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THEME 2: Increased complexity of accounting and auditing standards and the role of Auditors-General in standard setting for the public sector

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COUNTRY PAPER - AUSTRALIA

INTRODUCTION

Over the last decade, we have seen good progress in the development of stronger institutional arrangements for the making of standards for financial reporting and auditing, and in the quality of the standards themselves. This progress has been made against the background of the corporate collapses of the early 2000s and the global financial crisis, and a greater recognition of the economic benefits of a strong set of globally-accepted standards. In 2003, a report commissioned by the International Federation of Accountants (IFAC) made recommendations for restoring public confidence in financial reporting based on 3 assumptions, namely: a need to improve the financial reporting supply chain at all points, the importance of the integrity of individuals and institutions, and a need for international action to ensure that changes made at a national level produce both improved and more consistent practices.²

The move towards international standards has been particularly important in our highly interdependent world. The benefits of global standards in terms of the quality of the requirements, the commonality of language and comparability of reports together with the greater efficiency in the use of the resources devoted to setting standards cannot be denied. Indeed, for many countries, international standards may well provide an entry point where otherwise none might be available.

This progress is as evident in the public sector as in the private sector.

We have an expanding set of International Public Sector Accounting Standards (IPSAS) and, under development, a conceptual framework for public sector financial reporting. While the conceptual framework project has started with a 'greenfields' approach, much of the strength of the IPSAS comes from building on the international financial reporting standards (IFRS) of the International Accounting Standards Board (IASB). The Memorandum of Understanding agreed recently between the IPSAS Board (IPSASB) and the IASB on communication and cooperation between the two bodies attests to their common conviction that "the confidence of all users in the transparency and integrity of financial reporting is critically important to the effective functioning of capital markets and efficient capital allocation ... [and] contributes to promoting global financial stability and economic growth".³

There is also a solid base of auditing standards, particularly following the 'clarity' review of standards by the International Auditing and Assurance Standards Board (IAASB). We now have the inclusion of 'public sector considerations' in the guidance material to the enhanced International Standards on Auditing (ISAs) through the close involvement of INTOSAI. Most

¹I am currently the Deputy Chairman of the Australian Accounting Standards Board and that the views I express in this paper are my own and do not necessarily reflect those of the Board.

² Report of the Taskforce on *Rebuilding Public Confidence in Financial Reporting*, International Federation of Accountants, 2003.

³ <http://www.ifrs.org/Alerts/PressRelease/IASB+IFAC+MOU+Nov+2011.htm>

recently, in November 2010, we saw the endorsement at XX INCOSAI,⁴ of the complete framework of International Standards of Supreme Audit Institutions (ISSAIs)⁵ which include, as Financial Audit Guidelines, the ISAs enhanced by public sector Practice Notes.

In acknowledging these substantial developments, more remains to be done. There will be different views of the scope of general purpose financial reporting and auditing, and which standards should be a priority for the next few years. The on-going challenge for financial reporting standard-setters is to make standards that require information that is relevant to and faithfully represents the real world, and is understandable to users, with auditing standard setters needing to have regard to these developments. These are challenges that Supreme Audit Institutions can, and do, help address in a variety of ways by contributing to the setting of standards. SAIs are uniquely positioned in terms of their experience and knowledge of government and the wide range of government entities, and of developments in public administration.

Furthermore, as practitioners, it is important that SAIs are always well-prepared to understand and apply increasingly complex standards by devoting resources to the timely and continuing professional development of their staff.

MANDATE OF SAIs IN RELATION TO STANDARD-SETTING

Legislation requires the Australian Auditor-General to set auditing standards for the conduct of mandated audits. As a matter of policy, the standards made by the Australian Auditing and Assurance Standards Board (AUASB) are adopted.⁶

These AUASB standards follow very closely the standards made by the IAASB, including those for assurance engagements. As you are aware, ISAs and other IAASB standards are applicable to engagements in both private and public sectors. This sector-neutral approach is beneficial, particularly in relation to reporting the audits of the financial statements of Australian government entities. It means that the users of financial audit reports by the Australian Auditor-General can expect at least the same high standards from those audits that they associate with the auditor's reports of listed companies in Australia, and they read reports that are presented in similar ways.

