audit activity adds value to public sector administration.

Real time auditing

Over recent years, the timeframe for the preparation of financial statements by Commonwealth agencies has been significantly compressed. The *Charter of Budget Honesty Act 1998* requires that the Final Budget Outcome Report be tabled in Parliament by 30 September each year. To meet this deadline, the financial statements of all material entities must be prepared and audit-cleared by 15 August. This continues to pose significant challenges for all entities involved, including the ANAO.

Most major Commonwealth entities do not meet better practice standards. As noted in the most recent report on financial statements across the Commonwealth, entities took on average 60 days to produce signed financial statements.⁵¹ This reflects the fact that many agencies are continuing to struggle to achieve 'hard closes' prior to the end of the financial year. Indeed, many have difficulties in achieving 'soft closes' prior to year's end.

To increase their capacity to meet the 15 August deadline, agencies now aim to have as much of their financial statement preparation (including audit clearance) as possible finalised prior to 30 June. There has consequently been a shift away from peak workload periods by undertaking a 'hard close' before financial year-end, where entities are in a position to do so.

This is in line with the ANAO's BPG on Building Better Financial Management Support, which advocates a shift away from peak workload periods. The BPG also notes that world best practice organisations have reduced the total time for the financial statement preparation process to two days. Finally, it indicates that it is now common practice to produce financial reports within five to seven days.⁵²

To move towards best practice, entities need robust accounting systems and processes in place that allow the performance of a hard close several months before the end of the financial year. The achievement of hard closes in March, for example, will continue to be encouraged. The development of improved accounting systems and processes will also ultimately mean more robust financial information for decision-making and management demand for hard closes on a regular basis throughout the year.

The achievement of these tighter timeframes by agencies also requires some shift in audit practices from *ex post* to *ex ante* or at least a real time audit process. This means that the ANAO has in many ways had to mirror its client agencies in terms of responding to the new time pressures on the production of financial statements. A shift to real time auditing can be more valuable to our clients as issues can be identified and brought to the attention of management early. Nevertheless, with the move to real time auditing we also need to remain conscious of the need to manage potential conflicts of interest. The early identification of issues for the attention of management is actively encouraged. However, care needs to be taken that auditors remain separate from the decision-making framework to protect their independence.

The need to maintain independence while remaining responsive to our clients' needs is also the reason that my Office has, to date, undertaken only a very small number of probity audits. It is my view that in terms of probity, the greatest value can be achieved from independent *ex post*, rather than *ex ante*, auditing. There may, however, be some

areas where our experiences across the public service offer opportunities for promulgation of better practice in the development of systems and procedures. For example, my Office is currently undertaking a cross-portfolio audit of the use and effectiveness of Human Resource Management Information Systems in Commonwealth agencies.

Technology upgrades

As external trends and issues reshape the public sector environment, so to do the internal management tools increasingly available to administrators. Technological developments enhance the capacity of managers to deliver their services more effectively. However, developments within client agencies must also be matched by their auditors. In some respects, technological developments have enhanced our ability to audit effectively. For example, the ANAO can access some agencies' systems directly now, which has obvious benefits in terms of time, cost and relationship management. The continued growth and complexity of technological developments, however, has also required the development of new audit skill bases. Recent years have seen an increased demand for activities such as data matching and specialist IT auditing. As with any form of audit activity, the closer the auditor becomes in the development of processes and systems, the more care is required in terms of guarding against conflict of interest. The United Kingdom National Audit Office has recently prepared a paper highlighting some of the opportunities, as well as the risks, of audit bodies becoming involved in IT system development⁵³.

Audit software

The ANAO upgrades its own technology to keep pace with changes across the public sector. For example, financial statement auditors at the ANAO use proprietary software to identify and manage business and financial risks related to their audit clients. This reflects the enormous cost involved in developing such software. In building individual agency risk profiles, the ANAO considers market forces and their impact on clients, the influences of key stakeholders, business strategies, goals and objectives, and the processes used to deliver outcomes. The ANAO identifies critical success factors and undertakes an analysis of strengths, weaknesses, opportunities and threats (SWOT analysis) to build an audit profile. Finally, the risk of material fraud is considered.

