The Challenge Facing Auditors in the Changing Public Sector Environment

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Introduction
As the title of the address suggests, my focus today is about the various challenges that face public sector auditors through the remainder of the 1990s in an environment of continuing change. In Australia and elsewhere, the past decade has been a period of quite significant change in public administration. Some are suggesting that this is simply the forerunner to even greater change - only time will tell of course. An imperative for all of us is to engender the culture, the professionalism and the flexibility in our organisations to be able to adjust quickly and credibly to such change. Nowhere is this more evident than in the area of public sector audit, both internal and external.

In Australia, meeting the auditing challenges into the next millennium should be considered in the context of the various reforms in public sector administration which are creating the need for change in the work culture of the public service and impacting markedly on the structure and work of the ANAO and, no doubt, of public sector internal auditors.

I will address the changing environment and the challenges and opportunities it presents under the following headings:

- A New Legislative Framework;
- ANAO’s Audit Directions;
- Operating in a More Competitive Environment;
- Corporate Governance;
- The Impact of Technology; and
- Maintaining our Professional Credibility

I will finish with some brief concluding remarks.

1. A New Legislative Framework

Auditing in a Changing Public Sector Environment

It goes without saying that we need to thoroughly understand the environment in which we work. The temptation for auditors and evaluators is to regard themselves as somehow standing outside that environment, unaffected by it, instead of being an integral part of it. It probably reflects more the notion of detachment than voyeurism. The challenge is to contribute proactively rather than just reactively.
The ANAO recognises that the reforms to date apply just as much to it as they do to any other government organisation. We appreciate that, in setting our priorities, we have to take into account the directions set by the Management Advisory Board (MAB) and its Management Improvement Advisory Committee (MIAC) in the various publications such as *Building a Better Public Service*\(^1\) and *Ongoing Reform in the Australian Public Service*\(^2\). To date, the broad directions include:

- a focus on outcomes;
- matching of authority with responsibility through a process of devolution;
- risk management, including the use of accountability as a management focus;
- alterations to the framework for financial resource management and reporting; and
- alterations to the framework for human resource management, including greater staff management flexibility, equal employment opportunity and other human resource management initiatives as well as performance appraisal.

The ANAO must, and be seen to, ‘own’ these elements of the strategic base for the ongoing reform program, as well as reflecting these themes in the audits that it undertakes. By so doing, I am very confident that the Office can be an important catalyst in the ongoing public sector reform agenda. We will be seeking to have such an involvement, particularly with those bodies that are setting strategic directions, such as MAB/MIAC. As well, we need to work closely with agencies on developments such as ‘One Stop Shops’, for example AusIndustry\(^3\) and the planned Service Delivery Agency and Employment Placement Enterprises which involve the private sector in delivering Government services, such as case management for the unemployed. There are also changing arrangements for Commonwealth/State relations in regard to program responsibilities under the auspices of the Council of Australian Governments (COAG).\(^4\) These developments are likely to have important ramifications for the way public services are provided and accounted for in the future.

One of the most significant emerging challenges to the public sector and, indeed, to the private sector, is to determine meaningful and transparent contract conditions and an effective means for managing, for example purchaser/provider or other outsourcing arrangements. However, at the very least there has to be clear definitions of the boundaries of a contract to minimise disputes as to what is, or is not, covered including basic deliverables such as service levels and response times. Accountability as well as performance requirements should also be spelt out as clearly as possible. Performance penalties could lead to ‘finger pointing’ and
recrimination on both sides and are therefore likely to be counter productive. Undue complexity of the latter is likely to be a recipe for failure. As indicated in a recent article:

‘with all of today’s ‘partnership’ contact, some customers are uneasy about putting strict performance penalties in contracts’.5

However there is sufficient evidence that performance clauses in contracts can work efficiently. Importantly there has to be assurance that the legal basis of any contract is sound and adequately protects the interests of all parties. Nevertheless a test of the contract’s robustness and the confidence of the signatories in their relationship is the extent to which it can be left in the bottom drawer, that is, virtually as reference documentation rather than a stalking horse for either party.

From a public sector point of view there needs to be a better understanding of the commercial nature of contracts and, in particular, the ways in which they can be managed successfully. This applies as much to the determination and use of auditable performance information as it does to the day-to-day personal interface with, and oversight of, program operations. An issue does arise as to audit access to private sector information to provide sufficient assurance as to the basis of such information, particularly in circumstances of limited competition. At the very least it will require re-examination of our audit approaches.

The ANAO is committing more of its resources to identify areas of better practice as well as identifying those areas where improvements in administration systems and control are required. In my view, it is by focussing our attention more on these issues, rather than simply highlighting areas of deficiency, that the ANAO can be of greater value to agency management, the Executive and the Parliament. I will expand on this approach later in talking about our experiences in balancing the competing focuses of our work and on the new audit products we are currently developing.

The Legislative Environment

The evolving reform environment in Australia over the last twelve years or so is now being reflected in four bills that the Federal Government has proposed or intends to propose to our Parliament that will refocus public sector administration at the national level.
The Audit Act 1901 will be replaced by three pieces\(^6\) of legislation which will provide a renewed framework for the assurance of public sector accountability. These bills, when enacted, will jointly provide the financial accountability mechanisms necessary to carry a modern State into the next millennium and reaffirm and strengthen the Auditor-General’s mandate in a more flexible and adaptive environment with considerable devolution of authority and greater commercialisation of entity activities, including service delivery. As well, we expect to see a new Public Service Act which, in the words of the Minister for Industrial Relations and Minister Assisting the Prime Minister for the Public Service, will ‘remove its regulatory prescription’ and be ‘much simplified and streamlined’. There has been general agreement about a more ‘principles-based’ Act that supports a more flexible working environment.

**Update on the Audit Act Replacement**

Central to the proposed Auditor-General Bill is a clear specification of the role of the Auditor-General and the important impact of the perceptions and reality of independence in performing that role. The complementary issue, in my view, is the nature and level of accountability that goes with such independence\(^7\). Pragmatically it would be difficult to argue that there should not be a direct one to one relationship even if the ‘natural’ disposition were to be absolutely scrupulous in one’s obligations to be, and to be seen to be, independent. Mere mortals might be inclined to allow for mitigating circumstances, particularly if they were outside one’s control. This does not mean settling for a degree of independence that simply gives comfort to those involved at any particular point in time. That is why I have particularly welcomed the debate that has been occurring in many jurisdictions over recent years and not least in the Commonwealth arena as we have inched towards a replacement for the *Audit Act 1901*.

Any discussion about the role of auditors-general essentially boils down to two themes — independence and accountability. The following comments by the now Commonwealth Attorney-General are apposite:

> ‘Under the Westminster system of government, the Auditor-General’s position is considered the *crucial* [my emphasis] link in the process of accountability to the taxpayer on the utilisation of funding, and ... it is vital that Auditors-General not only be independent but also that they be seen to be independent.’\(^8\)

To a considerable extent these sentiments are backed up by legislation in many countries around the world. Under the Westminster system the predominant emphasis is on the auditor-general’s relationship to parliament. That has been described as follows:
‘The Auditor-General is an officer whose purpose is to provide credible assurance to Parliament on governmental performance. Credible assurance can only be provided by ensuring the Audit Office is independent and competent.’

The latter part of that quote emphasises what should be the obvious interdependence of the auditor-general and the audit office. Acceptance of such a relationship has important implications for the future conduct of the role of Auditor-General. I will therefore refer to them interchangeably unless making a specific reference to one of them.

The Joint Committee of Public Accounts (JCPA), in its recent Report 346: *Guarding the Independence of the Auditor-General*, makes recommendations for inclusions in the new Act that protect the functional independence of the Office of Auditor-General. The JCPA has recommended the Auditor-General be designated an ‘Independent Officer of the Parliament’ and the legal consequences be expressly provided for in the Act and no other. Other recommendations which reinforce this functional independence include the Auditor-General having complete discretion in the discharge of the audit function and the staff of the ANAO being directed only by the Auditor-General in the performance of audit duties.

The proposed package of legislation will make explicit provisions for accountability of Agency Heads. The Financial Management and Accountability (FMA) Bill requires Chief Executive Officers to promote efficient, effective and ethical use of Commonwealth resources. The Commonwealth Authorities and Corporations (CAC) Bill specifies standards including acting honestly, exercising a degree of care and diligence, disclosing pecuniary interests, the use of insider information and other relevant matters. Both Bills place an onus on individuals to promote ethical behaviour. In the case of the FMA Bill, the individual is the Chief Executive. For incorporated bodies, there is a requirement for each Board member to operate within specified ethical standards. In the reform process, the emphasis is on the promotion of ethical behaviour and the key to ethical behaviour is ensuring that all decisions reflect public service values and are transparent to the extent that proper confidentiality/privacy concerns are met.

The proposed legislation will serve and reinforce the fundamental values espoused by the APS - integrity, honesty and impartiality. A culture of ethical behaviour is particularly important in the APS because of the discretion inevitably involved in the development and implementation of public policy. In recognition of this fact, the Prime Minister, the Right Hon. John Howard MP, on 9 May 1996, launched the publication *Ethical Standards and Values in the Australian Public Service*. In his address, he made the following observation:
‘... the Australian public is very fortunate that over the years, it had a federal public service that has been distinguished by two characteristics. The first of those characteristics is an extremely high degree of integrity and honesty. The other characteristic of course, is a very high degree of professionalism, and a willingness over the years - irrespective of the political complexion of Government - to give comprehensive and, on most occasions, pretty zealous technical advice.’

