

# Senate Occasional Lecture

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## **The Evolving Role and Mandate of the ANAO Since Federation**

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# THE EVOLVING ROLE AND MANDATE OF THE ANAO SINCE FEDERATION

## Introduction

Thank you for the opportunity to present this Senate Occasional Lecture on the 110<sup>th</sup> anniversary of the Australian National Audit Office.

My predecessor, Mr Pat Barrett AO, in giving the Senate Occasional Lecture in June 2002, focussed on accountability in the 21<sup>st</sup> century and how the ANAO assists the Parliament and the wider Australian public sector more generally. Understandably, there will be a flavour of this in my address today. However, as this year is a significant milestone in our history, I propose to look back to our beginnings and then look forward to see how the office is positioning itself to meet the challenges of auditing in a rapidly changing and increasingly complex public sector in the 21<sup>st</sup> century.

Paramount to the course the office has always set, has been a strong focus on its responsibilities to the Parliament and the public.

## 110 years and still going strong

The first Commonwealth Parliament created the office of Auditor-General in 1901 as an independent public official with wide powers of investigation to scrutinise Commonwealth administration and provide independent, impartial assessments on the state of the public accounts.

The *Audit Act 1901* was the fourth piece of legislation passed by the Parliament; it followed the passage of two Supply Acts and the Acts Interpretation Act. Thus, the office had its genesis in the earliest days of federation with the Treasurer of the day, Sir George Turner, in introducing the Audit Bill into the House of Representatives on 5 July 1901, describing it as a bill the legislature need to enact in order that the work of the Government may be properly carried out.

The original Act stipulated the personal powers, duties and responsibilities of the single statutory office holder and enabled the Auditor-General to appoint inspectors and accounting officers to assist with the execution of

his duties and responsibilities. Additionally, the Auditor-General was able to delegate his authority to inspectors but, importantly, the Auditor-General retained the sole responsibility for reporting the findings of audits to Parliament.<sup>1,2</sup>

On his appointment as the first Commonwealth Auditor-General, John Israel began establishing the Federal Audit Office in 1902, initially a central office for coordination purposes and, within a short period of time, 16 full time staff were appointed. He then moved to establish state branch offices and develop procedures to ensure consistency of approach across the span of Commonwealth responsibilities.<sup>3</sup> The Auditor-General was assisted in undertaking audits during this early period by contracted staff from the existing state Audit Offices.<sup>4</sup> By 1905, all audits were conducted by the Auditor-General's own staff adopting standardised audit approaches.

Hence, the Australian National Audit Office (ANAO) is one of only a handful of Commonwealth entities that can trace their origins back to federation — the others are: the Departments of Prime Minister; Foreign Affairs (External Affairs); Attorney General; Treasury; Defence; as well as the High Court (although the first bench was appointed in 1903 after the passage of the *Judiciary Act 1903*).

## The ANAO across the years

As you would expect for an organisation that has been operating since federation as an essential element of our system of democratic government,<sup>5</sup> there have been a number of significant shifts in our mandate and in the audit approaches used to fulfil our statutory responsibilities.

There have also been 14 Auditors-General to date, the first, Mr John Israel, holding office for 25 years; age retirement was introduced following Mr Israel's term, and today there are 10 year non-renewable terms for the Auditor-General. A list of all my predecessors as Auditor-General, and their particular contributions to the office, is attached to this presentation. To date, all Auditors-General have been male but given the composition of my office and the Australian Public Service today, where at least 50 per cent of staff are women, I am confident that this run won't extend too much longer.

## The 100% check era

In the early days of the Audit Office accountability was perceived as the complete checking and reporting of all transactions through government.

The *Audit Act 1901* was very specific about the Auditor-General's duties and, although Parliament chose not to stipulate the way in which the Auditor-General should carry out their duties, the Act directed the Auditor-General to examine and check every cash sheet statement, payments and receipts, to verify their legality and accuracy. Since the Act in various sections referred to such words as 'all', 'every', 'in full' and 'whole', the Audit Office in the early 1900s adopted a 100% transaction-based approach to audit the established Commonwealth departments.<sup>6</sup>

As you can imagine, during this early period the auditors were busy. As an example, for the year 1902-3 the Expenditure Branch (with only five clerks) processed and audited 257,479 receipts, vouchers and papers concerning expenditures plus 128,000 supporting documents (raising 1,413 queries). The Revenue Branch (with just two clerks) processed and checked 35,269 documents (departmental returns, statements, bank sheets) as well as being 'engaged in outside inspections of Revenue, Stock and Paying Officers' Accounts.<sup>7</sup>

During the incumbency of the first three Auditors-General in particular, the practices of auditing largely consisted of simple book-keeping examinations, checking transactions, verifying accounts, checking vouchers, and stores requisitions against stocks, counting equipment and minor assets, and weighing gold and other precious metals. The audits also investigated the legality and statutory authority of transactions.<sup>8</sup>

Occasionally 'major' frauds were uncovered; one celebrated case was detected in 1914 at the Melbourne Post Office. This involved erasing the cancelled stamp and the date stamp imprints from presented postal notes and then 'reusing' them — the fraud was calculated to total 662 pounds 5 shillings and 6 pence.<sup>9</sup>

There were many challenges during this early period; two of note were the introduction of commercial activities of government, and the impact of the First World War.

Firstly, in 1913, the Post Office produced its own accrual financial statements and submitted them for audit, and, in the same year, there was the challenging task of auditing the first commercial public financial institution, the Commonwealth Bank. While the Post Office had been audited since 1902, the Auditor-General was confronted in 1913 with a set of financial statements produced in accrual format with assumptions made about depreciation, liabilities, creditors and debtors, thus presenting the Audit Office with considerable problems of interpretation and verification.<sup>10</sup>

As mentioned, the second challenge during this period was the expansion of Commonwealth activities due to the outbreak of the First World War. The growing decentralisation of Commonwealth administration was another issue to be taken into account. The 100% checking regime did not suit these changing circumstances of Australian public administration with the Audit Office increasingly falling into an audit backlog. The audit model developed for the new nation failed to be robust enough to cater for the exigencies created by the First World War and a rapidly expanding Commonwealth sector.