Standards for performance auditing have been in existence in Australia since the mid 1990s,⁷ largely in recognition of legislated performance audit powers of Australian Auditors-General.⁸ Since June 2006, the Australian auditing standards have included an Australian standard equivalent to ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and, since 2008, standards ASAE 3100 *Compliance Engagements* and ASAE 3500 *Performance Engagements*, both also based on ISAE 3000.

⁴ Information on XX INCOSAI may be found at <http://www.incosai.co.za/en/>

⁵ <http://www.issai.org/composite-193.htm>

⁶ The AUASB was established by law in 2004 to make standards for both the audits of financial statements of companies and audits for other purposes.

⁷ Australian standards AUS 808 *Planning Performance Audits* (October 1995) and AUS 806 *Performance auditing* (July 2002) were released by the independent predecessor Board to the current AUASB.

⁸ The Australian Auditor-General has had "efficiency audit" powers since 1979 and (more comprehensive) performance audit powers since 1997.

The Australian Auditor-General's Auditing Standards are supported by a comprehensive policy framework which relates the requirements of the standards to the legislative mandate and sets policy positions in the context of the public sector.

With the release of the INTOSAI Financial Audit Guidelines, the Practice Notes are being reviewed by my Office for insights into best practice for the audit of public sector financial statements, to complement existing policies and practices.

Responsibility for setting financial reporting requirements for Australian Government entities (other than companies)⁹ rests with the Finance Minister. The Finance Minister's requirements mandate compliance with Australian Accounting Standards as a base, with additional requirements then added to meet the Parliament's and other users' perceived needs (e.g. reporting on the use of funds appropriated by the Parliament to each agency).

Although there is no formal role for the Auditor-General in this process, technical staff of the ANAO are consulted on proposed amendments, which helps identify internal inconsistencies and ensure that proposed new requirements in reporting are auditable.

These structures at the federal level in Australia mean that the Auditor-General and the Government respectively determine the standards for auditing and financial reporting in the Australian Government public sector. That said, the credibility of each set of these standards is enhanced by their adoption of the standards used generally throughout Australia.

Given this, a brief description of the standard-setting framework in Australia and the role that has been played by Auditors-General may be instructive.

STANDARD-SETTING IN AUSTRALIA

There are three bodies established by legislation which are involved in standard-setting for financial and related reporting in Australia. There is both the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AUASB). Oversight of these two Boards is provided under law by the Financial Reporting Council (FRC). As part of its functions, the FRC appoints Board members (other than the Chair, who is appointed by the Minister), may formally issue strategic directions to the Boards¹⁰ (stopping short of dictating what the standards should require), has broad oversight of the processes for setting standards and monitors the effectiveness of the consultative arrangements.¹¹

Appointments to the Boards are not made as 'representatives' of sectors or industries; rather the relevant criterion is "a willingness to accept that ... standard setting involves working for the overall public good, ahead of sectional or vested interests".¹² There has

⁹ Government companies are subject to the *Corporations Act 2001*, which applies to all companies (in both the private and public sectors) and which requires application of Australian Accounting Standards.

¹⁰ By way of example, the FRC in 2005 issued a strategic direction which requires the AUASB to develop Australian auditing standards that have a clear public interest focus and are of the highest quality and to use, as appropriate, International Standards on Auditing issued by the IAASB as a base from which to develop the Australian standards.

¹¹ It is worth noting in the context of this paper that the FRC Strategic Plan 2011-14 identifies among its key strategic issues (i) how to reduce complexity in financial reporting and (ii) how to best meet the needs of users of profit-oriented and not-for-profit entities (both private and public sector).

¹² The "Criteria For Appointment and Assessment of Performance" are published at <http://www.frc.gov.au/guidelines/>

regularly been at least one Australian Auditor-General appointed to each of the AASB and the AUASB, and the AASB commonly has others member from the public and not-for-profit sectors.