There are two other matters within this framework which I particularly want to mention. The first is that the FMA Bill and the CAC Bill broadly reflect a basic distinction between core agencies of Government and non-core bodies controlled by Government. The split reflects, inter alia, a general acceptance that some activities should only be performed under the close and direct control of the Executive, whereas others by their very nature require a degree of independence from the Executive. CAC bodies have a corporate (legal) identity separate from that of the Commonwealth and hold money and other assets on their own account, while FMA bodies are ‘agents’ of the Commonwealth in that they do not own money or assets separately from the Commonwealth. These Bills will form the basic financial legislative framework within which the ANAO will conduct its audits. However, the Corporations and Taxation laws have become increasingly relevant to a number of CAC organisations with the attendant demands they place on all concerned.

The proposed framework will enable the federal public sector to further address the fundamental issue of what is core and non-core business and the apparently different requirements for dealing with such a dichotomy. This is an issue which, in the future, if not already, has the potential to result in further challenges for the ANAO, for the Australian public sector generally and indeed for the Parliament and others interested in public administration. At the very least we must recognise and understand the different performance and accountability imperatives facing managers and contribute to the best means of responding to them, as I noted earlier.

Again, the challenge to the auditor is to contribute to that guidance as well as to promote it. In this respect I am in complete agreement with the Auditor-General of Canada who said:

‘I propose as a starting point the principle that ‘public service is a public trust’. I believe this principle is central to any discussion of ethics in government.’

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The ANAO looks forward to the passage of the legislation hopefully in the new year. Parliamentary endorsement of the financial management approach will be a major milestone in the overall public sector reform agenda taking us into the next millennium. There seems to be strong support for the legislation to commence on 1 July 1997.

The ANAO will have an important influence on, and will contribute to, the efficient and effective implementation of the Acts finally passed. Our emphasis will be on facilitation as well as on compliance in a more accountable environment. Audit staff must fully comprehend the intent and contribution of the Acts to the overall public management and policy environment if we are to add real value to their implementation.

The ANAO will be focussing its attention in the coming months on how it can best contribute to this change process, having established its strategic directions on the basis of clearly identifying our own core and non-core business, as well as having, for many years, undertaken audits against differing regulatory environments and the corporate knowledge that goes with it.

2. ANAO’s Audit Directions

One Office - an Integrated Strategy

The ANAO delivers its audit products through two business units - one for financial audit and the other for performance audit. For strategic purposes, we view both types of audit from the perspective of the overall framework of accountability for performance. The products of both types of audit will become increasingly interrelated and be the basis for providing a comprehensive database which will service all audit products. Staff will be able to ensure the interrelationship of audit activity within and across business units from shared databases and from regular presentations on financial and performance audit concepts, issues and activities. The strategy is to provide convenient forums and mechanisms for mutual exchange to improve both the corporate knowledge and our audit products. This ‘One Office’ strategy is aimed at achieving an integrated corporate planning and operational framework for greater effectiveness.

Meeting the Audit Expectation Gap

The nature and boundaries of the major audit products - financial statement audits and performance audits - have evolved over time to a point where I consider there are emerging gaps in the audit outcomes that need to be filled. Discussions with Parliamentarians revealed an expectation of the
financial audits that could not be met by the financial statement audits alone.

Suite of products

We have come to the view that the ANAO must supply a broad range of audit and audit-related products to be considered really useful to the various entities and other stakeholders it is involved with. The current products I am talking about are basically:

- financial statement audits;
- performance audits;
- financial control and administration audits;
- assurance and control assessment audits;
- direct assistance to the Parliament and its Committees;
- seminars on topics relevant to public sector entities; and
- better practice guides and other guidance material on various topics, such as:
  - model financial statements (AMODEL Accounts) for different types of entities;
  - financial statement preparation;
  - the control environment, particularly as it impacts on financial reporting;
  - financial management; and
  - managing APS staff reductions.

I thought it might be useful to illustrate our approach by discussing two of the newer products mentioned above. In late 1995, the ANAO implemented a program of audits known as financial control and administration audits or, more simply FCA audits, which have attracted considerable interest. We are currently developing a related program of audits which we describe as assurance and control assessment audits or ACA audits.

Audits of Financial Control and Administration
FCA audits are concerned with improving the quality of the public sector administration by assisting and encouraging agencies to achieve better practices, in areas such as asset management, accounts processing, audit committees, the use of accrual information and debt management.

These audits are intended to assist public sector managers in meeting their responsibilities and to inform the Parliament about aspects of public administration which are not likely to be covered by the financial statement and performance audit products basically because they are not likely to be significant or 'material', or have too narrow a focus, in a single entity context. On the other hand, they can have service-wide ramifications which are of considerable interest.

FCA audits are consistent with the ANAO's Vision to be valued by the Parliament, the Community and Commonwealth entities as a major contributor to achieving excellence in public sector administration and accountability. The evidence to date suggests they will also greatly assist in achieving that vision.

In this context, I wrote to heads of departments and agencies advising them of my intention to conduct these audits and received positive support for the initiative. I am pleased to say that subsequently, in a follow-up survey, the feedback was most encouraging. I have also had discussions with members of the Joint Committee of Public Accounts and the House of Representatives Committee on Financial Institutions and Public Administration where I have had a similar response.

FCA audits were introduced as a result of a review by the ANAO of the scope and targeting of its audit activities. This review was done in the context of the changing public sector environment, particularly with the increasing devolution of authority, adoption of strategies for the management of risk, changes in financial reporting and enhanced accountability.

However, the decision to undertake these audits was also based on an apparent Parliamentary perception that devolution of management authority under the Public Sector Reforms had not been matched by commensurate evidence of accountability by public service managers. The FCA audit was designed to go some way in filling this ‘expectation gap’.

**Assurance and Control Assessment Audits**
I have also come to the view that we also need to provide the Parliament and entities with a level of assurance about the operation of entities’ basic administrative controls and compliance with the financial framework that are not routinely covered in the financial statement audit. I hasten to add this is no threat to internal audit; to the contrary, as I will point out shortly. As noted earlier, we are now developing a related program of audits described as assurance and control assessment audits or, simply, ACA audits. They are aimed at providing to the Parliament, and to the entities involved, an assessment of the level of control applied to a range of very basic activities in public sector entities, such as travel and accommodation. Parliamentarians have regularly expressed concern on such “housekeeping” matters as noted in relation to FCA audits. But, in most instances, reporting on them does not sit well with reporting on the overall financial report of an entity, nor would most of the activities have a material effect (as conceived of by accountants and auditors generally) on the financial report.

The ACA audits are a direct reaction to the above concerns, since work of this type has increasingly been excluded from the scope of our basic financial statement audit. They are basically about providing assurance of key controls in individual entities rather than about identifying better practice across entities as do the FCA audits. I have advised the Joint Committee of Parliamentary Accounts (JCPA) about these audits not only because of their interest in the ‘expectation gap’ but also because I am treating the Committee as our Audit Committee pending the passage of the proposed Auditor-General Act.

The ACA audits will examine basic administrative processes to provide a positive assurance that agencies are meeting their obligations under the legislative framework. They will be concerned only with the financial framework established to support and assist in the delivery of the products and services provided by the public sector. These audits will not assess compliance with legislative provisions governing specific programs. However they will be focussed on the common or core activities of a corporate nature, for example personnel practices, travel and accommodation, minor expenditure, procurement and use of official vehicles. These audits are aimed at ensuring that key controls are being effectively applied rather than an extensive assessment of the extent to which all controls are being applied. From time to time the coverage of FCA audits is likely to be highly complementary to ACA audits.

In undertaking these audits there is full recognition of the imperative for agencies to focus more on outcomes and achieve a reduction in processes that do not add value or facilitate the agency’s objectives. By undertaking audit work that looks at key controls within the financial management framework, managers can obtain assurance that a strong control environment is in place and working, and not putting required outcomes at risk. This approach should also assist agencies in the development of an
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effective corporate governance framework that can demonstrate accountability for cost effective outcomes.

In conducting these audits the major focus will be the provision of a positive assurance. I appreciate that many of these areas which these audits will cover are frequently subject to ongoing review by internal audit, particularly in the large agencies. However, I can assure you that the ANAO has no intention of duplicating this work and will, where appropriate, give any such coverage due recognition and prominence in the planning process. As well, I would expect we will be reinforcing any contribution internal audit is already making. On the other hand, we have observed that these areas are often receiving less attention under resources pressures and particularly where internal audit is outsourced and focusing more on the preparation of financial reports, as I will discuss later under ‘outsourcing’.

Reporting on these audits will be in association with my annual report to the Parliament on financial audits. The reporting style will be similar to that of FCA reports in that it will be at a generic level to provide a service-wide perspective. However, our management letters will advise entities of any specific matters which may need to be addressed. The concerns are most likely to be about whether the control environment is effective or not, rather than about any relative position against other entities, as is more likely to be the case with FCA audits.

Audit Related Products

The really interesting point about the development of such a wide range of audit products is that it largely results from us making maximum use of the experience and information gained from our financial statement and performance audits. I regard this as an obligation as well as an opportunity. Put simply, the additional resource commitment can be quite marginal for a quite significant outcome. As well, I pay tribute to our Continuous Improvement groups for the role they have played in this respect.

A client service mentality also sees the ANAO being more directly involved in audit related developments in entities and in the public sector generally. For example, we are working closely with both the Department of Social Security and the Department of Employment, Education, Training and Youth Affairs in the establishment of the proposed new entity to undertake the processing and service delivery tasks of those two departments. We were also closely involved in the development of the recently released Risk Management Guidelines prepared under the auspices of the Commonwealth’s Management Advisory Board in association with its Management Improvement Advisory Committee (MAB/MIAC).
The logic of such involvement is compelling. It is akin to prevention rather than cure. Our role is primarily advisory and given we need to be careful to preserve our independence we stress and ensure we are not a party to any decisions. While this smacks of ‘all care and no responsibility’, there is general agreement that there are likely to be real benefits for all involved not only because there is a better basis for any decisions but also because there is a better understanding of the various issues, concerns and pressures which are likely to impact on those decisions now and in the future.