The audit software facilitates a structured approach to audit planning as it allows auditors to identify major business processes within an audited agency, and to determine whether reliance can be placed on accounting and other systems supporting these processes. This analysis allows the ANAO to tailor its financial statement auditing approach. For example, where the ANAO considers that major business processes are well supported, less testing of controls may be required. The ANAO works closely with agencies to ensure that its audit approach is well tailored and clearly understood. ANAO performance and client satisfaction is reviewed as part of the continuous improvement process to ensure that audit activity is effective and adds value.

The trend to system based auditing is one that is likely to continue. Where sufficient reliance can be placed on agency systems, this form of auditing is more cost effective for the ANAO. However, where the ANAO cannot place sufficient reliance on agency systems, we will revert to the more traditional substantive testing approach. As discussed earlier, the move to continuous or 'real time' auditing will also assist in

identifying and addressing system weaknesses into the future. As a consequence, the opportunities for more cost effective system based auditing should continue to expand.

Right people, right skills

The changing public sector environment has important implications for auditing approaches where public sector management and accounting techniques have much in common with those of the private sector. There is a growing demand for analogous auditing skills and experience. Unfortunately, this growth has coincided with increased demands for accounting skills, linked to the move to accrual accounting and budgeting in the public sector, which has adversely impacted on the ANAO's recruitment and retention programs. The ANAO is attempting to address these issues through its workforce planning initiative.

Workforce planning

A major current focus at the ANAO is the implementation of a workforce planning initiative that is designed to provide a more rewarding and professional environment for staff, as well as to maintain and enhance the skills of our people. Elements of the workforce planning strategy include a rewards and recognition program, the definition and promotion of ANAO culture and values, identification of ANAO specific capabilities, new recruitment and selection procedures, workforce reporting, career development frameworks, and other targeted retention strategies.

The ANAO Certified Agreement underpins workforce planning initiatives. For example, the Certified Agreement includes a streamlined broadbanded classification with movement through the structure based solely on performance, a continuation of flexible working arrangements to assist staff in balancing their work and personal lives, and a revision of performance management arrangements which provide for a performance pay benefit option in addition to permanent salary advancement for superior performance. Our aim is to achieve the optimum fit between our people, our skills and the work required of us. Our ultimate aim is to ensure that the ANAO remains an employer of choice.

Building skills for the future

In the longer term, the increased privatisation of the public sector impacts directly on public sector audit as it has the potential to reduce the size of the Auditor-General's mandate. In my case, the *Auditor-General Act 1997* and the *Commonwealth Authorities and Companies Act 1997* provide that my financial statement audit mandate includes wholly-owned Commonwealth companies or companies in which the Commonwealth has a controlling interest. As a result the full sale, or sale of a controlling interest, in a government business entity will invariably reduce the number and nature of those entities subject to a financial statement audit by my Office. The problem that this creates for many Auditors-General is a diminution of opportunities to maintain particular knowledge, understanding and even skills of audit staff which, in turn, has implications for retention and recruitment. A particular challenge is created where there are only one or two entities involved in the area, for example, in communications. However, the loss of any sizeable Government Business Enterprise (GBE), such as the Commonwealth Bank, can have an adverse impact on skills maintenance.

Government activities that have been partially privatised have somewhat different imperatives and require other forms of control or oversight for accountability purposes. In this context, Auditors-General need to ensure that they are able to discharge the responsibilities derived from their mandates appropriately. The critical issue is that the Auditor-General has, and will continue to have, the ultimate responsibility for the conduct of Commonwealth financial statement audits regardless of the delivery method undertaken.

It is particularly important that the ANAO ensures that it has the relevant expertise required to undertake audits in emerging areas. While we are committed to improving our skill bases to meet contemporary needs, in some cases it may be necessary to buy in expertise. For example, Commonwealth agencies are now engaging in complex foreign exchange deals as part of their regular business. It is important that officers auditing these arrangements have the specialist financial analysis skills and experience to provide assurance in this complex area. For the ANAO, this means striking a balance between building and maintaining specialist skills in-house, and building effective alliances and partnerships with specialists in relevant industries.

