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FOREWORD BY THE AUDITOR-GENERAL



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Auditor-General for Australia*

CONTRIBUTING TO BETTER PUBLIC ADMINISTRATION

The Parliament looks to the Auditor-General and the Australian National Audit Office (ANAO) for assurance in relation to financial reporting by public sector entities and government, and in relation to the efficiency and effectiveness of program administration. We also contribute, through our audit recommendations, to improvements in public sector performance. In this regard, entities and the ANAO each has a role in contributing to parliamentary and public confidence in public administration. And, while the roles of public sector entities and the ANAO may differ, contributing to better public sector performance is common ground.

As the external auditor of the Executive Government, I appreciate the challenges for public sector entities of managing in this increasingly complex and demanding public sector environment. Therefore, our reports endeavour to capture, in a balanced way, the appropriate context and significant issues that bear on the administration of a program or an entity. To meet the Parliament's expectation we report on areas where there may be shortcomings in public administration, but importantly we also report areas where program administration works well.

While it is important that there is a co-operative working relationship with agencies, there will be occasions where a difference of opinion is held. In such situations, both positions are reported to the Parliament.

ROLE AND RESPONSIBILITIES

As Auditor-General, I undertake my role as the external auditor for all Australian Government controlled entities with the strong organisation and support of the ANAO. I have delegated some of my powers to my senior staff to allow for the efficient functioning of the ANAO. This includes the authority to sign the audit opinions on a range of public sector entities.

The effectiveness of the Office of Auditor-General is based on two important foundations—the special relationship between the Auditor-General and Parliament, and my independence provided for under the *Auditor-General Act 1997*. This allows me to provide independent assurance to the Parliament, the Government and the public generally on the financial statements, financial administration and accountability of Australian Government public sector entities.

OUR AUDIT PRODUCTS

In order to meet the expectations of the Parliament and, more broadly, the Australian public, the ANAO is continually reviewing its approach to ensure that our audit coverage provides an effective and independent review of the performance and accountability of public sector entities. The ANAO seeks to ensure that our audit coverage is well targeted and addresses priority areas to maximise our contribution to improved public administration.

In fulfilling our goal of contributing to better public administration, the ANAO uses three broad audit products:

- Financial statements audits which provide independent assurance to the Parliament, the Executive, boards, chief executives and the public on the financial performance and position of Australian Government public sector entities. These audits are conducted, as appropriate, under the *Financial Management and Accountability Act 1997* or the *Commonwealth Authorities and Companies Act 1997*;

- A program of performance audits which provide independent assurance on the administration of government programs by public sector entities, and recommendations directed to improving public sector administration and accountability—these audits can be agency specific or across agencies; and
- Guidance on, and examples of, better practice through our *Better Practice Guides (BPGs)*, and our participation in seminars and conferences. Additionally, in 2006, the ANAO commenced publishing our newsletter *AuditFocus* which is designed to distil key messages from recent audits for busy public sector executives.

During 2005–2006 the ANAO issued:

- 246 financial statement audit opinions;
- 2 financial statement related reports;
- 50 performance audits; and
- 3 Better Practice Guides.

With our available resources we are seeking to lift the performance of Australian Government agencies and provide assurance to the Parliament on their financial performance and position.

FINANCIAL STATEMENT AUDITS

The ANAO audits the financial statements of entities ranging in size and complexity from Telstra and the Department of Defence to very small entities such as the Criminology Research Council and the Australian Sports Foundation.

These financial statement audits provide for an independent examination of the financial accounting and reporting of public sector entities. The results are presented in an audit report, which expresses the auditor's opinion on whether the financial statements as a whole and the information contained therein, fairly reflect the results of each entity's operation and its financial position. The disclosures and management representations made in the financial statements by the entity are assessed against relevant accounting standards, and legislative and other reporting requirements. Importantly, all audits are conducted against the ANAO Auditing Standards, which incorporate auditing standards applied by the auditing profession in Australia.

Audits undertaken by the ANAO act as a catalyst for improvement and provide a stimulus to management for resolution of issues, where this is warranted, and aim to assist audit committees in their role of facilitating sound financial management. The ANAO continues the practice of discussing contemporary issues and developments that impact on public sector management, particularly financial reporting and governance.

The interim phase of our 2005–2006 financial statement audits¹ has again showed that entities generally have appropriate financial management and control regimes in place. Nevertheless, our work in this area and a number of our performance audits suggest that implementation of these regimes continue to require improvement particularly in areas such as financial management information systems, business continuity and systems access management where the scale and complexity of operations creates a particularly demanding financial management environment.

CONTINUED FOCUS ON LEGAL COMPLIANCE

In my last annual report and elsewhere² I foreshadowed the ANAO's intention to increase the emphasis on legislative compliance as part of our financial statement audits. While the results of our review in this area will not be completed until the audits of entities' 2005–2006 financial statements are finalised, overall, the results of our work to date are encouraging.