Each Board has a number of consultation processes, including a formal process for making each standard that ensures transparency. Exposure drafts for new or amended standards are released for public comment, comments received are published unless the submitter requests privacy, and Board papers and minutes are also public documents. Given the adoption of international standards by the Boards, the timing of requests for comment is designed to allow the Boards to consider the views of Australian constituents before making their own submissions on exposure drafts to the international bodies.¹³

I consider it important for my Office to take an active involvement in the standard-setting process. My Office therefore responds to consultation papers and exposure drafts for new accounting and auditing standards. It does so in collaboration with other (State) Australian Audit Offices, to facilitate a common view on the merits of each proposal. A common view from Audit Offices (even if on particular issues there may be some differences in perspective) is likely to carry more weight with the Boards in their deliberations.

ACCOUNTING STANDARDS IN THE PUBLIC SECTOR

Internationally, the most striking thing about accounting standards for the public sector is the wide diversity of standards used. Not only are there different standards, but also differences in the overall approach, with some countries using cash-based standards, others modified cash and others full accrual.¹⁴

There is a trend, however, towards the use, in some form, of the accrual-based standards issued by the IASB or IPSASB. Nevertheless, this trend is a measured one. This is despite financial stability issues in some countries and bodies such as IFAC pointing out the poor state of public sector financial reporting globally.¹⁵

Given the increasing harmonisation of private sector reporting standards, the question arises: why is the public sector not harmonising at the same rate?

One possible reason is that governments may not see a need for accrual reporting and that, in their particular circumstances, cash-based reporting is sufficient. It may also be that cash reporting is seen as the only achievable way of reporting, given a country's circumstances. Reporting on an accruals basis is more complex and the transition may appear daunting. Governments may also be hesitant to give outside bodies greater influence over their financial reports. However, force of circumstance and the examples of others can be powerful drivers for change.

¹³ As readers will know, the IAASB has a similar process, reinforced by a clearance on the making of each standard by the Public Interest Oversight Board as to whether proposed final changes to a draft standard need to be re-exposed. The Public Interest Oversight Board (PIOB) is a body independent of IFAC which oversees the work of the IAASB and its Consultative Advisory Group to ensure that the activities of the IAASB follow due process and are responsive to the public interest. The PIOB is accountable to The Monitoring Group of regulators and the Financial Stability Board.
<http://www.ipiob.org/about/how-piob-operates>

¹⁴ Many governments also issue financial reports based on the IMF's Government Finance Statistics Manual.

¹⁵ IFAC, Nov 2011, Press Release, <http://www.ifac.org/news-events/2011-11/sovereign-debt-crisis-demands-financial-management-reform-governments>

The Australian experience illustrates some of these issues.

In the early 1990s, Australian government departments reported on a modified cash basis. The implementation of the Government's decision to move to accrual reporting was phased in over a 3-year period, to allow departments to generate the required new information to an auditable standard. In the same period, the first Whole of Government financial statements were produced by the Government on a trial basis and audited by the then Auditor-General. The benefits of accrual accounting were reinforced through the introduction of accrual budgeting in 1999-2000. This occurred following a recommendation of a National Commission of Audit in the early days after a change of government in 1996.¹⁶

The 1990s was also a period where Australia had separate public sector and private sector accounting standards boards which worked with the accounting profession in Australia to produce Statements of Accounting Concepts and Standards. The Public Sector Board also issued government-specific reporting standards based on these Concepts statements. In the main, Australian federal and state governments accepted these standards as the basis for public sector financial reporting, but added their own particular requirements.

The practice in Australia of seeking to have transactions and events common to all sectors accounted for in the same way by all entities continues today (even though the separate public sector board ceased to exist some time ago). This is sometimes called 'transaction neutrality' or 'sector neutrality'.

From about 2005, Australian accounting standards adopted IFRS, with small number of modifications for the public sector.

The transition to IFRS in 2005 generally went well. Implementation was aided by a number of factors. A significant effort was made to promote the change and assist first-time adopters. Also, the national standard setter had worked over the years to align its standards with IFRS. Hence, there were already many similarities between Australian standards and IFRS. The public sector was also able to employ the knowledge and expertise of the Australian arms of international private sector accounting firms with experience in IFRS to assist with the training of accounting staff as well as professional advice.¹⁷

Overall, the transaction/sector neutral arrangements have allowed Australian public sector reporting to benefit from the work of the IASB, while taking into account local needs and other reporting frameworks. This has the significant benefit of avoiding the cost of developing a separate set of Australian public sector accounting standards.