**Focus on Better Practice**

One audit related product where additional effort has produced widespread benefit is the series of Better Practice Guides. Performance audit reports have previously included better practice guides where lessons learned from an audit of a particular entity have relevance to the wider public sector. Now guides separate to the reports are produced arising from both financial and performance audits. An integral product of the Financial Control and Administration audit of Asset Management was the distribution of a better practice guide and accompanying ‘practical’ handbook to all entities. Other financial guides released were Financial Statement Preparation and Illustrative Financial Statements.

A comprehensive guide to entities on managing worker’s compensation cases is being developed from a performance audit on that topic. Similarly, better practice guides for Performance Information, Management of Corporate Sponsorship, Outsourcing and for Commonwealth Guarantees, Indemnities and Letters of Comfort are well under way. A better practice guide on Managing APS Staff Reductions was produced in advance of a performance audit as it was considered to be of more timely assistance in the current context.

**Emphasis on our own Performance**

Another key strategy is to encourage our people to ‘own’ the ANAO and all its products. Our focus will be on improving service delivery as an integral part of the contribution to our final audit products. This is all part of being ‘One Office’.

From a performance viewpoint, a key strategy is to benchmark our activities and undertake independent, including peer, reviews of our work on a regular basis. This requires not only a clear identification and evaluation of our business processes but also the ability to cost our work in
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an efficient and effective manner. The emphasis is on establishing a credible management environment which encourages, recognises and rewards better performance. In this way we are more accountable to Parliament and our other stakeholders for our performance.

Our professional credibility is tested not only through the capability of our resources to deliver high quality audit products but also to manage those resources in an efficient and effective manner. Various public service reforms have focussed our attention on the full cost of delivering our services. The ANAO’s charging regime, even where no charges are actually made, reflects that approach. We have had numerous discussions with accounting firms on appropriate charging mechanisms and systems. While recognising those firms’ concentration on price to get the business, their subsequent profit also depends importantly on their costs. The latter is an area where we can usefully benchmark in order to identify those processes where our costs are significantly different and require us to provide justification or alternative ways of lowering such costs. This focus on processes is likely to provide us with more useful management information than simple overall costs of audits which can be markedly different not only across entities but also between the public and private sectors.

Transparency in our operations is facilitated through a number of particular initiatives designed to measure the contribution of the ANAO. These include:

- survey of Parliamentarians - to ensure we have realistic goals the ANAO assesses the requirements of its ‘clients’;
- requesting heads of agencies to identify any areas in which the ANAO may be able to provide ‘extended’ services as part of their audit activity;
- new ANAO Auditing Standards - these were Gazetted toward the end of the year and aligned the required standards of quality of the ANAO’s work to the standards jointly issued by the private sector;
- Peer Reviews with State Office Counterparts - to provide participating audit offices with assurance the audits reviewed were carried out to the high professional standards set out in the auditing standards. Peer reviews will also reinforce these standards and encourage improvements in methodology; and
- Quality assurance measures - internally our audit products are subject to review to ensure they comply with the ANAO Auditing Standards and internal policy.
During 1994-95, the Financial Audit Business Unit seconded a partner from one of the big six accounting firms (Coopers & Lybrand) to review the approach to the financial statement audits of government departments. The purpose of the secondment was to ensure that audit procedures represented best practice. To further ensure the Business Unit maintained industry best practice in the conduct of its audits, another of the big six accounting firms (KPMG) was contracted to conduct a benchmarking/QA exercise on a number of financial statement audits for the 1995-96 audit cycle.

3. Operating in a More Competitive Environment

Creating A More Competitive and Professional Approach

Greater involvement of the private sector in public sector activities, including service delivery, even in some areas traditionally regarded as public service, has meant that all public sector managers have had to at least think about possible implications, both direct and indirect, to their own operations. In some cases it might involve direct competition or even replacement through, for example, privatisation or complementary/supplementary private sector activity. The first two approaches generally require government decision; the latter may result from such decisions but are usually made by the managers concerned.

Some such decisions may be just ‘testing the water’; others may be part of transitional policies. But many could simply reflect the outcome of a review or evaluation of cost effectiveness of the service delivery processes. Not surprisingly, therefore, this part of the session is largely concerned with competition, contracting and computing which are often mentioned as part of ‘reinventing government’ or the ‘New Public Management’, as some academics describe the range of public service reforms that have been implemented over recent years in many Western democracies.

Private Sector Involvement in Public Sector Audits

The ANAO has been confronting directly the issue of private sector involvement in public audits in recent years. Just under 30 per cent of our running costs are now applied to payments to contractors (largely explaining our staff decline since 1992). Much of this relates to our using private sector firms, in the main the so-called ‘Big 6’ accounting firms, as our agents in conducting financial audits. This does not abrogate our responsibility for the opinion given on those financial statements nor from our responsibility to be satisfied that the work of our agents is not just
“adequate” but is based on demonstrated good professional practice. Therefore we retain strong project management and oversight of such audits both for our assurance and understanding of the issues, including the personal development of our staff.

The ANAO faces difficult decisions about how to cover particular audit clients. From a cost perspective, it would often be very expensive to maintain in-house the expertise needed to audit such entities, particularly where there is a strong identification and/or relationship with the private sector. That is, where the entities are not part of the recognised core of public sector activity. Perhaps more importantly, from an audit effectiveness viewpoint, it would be very difficult to obtain and maintain the necessary experience to conduct such audits well, with a full knowledge and understanding of the industry in which they operate. Private sector firms with the appropriate connections are often able to call on the necessary expertise and background knowledge nationally and internationally as well as being able to maintain that expertise because of their broader client base in particular areas.

Using the private sector in this way does, moreover, provide us with the opportunity to concentrate our own resources on what we see as our core business. Broadly, this is all entities wholly or mainly budget funded. Here we have our own specialist skills, knowledge, understanding and experience of public sector functions and activities. At the same time, we are providing a better service with private sector firms to the more specialised entities, often with limited or no additional budget funding, than we could using solely our own resources. Such a strategic approach ensures that we are not only able to provide the Federal Parliament with the required assurance about overall public service accountability but we also have the necessary degree of involvement to do so credibly. The issue is basically about achieving the right balance of such involvement to be effective.

Apart from our major financial audit contracts, we routinely employ private sector firms and individuals from a range of professions (including tertiary institutions) to assist in the conduct of financial and performance audits in specialist areas, or in meeting peak workloads, where particular skills might be needed because of the nature of issues and/or activities being covered. The notion is to achieve the best skill mix we can to achieve a cost effective audit outcome. In this sense it is a complementary rather than a competitive relationship between the two sectors.
In a number of areas, including financial auditing and some of the related activities, we have undertaken studies to assess our own approaches against best practice in the private sector. We have also undertaken what might be called “reality testing” of some of our products to ensure, for example, that our recommendations have the support of specialists in relevant areas of the private or public sectors.

It is in these ways we demonstrate our commitment to learn from the collective experience of our peers, particularly in the accounting and auditing profession, and to give other public sector entities that opportunity as well. We are also aware that, in some circumstances at least, these arrangements provide opportunities for firms and individuals to gain a better insight into the operations of the public sector. The result is intended to be a better performing public service. The primary emphasis is on complementary effort for greater effectiveness, basically using the economist’s notion of comparative advantage. It will be interesting in this connection to read the report of the recently announced Review of the Audit Act 1994 in Victoria due on 25 March 199715. Two of the key review issues are whether some or all financial and performance audits should be conducted by private auditing firms or, alternatively, whether authorities may select their own auditor with the ability to choose between the Auditor-General or the private auditors.

**Outsourcing Internal Audit Services**

From an external audit point of view, outsourcing of internal audit is viewed as another means of service delivery. In short, the ANAO neither supports nor opposes outsourcing of the function per se. In essence, the decision depends very much on just what kind of internal audit services management requires. I am particularly sympathetic to the situation confronting management in determining viable arrangements in small agencies. However, any decision by management on outsourcing should be made on a realistic assessment of value for money given the risks and responsibilities involved. This will vary with the circumstances of each agency and the trade-offs individual managements are prepared to consider, particularly in their control environments and broader accountability requirements to the Parliament.

There are potential advantages and pitfalls in any outsourcing arrangement. The only observation I would make is that the key to any outsourcing arrangement is the need to retain the capacity to manage effectively the service provider. It should not just be assumed the service will be provided as agreed; there needs to be a suitable level of monitoring and review to ensure this is in fact the case. ANAO auditors have noted a tendency to outsource only the internal audit activities
associated with financial reporting. This may be extended to audit of
internal systems in some cases. The remainder, however, does not
default to the external auditor, although this potential gap is exercising our
minds, as I have earlier explained. In many instances the internal audit
issues that should be of concern to managers are not ‘material’ to our
financial statement audits of individual entities. Unthinking dependence on
external audit does not seem to be very good risk management in such
circumstances.

Developing a More Client Service Orientation

One area in which we can learn from the private sector is in being aware of
the prime necessity of providing a quality service to clients (or our various
stakeholders). This focus is a practical necessity in the private sector.
Previously, it has not necessarily been recognised as being quite so
important in the public sector. There are no doubt still many areas in the
public sector where such a notion is considered inappropriate and may
indeed be. Some argue that is because the service recipients do not really
have the same types of choice. However, listening to and focussing on the
needs of those recipients involve similar disciplines and approaches as if
they were private sector clients. It is more an attitude of mind than simply a
vehicle for marketing products.

