

# IPAA (ACT) FORUM

Canberra

## **GOTCHA! or Improving Administration: The Impact of Oversight and Review Agencies**

Speaking Notes

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# GOTCHA! or Improving Administration: The Impact of Oversight and Review Agencies

## Introduction

- Thank you for the invitation to participate today.
- With such a contentious topic for this seminar, I figured it was best to start some years ago, and endeavour not to be too defensive about the ‘Gotcha’ part of the seminar title!
- Auditing goes back to at least Greek and Roman times.
- Whenever the advance of civilisation brought about the necessity of one person being entrusted with the property of another, the advisability of some kind of check upon the fidelity of the former would become apparent.
- In 13<sup>th</sup> Century in England and France, the accounts of landed estates were audited. A treatise on estate management recommended that the lord of the manor ought to command that the accounts be ‘heard’ every year at each manor. The auditors hearing the accounts were expected to be ‘faithful and prudent knowing their business’, and highlight any issues which appeared at odds with their experience.<sup>1</sup>
- Auditing became much more common with the birth of the limited liability company and the rise of stock markets in the early 17<sup>th</sup> Century, as arrangements then applying empowered stockbrokers to employ auditors to check the accounts.<sup>2</sup>
- The traditional audit role has survived for centuries, and is more important than ever given the complexities of business and government today.
- The key point to observe here is that generally in audit engagements in the private sector, there is an investor (broadly defined); an entity or some other responsible party acting with the authority of the investor, including with respect to the preparation of the financial statements of the entity; and the auditor.

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<sup>1</sup> Found at <http://www.accountantstown.com/site/history-of-auditing>

<sup>2</sup> McPhee, Ian 2009. *The Future of Audit*. Presentation to the Institute of Chartered Accountants in Australia Audit Conference 2009, Melbourne, 1 May.

- and the audit of the responsible party is designed to inform the investor whether the responsible party has acted reasonably within the authority given by the investor and in the preparation of financial reports.
- this aids investors holding the responsible party to account.
- Translating this broadly to a public sector environment, the Parliament provides the Executive with the authority to act and spend commensurate with legislation, and the sound use of taxpayers’ funds; and audit reports inform the Parliament about the extent to which the Executive has acted in accordance with the authority given. This contributes information to the Parliament to allow it to hold the Executive to account.
- I first learnt something about auditing as a student. One of my texts was a book by Mautz and Sharaf on the Philosophy of Auditing. One of my favourite quotes in this book is from a Committee of English Experts in 1942 who wrote:

*‘Attempts to persuade the accountancy profession to take a wider view of their public responsibilities have so far met with little success...there is little or no evidence during the last twenty or twenty-five years to show that the professional accountant, qua professional accountant, has produced a single idea of value to industry or the State. He has merely ticked and cast and trusted in God.’<sup>3</sup>*

- There is not even much sign of a ‘gotcha’ mentality in that assessment
  - more a comment on the risks faced by the auditor in performing his (or her) role; and
  - questions about the value added by auditors.
- Dealing with the risks faced by auditors first, it is the case that there are risks of misrepresentation of financial information and risks of poor administration, and auditors are expected to design their audit approach so there is only a low probability that they will get their opinion wrong.

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<sup>3</sup> “The Future of Auditing”, Anonymous, *The Accountant*, Volume 106, January 17, 1942, p.31 . Quoted in Mautz, R.K and Sharaf, Hussein A. *The Philosophy of Auditing* American Accounting Association, Illinois. p.2.

- you will understand we in the ANAO adopt a risk based approach when you consider our annual budget of \$78m against the combined revenues and expenses of the General Government Sector of some \$675 billion, or some .01% of the total, and even less than this for the Australian Government public sector as a whole.
- Auditors are also expected to apply ‘professional scepticism’ in discharging their responsibility; so we do look for evidence to support advice and information given to us.
- Auditors are also expected to highlight opportunities for performance improvement today.
  - obviously a positive improvement on behalf of the auditing profession since 1942!

### **Financial Statement Audits**

- Responsibility for preparing soundly based financial statements rests with agencies.
- Our financial statement work is important in providing assurance to stakeholders on the financial affairs of the Commonwealth.
  - the Parliament, the Government, and the community can take comfort that financial results being reported by the government as a whole and public sector agencies is subject to audit, and is materially correct
- Our financial statement work is also designed to ‘encourage’ agencies to improve their systems and processes, where necessary. Problems with financial reporting are less of an issue today than 6 - 7 years ago when we disclaimed the audit opinion on Defence’s accounts, and qualified the government’s own accounts (due to the accounting treatment for the GST).
  - largely a good news story today.

### **Performance Audits**

- Responsibility for administering programs effectively rests with agencies.
- Performance auditing was added to the ANAO’s auditing mandate in 1979 and today it has quite a high profile

- some of our performance audits highlight waste, questionable decision-making, poor management, and poor advice to government.
- they cover subject matters as diverse as grants administration, program implementation of various programs, major equipment acquisition, and government advertising.
- these examples may look like ‘gotchas’; but in reality they are contraventions of the authority given to the Executive/public sector entity to manage resources economically, consistent with the law and government policy.
- the good news is that as a result of our more critical reports we have seen government responses to tighten up arrangements, and in some cases provide agencies with clearer authority to deliver better outcomes.
- It is important to add here, also, that many other audits, which tend not to get media coverage, recognise that the way entities administer programs is done quite well.

### Messages for Agencies

- A few points for agencies to bear in mind arising from some of our more critical audit reports:
  - the importance of managers knowing their roles and responsibilities, particularly in this more joined-up world we work in today; and being ‘active’ in their management style
    - I am particularly looking at SES officers in this context
  - don’t overlook the management fundamentals on which good public administration is built (sound governance, risk management, and score keeping systems; keeping stakeholders informed; and acting on significant variations from expectations)
  - you can learn from others, including audit reports on other programs.

### ANAO’s General Approach

- In terms of the approach my office takes, we aim to:
  - be ‘worldly’ in terms of our understanding of programs and issues, and balanced in our reporting

- be open in terms of our assessments, providing agencies with the opportunity to engage with us on audit issues arising
- be quite firm (but understated) when aspects of administration are not up to standard
- make recommendations to improve the administration of the particular program we have audited
  - explaining the ‘so what’ do our audit findings mean
  - and drawing out messages for the APS as a whole; and
- I am always looking to leverage our work – to maximise our value added – for the greater good
  - our better practice guides are examples of this.
- Our audit reports over the years have also led to systemic changes for the better e.g. in terms of grants administration, administration of government advertising campaigns, and signs of some positive developments in Defence procurement.

### Concluding comments

- We all need to be reminded about sound better practices
  - and that is what reports of the Auditor-General and other review agencies do.
- My office has a statutory role to call the state of public administration objectively; but we also accept we must be constructive in recommending the way forward for agencies.
  - we are doing OK here; 95% of our recommendations are accepted by agencies
  - the weight of our work is very much focused on providing assurance and improving administration but, from time to time, the reporting of a poor case of public administration may be misinterpreted as a ‘gotcha!’

- Perhaps it is time to give more thought to the effect on citizens and other stakeholders before we worry unduly about public sector entities in these cases because the underlying issue generally is the failure of entities to perform within the bounds of the authority given by the Parliament and often the Government.
    - while such references may be termed ‘gotchas’, they generally result in entities, and sometimes Ministers, being called to account.
      - While audit reports can occasionally cause public sector entities some short term pain, it is important for entities to lie back and think about the longer term improvements in administration that will ensue!
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