Future Challenges

There continue to be important developments in public sector reporting which will create their own challenges for governments and SAIs.

¹⁶ A fuller account of the adoption of accrual reporting in the Australian Government may be found in my address to a CPA Australia Public Sector Conference in 2006 at http://www.anao.gov.au/~media/Uploads/Documents/financial_management_in_the_public_sector2.pdf

¹⁷ The ANAO also engaged a firm to help it update its audit programs to deal with the IFRS changes.

1. Specific public sector accounting transactions and events

As in the private sector, the public sector faces accounting issues that are conceptually difficult and open to different views. In Australia, these discussions tend to focus on issues not experienced, or not commonly experienced, in the private sector.¹⁸ The areas where issues typically arise include grants, social policy obligations, intangibles created by fiat (e.g. issuing permits for emitting greenhouse gases), non-commercial investments, and heritage and cultural assets.

Although some of these issues are yet to be fully settled, it is important to note that they do not compromise meaningful financial statements being prepared and audited in the public sector. For this reason, moves towards greater use of IFRS or IPSAS should not be deferred until all these issues have been resolved.

2. Long-term fiscal sustainability

In the longer term, while some of the outstanding issues may be resolved by producing individual standards, others may require taking a step back to ask some fundamental questions. Governments are in business for the long term, with a focus on delivering services. There is a need to consider long-term fiscal sustainability reporting and whether current financial statements should be supplemented in some way with reports addressing this subject. The IPSASB's current project in this area, currently finding expression as Exposure Draft 46 *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*, is therefore a significant development.¹⁹

3. Whole-of-government versus individual agency reporting

Another challenge for public sector financial reporting is to differentiate between the desirable level of detail for whole-of-government reporting, where fiscal sustainability is a key issue and a level of complexity in reporting is probably inevitable, and standards for individual government agencies, where less complex reports may be more appropriate. A related issue is whether separate accounting standards are needed for large, as opposed to smaller, government agencies. There are some moves, internationally and in Australia, in this direction but it is probably too early to say if these developments appropriately address the issue.²⁰

4. Reporting non-financial performance

The reporting of meaningful performance indicators for governments and their agencies is an area that deserves further attention while recognising that it involves significant complexity and some divergence between jurisdictions.

¹⁸The accounting treatment of many public sector transactions is not controversial in Australia. The use of IFRS-based standards means that difficulties rarely arise from issues such as employee expenses, suppliers, fixed assets, leases and financial instruments.

¹⁹ Released in October 2011 with a comment due date of 29 February 2012.

²⁰ Internationally, the IASB has released IFRS for Small and Medium Enterprises. In Australia, government agencies have access to a Reduced Disclosure Regime – which maintains recognition and measurement rules but allows some disclosures to be omitted. To date, the latter has not been significantly utilised by the Australian public sector.

A recent IPSASB Consultation Paper *Reporting Service Performance Information*²¹ proposes a framework for reporting non-financial performance information. The proposals include that a public sector general purpose financial report should disclose service performance information based on a standard terminology which defines inputs, outputs and outcomes, as well as efficiency and effectiveness indicators.

The paper also raises a number of questions on which the IPSASB has not yet reached a preliminary view. These include the authority the framework should carry (e.g. should it be mandatory or non-authoritative guidance, etc) and where and how the information should be reported (with the financial statements or not).

The IPSASB is doing important and valuable work here. It recognises that there are cost, timeliness, display and understandability aspects to the proposal that need to be resolved.

Further, from a jurisdiction's perspective, the widespread acceptance of the framework will in part depend on how well it caters for the breadth of performance reporting across jurisdictions. In some jurisdictions, performance reporting is long-standing with refinement over time in response to the information needs of parliaments. In other jurisdictions, such reporting will be in its infancy.

This area is one of considerable interest to my Office as changes to legislation have recently been made which provide the Australian Auditor-General with the explicit authority to report on performance indicators. I elaborate on this point below.