It must be agreed, however, that for many public sector entities a culture of
client service has not yet been nurtured. This culture is something that we
in the ANAO are working on steadily. (This does not mean providing
automatically unqualified audit reports on financial statements, or uncritical
congratulatory performance audit reports.) There is no doubt that the
Office has been trying hard to work more closely and supportively with
entity staff and managers for some time. Many internal audit units have
been doing likewise. While few of us really like criticism, there is general
acceptance that constructively critical reports can help us do our job better
and that recognition of good performance can both reinforce and lift the
confidence and morale of those involved. As part of this more client
focussed approach, we have introduced the range of different “products” I
mentioned earlier which we consider will be of service to entities and to the
Parliament, so that they will eventually be requested by those bodies as a
matter of course.

In my view better service potential is now being experienced in the follow-
up of ANAO audit recommendations. The Joint Committee of Public
Accounts has recently implemented a change in its practice of reviewing
ANAO audit reports. It now conducts follow-up hearings soon after reports
are tabled. This reflects the importance they place on ensuring that
agencies focus on action to implement our recommendations as well as
resolving any differences of view. The Department of Finance has also modified its review of follow-up reporting on audit reports, now requiring alternate six-monthly returns from two categories of entities. Again the focus is on the need for timely, corrective action to be carried out.

Internal Audit has a role to play in ensuring that management retains its focus on timely actions to take remedial action or improve those areas identified by audit reports. It now has the added authority of the profiles being taken by both the JCPA and the Department of Finance. The ANAO would also expect Internal Audit to take an interest in any corrective action.

4. Corporate Governance

Background

The private sector identified fraudulent and defective reporting as masking the true state of companies in the years before financial collapse and transactions which were subsequently proven to be illegal or corrupt. They then focused on how to ensure that the interests and expectations of owners and other stakeholders of corporate bodies are adequately addressed by the governing body and executive management. The public sector is not immune to the risk of these financial and non-financial exposures. The apparent failures in public sector agencies such as the Civil Aviation Authority, New South Wales Police, and the State Banks of Victoria and South Australia to meet the non-financial expectations of both regulators and stakeholders can be characterised as inadequate in corporate governance processes.

Simply put, corporate governance is about how an organisation is managed, its corporate and other structures, its culture, its policies and the ways in which it deals with its various stakeholders. Corporate governance has been an issue in the private sector since the advent of joint stock companies in the United Kingdom (UK) in the eighteenth century. The core of the issue is, and has long been, how to ensure that the interests and expectations of owners and other stakeholders of corporate bodies are adequately addressed by the governing body and the executive management of corporate bodies.

Corporate governance (as an all embracing framework) has become a major issue in the last decade. The “excesses of the 1980s” resulted in a series of financial disasters leading to questions, amongst other things,
about management and director responsibilities including, importantly, to shareholders.

In 1985, the American Institute of Certified Public Accountants (AICPA) and other professional bodies co-sponsored the creation of the Treadway Commission (The National Commission on Fraudulent Financial Reporting) to identify the causes of fraudulent financial reporting. The Commission reported in 1987. One of the consequences of this report was the establishment of the COSO (Committee of Sponsoring Organisations of the Treadway Commission) task force to integrate internal control concepts and definitions. The COSO Report “Internal Control - Integrated Framework” was published in 1992. In the same year, the well known Cadbury Committee Report (The Committee on the Financial Aspects of Corporate Governance chaired by Sir Adrian Cadbury) was published in the United Kingdom.

The Australian Institute of Company Directors and other professional bodies have been mirroring these developments and setting them into the Australian context. The most recent development was the introduction of the corporate governance listing rule (4.10.3) by the Australian Stock Exchange (ASX) which requires listed companies to make statements on corporate governance issues in their annual report on or after 30 June 1996 (see Appendix 4A of the ASX Listing Rules).

There have also been a number of spectacular financial collapses in various public sectors in Australia. In addition, there have been several instances of public sector agencies failing to meet the non-financial expectations of both regulators and stakeholders on a fairly extensive scale.

**Defining Corporate Governance**

There are many statements that attempt to define corporate governance. The following two quotations encapsulate the main principles which are consistent with my earlier simple explanation.

In his decision of *AWA v Daniels*, Rogers C.J. outlined the functions of the board being to:
_ set the goals for the corporation;
_ appoint the corporation’s chief executive;
_ oversee the plans of managers for the acquisition and organisation of financial and human resources to attainment of the corporation’s goals; and
_ review at reasonable intervals the corporation’s progress towards attaining its goals.

The International Task Force on Corporate Governance of the International Markets Group last year commented as follows:

‘Corporate governance focuses on the processes used to direct and manage the business and affairs of the company with the objective of balancing:

_ the attainment of corporate objectives;
_ the alignment of corporate behaviour with the expectations of society; and
_ the accountability to recognised stakeholders.’22

As can be seen from these different sources, the theme is reasonably constant. Corporate governance is predominantly about the control and monitoring mechanisms that are put in place by organisations with the object of enhancing stakeholders’ value and confidence in the performance and integrity of the organisation. These sentiments have also been strongly supported by the two major accounting bodies.23

**Some Basic Principles of Corporate Governance**

Corporate governance is not only about managing for results but also demonstrating to the stakeholders its benefits through an increase in the value of the organisation and enhanced confidence by the stakeholders in the organisation’s credibility, viability and future prospects. The parallels between the public and private sector in these respects are readily apparent.

Corporate governance involves an integrated system of controls, financial and otherwise, established in order to provide reasonable assurance of:
In discussing effective and efficient operations, management disciplines including risk management have to be addressed. Risk management requires the identification of all risks, determining their priorities and an evaluation of such risks for their potential impacts on the entity. On the basis of this evaluation, decisions are taken to apply the entities’ limited resources in accordance with the judgements made. Further evaluation and reporting of results follows at a later date to ensure that appropriate decisions were made and, where applicable, revised decisions are made and timely action taken, including effective ‘damage control’. Management disciplines involve having the appropriate:

- organisation culture;
- organisation structure;
- planning framework;
- management information systems; and
- human resource management and planning (HRM) systems.

Internal financial controls provide reasonable assurance that the assets are safeguarded against unauthorised use or disposal with the maintenance of reliable accounting records. Such controls should also ensure that financial information used within the agency provides a credible base for external publication.

**Corporate Governance in the Public Sector**

I have indicated how corporate governance has become a well documented and prominent topic in the private sector. The issue for us is what is its possible application in the public sector. The concerns are broadly the same. That is most apparent in relation to the government business enterprises (GBEs). But why should we stop there? While the accountability requirements in the general public sector can be quite complex, the principles are similar. As well, those accountability requirements are changing with a more commercially (or even private sector) oriented public service.
Corporate governance is only one aspect of the continuum of legal and ethical accountability which can be illustrated for the public sector as follows:

Public Governance
(policy setting)
Public Sector Governance
(public service standards, obligations and values)
Organisational Governance
(organisational ethos, values, standards and expectations)
Business Unit Performance
(adherence to corporate values, mission and goals)
Individual Conduct
(behaviour and attitudes consistent with corporate values, mission and goals)

A fundamental difference between corporate governance of companies and governance of an entity is that the Chief Executive Officer (CEO) of a public sector entity is directly responsible for its performance. There will be a clear legal liability in the proposed new Commonwealth financial management legislation which is expected to be in place by 1 July 1997. CEOs are responsible to their Minister for advice they provide and, as the leaders of their entities, assume full responsibility for the work of their subordinates. In a number of areas the responsibility is legally directed. Of course there are legal requirements on private sector Directors and CEOs but not to the same direct extent.

Fundamental changes have been and are still being enacted to change and reform the Australian Public Service (APS). As a result the APS will be focussed more on customer service and will operate in a field of new demarcations between purchasers and providers of services and between policy and program delivery. The Ombudsman has referred to a ‘no-man’s land’ of accountability and unpublicised transfer of risks. The integrated elements of a corporate governance framework should alleviate such concerns.

While it may not have been referred to as corporate governance, the governance principles in the public sector have been evolving over recent years. However, with the exception of the proposed financial management legislation, the following APS governance elements do not have the
legislative backing that applies to private sector governance principles under the Corporations law and ASX listing rules:

- Financial Management Improvement Program (FMIP);
- MAB/MIAC accountability guidelines;
- APS Values and Ethics;
- MAB/MIAC Risk Management Guidelines; and

Under these reforms management will have greater flexibility, a less hierarchical structure and greater devolution of authority. The APS will be subject to increased levels of scrutiny of its performance and effectiveness. At every level, entities will need to establish a culture of ongoing evaluation and assessment against models of best or better practice.

**The Nature and Possible Relationships of Corporate Governance to the Public Sector**

Corporate governance is fundamentally about how we manage ourselves. It is about providing assurances to stakeholders that we are keeping faith with the vision, role and values set out in the organisation’s Corporate Plan, as well as in any Code of Conduct.

Corporate governance is about ensuring that the organisation and its people exhibit high standards of official conduct and professional practice in accordance with recognised professional and APS standards and ethics.25

The values, standards and practices which underpin corporate governance in public sector agencies flow from peak APS values, obligations and standards, which in turn are derived from legislation, policy and accepted conventions.

Elements of good corporate governance will:

- demonstrate that managerial disciplines are in place;
- assist with planning and decision making for management;
- complement any review and evaluation of program management;
identify better public sector practices;

establish credibility with external parties; and

provide a defence against internal/external criticism.

**Key Considerations in Applying Corporate Governance to the Public Sector**

In the private sector there is a clearly defined relationship structure between the main parties. The generic private sector governing structure consists of a board of directors including the chairperson of the board and a Chief Executive Officer (CEO) responsible for the ongoing management of the agency.