With the onset of the war, there was a dramatic expansion in the activities and expenditure of Defence. As a consequence, the extent of the audit function increased to a scale not envisaged at federation. However, the office maintained its painstaking and comprehensive audit practices. For example, the Audit Office pursued the verification of all wages payments made by the Department of Defence, insisting that pay sheets be returned from overseas and checked to ensure they were signed off and that all procedures were followed. In a similar vein, the auditors insisted on checking the purchase of rifles, and accounts for empty cartridge cases were also examined. It has been told that audit inspectors also demanded to see the returned empty cartridge boxes as proof their contents had been used.

It was not until the 1920 amendments to the Audit Act that the 100% check requirement was formally abolished. The then Treasurer (and former Prime Minister) Sir Joseph Cook argued that the Auditor-General should be given greater discretion to dispense with parts of detailed audits as considered appropriate (and not, as in the 1906 amendments, be required to seek the Treasurer's permission to dispense with detailed audit work). In moving the amendments, Cook told Parliament: *We relieve him of all sections which fetter him now, and say to him, as one would say to any auditor: 'Conduct your*

own audit in your own way, so long as you take care that the moneys which you audit have been voted by the Parliament, and see that they are being spent in a constitutional manner'. Those are the only two limitations we propose to place upon him, ceasing henceforth from giving him directions as to the manner in which he shall conduct his audit.<sup>11,12</sup>

### **Moving the Office to Canberra**

The Audit Office moved from Melbourne to Canberra in 1935 in line with Government policy at that time—the Office was relocated to the Commonwealth Offices at West Block. As with other departments going through the relocation process, moving to Canberra caused accommodation issues with many staff being accommodated in Canberra hostels as an interim measure. Both the Hotel Kurrajong and Acton Guest House were used for this purpose. As an aside, when I moved from Queensland as a cadet with the office in 1972, I was accommodated in the old Macquarie Hostel for a time (opposite the location of the ANAO today at 19 National Circuit, Barton).

### **The first big shift in the audit mandate – efficiency audits**

From federation to the early 1970s there still was a predominant focus in audit work towards assessing financial compliance with the relevant laws and regulations. However, there were moves afoot to place program evaluation and audits which focussed on performance on the public sector management landscape.

The 1976 Coombs Commission, *Royal Commission into Australian Government Administration* (RCAGA) was the genesis for program evaluation and performance auditing in the Australian federal sphere, and, as one commentator observed:

*'Not only did this study [Coombs Report] pave the way for program evaluation, but it was also among the most instructive Australian government inquiries in identifying organisational diagnosis, and a form of benchmarking, as vital aspects of improvement of public sector administration. The Commission's Task Force on Efficiency described an agenda of reform, including performance audit and new public management...'*<sup>13</sup>

With the announcement of the RCAGA, the then Auditor- General, Duncan Steele Craik, was quick to seize the opportunity to place efficiency audits on

the agenda, arguing that parliamentary scrutiny would be greatly improved if a fresh approach to the role of the Auditor-General could be engineered allowing Parliament to have independent and expert advice on the degree of economy and efficiency achieved in government financial administration.<sup>14</sup>

Steele Craik presented two submissions to RCAGA, and in his evidence given in October 1976 he commented that the *Audit Act 1901* required the Auditor-General to:

*Conduct detailed and searching examinations of government financial transactions, but it did not enable him to go behind the mere verification of the proper authorisation and conclusion of those transactions. It gave him no specific authority to evaluate such important considerations as value for money, unproductive expenditure, economy, efficiency or program achievement.*<sup>15</sup>

In its report, the RCAGA came to the view that if, as the Commission proposed, departmental managers were to be given a clearer responsibility for their managerial functions and greater freedom and discretion to perform them, it was important that the quality of their performance be subject to critical review.<sup>16</sup> The Commission proposed that there should be a regular program of efficiency audits in which departmental performance would be assessed.<sup>17</sup>

The Commission saw little merit in creating a new agency to undertake this task when institutions already existed to perform like or similar functions. After canvassing whether Treasury or the Public Service Board may be best placed to undertake this function, the Commission judged that it would be most appropriate for the role of the Auditor-General to be extended to conduct efficiency audits, as it is similar in principle to the audit function currently performed.<sup>18</sup> The Commission also made the point that the “*Auditor-General has a traditional independence link with the legislature and historical authority of Parliament that is essential to one whose task it is to assess the performance of the executive arm of government.*”<sup>19</sup>

The RCAGA recommended the Audit Office be charged with responsibility for undertaking efficiency reviews, and also that departments themselves regularly conduct efficiency reviews.<sup>20</sup> Steele Craik was also successful in obtaining support from within government (including the head of the Department of the Prime Minister and Cabinet) who was able to persuade

the Fraser Government to accept Coombs' recommendations against Treasury advice.<sup>21</sup>

Thus, Steele Craik's lasting legacy was persuading the government to pass legislation which allowed the Audit Office to undertake efficiency audits, and the *Audit Act 1901* was amended in 1979 to provide for this expanded mandate.

It is important to observe here that the office does not have a role in commenting on the merits of government policy in its audits but rather is focused on assessing whether government programs have been implemented, efficiently and effectively, in accordance with legislation and government policy. In situations where, as an incidental aspect of an audit, we observe aspects of government policy that would benefit from a review, we have recommended departments consider the position and, as appropriate, provide advice to the responsible minister. For me, this is a responsible position for the office to take in such circumstances.

### *A rocky start but eventual success for efficiency audits*

With the extended mandate granted to the Auditor-General, efficiency audits were conducted by a separate team of multi-disciplined professionals. These audit reports were, and still continue to be, tabled separately in Parliament. Steele Craik always argued that a long lead time was necessary to evaluate the success of the new mandate and the efficiency audit division (referred to internally as the 'golden' division by the other audit divisions due to their perceived special treatment within the office). After a few false starts, the constant cloud of external reviews and some criticisms from the then Joint Committee of Public Accounts (JCPA), it was, essentially, not until 1990 that the 'bedding down' of the efficiency audit function was achieved.