Increasingly, technology will shape the way that auditors do business. It is critical that we understand how best to interrogate electronic systems and that we have auditing standards and training to ensure that we are as up-to-date as possible in this rapidly changing field. Our focus is to ensure that all the ANAO's staff are IT literate, rather than endeavouring to attract a cadre of IT auditors. Given our size, it is likely that we will be seeking to use outside skills to enhance and complement those of our staff in future audit work. However, the market situation for such skills is tight, and is not just an issue of remuneration.

The ANAO also makes use of secondment opportunities to ensure that its skill mix is optimal. Staff are seconded to and from the Parliament, agencies, the private sector and overseas audit offices to ensure that the ANAO has the skills necessary to meet contemporary and future needs. The ANAO also contracts out parts of its larger audits to the Big 5 (or Big 4) chartered accounting firms with expertise in specialist areas including IT and defence. This allows us to increase our coverage and to obtain assurance across very large and complex financial systems. In entering such arrangements with private sector firms, the ANAO ensures that audit independence issues are addressed effectively throughout both the tender process and the contract itself.

The United Kingdom's National Audit Office (NAO) has also been developing effective partnerships with the private sector to assist in the planning, conduct and reporting of complex IT audits. The NAO has extended its audit capacity through a partnership arrangement with Ernst & Young. There have been benefits on both sides through skills and knowledge transfer with the best of private and public sector practices providing assurance as to auditee operations. The NAO points to thorough planning including agreed standards and protocols, full and open communication through designated liaison officers, and security and confidentiality arrangements as the key drivers of the partnership's success.⁵⁴

Performance management and assessment

Adaptation to change and responsiveness to our clients are important attributes for auditors along with our independence and assurance role. Our Annual Report provides a regular assessment of our achievements to date, and challenges remaining for the

future. Each year, I include a commentary on the key strategic issues targeted by the ANAO for the next 12 months. This commentary, together with the publication of the results of our audits every six months, allows us to contribute to contemporary debate on a broad range of issues facing the APS.

As well as the initiatives for performance improvement noted earlier including the use of specialist personnel, peer review of audit activity, and benchmarking of performance, the ANAO uses an internal scorecard to ensure that improvements in strategic planning are hitting the mark. The scorecard is founded on the ANAO performance indicators set out in the Portfolio Budget Statements. Performance measures relate to three Output groups: performance audit services, information support services and assurance audit services. These link back to the ANAO's twin Outcomes: improvement in public administration and assurance. The scorecard includes both quantitative and qualitative measures and is intended to provide interested parties with an understanding of the link between the ANAO's products and their resulting impacts. It is then possible to assess how cost-effectively the ANAO is delivering its products and to what extent the ANAO is achieving its agreed outcomes. Our performance against the scorecard is included in our Annual Report.

Another important performance management and assessment mechanism is the entity survey. After each performance audit is tabled, feedback on the audit process is sought independently from the senior manager responsible for the audited program by means of a questionnaire and an interview with the responsible manager. This evaluation is performed by a consultant who works independently of the audit teams responsible for the conduct of the performance audits. The results of the most recent survey were positive on the whole. Managers continued to support the ANAO's efforts to move to a more 'value adding' approach. They also referred to the value of ANAO reports and recommendations in providing assurance and in providing leverage to facilitate particular activities. The entity survey is one of the most direct ways we have to test that our ongoing commitment to relationship management is achieving results.

Finally, in addition to the regular contact that we have with the JCPAA and other Parliamentary Committees, the ANAO conducts face-to-face surveys of parliamentarians. These surveys are conducted periodically to ensure that we are hitting the mark in terms of our product mix. Successful relationship management ensures that we will continue to be able to respond to the challenges of the future.

General Comment

The coming together of the public and the private sectors in recent years has necessitated a more strategic, risk-based approach to audit activity. We have tailored our strategies to ensure that our assurance and advisory roles strike the right balance. Just as there is no one accountability framework in the contemporary public sector environment, so there is no one audit approach. The key is to be responsive and to devote sufficient efforts to relationship management, including partnerships with private sector audit firms and contacts with other audit offices in Australia and overseas, to ensure that we are identifying and meeting all our clients' needs in the most cost-effective way. One difficulty for the future is the increasing potential for conflicts of interests of private sector audit firms and their use in a range of audit and audit related activities.