However, this model is not readily transferable to the public sector because of the different relationship between the CEO and the Minister as noted earlier. However, many public sector agencies are developing a Board of Management to assist the CEO in the running of the agency, at least at the strategic policy level. A major variation of the private sector approach is that most of these Boards comprise senior managers from the particular agencies and thus do not provide the apparent independence of the private sector Board. Very occasionally, such public sector Boards do have one or more independent members.

Implications of the agencies’ governance responsibilities for the relationship between the CEO and Ministers will need to be closely examined. There may be an opportunity to formalise relationships with Ministers, perhaps through the development of a written agreement or memorandum of understanding as is done, say, in New Zealand. Formation of a private sector governing board is driven by legislation. By comparison, public sector boards usually have an agreed Charter but no legal rules to guide or bind them other than any particular legislative requirement under the Public Service or current Audit Acts or any legislative requirements relating to particular programs.

Existing boards, executive committees and other committee structures within the entity could be integrated to become part of an overall framework for exercising corporate governance principles. In most cases this would entail reconstitution and redesign to ensure that the core focus is one of those governance requirements and the discipline that goes with them.

A sound governance framework would assist an entity to, amongst other things:
achieve corporate objectives;
identify and manage risk;
promote high ethical standards;
ensure roles and accountabilities are clear;
provide relevant and timely information to the appropriate people; and
meet emerging benchmarks for internal control.

Before examining how we might construct such a useful corporate governance framework in the public sector, it might help to be clear about some of the basic principles involved.

**Building a Governance Framework within Public Sector Entities**

While public sector agencies vary in their organisational complexity, size and client base, they currently have largely common internal structures which support the CEO’s decision making. These same structures would be essential building blocks to form a governance framework for the entity. The support structures involved are those relating to:

- values and ethics;
- internal accountability;
- external accountability;
- financial management; and
- resources, including asset, management.

I will now discuss each of these in more detail.

**Values and Ethics**

A clear set of values supported by a code of ethical conduct provide a basis for assurance to the CEO that there is consistent ethical behaviour at all levels of the agency and that its employees:
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- comply with general public sector standards, codes of ethics and other applicable codes of conduct (e.g. for those of professional bodies);
- act with integrity in the performance of official duties and are beyond reproach in the use of official information (usually required under the above codes);
- exercise consideration, sensitivity and openness in their dealings with members of the public and fellow employees; and
- identify and deal decisively with any real or perceived conflict of interest.

Internal Accountability

Clearly enunciated control mechanisms, guidelines and review/monitoring procedures enhance the confidence a CEO can have in internal control and management of the organisation and the planning and review of its operations and progress, while fostering consultation and feedback on all its activities.

Accountability structures for internal management of the entity include executive committees, audit and other operational committees set up for specific tasks.

Structures for entity planning and review include the corporate, strategy, business, risk management and HRM plans, internal delegations, quality control systems, benchmarking, evaluation and performance monitoring to ensure that all responsibilities under the control of the CEO are carried out with due care and diligence.

External Accountability

CEOs are accountable to their Ministers; who in turn are accountable to the Parliament and, through the Parliament, to the general public. CEOs also have responsibility to their direct clients and other stakeholders which need to be clearly identified.

An entity which has a clear understanding of its responsibilities and an open (transparent) approach to the way in which they are discharged will greatly assist the CEO, Minister and the government in framing and winning support for identified strategies. It will also increase general confidence in the operation of the public sector.
Financial Management

A clearly defined financial management framework provides a sound basis for assurance to the CEO that the entity’s resources are being managed efficiently, effectively and ethically. Such a framework should include:

- preparation of financial statements;
- implementation of a fraud control plan;
- establishment of an effective Audit Committee;
- support for a credible internal audit and evaluation capability; and
- ensuring the accounts and records are maintained as required.

Resources, Including Asset, Management

A well articulated resource management planning and operational structure can provide assurance to the CEO that human resources, facilities, equipment and records are being managed effectively, efficiently and ethically.

However, good governance requires more than having committees, guidelines and reporting mechanisms. It also requires control structures which are designed to deliver corporate objectives. All existing internal entity resource management structures would need to be reviewed and probably refined or reconstructed to support a cohesive corporate governance framework. Again, the concern is to ensure a well integrated and mutually supportive set of structures.

Indicative Recent Public Sector Corporate Governance Developments

It is clear that there is much the public sector can learn from the experience of our private sector colleagues in this area. As I said earlier, however, it is important that the particular conditions and circumstances arising in the public sector are sensibly taken into account by private sector advisers and by public sector managers. We have already learnt that, while private sector solutions may not be directly translatable to the public sector, there are suitable alternatives which can help achieve a similar outcome.
As a result of the recent recognition of the need for good corporate governance in the public sector, the ANAO along with other public sector agencies has been involved in developing suitable public sector governance frameworks that are credible, are of real benefit to management and enhance external scrutiny.

The ANAO has worked closely with the Australian Taxation Office (ATO) in the establishment of its Corporate Governance Framework. The ATO Audit Committee plays an important role in that framework as does the internal audit function. The ANAO has been interested to establish the extent to which better practices in the private sector can be applied in such situations as well as to identify particular approaches that might be required in the public sector.

The ATO framework:

- incorporates risk management to prioritise work;
- allocates funds and identifies appropriate systems;
- sets standards and controls to deliver the work; and
- incorporates a capability to monitor, revise and regularly report on risk and the management objectives established for the business.

ATO management recognised the importance of probity and propriety as part of public sector accountability requirements. Adherence to a value system and the discipline of a Code of Conduct are important elements of any governance framework. The ANAO has also benefited from its involvement with the ATO initiative through a better understanding of its business, culture, systems and operations which should result in more efficient and effective audits.

As part of my annual report to the Parliament on the activities of the ANAO for the 1995-96 financial year, I have included a section on corporate governance activities within the ANAO along the lines of the requirements of the ASX listing rules. This was a useful discipline for the Office as well as indicating transparently the various elements of our governance framework.

The ANAO is currently developing a “Public Sector Corporate Governance Statement” which is designed to assist CEOs in establishing an appropriate framework for their entities which we anticipate will lead to efficient and effective use of Commonwealth resources in a fair, equitable and ethical manner. Preliminary discussions are being held with ATO and the Attorney-General's Department to promote a joint effort based on our
Risk Management in the Context of Corporate Governance

The following observation places the concerns about corporate governance within the context of managerial risk taking:

‘Corporate governance is the balancing of the need for managerial risk taking, entrepreneurial energy and high capability, with the need for some kind of monitoring, so that management’s direction is aligned with the interests of those who have entrusted their capital to the enterprise and to a lesser extent to the interests of other stakeholders.’

The risk management framework is a useful means for management to be assured of their approach including the public defence of their decision making. The framework applies to both individuals and committees. It can be used by all management levels, including by those at the most senior levels of corporate governance. The latter include executive and non-executive directors, boards of management, internal audit and other high level support committees such as audit, finance and information technology (I.T.) strategy. An example of the integration of such groups necessary for good decision-making was provided to me by the Department of Transport last year where their internal audit, with most of its reviews, makes an assessment of risk based on its judgement of materiality, liquidity, control weaknesses and impact on objectives which is then provided to managers. Audit committees are also a complementary vehicle for implementing risk management plans. This view is shared by the private sector as the following indicates:

‘Corporate representatives agree that both audit committees and risk management plans are an indication of best practice and they improve company performance.’

In 1995, the OECD published the results of a major study, titled, Governance in Transition: Public Management Reforms in OECD Countries. The study highlighted what many earlier works have stated, which is that highly centralised, rule-bound, and inflexible organisations that
emphasise process rather than results impede good performance. It posed several questions including:

- how to keep reforms coherent and consistent in conditions of substantial devolution of authority and greater separation of responsibilities among policy-makers, funders and providers of services; and
- how to ensure that organisations have the capacity to implement reforms.

Although the OECD study did not discuss risk management as such, it is worthwhile considering whether a risk managed approached to corporate governance can lead to sound answers to these questions.

The notion of external accountability highlights the fact that there are interested parties outside, as well as inside, any Commonwealth entity’s organisational structure that have a stake in its outputs and outcomes. For Government Business Enterprises (GBEs) the Commonwealth Government is the shareholder\textsuperscript{31}, which wants to be satisfied that, inter alia, the GBE met its expected rate of return and fulfilled its community service obligations. For Departments of State, ministers will be interested to determine how the corporate governance structure achieves the public interest as defined by legislation and Government policy. Ultimately the key stakeholder is the Parliament acting on behalf of the whole community to ensure the Government is held to account for that outcome. The stakes are high and so can be the risks. Therefore external audit should be regarded as a partner in helping to manage such risks and not as a threat to managers. Nevertheless, as the Auditor-General of the Northern Territory noted recently:

‘The ability of the public sector external auditor to report in detail to the public domain of Parliament on the efficiency and effectiveness has no similar parallel in the private sector, and this adds greater accountability, conformity and risk-aversion pressure to public sector managers.’\textsuperscript{32}

What is clear is that the risk management model can be applied equally in both the private and public sectors. It can be used to share information about successful corporate governance, management and administration. Since we live in a mixed economy, each sector can always learn from the
other about good management. But the stakes are much higher than that. The success of the private sector, particularly internationally, depends importantly on a well managed, efficient and effective public sector. The interrelationship of all sectors of the economy has never been more important to our international competitiveness and future growth.