5. IPSASB Conceptual framework

With the above matters in mind, it is encouraging that the IPSASB is developing a conceptual framework for public sector reporting which it expects will enunciate underlying principles for reporting by governments and their agencies and will serve as a guide to the development of public sector reporting standards. Even for those countries which have not adopted IPSAS, a robust conceptual framework will be a valuable reference point for accountants and auditors, and assist national standard-setters.

One of the preliminary decisions made by the IPSASB is in relation to the scope of general purpose financial reports (GPFs) of public sector entities. The IPSASB view is that the GPFs of public sector entities should be comprehensive and include not only the traditional financial statements and related notes covered by the IPSAS, but other information that may be non-financial, prospective financial, or compliance-related. This other information encompasses long-term fiscal sustainability and service performance information mentioned above. (It does not however, encompass finance statistical reporting, which is seen as specific purpose information).²²

²¹ Released in October 2011 with a comment due date of 15 April 2012.

²² The one other major change to public sector standards in Australia since 2005 involves Government Finance Statistics. Because of the profile of the IMF statistical framework amongst Australian federal and State Departments of Treasury and Finance, the national standard setter requires national and state governments to include information based on that framework in whole-of-government financial reports. Australia's experience suggests that there are many similarities between the IMF framework and reporting under IFRS, provided that the latter are modified to take into account the more significant not-for-profit transactions and events. However, complete convergence of the two frameworks has proved elusive. Furthermore, an ongoing effort is required to identify differences between the frameworks, as each changes over time.

Of course, there are challenges in seeking to develop underlying principles for public sector accounting.

An overly complex model may deter many jurisdictions from adoption, due to resource implications. In addition, a new model should be able to be tailored to meet the differing environments in differing countries. To this end, it may be necessary to distinguish general principles from detailed requirements, for example by issuing guidance as well as, or instead of, mandatory standards.

This development highlights the importance of standard-setters at all levels being mindful of the potential downstream costs of implementing new frameworks and standards. The efficiencies that come from using the detailed work of the IASB in developing standards for a wide range of transactions should not be lightly discarded for a radically different public sector accounting model. Hopefully, this will be a result of the strengthening relationship between the IASB and IFAC (mentioned in the introduction to this paper), as indicated by IFAC CEO Ian Ball, who noted that their agreement “accelerates the existing cooperation between the two boards and enhances the IPSASB’s ability to continue to develop high-quality standards.”²³

This development also suggests a prudent use of limited resources. IPSASB already draws on national standard setters to help advance its many projects. SAIs can play their part, as appropriate, by encouraging governments and others to contribute to the work of the IPSASB, by responding constructively to consultation papers and exposure drafts, and by participating directly as members of national and international standard-setting boards.

6. Integrated reporting

Finally, in respect of financial reporting, it is worth mentioning the discussion paper on integrated reporting, released by the International Integrated Reporting Council (IIRC).²⁴ Integrated reporting aims to “bring together material information about an organisation’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates.” The IIRC’s initial objective is to develop a framework for this reporting which will serve organisational reporting for the 21st century.

AUDITING STANDARDS IN THE PUBLIC SECTOR

In terms of a framework for providing audit and assurance services, SAIs are well positioned as a result of the completion of the ISSAIs which were presented and endorsed at the INTOSAI Congress in South Africa in 2010.²⁵

²³ <http://www.ifrs.org/Alerts/PressRelease/IASB+IFAC+MOU+Nov+2011.htm>. The MoU also provides that the two bodies “agree to discuss the future institutional and governance arrangements for standard-setting for the public sector. There are a number of potential options for enhancing the public interest, including the IASB and the IPSASB operating under a single governing body, or a single standard setter setting requirements for both the public and private sectors. It is important to identify which option best serves the public interest”.

²⁴ The IIRC is an international cross-section of leaders from the corporate, investment, accounting, securities regulatory, academic civil society and standard-setting sectors. More information is available at www.theiirc.org

²⁵ Source: <http://www.issai.org/composite-405.htm>

The foresight of the Professional Standards Committee of International Organization of Supreme Audit Institutions (INTOSAI) to enter into a Memorandum of Understanding with the IAASB in May 2006 to assist the development of the Financial Audit Guidelines, now forming part of the INTOSAI suite of standards, is to be commended.