The ANAO recognises the importance of being an active participant in the process of change. This allows us to target products that span the accountability continuum from

the assurance based products for which we are traditionally known and on which Parliament relies, through to our better practice guides and benchmarking studies that add value to agencies' operations. While our approach needs to be monitored and reviewed for effectiveness over time, it should allow us to capitalise on our traditional strengths and to move into new value-adding areas in the future. We have pursued a focus on quality products as an essential element of our corporate planning which will assist us in meeting the objective of adding value to public administration.

4. CONCLUDING REMARKS

Because of the changing business environment we face in the public sector, auditing needs to be adaptive and alert to the risks involved to ensure that we target the issues of most interest and value to Parliament, the public and contemporary public sector managers. The governance landscape has changed, and managers need access to better practice, leadership and guidance to ensure that their own business strategies are effectively determined and put in place. Our statutory independence, as well as our expertise across the board, gives us a unique position within the accountability framework. It is crucial that we capitalise on these strengths in setting our agenda for the future. That agenda will continue the assurance and advisory roles for which we are well known and respected. However, we will also need to ensure that we remain responsive to the emerging pressures on our clients. The ANAO has been monitoring trends in public sector change and setting our responses accordingly. This ensures that our approach and coverage will continue to be relevant and add value.

In addition to the key trends identified through this paper, there are a number of other issues that will require attention from the ANAO into the future. The first of these is the greater contemporary focus on environmental, sustainable development and social responsibilities alongside economic considerations. One of the emerging techniques for dealing with this broadening of community expectations is triple bottom line reporting.

Triple bottom line reporting

Triple bottom line reporting incorporates economic, social and environmental performance considerations. Key issues are the disclosure of true costs using full cost accounting methodologies, as well as sustainability accounting, auditing and reporting. Generally this is likely to be an area of increasing interest in terms of better practice and cost effective methodologies. These matters still have some way to go before the methodologies are sufficiently robust and broadly comparable across all sectors, but already there are some positive examples from the private sector that illustrate what can be achieved.⁵⁵

The definition of the 'triple bottom line' has recently been expanded to include not only economic, social and environmental concerns, but also governance issues. The phrase 'quadruple bottom line' has now entered the professional lexicon. The trend to quadruple bottom line reporting is currently moving fastest in the United States, particularly in the wake of major company collapses which have turned the spotlight on governance and social responsibility.⁵⁶ A recent global survey of Chief Executive Officers (CEOs) found that nearly 70 per cent of CEOs say that corporate social responsibility is 'vital' to profitability.⁵⁷ However, the CEOs also recognise that corporate social reputation has less to do with earnings and more to do with reputation across a broad array of stakeholders.⁵⁸

Public sector agencies have the responsibility to ensure that their operations meet the highest standards expected by the community. The introduction of public reporting on ecologically sustainable development is now a requirement in Commonwealth agency annual reports and the ANAO will be conducting an audit in this area next financial year. The public reputation of agencies is very important and this is made more complex as expectations change over time. Nevertheless, it is important that agencies see themselves as part of the broader social system in which they operate. Client focus and the adequacy of stakeholder consultation is very important within this context.

Triple (or Quadruple) Bottom Line reporting is clearly a 'greenfield' area for research and development as far as audit is concerned. In addition, the trans-border and global issues inherent in this form of reporting suggest that the development of appropriate methodologies and indicators would benefit enormously from international input. The ANAO actively participates in international environmental auditing networks to this effect. Of interest in this respect, is that the International Organization for Standardization (ISO) is exploring the possible role of Standards development through the formal Standards system at the national and international level, to articulate and promote the concept of corporate social responsibility.⁵⁹

Globalisation

An additional challenge, as we respond to the changing business environment, is the opportunities and risks inherent in globalisation. The globalisation of world markets and the growth of international business have parallels in the public sector, and consequently in auditing. Increasingly, because of global trade, international laws and conventions, and rapidly growing information networks worldwide, public policy internationally is becoming aligned. New initiatives in public policy can be compared to practice in other countries, and program delivery in Australia can be benchmarked against that in the UK, Canada, the United States or New Zealand. Labour markets are becoming increasingly fluid for skilled workers. This also accelerates the cross-fertilisation of ideas and practices. Increasingly, audit offices in Europe and Asia are recognising the value of joint or parallel audits in areas such as regulatory controls over water or air pollution. Collaborative exercises and information exchange in areas such as privatisation and environmental protection has also been a feature of INTOSAI.