**ANAO’s Future Approach to Risk Management**

The ANAO’s future approach to risk management will be to reinforce its importance as an integral part of good management practice. In so far as various aspects of risk management guidelines apply in particular audits, the approaches and techniques suggested will be applied as was done in Report No. 12 on ‘Risk Management by Commonwealth Consumer Product Safety Regulators’ as mentioned earlier. In that report the ANAO used:

"....the generic framework of the draft Australian Standard and the MAB/MIAC guidelines as a benchmark to assess the performance of the agencies audited."³³

This will be done mainly in our three major audit products. These are:

- financial statement audits;
- financial control and administration audits; and,
- performance audits.

What we learn from these audits will also be used as part of our increasing audit related services both in relation to the development of further public sector reform as well as to assist the performance of individual entities.

The final Guidelines for Managing Risk in the Australian Public Service include the following comments from the ANAO:

‘The ANAO considers that the documentation of key risk management principles and management decisions is an essential element of risk management. Documentation should be sufficient to enable a decision on the design of a process to be reviewed and evaluated.
The ANAO does not expect agencies to produce separate risk management plans for the benefit of review agencies. Provided there is tangible evidence that the process has been conducted properly, documentation can and should be integrated into the normal planning and operational processes of an agency in the way that best suits its organisational needs.

The ANAO is a key element of the external accountability framework for Commonwealth entities. As part of our audit role, we need to understand, inter alia, the basis of entity decisions. Auditors are not blessed with clairvoyance. We need information on how decisions are made. We therefore ask questions such as:

- were all relevant factors considered by the decision maker;
- was a fair, reasonable and transparent method used by the agency to reach a decision; and
- was the decision conveyed appropriately to relevant stakeholders.

Decision-makers should, desirably, identify and consider all relevant factors and develop a sound approach in arriving at any significant decision. What auditors do is to look for evidence that management functions in such an efficient and defensible manner to ensure program objectives and performance requirements are met cost effectively.

While the ANAO is bound by professional standards of conduct, we have seen the value of having a Code of Conduct for the Office that would recognise both our professional and public sector involvement. It is an integral part of our management framework based on values that underpin legal and standards imperatives. Development of such a code was delayed until the MAB/MIAC report on ‘Ethical Standards and Values in the Australian Public Service’ was finalised. This was seen as providing the conceptual framework for ethical conduct. As the report itself notes:

‘To inculcate an ethical culture and understanding fully, agencies need to provide complementary (my underlining) guidance to their staff, which is in line with APS standards but which relates directly to the work undertaken by the agency and the ethical issues which arise from it’.

Parliament will continue to expect us to use a risk management approach to address financial stewardship and what are typically described as
compliance issues. The emphasis is on control and the need for assurance. In that respect we will not baulk, for example, at identifying at least significant breaches of the law. However, we will also be examining adoption, or avoidance, of a risk management approach to the use of resources and program delivery. The issues of efficiency, administrative effectiveness and accountability, which are the subject matters of performance audits, often are even more complex than determining whether administration is complying with legislation, Ministerial directions and the like.

The better the control environment our risk management approach would lead us to devote more of our resources to these other issues as well as to value adding audit related services such as the implementation of whole-of-government accrual accounting, accrual budgeting and the use of accrual information for performance assessment. There are not inconsiderable risks to be managed in the implementation of the latter initiatives by all participants. The timing, issue resolution, commitment and marketing aspects all need to be addressed in an integrated fashion to reduce the risk of poor implementation. The stakes are high.

The ANAO uses a risk management perspective in performance audits basically because this approach can assist us to form a balanced view and perspective of the complexity of issues facing program managers. We have enhanced our performance audit methodology so that it is mirroring the MAB-MIAC risk management model as we did with the Consumer Product Safety Regulators Audit Report referred to earlier. Our emphasis is on improving management performance not simply pointing out where they have got it wrong. Quite frankly the issues often do not lend themselves to such simple conclusions.

Put another way, we are primarily in the business of providing quality assurance about, and added value to, public administration. The Auditor-General for the Northern Territory recently referred to the need for informed assurance that all risks to such quality are being appropriately managed. He described the risks as being those arising from:

- specification and understanding of outcomes;

- the specification and production of outputs;

- the understanding of the relationship between outcomes and outputs; the management of inputs (financial and physical resources, people and information); and
compliance with the law, and with management guidelines.\textsuperscript{36}

This is a significant challenge to all of us.

5. The Impact of Technology

No discussion of the Audit Challenges into the next millennium would be complete without at least some reference to the impact of information technology (IT) on the nature of our audits as well as on the audit processes themselves, and, not least to say, on the way we manage ourselves.

It might seem a little trite to claim, but it nevertheless has to be stressed, that information technology and telecommunications, in the broadest sense, are having a fundamental impact on the business of government. It is therefore essential the public sector auditor recognises this and responds accordingly. IT is, of course, a means to an end and can facilitate the use of information in all its various forms. The information that any organisation has is one of its major assets and the proper management of this commodity can provide it with a strategic advantage. The public sector is probably the biggest information industry in our country.

Processing power, storage capacity, speed of information access and computer communications are all advancing rapidly and are now being interweaved with the substantial innovations in the communications industry.

Changing the way Agencies do their Business

The view in Australia, as no doubt in other countries, is that technology has and will continue to play a significant part in achieving improved service delivery and fundamentally changing the way in which, individually and increasingly collectively, agencies will do business. An important challenge lies in developing an across the service environment that not only leads to improved client service but will also produces significant cost savings. It almost goes without saying that the drive to do more at less cost is an imperative in Australia as it is apparently in all public sectors.

In response to the increasing strategic importance of information technology the Australian Public Service is making significant efforts to
ensure an environment exists in which the potential of information technology to enhance performance and bring about change may be realised. Successive governments have given priority to whole of government approaches with three main supporting elements. These elements are as follows:

- Chief Government Information Officer (CGIO).
- Information Policy Advisory Council (IPAC)
- Acquisition Councils for significant procurements.

Collectively, the Chief Government Information Officer and his Office of Government Information Technology (OGIT), the IPAC and the Acquisition Councils will assist the Australian Government to achieve a well-coordinated, well structured, efficient and effective computing environment that will meet, for example, the objective of ‘single window’ or ‘one stop shop’ concepts of service delivery. A State/Commonwealth Electronic Service Delivery Reference Group has been established to give direction to providing access to distributed electronic services throughout the Australian Government. Commitments have also been made to electronic commerce, with a start being made in the purchasing area. The importance of better inter and intra agency coordination of IT to data sharing, service delivery and more cost effective program outcomes cannot be overstated. In support of these goals, a Wide Area Networking Project is charged with optimising Government-wide telecommunications services.

A significant whole of government initiative is the development of the Shared Systems initiative being overseen by OGIT. The immediate systems concerned are the Human Management Resources Information System (HRMIS), the Financial Management Information System (FMIS) and a Records Management System (RMS). This is a result of a Cabinet Decision in November 1995 to rationalise the number of administrative systems in use across Commonwealth agencies. The key objectives of this initiative are:

- to substantially improve efficiency and effectiveness of acquisition of administrative systems on a government wide basis;

- to improve the cost effectiveness of administrative systems across the Commonwealth; and

- to deliver better information to agencies and the government as a whole.
Decisions have recently been made as to the number of solutions and suppliers for both HRMIS and FMIS. The RMS are expected to be added towards the end of this year.

At the invitation of OGIT, the ANAO has conducted the probity audit of the evaluation of tenders and processes for selecting the HRMIS and FMIS Shared Suites. A similar audit is now being conducted for the selection processes for the RMS. In addition two more probity audits have been requested, one for whole of government outsourcing and the other for telecommunications. Outsourcing refers to the scoping exercise, market testing and business case assessment on possible outsourcing of Commonwealth IT infrastructure which is due to be considered in the 1997-98 budget context next May. A whole of government approach will also be implemented for wide-area voice and data and other telecommunications requirements of the Commonwealth, using a number of suppliers in each area. This will complement existing whole of government telecommunications arrangements that cover a variety of communications activities in departments and agencies with savings to the budget of up to $18 million per annum by 1998-99 and ongoing. These types of audits conducted in ‘real time’ have already added value to the selection processes.

A performance audit of IT Acquisition Council examined whether councils essentially met their objectives, whether council members substantially fulfilled their roles and whether councils add value and assurance in meeting accountability requirements to the acquisition process. In addition to an overall conclusion in the affirmative, the audit identified several opportunities for further improvement. These included:

- encouraging a greater focus on whole-of-government issues;
- encouraging greater focus on at least the potential for outsourcing of major projects;
- providing greater encouragement to smaller agencies to use the IT acquisition council process;
- ensuring there is adequate focus on risk management aspects of proposals; and
- encouraging non-IT business managers to take greater ownership of IT decision making and operations.

Agencies that commented on the report were generally supportive of the ANAO recommendations aimed at improving a more open, strategic and better informed management decision-making process.
The Audit Challenges

The challenges facing auditors are, to say the very least, significant. I would broadly categorise the challenges into three main areas:

- developing methodologies and computerised tools to keep pace with the changes occurring in data management and communication in individual agencies;

- encouraging and assisting, where possible, the Australian Public Services’ efforts for across the service IT initiatives and innovation in individual agencies; and

- ensuring we maximise the benefits of information technology in our own audit practice to improve audit quality and increase productivity.

I certainly could not assert that the ANAO has all the answers to these challenges but we have undertaken a number of strategic decisions to improve our game and further explore ways in which we can contribute and add value to the Australian Public Service’s initiatives, meet our auditing responsibilities in this important area and hasten the adoption of state of the art technology in the ANAO itself.