The JCPA conducted a comprehensive review into the Australian Audit Office in 1989 and the resulting report *The Auditor-General: Ally of the People and Parliament* (Report 296) contained many recommendations including, importantly, that the Auditor-General continue to have responsibility for efficiency audits<sup>22</sup>. The Committee also recommended a range of measures, subsequently reflected in a new Auditor-General Act, to strengthen the independence of the Auditor-General, namely:



- a) Audit legislation state unequivocally that the Auditor-General is an officer of the Parliament in order to emphasise the Auditor-General's relationship with the Parliament;
- b) The right of the JCPA to veto the person proposed by the government to be appointed – the only appointment where a parliamentary committee currently has such a veto;<sup>23</sup>
- c) A 10 year, non-renewable, term of appointment for the Auditor-General;
- d) The Parliament to have a key role in considering the resources allocated to the office – implemented through amendments to the *Public Accounts and Audit Committee Act 1951*; and
- e) The Australian Audit Office to be renamed the Australian National Audit Office.

The new legislation, which was under development from the early 1990s until its enactment in 1997, was seen as contemporary, principles based legislation to provide the Auditor-General with a strong mandate to perform his or her responsibilities effectively. As an aside, I was working in the Finance Department at the time and endeavouring to get a higher priority for the introduction of the three pieces of legislation to replace the *Audit Act 1901* (namely the Financial Management and Accountability Bill, the Commonwealth Authorities and Companies Bill, and the Auditor-General Bill) when a senior minister of the then Labor Government, explaining the then priority allocated to the legislation, commented that the issue of the new package of legislation 'was not showing up in the door-knocks'.

Nevertheless, after a long gestation period and three separate inquiries by the then Joint Committee of Public Accounts, the legislation came into effect on 1 January 1998 providing a solid financial statement and performance audit mandate (comprehending both efficiency audits and smaller project audits)<sup>24</sup> with the only real carve-out being in relation to performance audits of GBEs – which required an 'invitation' from the JCPAA for the Auditor-General to perform such audits.<sup>25</sup> The basis for the carve-out was fairly thin then – namely that the focus of GBE accountability in future was to be on results rather than on processes involved in managerial decision-making; and against this background, the government considered

there was little to be gained by subjecting GBEs to efficiency audits as the discipline to be efficient is imposed through the focus on targets and related performance measurement.<sup>26</sup> The argument for this carve-out from the Auditor-General's mandate is even thinner today, particularly as the stable of GBEs has more than halved to seven<sup>27</sup> following asset sales, but still include some significant public sector entities.

In the ANAO's submission to the recent inquiry by the JCPAA into our legislation, the ANAO argued that the Auditor-General should have the discretion to undertake performance audits of GBEs, which the Committee agreed with – essentially making the case for the Auditor-General to have the complete discretion to undertake performance audits of any Commonwealth-controlled entity.<sup>28</sup> I make further reference to the JCPAA's support for enhancing the mandate of the Auditor-General later in this presentation.

### *Auditing the financial statements of government agencies*

As I indicated earlier, the Auditor-General was first required to audit and report on commercial financial statements in 1913 (the Commonwealth Bank and the Post Office).

It was not until November 1992 that Australian Government public sector departments and agencies moved to adopt accrual accounting. Prior to that, they had presented information on a cash or modified cash basis. All statutory authorities have reported on an accrual basis since 1986, although some were earlier adopters.

The adoption of accrual reporting for agencies was a big decision at the time, because it marked recognition that the traditional approach to accounting and reporting had its limitations. At the time, budget accounting (on a cash basis) ruled supreme and the emergence of accrual accounting concepts was not universally warmly embraced. But, over time, accrual accounting, and then accrual budgeting, were seen to be important elements in a suite of public sector reforms directed to improving the efficiency and responsiveness of government services, and enhancing the accountability for the use of public resources.<sup>29</sup>

In the early years, recognising there were unresolved issues and less than full acceptance of the benefits of accrual accounting, the then Department

of Finance adopted an incremental approach to the expansion of disclosure requirements relating to assets and liabilities in agency financial statements. In this way, Finance conditioned public sector agencies to a more comprehensive basis of reporting. This approach also allowed the ANAO to adjust to the new requirement and adequately resource our financial audit statement audit coverage.

Even when it was decided by the Finance Minister in 1992 to adopt full accrual reporting, agencies were allowed several years to produce their first set of accounts on this basis. As it turned out, 10 agencies reported on an accrual basis in 1992–93, approximately 20 in 1993–94 and the remaining agencies in 1994–95. The first accrual based ‘whole of government’ statements that were audited were for the 1996–97 financial year, and followed a two year trial period when unaudited financial statements were published.<sup>30</sup>

The ANAO now audits and reports on some 260 financial statements of Commonwealth entities, and on the Australian Government as a whole. Accounting and auditing standards have become much more demanding, and staff of the office are required to be across many more challenging accounting and presentation issues today than they did in the earlier years of accrual reporting.

I sign the audit opinions on the financial statements of the Australian Government and 10 of the most significant government entities including the Reserve Bank of Australia, the Future Fund, Australia Post, the Australian Broadcasting Corporation, and a number of significant departments; my senior staff sign the balance of the audit opinions under delegation. I can assure you I am very conscious of the responsibility that comes with signing such opinions, and my senior staff and team members are conscious of their responsibilities as well. We understand that the Parliament and the wider community take confidence from our work and our audit opinions.

### ***Expanding the ANAO’s activities to include guidance on better practice in public administration***

In addition to our financial statement and performance audit work, the ANAO has continued to develop its audit products and services to act as a catalyst for improving public administration. Our highly regarded series of

Better Practice Guides (BPGs) were introduced in 1987 by John Taylor AO, the then Auditor-General; the first being a Best Practice Guide on Asset Management. The BPGs were designed to give examples of sound practice that should be adopted by the whole of the Australian public sector. Initially the BPGs were produced on an *ad hoc* basis but in later years they have become an integral part of our performance audit strategy.