An important development to reinforce the current commitment to legislative compliance is the measure being implemented for the 2006–2007 year, for the chief executives of all FMA agencies to sign an annual Certificate of Compliance in relation to compliance with all financial legislation, regulations, and policy requirements issued by the Department of Finance and Administration.

While the first certification will be required by 15 October 2007 it is important that entities make a start to have processes in place to periodically attest to compliance with a range of legislative, policy and procedural requirements, and advise of any departures. An increasing number of entities have introduced, or are considering the implementation of, a control self assessment process in relation to legislative compliance.

While there is a key role for audit committees to play in overseeing legislative compliance across the general government sector, ultimately, the responsibility for the maintenance of a compliant framework lies with each chief executive.

PERFORMANCE AUDITS

Our performance audits report objectively on the state of particular aspects of public administration and our recommendations are framed to assist agencies in achieving better outcomes and improved performance.

To be effective, this requires agreement with, and commitment by, agencies to implement those recommendations within a reasonable time period. With this in mind, we work co-operatively with agencies to gain genuine acceptance of our recommendations. Our preferred approach is to encourage agencies to take any necessary remedial action on identified matters during the course of an audit

¹ ANAO Audit Report No. 48 2005–2006, *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005*.

² Audit Report No.21 2005–2006 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2005*.

by acknowledging, and reinforcing, timely implementation of initiatives developed by them and/or suggested by the ANAO. Senior ANAO officers meet formally and informally with agency senior management throughout the year to discuss strategic directions and audit related issues.

As our effectiveness is largely related to the extent to which our recommendations are accepted and fully implemented, we are attentive to any statements by individual chief executives or Ministers about action being taken by portfolio agencies on performance audit and other audit recommendations.

Additionally, the ANAO works closely with the various audit committees of public sector organisations to monitor the implementation of its recommendations.

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CONTRIBUTION TO THE PARLIAMENT

The contribution of our audit reports to the work of the Parliament is very important and measured, in part, by a review of comments in Parliamentary committees' reports and at committee hearings. Parliamentary committees' review of reports gives an impetus to entities in their implementation of audit recommendations and to the positive outcomes from performance auditing.

The committees continued to be supportive of audit findings. The JCPAA reviews all audit reports and conducts public inquiries into selected audit reports. The ANAO gives evidence at these inquiries and assists the JCPAA in its review work. The JCPAA indicated its support for the audit reports reviewed, noted agencies' advice of implementation of the ANAO recommendations, and made recommendations consistent with those made by the ANAO.

The JCPAA tabled *Report 404 Review of Auditor-General's Reports 2003-2004 Third & Fourth Quarters and First and Second Quarters of 2004-2005* in October 2005. The report reviewed audit reports on intellectual property policies, greenhouse programs, the Dairy Industry Adjustment Package, client service in the Family Court and Federal Magistrates Court, federal airport leases; Centrelink customer debt, the Standard Defence Supply System upgrade, special appropriations, container examination facilities, non-prescription medicinal product, and the 2003-2004 financial statements for Australian Government entities.

The JCPAA also conducted inquiries in respect of a number of ANAO audits and the reports examined by the JCPAA in 2005-2006 are listed in the body of the Annual Report.

Additionally, the House of Representatives Standing Committee on Environment and Heritage reviewed Audit Report No.22 2005-2006 *Cross-Portfolio Audit of Green Office Procurement*. The House of Representatives Standing Committee on Economics, Finance and Public Administration is reviewing Audit Report No.25 2005-2006 *ASIC's Implementation of Financial Services Licences*.

ANAO AUDITS UNDERTAKEN AT THE REQUEST OF THE PARLIAMENT OR MINISTERS

During 2005–2006, I undertook the following three audits which had been requested by the Parliament:

- the administration of the Regional Partnerships Program (requested by the Senate Finance and Public Administration References Committee);
- processes for receiving and referring for investigation statutory reports of suspected breaches of the *Corporations Act 2001* (requested by the Joint Committee on Corporations and Financial Services); and
- Australian Pesticides and Veterinary Medicines Authority (requested by the Parliamentary Secretary to the Minister for Agriculture, Fisheries and Forestry).

Reports on these audits are expected to be tabled in 2006–2007.

In addition, in June 2006 I was asked by the Minister for Transport and Regional Services to conduct a performance audit of Airservices Australia's administration of a contract with the Government of the Solomon Islands. I agreed to do this and expect this audit to be concluded by the end of 2006.

BETTER PRACTICE GUIDES

To complement the ANAO's statutory functions, the ANAO periodically publishes Better Practice Guides on aspects of public administration. These Guides are well received as useful reference documents contributing to better public sector administration. Our future work programs will continue to include the preparation of new Guides as well as the updating of existing Guides as necessary.