I know from my own experience, as a member of the International Auditing and Assurance Standards Board (IAASB) for 6 years through the period of the development of the clarity International Standards on Auditing (ISAs), the valuable contribution made to the process by the INTOSAI representatives on the various IAASB task forces. The inclusion of 'public sector considerations' in the explanatory material in each ISA, and the creation of the Financial Audit Guidelines by prefacing Practice Notes to the ISAs, emphasise the common ground between financial statements auditing in the private and public sectors.

The Financial Audit Guidelines are, of course, only the latest addition to the INTOSAI suite of standards, the ISSAIs. There are also standards on compliance and performance auditing, with specialised guidance on areas of critical public interest, such as public debt.

In the context of setting auditing standards in Australia, there have been two major and complementary events in recent years. In 2004, in the wake of a number of high profile corporate collapses, legislation was passed setting up the AUASB as a body independent of the accounting profession. At the same time, the Government decided that Australian Auditing Standards made for the purposes of the Corporations Act should be legally enforceable. By 2006, Australian standards had been re-written with this in mind, including the use of the word "shall" rather than "should" in mandatory requirements.

More recently, as mentioned earlier, the Australian standards embraced the ISAs. The AUASB and the accounting profession devoted significant efforts to making auditors aware of the changed requirements. As with the move to IFRS, public sector auditors were also able to leverage training developed by the private firms for their own purposes.

Challenges

One area of particular interest globally for auditing is that of auditor reporting. There are initiatives at the IAASB, within the European Commission, at the US Public Company Accounting and Oversight Board and with the UK Financial Reporting Council all directed at improving the value of auditor reporting on and in relation to financial reports. The IAASB has flagged June 2013 for a comprehensive exposure draft, while noting the desirability of earlier release.

Turning to more immediate challenges, as mentioned earlier, the ANAO has been reviewing the Practice Notes within the Financial Audit Guidelines for insights into best practice for the audit of public sector financial statements to complement existing policies and practices. The Guidelines are informing the ANAO's approach by confirming existing policies and procedures and suggesting additional considerations which may be relevant to the ANAO conducting its financial statement audits.

This exercise has confirmed a number of approaches we already take. For example:

- meeting a general expectation to report any non-compliance in spending, even though there is no express provision in legislation for me to do so;²⁶
- in assessing risks of misreporting, giving consideration to the pressures faced by government to achieve a particular budget outcome and the flow-on effect of this on reporting by individual agencies;²⁷
- setting levels (“clearly trivial” levels) above which we report errors to agencies at amounts which are considerably below those that we understand our private sector colleagues might apply; and
- consulting with and, where appropriate, relying upon performance audit activity in the audit of an agency’s financial statements.²⁸

We are also considering aspects of the guidance contained in the Practice Notes which we might usefully add to the guidance in our standard electronic files and templates. One such example is the list of additional fraud risk factors for public sector entities in ISSAI 1240.

In addition, the proposals of the IPSASB referred to earlier will carry their own consequences for auditors. The Consultation Paper on *Reporting Service Performance Information* is particularly relevant to the ANAO at this time.

As Australian Auditor-General, I have a number of new responsibilities as a result of recent enhancements to mandate. In December 2011, the Federal Parliament passed significant amendments to the *Auditor-General Act 1997*. One of the main changes provides specific authority for the Auditor-General to undertake audits of performance indicators, in terms of their appropriateness and entities reporting against them. Subject to budgetary considerations and complementary enhancements to the reporting framework, it is my intention to conduct such audits in conjunction with financial statement audits. The immediate challenge will be to develop and disseminate a methodology and, in this, access to the knowledge and experience of others will be invaluable.

A project team has been established that will be responsible for the development and trial of an ANAO audit methodology. This team is working closely with the Department of Finance and Deregulation to ensure that the audit processes align with developments in the Government’s performance reporting framework. These developments are aimed at providing agencies with enhanced guidance on the development and reporting of appropriate indicators. It is envisaged that this relationship will provide additional synergies to improve the performance information provided to the Parliament and the public.