We reinforce our audit findings and recommendations through the publication of our BPGs which are specifically designed to provide practical, workable guidance to promote better practice in specific areas of public administration. The Guides are seen as ‘bibles’ in some areas of public administration – they are certainly warmly received by public sector agencies. In fact, some agencies would prefer we produced more BPGs and less audits!

## The ANAO in more recent years

The ANAO today has a staff of some 350 people and a budget of \$78 million. This represents 0.01% of the combined revenues and expenses of the Australian Government. In my view, this is a modest price to pay for the assurance provided by the ANAO.

Our vision is to be ‘an international leader in the provision of independent public sector audit and related services’.<sup>31</sup>

As I will touch on shortly, we do not duck auditing contentious topics.<sup>32</sup>

We seek to operate efficiently, as you would expect and to improve our own performance over time. We seek to maintain effective relationships with agencies and government, and generally do most of the time. We have wide-ranging powers of access to all documents created by government and may take evidence on oath from any person to aid the conduct of audits of Commonwealth entities. That said, it is quite rare for the office to be required to formally seek documents or take evidence on oath. Most parties understand we have very broad powers and generally see merit in cooperating.

I have only used my formal powers to take evidence on oath on a small number of occasions in more than six years. The most recent, and high profile, was Report No 1 of 2009-10 *Representations to the Department of the*

*Treasury in Relation to Motor Dealer Financing Assistance* where there were questions raised in the Parliament, and the media, concerning financing assistance for individual motor dealers and, in particular, whether one representation made by an acquaintance of the then Prime Minister had received favourable treatment. This led to questions as to whether the then Prime Minister and/or Treasurer may have misled the Parliament. I was asked to conduct an urgent investigation into these allegations.

The audit found that favourable treatment had not been given to the Prime Minister's acquaintance. Rather, the audit highlighted failures in the Treasury's implementation of the assistance scheme, and raised serious questions about the conduct of the senior departmental official primarily responsible for the implementation of the policy response to motor dealer industry liquidity issues, including improper use being made of confidential information by that official.

In these sensitive audits, we have discussions with Ministers and the CEO of responsible agencies to make sure we have a clear understanding of the issues to inform our report. Evidence was taken on oath from the then Prime Minister, the Treasurer and other key identities involved. I felt it was important to use the full extent of the powers the Parliament had provided me to get to the bottom of the central issue on which the audit was focussed. In addition to gathering evidence in this way, the audit involved forensic analysis of email traffic between the various Ministerial officers, the Treasury and the Department of the Prime Minister and Cabinet. I should also add that this audit was completed in six weeks from declaration to tabling, which was a herculean task by the audit team<sup>33</sup> considering the work involved and the time allowed for respondents to provide comments on the draft report before tabling.

The largest performance audit the ANAO has ever prepared was the three volume 1200 page report *Performance Audit of the Regional Partnerships Programme*, which included 12 case studies. The audit highlighted a poor standard of administration of the Regional Partnerships grants program and some bias in the distribution of grants to recipients in seats held by the then government. Of particular note in these respects was the significantly higher tempo of funding applications, project approvals and announcements that occurred in the eight months leading up to the calling of the 2004 federal election, compared to the remainder of the three years examined by the ANAO. A surge in grant approvals and announcements occurred during this

period notwithstanding that many of the projects recommended and approved for funding were under-developed such that they did not demonstrably satisfy the Programme assessment criteria.

The report was also a little controversial in being tabled out of session just 10 days out from a federal election. The decision to table the report at this time was not a difficult decision for me to make because to table such a report after the election on a program for which the government was accountable would have made the office appear limp; particularly when the office has had a history of tabling reports out of session in the caretaker period and given the extensive consultation that had occurred with the administering department and responsible Ministers to ensure that they were provided with every opportunity to provide their perspective on the issues raised by the audit. While the timing of the report aroused some comment at the time, most appreciated there was really no choice here.<sup>34</sup>

The ANAO has followed this audit with a series of audits on grant administration showing how the approach to assessing grant applications and making recommendations to Ministers needed serious improvement. In 2009, the Government responded with a substantially upgraded framework for the administration of grants. Key requirements are that:

- guidelines be developed for new grant programs;
- unless specifically agreed otherwise by Ministers, competitive, merit-based selection processes should be used, based upon clearly defined selection criteria;
- Ministers not approve a grant without first receiving agency advice on the merits of the proposed grant; and
- the basis of any grant approval (in addition to the terms) be recorded.

Another audit causing my name to drop off a few Christmas card lists for a while was the performance audit of Parliamentary entitlements tabled in September 2009, which was the third time the ANAO has undertaken a comprehensive examination of entitlements provided to Parliamentarians. The audit report drew attention to an entitlements framework that is difficult to understand and manage for both Parliamentarians and the Department of Finance and Deregulation, a system that involved limited

accountability for entitlements use and a relatively gentle approach by the department to entitlements administration. A positive outcome of this audit was that the Government made some decisions concerning the reform of certain entitlements and agreed to a 'root and branch' review of the entitlements framework.

We have also undertaken some very important reviews of major Defence acquisition projects and government advertising to strengthen public administration in these areas which, historically, have had their issues. There are many other areas where our contribution has made lasting improvements to the way programs are delivered by agencies.