The ANAO has been active in using the collective international experiences of audit offices to benchmark our performance, to compare the performance of Australian agencies against that of overseas bodies, and in actively participating in INTOSAI to exchange information on better practice and the latest developments. We work with both the UK and the New Zealand Audit Offices on peer reviews, and exchange staff with other national audit bodies to build expertise and knowledge of better auditing practices globally. Engaging with both the public and the private sectors internationally is an integral part of our knowledge management strategy.

Pressure to audit budget estimates

While some challenges to our audit activity will come at the international level, others are generated domestically. For example, the importance of the integrity of budgets at the Commonwealth and State/Territory levels and the Government's commitment to a Charter of Budget Honesty has focussed attention on the potential for auditing budget estimates. This was an issue raised in the report of the Commission of Audit

conducted by the Government in 1996. Concern over the accuracy of budget estimates prior to elections has also heightened the pressure for audits in this area.

Auditors-General in Victoria and New Zealand already conduct audits of this type. For example, the Victorian Auditor-General reviews the overall financial condition of the State of Victoria each year, and this includes an analysis of the State Budget. As part of the accountability process, the Victorian Government presents its Budget papers to the Parliament for review and approval. These papers include Estimated Financial Statements and Appropriation Bills that seek authority for the expenditure of funds from the Consolidated Fund. The Estimated Financial Statements used to support the proposals outlined in the Budget papers are required under the Victorian *Audit Act 1994* to be subject to review by the Auditor-General. The Auditor-General's report is then incorporated in the Budget papers and available for Parliament's consideration prior to voting on the annual Appropriation Bills.⁶⁰

The ANAO currently examines Whole-of-Government financial statements, and we are considering the extent to which the Final Budget Outcome Report could be subject to audit. The Final Budget Outcome (FBO) report is required to be produced within three months of the end of each financial year and comprises:

- Government Finance Statistics (GFS) statements;
- AAS31 Financial Reporting by Government primary financial statements (CFS); and
- the Commonwealth Budget Outcome.

The FBO report is not currently subject to audit. The ANAO has recently indicated to the JCPAA that it is willing to audit the FBO report if requested to do so. However, this is a matter for the Government and Parliament to decide. The issue of relevant standards to be used would be a particular challenge.

A greater focus on performance information

The final challenge for the future that I would like to raise is the greater emphasis on the development of key performance indicators and the use of performance information to assess the extent to which program objectives are being achieved. This is a major issue worldwide. Under the Accrual Budgeting framework in Australia, agencies are required to define inputs, outputs and outcomes. Under the Commonwealth legislative framework, agencies are also required to demonstrate the efficient, effective and ethical use of resources. Performance information is therefore essential to the achievement of statutory accountability requirements defined by the Parliament. The quality of performance information has been subject to a number of audits that have found substantial shortcomings in many important areas as agencies adjust to the new budgeting and accountability framework.

There are also important lessons to be learned from the States/Territories and overseas audit offices in this area. For example, the Victorian Auditor-General produces an annual report on the Finances of the State of Victoria, which takes the consideration of performance to an extended, statewide level. This report analyses the State's overall financial condition, achievements over the year in review, and challenges for the future. It is also a legislative requirement for the Audit Offices of Western Australia and the Australian Capital Territory to report on performance information within their jurisdictions.

The Controller and Auditor-General of New Zealand has also stimulated discussion about how public entities set direction, measure and report on performance. The Auditor-General of New Zealand has so far produced two editions of his *Reporting Public Sector Performance* report. These reports focus on the ways in which performance reporting in the public sector can be improved. In the first edition, the NZ Auditor-General noted that better reporting of performance requires:

*leadership, incentives and the acceptance of risks that some attempts to improve reporting will not work. This will need champions who are prepared to take or permit risks, as public entities experiment with different ways to report.*⁶¹

The ANAO reviews performance information as a matter of course in most performance audits. This includes review of the *appropriateness* and comprehensiveness of the relevant performance measures. In addition, a Better Practice Guide has been developed and is currently being updated on this issue in relation to performance information in Portfolio Budget Statements. Progress has generally been slow in achieving satisfactory standards of performance information. While recognising that good performance information involves time and cost considerations, this is an area with substantial scope for improvement. The benefits of cost effective performance information include the capacity to better manage risks, the adjust the program to meet changing client needs as well as demonstrating that Commonwealth resources have been used efficiently and effectively.