The International Organisation of Supreme Audit Institutions (INTOSAI) EDP Committee last year released a good practice guide on developing IT strategies in Supreme Audit Institutions (SAIs). It is observed that such a strategy concerns audit staff as providers or recipients of information, direct users of systems, or through their audit work as reviewers of systems of audited bodies. I also noticed that the same committee has also prepared a draft guide on Information Security Review Technology. The methodology does not necessarily require information technology experts. The first tier was ‘informed’ value judgements on the security risks of the application under review. The second tier was quantitative methodologies. This is of interest to the ANAO as a report by a Parliamentary Committee at around the same time commented that:

"Computer security should be the subject of express audit to assess its effectiveness."
resources to do so. We have decided that FSA audits will increase their focus on this issue.

The closely related issue of Disaster Recovery Plans has received prominence recently. The Financial Review of 18 November\(^{40}\) reported that an Australian Bureau of Statistics survey of government Information Technology found fewer than one in three departments had any form of disaster recovery plan in place. In an almost $3billion per year section of the public sector, that would seem to be the definition of ‘risky management’ rather than risk management. While the ANAO includes this topic as part of its FSA coverage, Internal Audit should also be proactive in advocating and assisting the development and maintenance of credible disaster recovery plans.

In relation to INTOSAI communication, the Secretariat has been organising pilot operations on the Internet (World Wide Web) as an effective means of presenting INTOSAI. SAIs will be able to access a selection of INTOSAI documents of general interest as well as exchanging email messages. The ANAO has had an Internet address for some time now and is continuing to develop its ‘home page’.

In meeting our auditing responsibilities, the financial and performance business units of the ANAO have incorporated into their strategic audit programs audit tasks to ensure appropriate audit coverage of information systems is achieved. Our aim is to ensure that the audit of information systems is not necessarily a separate audit task but is seamlessly integrated into all audit work ie both performance and financial audit, directed at agency and program level. We do use Computer Assisted Audit Techniques (CAATS) extensively but also rely on quality internal audits which are suitable test tools. With the change in processing platforms generally in the public sector, we have moved from a mainframe CAATS environment through the network service system and now into a personal computer (PC) facility. The latter also supports the mobility of our audit teams.

We also see it as part of our responsibility to contribute more in areas such as the development of new systems within entities. We are currently exploring ways in which this is best achieved given ANAO resources cannot hope to cope with the substantial activity taking place across the Federal public sector. I see it as important, however, that, where possible we provide advice on the effectiveness of new systems, including the adequacy of their ‘checks and balances’. Encouraging internal audit work in this area has always been an important part of our strategy. I was impressed by the many papers presented at an INTOSAI working seminar in March last year on ‘Performance Auditing of the use of EDP’ which included observations such as the following:
‘It is necessary for auditors to examine systems development projects. An audit office has never been compromised for so doing but conversely there are examples where an office has been compromised for not having taken action. Unfortunately there is no universally accepted code of practice as to how and when auditors shall examine systems under development.’

We are warned of the recurring dilemma about how the audit function should avoid ‘capture’ in a project and be held responsible for decisions and outcomes. I agree that we are on ‘safer’ grounds when indicating the sort of standards that are applied by others adopting better practice. In this respect, ISO 9000 is probably useful as a starting point for checklists. Perhaps I should leave the last word on this subject to John Adshead of the Office of the Auditor General of Canada as follows:

‘There is no ‘magic solution’ to delivering ‘successful’ systems. There are common-sense guidelines that can provide assurance that a major project can be delivered on time, within budget, and satisfies the user’s requirements.’

In giving encouragement to information technology innovation, I expect my Office to develop an ability to identify ‘better practice’ and assist by communicating it to other areas of the public service. I have also undertaken to help the Government’s Chief information Officer where ever we can, particularly in any whole-of-government approach and systems development as in the examples outlined earlier.

A lack of adequate capability within and across entities can make it very difficult to achieve the level of professionalism required to facilitate better performance. Over the past two years, we have taken significant steps to upgrade our resources capability, particularly our computing facilities and the ways we use those facilities. Being a relatively small organisation, compatibility with all our stakeholders has been a difficult goal to achieve. However, initiatives being taken on a whole of government basis may help us resolve some of the problems we face, as well as obtaining more cost effective outcomes.

Certainly, it was never a matter of merely providing staff with state of the art equipment whose facilities they would not use. The choice of those physical facilities was made at the same time as our decision to link with a major accounting firm to obtain, for example, sophisticated audit support software that no relatively small entity would have the capacity to be able to
develop for itself. The physical facilities selected, including portable computers for audit staff, were those most suited to the audit tools we wished to use to achieve our objectives in relation to standards requirements as well as service quality levels determined. Those objectives must always be foremost in our minds when we are assessing our resource capabilities.

The suite of financial statement audit tools we selected, from those available from the major firms, was based on a judgement of their suitability to our own circumstances, including the skills base of our staff and the most common computing platforms in the entities we audit. We are aware that other public sector organisations in other audit circumstances, no doubt for equally good reasons, have chosen differently.

Nevertheless there appears to be a large area of commonality which may be sufficient in many cases to allow electronic exchange of information and documentation for audit purposes. There would be clear advantages in this respect to allow better interaction between internal and external audits for more cost efficient outcomes.

Having conducted a pilot study using this software on a number of audits over the last audit cycle, we are now implementing the selected approach across all our financial statement audits for 1996-97. As part of the pilot for 1995-96, our Melbourne office volunteered to adopt the computer based audit support approach for all of its audits, to test particularly the effect of such a move on the whole organisation. This has been a very successful initiative resulting in timely systems and other changes which will greatly facilitate the Office-wide introduction to a more robust and credible operational mode essential to promote staff confidence and acceptance.

While those software and hardware facilities are not inexpensive, the alternative to the approaches we have chosen would be to have less efficient and less cost effective audits and associated services. In particular, the available audit support facilities will help us to provide a better quality service to entities and to the Parliament. As well, they have provided the opportunity to increase our audit product range and improve our client service. IT and T will no doubt be the major enabler in these respects.

The use of IT tools will also continue to be a crucial element of our performance audit methodology and audit approach. We have taken advantage of available software products including survey software (borrowed from the United States Government Accounting Office), database packages for data analysis, and data interrogation systems such as our in-house developed systems. Work has recently commenced in examining, amongst other things, groupware products into the audit
Controls Based Audit Approach

An organisation’s control environment is a reflection of management’s commitment to establishing a framework for the implementation and execution of well controlled business operations. It strongly influences the effectiveness of the organisation’s systems of controls and accordingly significantly affects the auditors assessment of the strength or otherwise of controls in their ability to prevent or detect problems well before they adversely affect an organisation. Indeed, the existence of an effective internal audit function is an important aspect of a strong control environment.

Both private and public organisations typically have a mixture of information technology which has evolved over time and in response the needs and information requirements of management. Organisations often spend millions of dollars on developing and installing systems to process their financial transactions. Generally, management expects internal audit to report on the effectiveness of controls surrounding those systems.

The increasing use of information technology (IT) systems in organisations for recording their financial transactions has seen many manual processing functions (eg matching of transactions) being performed by the computer which has resulted in the loss of a visible audit trail. The controls based approach to the audit of IT systems is an effective means of ensuring that controls are operating in such a manner to detect or prevent error from occurring in the processing of financial transactions. The controls based approach involves four basic processes:

- document the system;
- identify and document key controls;
- test existence of key controls; and
- ensure key controls are working effectively throughout the year.

The adoption of the controls based approach to the audit of IT systems revolves around seven risk factors. These factors provide a framework for auditors to examine IT systems and evaluate the effectiveness of key
controls. They can be classified into two groups. The first, often referred to as Application Risks, covers:

- **Access**
  - the risk that unauthorised persons may gain access to a computer application

- **Input**
  - the risk that inaccurate and incomplete date is input into the system or entered more than once;

- **Rejection**
  - the risk that rejected data or suspense items may not be isolated, analysed and corrected properly; and

- **Processing**
  - the risk that bona fide transactions may be lost, not completely processed or reported, inaccurately processed or reported, or processed and reported in the wrong accounting period.

These four risk factors enable the auditor to identify controls which prevent or detect errors from occurring at input stage, during processing and after processing of transactions. The remaining three factors are referred to as General Risks and contribute to the effectiveness of controls associated with Application Risk. General Risks are:

- **Organisation**
  - the risk that incompatible functions within the computer department are not properly defined and segregated;

- **Program Changes**
  - the risk that inaccurate or unauthorised changes to application software are made; and
Access

- the risk that unauthorised persons may directly access data files or application programs such as hackers. Access should be logical and preventative.

The application of the controls based approach to the audit of IT systems is increasing in significance as the trend towards better Corporate Governance places senior management under mounting pressure to ensure control systems are effective in monitoring risks and safeguarding the organisation’s resources, functions and assets. This approach can also be used efficiently to test systems not constructed or before they are put into production. This can be a useful audit assurance for management.

Year 2000 Problem

On a more specific note, an issue that cries out for an effective risk management approach is the question of handling computing difficulties with the change in the millennium. There are many legacy systems which may not function once the year 2000 has to be included. We are fast reaching the time when we have to go beyond simply recognising the risks associated with the array of documented and undocumented software (and hardware) which will fail to cope with the year 2000 and work to ensure we have management strategies in place to deal with those risks according to their merits and organisations’ priorities.

A Year 2000 Committee was formed under the auspices of the former Government Services Information Policy Board on 3 May this year to raise awareness within Commonwealth Government agencies of the need to be year 2000 compliant and to assess the status of readiness by Commonwealth agencies to ascertain what might be the extent of any problem to be faced. The objectives of the Committee are as follows:

- to raise the profile of the issue so that all agencies are aware of its implications;
- to establish the current status of remedial activities within the Commonwealth;
- to share the experience of those who have already begun to address the issue; and
to recommend appropriate approaches to resolving the problem.