While the Defence Department has been on the receiving end of some of our more critical audit reports, I do want to recognise the efforts of the department in overcoming the most significant financial reporting issues any agency had in preparing their financial statements on an accruals basis. While the department went through a dark period in 2004 and 2005 when we issued a disclaimer of audit opinion on the department's financial statements due to the levels of uncertainty with respect to the information reported, the then Minister and department took up the challenge to remedy their accounts and many of the underlying systems issues to allow a clear audit opinion to be given. This wasn't just about overcoming the financial statements issues, but was seen as a matter that affected the department's credibility when it came to a much broader range of budgetary and financial matters. It was a credit to those involved including Ric Smith (Secretary), General Peter Cosgrove (CDF), and the staff in the Defence organisation. My staff also put in a very substantial effort to ensure Defence received timely feedback on their approach to remediation, and the audit results. It was a very good case study of how an agency, with effective leadership and working to a clear strategy, in consultation with the ANAO, can turn a challenging situation around.

Our work underlines the importance of public sector entities giving emphasis to the fundamentals of leadership, governance and management. It seems we all need to be reminded of this. In a different context, a recent study<sup>35</sup> of hundreds of financial crises in 66 countries over 800 years found oft-repeated patterns that the study indicates ought to alert economists when trouble is on the way. As Ross Gittens of the Sydney Morning Herald has said, one thing stops them waking up in time: their perpetual belief that 'this time is different'.<sup>36</sup>

While our audits only traverse 110 years, there are indications that when things go astray, common features include poor oversight, lack of adequate risk management, and inadequate score-keeping systems. And we keep seeing the same issues, while the responsible public sector managers may be believing ‘this time is different’.

Our audit reports tend to be understated for effect, and we have consciously reduced the number of recommendations we produce to focus only on significant matters. Some agencies have suggested, tongue in cheek, that it is their improved performance which has led to the reduction in recommendations. While there is no doubt some truth in this, it would be too early for most agencies to be walking to the winner’s circle just yet!

It is quite rare for agencies not to agree with our conclusions and recommendations – a reflection of the strength of our understanding of their programs and our willingness to engage with agencies on key issues – to listen to their perspective and weigh the key management, regulatory and financial considerations and reach a conclusion.

We work hard to improve the quality of our audits, year on year, by investing in professional development of our staff, providing solid technological support to our audit teams and access to key specialist resources under panel arrangements. I can say that the pursuit of cost-effective approaches to delivering better quality services is never far from my mind.

We are looking to not only produce quality reports but to maximise the leverage from each report. We endeavour to answer the ‘so what’ question: ‘So what do all these findings mean?’ This is to draw out, where significant, generic messages of importance for all agencies, even though our audit may be directed to a single program.

## **The next big shift proposed for the audit mandate – JCPAA Report 419**

A strong indication of the standing of the office and the value of the work it has undertaken over the years is the support shown by the JCPAA, particularly in its Report 419 tabled in December 2010, to recommend an extension of the Auditor-General’s mandate, particularly in relation to:



- providing explicit authority to conduct assurance engagements, such as the Major Projects Review, including providing the same information-gathering powers that exist for the conduct of performance audits;
- enabling the Auditor-General to review an agency's compliance with its performance indicators, specifically-

*'That the Act be amended as necessary to enable the Auditor-General to review an agency's compliance with its responsibilities for a sub-set of performance indicators. Proposed performance indicators to be audited should be identified annually by the Auditor-General and forwarded to the Parliament, via the JCPAA for comment, in a manner similar to the annual performance audit work program for the ANAO. The Auditor-General should be resourced appropriately to undertake this function.'*

- enabling the Auditor-General to audit any Commonwealth controlled entity, including Commonwealth controlled companies;
- including standard clauses in all funding agreements between the Commonwealth and other levels of Government to provide the Auditor-General access to all information and records, and the ability to inspect the work on all projects relating to the use of Commonwealth funds under those agreements;
- enabling the Auditor-General to conduct performance audits of state and territory entities that receive Commonwealth funding where there is a corresponding or reciprocal responsibility to deliver specified outcomes in accordance with agreed arrangements if a Minister or the JCPAA requests the audit (commonly called powers to 'follow the money'); and
- enabling the Auditor-General to conduct performance audits of contractors that are engaged to assist in the delivery of Commonwealth programs.

These recommendations recognise that the world has moved on since the 1997 legislation was enacted and in the way the Commonwealth and

states/territories interact, and are expected to interact in the future. Significantly, they also underline the Commonwealth Parliament needs to be appropriately informed about the delivery of services by other jurisdictions funded by the Commonwealth. There is a need for more visibility over how effectively Commonwealth resources are being deployed.

Government in Australia is powerful and has command of a very substantial level of resources relative to those of the Parliament or, as Andrew Murray said more directly in his recent Senate Occasional Lecture:

*‘Parliament has to do battle against the dark arts, against that which is wrongly hidden, that which is not what it seems, and performance that is not good enough.*

*History’s lessons require them to be wary of those who rule and the might of the state.’<sup>37</sup>*

Through measures such as those proposed by the JCPAA, the Parliament will be better informed of the performance of programs funded by appropriations the Parliament has authorised.

Mr Robert Oakeshott MP, the Member for Lyne and Chair of the JCPAA introduced a Private Member’s Bill, *The Auditor-General Act Amendment Bill 2011*, into Parliament on 28 February this year designed to give legislative effect to the Committee’s recommendations.

The legislation, as amended, has now been passed by the House of Representatives, and the proposed legislation is being debated by the Senate.

These amendments to the audit legislation are certainly the most significant since the office was given the performance audit mandate, and in some ways, more wide ranging as it is proposed that the Auditor-General be able to assess the performance of the recipients of Commonwealth Government funding and contractors engaged to assist with the delivery of government programs and activities. Such changes, if enacted, will bring with them the responsibility on the Auditor-General and the office to exercise the powers judiciously in those areas which are significant to the delivery of programs being administered by jurisdictions with funds provided by the Commonwealth and in relation to contractors where performance is central

to the delivery of programs and activities. The legislation anticipates that audits of state or territory recipients of Commonwealth funding will be undertaken only at the request of the JCPAA or a Minister. I may also request the JCPAA or a Minister to make such a request. The proposed legislation does not substantively change the position with respect to the audits of GBEs by the Auditor-General – it seems such an amendment to give the Auditor-General the authority to undertake a performance audit of a GBE, at his or her discretion, may have to await another day.