Convergence of the public and private sectors

I would like to conclude with some final thoughts on convergence and its impacts for the ANAO. Convergence of the public and private sectors requires agencies to find the appropriate balance between efficiency and accountability with regard to their particular business opportunities and risks. Whether this will result in a different kind of accountability will largely be a decision of the Parliament and/or the Government. As our public sector audit clients are renegotiating their activities within the changing governance landscape, so the ANAO is continuously refining its own processes and emphases.

Our statutory independence is of vital importance to us, and gives the ANAO a unique perspective on the challenges facing Commonwealth agencies. We work closely with our colleagues in Australia and overseas in sharing examples of better practice and lessons learned. Such exchanges are important to us and allow us to ensure that our own business is well placed for the future.

In the coming years, the ANAO will continue to strengthen its assurance and advisory functions. We will continue to refine our strategic audit approach. We have some way to go, but we have identified a vision and we are working towards it. Change is inevitable. The challenge is to strategically position ourselves to respond to emerging circumstances by tailoring our products to continue to be relevant and to take advantage of opportunities for improvement and value adding as they arise.

The ANAO is well prepared for the challenges of strategic business management in the future. Our commitment to meeting our clients' needs through responsive relationship management, as well as our active participation in professional networks both in Australia and overseas, has ensured that we are well placed to lead and guide into the future. As our audit clients strive to conduct their business efficiently and effectively in

the changing public sector environment, so the ANAO must be aware of the impact of change on its own business operations.

Like our counterparts in the Australian States and overseas, we are engaged in identifying areas of risk, and opportunities for improvement, in setting our strategic agenda. Managing public sector businesses effectively in the international marketplace of the future will undoubtedly be challenging, with the increased emphasis on monitoring and reporting on intangible performance elements such as values, ethics, social and environmental responsibility. All public sector agencies, as well as the ANAO, will need to continue to engage globally in identifying national approaches and solutions for greater effectiveness.

The emphasis will increasingly be on cooperation, sharing and communication as we now witness the move internationally to more 'joined up' government and the pressure for more citizen participation in the governance framework. Such developments have important implications for the public interest and accountability which need to be addressed, or at least understood, by Audit Offices. As in other areas of our responsibilities, we will be largely judged on our performance on such matters. Being passive is not an option. Being strategic and proactive is. But do we have the necessary skills, ability and commitment? These are key challenges for the future direction of audit.