The project team, in its first year, plans to work in a consultative manner with agencies providing a mixture of social policy, service delivery and regulatory roles, to develop and trial audit processes, assist agencies better prepare for these types of audits, and

²⁶ ISSAI 1250 *Consideration of Laws and Regulations in an Audit of Financial Statements*, at paragraph P4 states ... “However, even where there are no such additional objectives, there may be general public expectations in regard to public sector auditors’ reporting of non-compliance with authorities. Therefore, public sector auditors keep such expectations in mind, and are alert to instances of non-compliance.”

²⁷ In ISSAI 1240 *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph P5 notes a fraud risk in “... tough economic conditions where there is pressure to maintain user charges and tax rates, [which may result] in incentives to overstate revenues and understate expenditures”.

²⁸ ISSAI 1250 paragraph P9

understand the likely resource cost of undertaking audits of performance indicators on a broader scale. Reporting on these outcomes is expected to be done generically, at least in the first year, with an aim of issuing formal audit opinions once agency and audit processes have sufficiently matured. Subject to appropriate resourcing, it is envisaged that the trial will be broadened in 2012-13 to include a greater number of agencies, with the aim of fully integrating the auditing of performance indicators with the financial statement audit process across government agencies in the future.

RESPONDING WITHIN AN SAI TO THE CHALLENGES OF COMPLEXITY IN STANDARDS

We now have in place a standards framework that is fairly complex. This requires both systems and people to respond appropriately.

The ANAO has for many years invested heavily in financial audit software which has embedded within it the ANAO's audit methodology. In recent years, the ANAO's methodology has been developed in conjunction with one of the larger accounting firms. In this way, the ANAO obtains the benefits of the firms international audit expertise; in using a standard software product, it avoids the costs and risks of developing and maintaining its own product.

In preparing for the introduction of the AUASB standards based on the IAASB clarity auditing standards from 2010-11, the methodology was updated to meet the revised standards. As part of that process, each requirement in the auditing standards was "mapped" to the relevant procedure on the standard electronic audit file. This facilitates the auditor's compliance with the requirements of the standards.

Performance auditors are assisted in documenting their audits by the acquisition of an Electronic Data Management System tailored to their needs. The ANAO has also purchased interrogative and data mining software to assist both performance and financial audits.

The ANAO also invests heavily in its people. This involves a recognition that the public sector environment, professional standards and systems are complex and are constantly changing. On average, ANAO audit staff undertake in excess of 40 hours of professional development activity each year on subjects ranging from technical matters through to management and personal development activities.

With respect to the changed auditing standards, for example, some six months before the commencement date, all ANAO financial auditors were required to attend half-day introductory information sessions conducted by the staff of the AUASB under arrangements with the professional accounting bodies. That was followed up at the commencement of the audit cycle with detailed training to all staff to bring together the changes in methodology and the changes in the standards.

We also recognised the need for staff to remain up to date with the requirements of the auditing standards and support this through regular courses on both performance and financial auditing. In the case of financial audit staff, there are regular 'technical update' sessions by the ANAO's technical support area to keep audit staff up to date on developments in financial reporting and auditing standards and their application.

There is also a need for both performance and financial audit staff to be aware of issues that impact public administration generally. I consider it very important for all my staff to have a 'worldly' understanding of the environment they audit in, complemented by sound technical skills in public sector management, accounting and auditing so that they can provide balanced reports with real insights into the issues affecting public sector administration or the fair presentation of financial reports.

Engagement with the accounting and auditing profession, as well as key public sector groups remains important so that the ANAO is conversant with, and is able to contribute to, the contemporary issues that impact public administration.

Conclusion

There will be challenges for all parties in the financial reporting "supply chain" from the scope of financial reporting by governments and their agencies expanding up to and beyond accrual financial statements into performance indicators and compliance, and possibly integrated reporting.

In these developments, it is important that standard setters ensure that the information they require is information that is relevant, provides a faithful representation of the real world and is understandable to users. They also need to weigh up the costs of reporting across entities of different types and sizes.

There are benefits in having a transaction-neutral approach between the private and public sectors, where appropriate, and in having developments in auditing standards that complement developments in financial reporting. As global resources, these standards help drive better quality financial reporting.

Quality financial reporting by governments and their agencies is important to good government. SAIs are well placed to contribute to the development of standards that foster quality in reporting and auditing. It is a role that SAIs should embrace.