## **ANAO contribution internationally**

As a highly respected audit office amongst our peers, the ANAO also makes an important contribution to the improvement of public sector auditing internationally. My office is active in a range of international and regional groupings of supreme audit institutions which provide for ongoing interaction, the opportunity to build institutional linkages, and the chance to share our insights. The primary international body is the International Organisation of Supreme Audit Institutions (INTOSAI) and the ANAO is also an active member of both the Asian Organisation of Supreme Audit Institutions (ASOSAI) and the Pacific Association of Supreme Audit Institutions (PASAI). An important indicator of our standing internationally comes through our involvement in peer reviews of other Supreme Audit Institutions. In 2009-10, the ANAO led a peer review of the Office of the Auditor-General of Canada and this year we have been invited by the supreme audit institution of India to lead a peer review of its performance audit function.

Closer to home, and like a number of other Australian Government agencies, the ANAO is also currently engaged in capacity development programs with specific countries in our region, primarily Indonesia and Papua New Guinea funded through Australia's official aid program. Our relationship with the Indonesian Board of Audit (the Badan Pemeriksa Keuangan, or BPK) dates back to the Boxing Day Tsunami of 2004 when, as part of the Australian Government's response to assist Indonesia, support was also offered to strengthen public sector institutions. We have maintained an ongoing relationship since then and currently have an ANAO SES officer deployed into the BPK to assist with our program of technical and managerial exchanges.

The ANAO has had an even longer association with the Papua New Guinea Auditor-General's Office (PNG AGO), dating back to times when the Commonwealth Audit Office held responsibilities for auditing Australian territories. Since the late 1990s, both offices have maintained a twinning program funded by the Australian aid program. Known as the Papua New Guinea Australia Audit Office Twinning Scheme (PAAOTS), this program has provided the opportunity for regular exchange between the two offices and, as at 2011, approximately 20 percent of the current staff of the PNG AGO have been able to spend some time on exchange in Australia. Our presence in PNG is strengthened through the Strongim Gavman Program which is also funded through the Australian aid program. As part of this whole of government aid effort, the ANAO has deployed another SES officer into the PNG AGO to assist with a range of capacity building activities designed to strengthen the role of the AGO in improving public sector financial management in Papua New Guinea.

Through this range of activity, my office is able to maintain a valuable presence internationally which reflects well on Australia. It also offers excellent and varied opportunities for the ANAO to make international contributions.

## Concluding remarks

At the heart of the effectiveness of the role of the Auditor-General is the legislative mandate that provides for the charter and independence of the office, and the powers to be able to obtain access to government information and report independently to the Parliament. The independence is critical to success allowing the Auditor-General to report on government administration without fear or favour.

Such reports assist the Parliament to hold the executive government to account, and inform the wider Australian community of the state of public administration.

The charter of the office has expanded in the past 110 years to grow from a focus on financial matters to include performance auditing; with the prospect of the office being able to 'follow the money', if Parliament supports the legislation currently before the House.

Critically important to an effective audit office is an effective relationship with the JCPAA because the Committee informs the Auditor-General of the Parliament's audit priorities and has a role in recommending the resource levels for the ANAO in parallel with the government's own budgetary processes.

In discharging my responsibilities, I am very conscious that I do so with a clear view of not only the Parliament but also the citizens of Australia. We look to see that programs are appropriately implemented with wide considerations of public interest, and consistent with legislation and government policy.

I receive correspondence from members of the public and we always endeavour to respond in a manner that is helpful. I have a correspondent, Arthur from regional Victoria, who drops me a line each year to find out the Government's revenue and financial results – it's always very nice to hear from Arthur. Other correspondents suggest audit topics or bring their concerns about particular aspects of administration to my attention. While we are not always able to resolve all of the issues raised with us, the contact from members of the public is valued and underlines to my office the importance of our role to act in the public interest.

During my time as Auditor-General, we have managed to maintain effective working relationships with key stakeholder groups. We are fortunate to meet many members of Parliament as they become involved in parliamentary committee work early in their careers in Parliament. This assists greatly at a later time when they become Ministers and audit issues arise in their portfolios.

It is important that I should also indicate that no Government Minister or other Member of Parliament has ever sought to improperly influence my presentation of audit findings. As you would expect, from time to time there have been fairly robust discussions where Ministers and CEOs have strongly presented their perspective, but properly done, this generally adds to the understanding of the issues on both sides. Occasionally, it also adds a bit of colour, but most importantly it reflects well on our system of government here in Australia and the respect for our institutional arrangements.

In August this year, the Prime Minister sent the ANAO a message on the occasion of our 110<sup>th</sup> anniversary celebration where she reflected ‘with admiration and gratitude on the truly remarkable contribution to public administration made by the Australian National Audit Office over 110 years.’ The Prime Minister generously recognised the rigor and independence of our work, and the contributions we are making to support improved governance in our region, especially Indonesia and Papua New Guinea.

The ANAO has moved with the times. Today it has a broad mandate, is appropriately resourced to allow me to discharge my responsibilities as Auditor-General, and through its work, assisted the Parliament to hold the executive government to account, and brought about considerable changes in public administration for the better. This position is the result of strong support from the Parliament and citizens of Australia, respect from successive governments, and the dedication and commitment of staff of the office. With the challenges ahead of the public sector in better delivering public services and providing advice on policy solutions in an increasingly complex world, the role of the office will be even more important in the years ahead.

Thank you.

### Former Auditors-General and their Contributions

Each of my predecessors provided independent and impartial reporting on Commonwealth administration and gave independent assessments on the state of public accounts. The Parliament and the public has benefited from these contributions to improve public administration and provide assurance in relation to the use of taxpayers' funds.

The former Auditors-General and their major contributions to the Office can be summarised as follows:

**Pat Barrett AO**  
(1995-2005)

Mr Barrett made a significant contribution to public administration, auditing and to the related matters of governance and risk management. He worked to ensure that the ANAO was well respected by the Parliament, the Joint Committee of Public Accounts and Audit (JCPAA) and public sector entities. A significant achievement during his tenure was the introduction of the new *Auditor-General Act 1997*.