NOTES AND REFERENCES

- ¹ Sharman of Redlynch Lord 2001. *Holding to Account – The Review of Audit and Accountability for Central Government*. London. February. pp.23-25.
- ² Ibid. para 3.37. p.24
- ³ M. Edwards cited in Wilkins, P 2002, 'Accountability and Joined-up Government,' *Australian Journal of Public Administration*, vol. 61 no. 1, RCAGA Symposium, p. 115.
- ⁴ Davis, G 2002, 'Commentary', in M Edwards and J Langford (eds), *New Players, Partners and Processes: A Public Sector Without Boundaries?* National Institute for Governance, University of Canberra, Canberra, pp.97-8.
- ⁵ de Maria, W 2001, 'Commercial-in-Confidence: An Obituary to Transparency?', *Australian Journal of Public Administration*, vol. 60, no. 4, p. 93.
- ⁶ See ANAO, 2001, *The use of confidentiality provisions in Commonwealth contracts*, Report No.38, Canberra, 24 May.
- ⁷ See, for example, Senate Finance and Public Administration References Committee in William de Maria, 2001, 'Commercial-in-Confidence: An Obituary to Transparency?', *Australian Journal of Public Administration*, vol. 60, no. 4, pp. 103-104.
- ⁸ ANAO, 2002, *Senate Order of 20th June 2001 (February 2002)*, Report No.33, Canberra, 25 February.
- ¹⁰ ANAO, 2001, *Administration of the Federation Fund Programme*, Report No. 11, Canberra, 19 September.
- ¹¹ Royal Commission on Australian Government Administration, 1976. *Report of the Royal Commission on Australian Government Administration*, AGPS, Canberra.
- ¹² Wilkins, P 2002, 'Accountability and Joined-up Government,' *Australian Journal of Public Administration*, vol. 61 no. 1, RCAGA Symposium, p. 114.
- ¹³ Howard, J. The Hon 2001, *The Centenary of the APS Oration*, Presentation to the Centenary Conference of the Institute of Public Administration Australia, Canberra, 19 June, p.5.
- ¹⁴ Private correspondence with David Finlay, Head of PFI Development, UK NAO, 6 March 2002.
- ¹⁵ United Kingdom National Audit Office 1999, *Examining the Value for Money of Deals Under the Private Finance Initiative*, National Audit Office, London, p. 52.
- ¹⁶ Audit Office of NSW 1995, *Roads and Traffic Authority: The M2 Motorway*, Audit Office of NSW, Sydney, p. 3.
- ¹⁷ Minister for Finance and Administration 2001, 'Commonwealth Policy Principles for the Use of Private Financing' Commonwealth of Australia, Canberra, p.11.
- ¹⁸ Department of Defence and Australian Industry Group Defence Council 2000, *Private Financing of Defence Capability*, Discussion Paper for a Private Financing Industry Workshop, Canberra, p. 1.
- ¹⁹ Mather, A 2002, 'The seamless society', *into IT*, issue 14, January, pp. 27-28.
- ²⁰ Department of Communications, Information Technology and the Arts, 2000, *Government Online – The Commonwealth Government's Strategy*, Canberra, pp. 1 and 4.
- ²¹ Janz, C 2002, 'Banker brands IT 'a costly failure'', *The Australian*, 1 March.
- ²² ANAO 2000. *Magnetic Resonance Imaging Services – effectiveness and probity of the policy development processes and implementation*. Report No 42, Canberra, 10 May.
- ²³ ANAO 2002. *Recordkeeping*. Report No 45. Canberra, 1 May.
- ²⁴ ANAO Assurance and Control Assessment audits are to be known as Business Support Process Audits from 1 July 2002.
- ²⁵ Harris, I (ed.) 2001 *House of Representatives Practice*, Fourth Edition, Department of the House of Representatives, Canberra, p. 42.
- ²⁶ Ibid.