The preparation of annual financial statements by all public sector entities is an important mechanism by which they meet their financial accountability obligations. To assist agencies we recently published a guide titled *Preparation of Financial Statements by Public Sector Entities* and I am confident this Guide will assist entities to improve the overall timeliness and quality of their financial statements. This in turn will assist the ANAO in the conduct of the audit of these statements.

MONITORING OUR PERFORMANCE

As in previous years, an independent survey was completed during the year to obtain feedback from our clients about the quality of performance audit processes and outcomes from senior public entity managers responsible for the audited activities. In the latest survey (February 2006) agencies rated the ANAO's conduct of performance audits positively. Some key indicators were that:

- the audit teams demonstrated the professional knowledge and audit skills required to conduct the audit;
- the audit teams' conduct was characterised by integrity, and an ethical approach to their task; and
- respondents valued the independent opinion expressed by the ANAO.

The results of the survey are an important guide to the effectiveness of existing practice and also in the development of new initiatives. The survey is therefore an important business tool for improving the quality and effectiveness of performance audit products and services.

CHALLENGES

AN INCREASINGLY COMPLEX ENVIRONMENT

Public administration continues to evolve, including through:

- more innovative ways to deliver government programs;
- ‘whole-of-government’ approaches;
- the growing convergence of the public and private sectors; and
- the adoption of new technologies including e-government.

Apart from the challenges for agencies, such an environment places demands on the ANAO in auditing the range of entities, programs, governance arrangements and delivery methods.

Public sector entities are also dealing with a period of significant change in financial reporting requirements, primarily arising from the adoption in Australia of international financial reporting standards. Further changes are likely as the Australian Accounting Standards Board considers a range of on-going public sector specific issues as part of its formal work program. In addition, developments aimed at harmonising Australian accounting standards with the requirements of Government Finance Statistics are expected to result in revised reporting arrangements for the Australian Government, particularly at the whole-of-government level. The work on harmonisation is particularly important as it will eliminate the source of some confusion to users of current budget and financial reports caused by the adoption of different accounting bases.

Assimilating the new requirements has been a challenge for preparers, users and auditors of financial reports, particularly in the current environment where specialist skills are at a premium. The ANAO has worked closely with Finance to anticipate the more significant financial reporting issues for 2005–2006 with the aim of streamlining the preparation of entities’ financial statements and the audits thereof.

STAFFING ISSUES

For some time, the key professional accounting bodies in Australia have been drawing attention to the acute shortage of staff in the field of auditing and accounting. The ANAO continues to invest in its recruitment and retention strategies in this difficult market environment and is also contributing to an Australian Public Sector-wide review of attraction, recruitment and retention of accountants within the Australian Public Sector.

While there has been a slight improvement in the ANAO’s staff retention, the demand for staff with accounting qualifications is likely to continue for some time to come. It is a challenging period for the

Office as we seek to replace the experience of those staff who are pursuing their careers elsewhere or who have retired. As an interim measure, the ANAO has increased the number of contractors working with us to ensure we fulfil our performance and financial statement auditing obligations.

The ANAO's annual staff survey again confirmed that movement out of the Office was predominately to pursue career opportunities, and this will continue. This is often a result of staff developing their skills while at the ANAO thus making them marketable to other employers. I was pleased to see that the staff survey continues to indicate our staff are satisfied with their job in the organisation and recognise the wider contribution they make to improving public administration.

Against this background the ANAO has strengthened its workforce planning and is actively formalising the retention and attraction of staff to ensure that we have the capability and capacity to provide the services the Parliament expects.

FUNDING

The ANAO's funding in 2005–2006 was \$63.866 million, including \$1.061 million provided in additional estimates and \$0.915 million in the 2006–2007 Budget. The additional amounts were for the increased auditing costs associated with the adoption of the Australian Equivalent to the International Reporting Standards and the increased requirements relating to auditing the financial statement of the Department of Defence. I appreciate the support of the Government and the Parliament for these additional resources.

The ANAO advised the JCPAA that budget allocation for 2006–2007 of \$64.002 million was sufficient however, we would need to monitor the budget position and market conditions throughout the year to determine the impact of cost pressures. As indicated earlier, cost pressures are being driven by an increasingly competitive market for qualified accountants and auditors as well as increased requirements of the Australian Auditing Standards.

The JCPAA has voiced its concern that the ANAO must be properly resourced, given the importance of its work. The JCPAA will be kept fully informed of the results of our analysis of our ongoing budgetary requirements.

TO CONCLUDE

We have been through a demanding year but we have delivered on our goals in informing the Parliament and the public on the issues arising from our audit coverage. I would like to acknowledge the professionalism and commitment of my staff in achieving our goals and undertaking the work associated with meeting our ambitious audit program.

Finally, I would also like to acknowledge the contribution made by Michael Coleman, our independent auditor for the last seven years, and advise that Geoff Wilson has been appointed as our new independent auditor.