Mr Barrett placed his emphasis on making practical recommendations to improve public administration. He has written extensively on auditing, accounting and public administration and presented to many conferences and seminars – he saw this as an appropriate way of promoting the findings and recommendations of his audit reports.

**John Taylor AO**  
(1988-1995)

Mr Taylor initiated a strategic review of the ANAO's operations and he identified the key audit deliverables of the Office. He subsequently organised the ANAO into two business groups aligned to the two major audit deliverables produced for the Parliament (performance audits and financial statement audits).

Mr Taylor also adopted a more centralised operational approach, closing a number of the regional offices. Mr Taylor took pride in furthering the independence of the Office; strengthening the impact of performance audits; and developing the capabilities of the Office through the increased use of specialist staff and private sector accounting firms to assist with workload peaks.

Early in his tenure Mr Taylor changed the name of the Office to the Australian National Audit Office consistent with the recommendations of the JCPAA.

**John Monaghan AO**  
(1985-1987)

Mr Monaghan's instituted a revised reporting regime to better reflect his specific responsibilities on reporting the findings of audit examinations and inspections conducted under the Audit Act as well as providing an opinion on the government's financial statements. He also initiated an Annual Report of the Australian Audit Office to the Parliament.

During his tenure the Office acquired its first personal computers for the planning and conduct of audits as well as introducing 'computer assisted audit techniques' which were seen as essential in minimising the level of risk in providing audit opinions. Mr Monaghan was a strong advocate in seeking to secure an adequate resource base for the Office.

**Keith Brigden AO**  
(1981-1985)

Mr Brigden brought new perspectives to performance auditing. Responding to broader public sector concerns surrounding the performance audit function, he disbanded the efficiency audit division and integrated the function back into the other audit divisions. He also turned his attention to the audit methodology being employed and commenced documenting the audit procedures and developing a framework for conducting performance audits – a framework that has been generally retained and refined.

Mr Brigden changed the name of the Office from the Auditor-General's Office to the Australian Audit Office.

**Duncan Steele Craik**  
**OBE CB**  
(1973-1981)

Mr Craik brought significant and lasting change to the Australian Audit Office. He led the Audit Office through a cultural change from a compliance audit approach to one with an emphasis on efficiency and value for money considerations. His priorities were geared towards reviewing the efficiency of government programs and eliminating waste in government spending.

In addition to being instrumental in gaining a mandate from government for the Audit Office to conduct efficiency audits of government agencies and programs, he also initiated the development of the new General Audit Manual and the associated introduction of systems based auditing.

**Victor Skermer CBE**  
(1961-1973)

Mr Skermer's long tenure as Auditor-General saw the Office's responsibilities expanding and he referred to the increasing workload as 'voluminous' and 'unrelenting'. The challenges associated with the introduction of automatic data processing were a highlight of this period.

With the emergence of more effective internal audit functions, Mr Skermer considered that the main focus of the Office's work was 'post audits' – higher level test auditing conducted after the results of departmental internal audit were finalised. Mr Skermer actively engaged with the Joint Committee of Public Accounts to discuss his responsibilities as well as the issues he was confronting.



**Harold Newman**  
**CBE**  
(1955-1961)

Mr Newman's tenure as Auditor-General saw a focus on the approach taken in conducting audits with a change in emphasis given to the relationships with stakeholders and clients. His policy was that the audit of public finances, at its highest level, must be based on close cooperation by the Audit Office with the executive and the administration. He placed great emphasis on rectifying a matter of audit concern quietly rather than making the news headlines.

**James Brophy ISO**  
(1951-1955)

Mr Brophy's time as Auditor-General was marked by his insistence on the independence of the Audit Office and his refusal to certify the accounts of agencies which did not meet his exacting standards. He urged the government to expand and clarify his powers, and took pride in the early submission of his annual reports.

Mr Brophy was a keen advocate of increased parliamentary scrutiny of public accounts and supported the re-establishment of the Public Accounts Committee which disbanded as an economy measure in 1932.

**Albert Joyce CBE**  
(1946-1951)

Mr Joyce placed emphasis on improving the effectiveness of the Office and enhancing the audit skills of staff through regular job rotations and the consolidation of ad hoc audit instructions into the first, formal comprehensive audit manual (in 1951) titled: the *Manual of Audit Instructions*. This manual set out the general principles to be followed in carrying out audits.

Mr Joyce raised significant concerns about the poor state of ordnance stores accounting in the Department of Army and the denial of audit access to income tax files.

Mr Joyce proposed that the Audit Act be amended to clarify and empower the Auditor-General to be responsible for an 'effective audit of all Commonwealth revenue accounts'.

**Ralph Abercrombie**  
**OBE**  
(1938-1946)

Mr Abercrombie's tenure as Auditor-General spanned the Second World War. During this time Mr Abercrombie was credited with maintaining tough accounting and administrative standards in the face of daunting shortages of experienced staff. At the outbreak of the war Mr Abercrombie was concerned that he was not provided with the authority to inspect the records of private contractors, particularly in relation to 'cost-plus' contracts (an issue finally settled in the 1990s).

After auditing in these challenging times, Mr Abercrombie's views were instrumental in convincing the government to introduce major amendments to the Audit Act (passed in 1948). Mr Abercrombie introduced a new spirit of cooperation, preferring to work cooperatively with the government. His style was described as one of collaboration but not softness.

**Herbert Brown**  
(1935-1938)

Mr Brown reluctantly agreed to relocate the Audit Office from Melbourne to the West Block offices in Canberra. Moving to Canberra caused significant disruption to staff, with transferees spending periods of temporary accommodation in the Hotel Kurrajong and the Acton Guest House on their relocation.

In line with his predecessors' approach, Mr Brown was outspoken on issues such as government's policy towards pensions being too generous.