- ²⁷ Quoted in Auditor General of Canada 2001, *Reflections on a decade of serving Parliament*, Report of the Auditor General of Canada to the House of Commons, Office of the Auditor General of Canada, Ottawa, p. 3.
- ²⁸ INTOSAI 2001, *Independence of SAIs Project: Final Task Force Report*, INTOSAI, Preamble.
- ²⁹ *Ibid*, p. 17.
- ³⁰ United States General Accounting Office 1996, 'The Accounting Profession: Major Issues--Progress and Concerns', in *US GAO Reports and Testimony: September 1996*, US GAO, Washington, p. 10.
- ³¹ American Institute of CPAs 2002, 'Memo from AICPA Leadership on GAO Audit Independence Standards – An Update: March 18, 2002', AICPA. See <http://www.aicpa.org/info/031802memo.htm>.
- ³² SAI United Kingdom 2002, 'SAIs' Involvement in System Development: Opportunities and Risks', Principal Paper for 18th Commonwealth Auditors-General Conference, Kuala Lumpur, Malaysia, 6-10 October 2002 (Draft), p. 8.
- ³³ See, for example, Vinten, G 1999, 'Audit independence in the UK – the state of the art', *Managerial Auditing Journal*, vol. 14 no. 8, pp.408-37.
- ³⁴ Ramsay, I 2001, *Independence of Australian Company Auditors: Review of the Current Australian Requirements and Proposals for Reform*, Report to the Minister for Financial Services and Regulation, Commonwealth of Australia, Canberra.
- ³⁵ United States Panel on Audit Effectiveness 2000, *Report and Recommendations*, Public Oversight Board, Stamford Connecticut, p. 109.
- ³⁶ Blake Dawson Waldron 2002, 'Corporate Governance Update: Audit Independence', March 2002.
- ³⁷ Quoted in 2002 'Auditors could be whistleblowers, ASIC chairman proposes', *Committee Bulletin* vol. 13 no. 3, February 16-28, p. 3.
- ³⁸ See ANAO 2001, *Commonwealth Estate Property Sales*, Report No. 4, Canberra, 1 August; and, ANAO 2000, *Implementation of Whole-of-Government Information Technology and Infrastructure Consolidation and Outsourcing Initiative*, Report No. 9, Canberra, 6 September.
- ³⁹ Mulgan, R 2001, 'Policy versus Administration: The Auditor-General's clash with Finance and the Minister', *Canberra Bulletin of Public Administration*, no. 101, September, p. 40.
- ⁴⁰ HR Report 2000, 'DOFA wins International Outsourcing Award,' *HR Report*, no. 220, 7 March, p. 2.
- ⁴¹ ANAO 2002, *The management of Commonwealth national parks and reserves – conserving our country*, Report No. 49, Canberra, 13 May.
- ⁴² ANAO 2000, *Implementation of Whole-of-Government Information Technology and Infrastructure Consolidation and Outsourcing Initiative*, Op.cit.
- ⁴³ Humphry R 2000, *Review of the Whole of Government Information Technology Outsourcing Initiative*, Public Hearing, Canberra, 17 May
- ⁴⁴ See, for example, ANAO 1998, *Sale of One-third of Telstra*, Report No. 10, Canberra, 19 October.
- ⁴⁵ Quoted in SAI United Kingdom 2002, 'SAIs' Involvement in System Development: Opportunities and Risks', Op.cit. p. 10.
- ⁴⁶ ANAO 2001, *Contract Management*, Better Practice Guide, Canberra, p. 3.
- ⁴⁷ ANAO 2001, *Commonwealth Estate Property Sales*, Op.cit.
- ⁴⁸ ANAO 2001, *Status Reporting of Major Defence Acquisition Projects*, Report No. 24, Canberra. 10 December, p. 24.
- ⁴⁹ ANAO 2000, *Construction of the National Museum of Australia and Australian Institute of Aboriginal and Torres Strait Islander Studies*, Report No. 34, Canberra, 16 March.
- ⁵⁰ Howard, J. The Hon 2001, *The Centenary of the APS Oration*, Presentation to the Centenary Conference of the Institute of Public Administration Australia, Canberra, 19 June, p.5.
- ⁵¹ ANAO 2001, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001*, Report No. 29, Canberra, 21 December.

- ⁵² ANAO 1999, *Building Better Financial Management Support*, Better Practice Guide, Canberra, November.
- ⁵³ SAI United Kingdom 2002, 'SAIs' Involvement in System Development: Opportunities and Risks', Op.cit.
- ⁵⁴ Gilbert, M 2002, 'The audit of complex IT infrastructures', *into IT*, issue 14, January, pp. 24-26.
- ⁵⁵ Deegan, C 1999, 'Implementing Triple Bottom Line Performance and Reporting Mechanisms', *Charter*, vol. 70, no. 4, May, pp. 40-42.
- ⁵⁶ Callick, R 2002, 'Miners dig deep for greener image', *Australian Financial Review*, 17 April 2002, p. 1 & p. 53.
- ⁵⁷ PricewaterhouseCoopers 2002. *CEO Survey*. 5th Annual Global CEO Survey in conjunction with the World Economic Forum. New York. pp.2 and 19.
- ⁵⁸ Ibid. p.17.
- ⁵⁹ Standards Australia 2002. *The Australian Standard*. May. p.5.
- ⁶⁰ Auditor General Victoria 2001, *Report of the Auditor-General on the Finances of the State of Victoria, 2000-01*, Victorian Auditor-General's Office, Melbourne, p.13.
- ⁶¹ New Zealand Controller and Auditor-General 2001, *Reporting Public Sector Performance*, New Zealand Audit Office, Wellington, p.3. See also, New Zealand Controller and Auditor-General 2002, *Reporting Public Sector Performance*, 2nd edition, New Zealand Audit Office, Wellington