The outcome desired is that by 31 December 1999 all Commonwealth applications and business systems will run faultlessly through into the year 2000 and that, through sharing experiences, costs to the Commonwealth will be minimised to secure that outcome.

The first major step undertaken by the Committee was to commission a survey of entities. The survey requested information on the scope and initial impact assessment, project management, date standards, implementation, awareness by vendors, tools, external assessment, resourcing, conversion and testing. Survey returns were due at OGIT by 23 August last. The aggregated returns are not yet available. It is intended to provide information on lessons learned and best practice via OGIT’s home page to Commonwealth agencies and other interested parties.

Each organisation will have its own specific problems and issues to resolve in addressing the year 2000 problem. A year 2000 check list was provided as a starting point to assess agencies to prepare a year 2000 Compliance Plan ensuring a comprehensive and rigorous project management project to the problem. Although every effort has been made to include most issues, it is not to be treated as a definitive list. Among other sources, the list includes suitable from IBM’s guide ‘The Year 2000 and two-digit dates. A guide for planning and implementation’. It has been written to suit the Public Service environment. Agencies have been asked to lodge their year 2000 Compliance Plans with OGIT by 20 December next.

Internal audit has an ongoing proactive role in providing risk management advice to handle this issue as well as ensuring the accuracy of survey work to identify the scope of the task to achieve the year 2000 compliance. Discussions have been held with the Chairman of the Year 2000 Committee about the ANAO’s intention to conduct a performance audit later next year, probably using the generic and better practice approach of the FCA audits. Such an audit would also help promote awareness, focus on action being taken, or inaction as the case may be, and to disseminate better practice.

To put these challenges into perspective, though, the pace and impact of information technology development will be, I suspect, the greatest challenge we face as we move into the next millennium.

6. Maintaining our Professional Credibility
It is imperative the ANAO is credible to our major stakeholder, the Federal Parliament. As with other public sector entities, we are judged on our performance. We recognise that perception is an important part of such judgement. It is essential the ANAO is perceived to be professional in all that it does, including the way in which it conducts its business. This is necessary to ensure the confidence of all stakeholders and the best defence of the Office if such is required. Our Continuous Improvement groups are an important catalyst in achieving this outcome. These groups constitute a cross-section of staff whose task is to identify better or best practices, and the ways we can best apply them to our work, to ensure that we maintain the Office at the highest possible level of professionalism.

A major challenge faced by any accounting or auditing institution is to keep pace with, and preferably be ahead of, developments in our profession. This includes maintenance of professional standards, fostering staff who will provide to the entities we audit (and ultimately to the Parliament) the services they need as well as maintaining facilities to help staff work to those standards and provide audit services at a high level of quality. Quality assurance is an essential element of a professional culture. For a public sector auditor it is also necessary to maintain public sector knowledge and experience at a high level. For example, our graduate administrative assistants are required to complete the Certificate III in Public Administration as part of the Australian standards framework.

The ANAO has had a long association with the professional bodies such as the Australian Society of CPAs, the Institute of Chartered Accountants and the Institute of Internal Auditors. ANAO personnel have been, and still are, Office holders as well as members of various committees of those organisations. One National Business Director was Chair of the Public Sector Accounting Standards Board and the other has been recently appointed as a member for a three year term. I am a member of the ASCPA Public Sector Centre of Excellence and a director of the International Consortium on Government Financial Management (ICGFM). A similar representation situation applies in organisations such as the Institute of Public Administration Australia. In my view, it is essential for the Office to have a close professional relationship with such organisations for our mutual benefit.

The ANAO chaired the Auditing Standards Committee of the International Organisation of Supreme Audit Institutions (INTOSAI) for almost a decade until last year and still retains its membership. A major task of the Standards Committee is the development of a Code of Ethics for audit institutions to enhance their role in fighting corruption and mismanagement. The recent conference of Commonwealth Auditors-General in Lahore, in its concluding declaration, supported this work of INTOSAI and urged wide contribution to its efforts.
Our own Auditing Standards were updated and promulgated in June this year as noted earlier. Such involvement reflects the level of the Office’s commitment to high professional standards in audit and accounting and the need to have the capability necessary to ensure our professional obligations can be met in all our audits. This is a major imperative and a real test of our professional credibility.

The ANAO also maintains close links with its counterparts in the States and Territories. It does this in a formal sense as a member of the Australasian Council of Auditors-General, which I referred to earlier. Regular meetings of the Council are held which provide a valuable opportunity for Auditors-General to discuss matters of common interest and concern. A numbers of Centres of Excellence and technical groups have also been established which focus on particular areas of auditing or related matters. These activities provide a very useful way for Audit Offices to learn from each other and to assist in identifying ways in which we can continue to improve our products and our practices. Such interaction and involvement also pave the way for possible joint audits.

We will be exploring available options for increasing the number of joint reviews we undertake with our State and Territory colleagues in order to further add value at both levels of public administration. This is most likely to occur in the performance audit area. I regard these links as important for our future strategic management of the audit function particularly within the context of the approach to program development and delivery being taken by the Council of Australian Governments (COAG), such as for the Better Cities and Housing Programs. Both the ANAO and the Victorian Auditor-General’s Office worked in tandem on the Better Cities program with reports from a national and state perspective being tabled in the last two months.43

7. Concluding Remarks

Remaining Relevant

To remain relevant and effective, audit approaches and requirements will vary over time to meet and/or anticipate changes to our environment. The notion of contestability that I referred to earlier can be seen as an incentive to continually challenge and improve the way we meet our responsibilities, both individually and collectively. A culture of continuous improvement is essential.

It is important that we build on and foster our relationships with our key stakeholders and other relevant external bodies. We must understand their functional and other imperatives. It is only in this way that we can be
confident of providing services which meet their needs. That will ensure we are relevant and credible.

While I am concerned to ensure the professionalism and independence of the Office and its interrelationship with the Parliament, particularly through the JCPA, I am conscious of the obligation, and scope we have, to contribute to a better performing public service. That is why we have been leveraging off our wide audit base to extend the range of audit related services and products to Commonwealth entities. Internal audit can make a significant contribution to this outcome in close cooperation with external audit within the corporate governance framework. In this way all stakeholders can benefit.

Adding Value

I hope I have struck an empathetic if not a sympathetic chord for the directions and initiatives being taken by the ANAO. This includes a high degree of assurance about the level of the Office’s commitment to adding value to public administration and our more complementary role with other entities to achieve that outcome. We expect to be judged on our performance within the framework of a more commercialised and contestable public sector. This depends considerably, in my view, on our professional credibility including in the exercise of our independence. We are conscious that action speaks louder than words. But that applies to all parties.

We need to build mutual confidence and trust not as a pre-condition but as an expectation. This would indicate a mature relationship capable of dealing positively and pro-actively with the inevitable tensions and differences of views that arise in the course of audit activity. The likely new legislative environment will greatly facilitate the development of such a relationship. Electronically based audit and other management and accounting tools will enhance our capabilities and credibility in delivering on the commitment to add value. Whole of government approaches should greatly enhance and facilitate the opportunities being provided by information technology and telecommunications. These are all means. We know it is results that count at the end of the day. That is our mutual challenge.
NOTES AND REFERENCES


3. AusIndustry is the delivery agency for domestic-based business enterprise improvement programs of the Federal Government, which are the responsibility of a number of different government organisations, so as to facilitate business interface with government by dealing with one agency.

4. Comprising leaders of Federal and all State and Territory Governments.


6. The legislative package is comprised of the following:

   - **Auditor-General Bill** (A-G) which will provide for the appointment, independence, status, powers and responsibilities of the Auditor-General; the establishment of the ANAO, and for the audit of the ANAO by the Independent Auditor. Together with the other two Acts, it will provide the mandate for the Auditor-General to be the external Auditor of all Commonwealth controlled bodies;

   - **Financial Management and Accountability Bill** (FMA) - this Act will set down the financial regulatory/accountability/accounting framework for Commonwealth bodies that have no separate legal existence of their own; they are, financially, simply agents of the legal entity, that is the Commonwealth; and

   - **Commonwealth Authorities and Companies Bill** (CAC) which will provide standardised accountability, ethical and reporting provisions for Commonwealth bodies that have a separate legal existence of their own (even though they may derive some or all of their finances from the Commonwealth Budget). Such bodies
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comprise Commonwealth controlled companies and their subsidiaries; and those statutory authorities whose enabling legislation gives them legal power to own money and assets.

7. Barrett, Pat. 1996. ‘Some Thoughts about Roles, Responsibilities and Future Scope of Auditors-General’ or ‘The Independence of Auditors-General on a Scale of One to Ten’. Annual Research Lecture ANU/ASCPA, Canberra, 14 November. Relevant issues were also canvassed by the previous Commonwealth Auditor-General, Mr John Taylor, AO, in his commentary on the Lecture.


20. ASX 1995. Listing Rules Chapter 4. ‘Periodic Disclosure’ Section 4.10. ‘Additional Information to be included by all entities’ (item 4.10.3) and Appendix 4A ‘List of Corporate Governance Matters’.

21. AWA Ltd & Daniels (trading as Deloitte Haskins & Sells) 1992. 7 ASCR 959, 10 ACLC 933, 7 ACSR 759, NSW SC. 3 July.


28. Correspondence from the then Secretary of the Department of Transport in relation to the 1994-95 Financial Statements Audit dated 20 October.


31. The term ‘shareholder’ is used here to describe the private sector analogy. However I prefer to use the term stakeholder’ in the public context because shareholders can choose not to have a stake in an outcome or an organisation simply by selling their shares. This option is not usually open to those who are in the public sector.


34. op. cit., MAB/MIAC Report No.22 (page 17).

35. op. cit., MAB/MIAC Report No.19 (page 1).

36. op. cit., Iain Summers (page 8).