**Charles Cerutti**  
**CMG**  
(1926 – 1935)

From the outset, Mr Cerutti was a harsh critic of government waste. In charge of scrutinising the nation's finances during the worst years of the Depression, he recommended that public expenditure be reduced, as well as advocating cuts in private spending on non essentials. He also argued for a contributory system of old-age pensions to help workers provide for their retirement.

His reports regularly expressly complained that the Treasurer's annual statements of receipts and expenditure lacked sufficient clarity.

**John Israel ISO**  
(1901 – 1926)

On his appointment as the Commonwealth's first Auditor-General, Mr Israel began establishing the Federal Audit Office in Melbourne. His immediate tasks were to recruit sufficient qualified staff, establish branch offices in the States and develop the procedures necessary to ensure consistency across the breadth of Commonwealth activities.

At this time, the Audit Office undertook 100% verification procedures which created a large workload which was compounded by the steady growth in accounts and records, and the need to audit accounts produced in an accrual format following the creation of the Postmaster-General's Department (1902) and the Commonwealth Bank (1912).

Mr Israel was fiercely independent, and on occasions, had a testing relationship with executive governments.

## References:

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- 1 Wanna, John, Ryan Christine, Ng Chew, *From Accounting to Accountability: A Centenary History of the Australian National Audit Office*, Allen & Unwin, 2001, p.11
- 2 While the Auditor-General has the ability today to delegate reporting to Parliament to others in the office, I have chosen not to do so due to the special relationship between the Auditor-General and the Parliament
- 3 Op cit, Wanna, John, Ryan Christine, Ng Chew, p.19
- 4 Op cit, Wanna, John, Ryan Christine, Ng Chew, p.19
- 5 Barrett, Pat, 2002. *Auditing in a Changing Governance Environment*. Senate Occasional Lecture Series, Canberra. 21 June, p.3
- 6 Wanna, John, Ryan, Christine, *A Reactive Administrative Culture? The Legacy of Australia's first Auditor-General on the Australian Audit Office*, Australian Journal of Politics and History, 2003, pp 469-480
- 7 Auditor-General's Annual Report, 1902-03, p. 138 – cited in Wanna, John & Ryan, Christine, *A Reactive Administrative Culture? The Legacy of Australia's first Auditor-General on the Australian Audit Office*.
- 8 Op cit , Wanna, John, Ryan Christine, Ng Chew, *From Accounting to Accountability: A Centenary History of the Australian National Audit Office*, p. 26
- 9 Ibid, p. 30
- 10 Ibid, p. 31
- 11 Hansard, 7 May 1920, p. 1924
- 12 These are matters to which today's audits of financial statements still pay particular attention
- 13 Sharp, Colin, 2003, Development of program evaluation in Australia and the Australasian Evaluation Society – the early decades, *Evaluation Journal of Australasia*, vol 3 No 2, p. 7
- 14 Op cit , Wanna, John, Ryan Christine, Ng Chew, *From Accounting to Accountability: A Centenary History of the Australian National Audit Office*, p. 114
- 15 Ibid, p.114
- 16 *The Report of the Royal Commission on Australian Government Administration*, 1976, Australian Government Publishing Service, p.46
- 17 Ibid, p.46
- 18 Ibid, p.49
- 19 Ibid, p.49
- 20 Op cit, Wanna, John, Ryan Christine, Ng Chew, *From Accounting to Accountability: A Centenary History of the Australian National Audit Office*, p.115
- 21 Ibid, p.115
- 22 JCPA Report 296, March 1989, *The Auditor General: Ally of the People and Parliament*, p. 131, paragraph 11.7
- 23 The Government has agreed to a recommendation of the report of the Joint Select Committee on the Parliamentary Budget Office, *Inquiry into the proposed Parliamentary Budget Office*, that this arrangement also apply to the appointment of the proposed Parliamentary Budget Officer
- 24 Ibid, p.139, paras 11.33 and 11.34
- 25 *The Auditor-General Act 1997* provides that the Auditor-General may conduct a performance audit of a GBE if the responsible Minister, the Finance Minister or the JCPAA requests the audit. The Act also states that nothing prevents the Auditor-General from asking these parties to make a request to undertake an audit
- 26 See Government Response to JCPA Report 296 *Reform of the Australian Audit Office*. October 1989
- 27 Australian Government Solicitor, Australian Postal Corporation, Defence Housing Authority, NBN Co Limited, ASC Pty Ltd, Medibank Private Limited, and the Australian Rail Track Corporation Limited.
- 28 See Submission by the Australian Audit Office to the Joint Parliamentary Committee of Public Accounts and Audit *Inquiry into the Auditor-General Act 1997*, Canberra, April 2009, and JCPAA Report 419 which recommends that the Auditor-General is able to audit any Commonwealth-controlled entity including Commonwealth-controlled companies and their subsidiaries
- 29 McPhee, Ian 2006. *Financial Management in the Public Sector – How accrual accounting enhances governance and accountability*. Presentation to the CPA Australia Public Sector Finance and Management Conference, Canberra, 17 August. p.1

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30 Ibid., pp 2,3.  
31 ANAO 2010. *Corporate Plan 2010-2013*. Canberra. June  
32 In this context, I agree with Tony Harris, former Auditor-General of NSW, who said '*Auditors-General  
who avoid topics which fall within their mandate just because they are contentious fail the  
community*'.  
33 The Audit Team:  
Brian Boyd, Alicia Hall, Nicola Rowe, Heather Rae, Samuel Casey, and Brendan Mason  
34 The JCPAA, in Report 419, considered whether the Auditor-General should retain the discretion to  
table reports in a caretaker period. The Committee did not recommend any change to the existing  
arrangements  
35 See Gittins, Ross 2011. *Economic history ignored leads to the inevitable*. Article in the Sydney  
Morning Herald, Weekend Business, Opinion, September 3-4. p.10  
36 Ibid. p.10  
37 Murray, Andrew 2011. *Budgets and Finance: Sunlight and the Dark Arts*. Senate Occasional Lecture  
Series, Canberra, 10 June, p.4