

Today I want to share with the House three key points regarding our submission on why regulation of auditing in Australia might fail to detect fraud, misconduct and corruption. (Note: we view corruption as a form of fraud and misconduct).

- ✓ **Audit explosion relates to the logic of trust within the current democracy**

The explosion of audits is a response by many governments to the public's distrust of their activities.

Audit is mistakenly being employed as an attempt to restore institutional and personal trust within the current democratic space and this is a ^{FLOD} flawed approach to developing trust.

The audit explosion relates to an expectations gap. There are many

expectations about the nature of audit. Commonly, financial auditing is perceived as being responsible for detecting fraud, but auditors see themselves as responsible for forming professional opinions.

Basically, what we can see on Slide 2 is the government appoints an auditor to increase the public's trust in government.

Relying on audit to restore trust in the government is difficult because audit is **not** concerned with policy issues such as demands for anti-corruption in government.

✓ **Materiality in audit is contestable.**

Materiality is about what matters. In audit, we have a threshold that would represent all 'material' information. Audit does not **EXAMINE** examine 100% of transactions, just a range of 1-5%, generally. Other disciplines see materiality in different ways. To illustrate, see the 2019 Royal Commission on Financial

Services in Australia. The audit firms said nothing was wrong, however, what about the political materiality?

The audit profession focuses on producing ^{Fov} faux assurances for the public, based on technocratic processes which seem designed to find that governance structures are operating properly, rather than interrogating them, knowing that fraud is ever-present.

- ✓ **The effectiveness of audit technologies for corruption is questionable.**

Audit focuses on records, transactions and documents.

Corruption focuses on shadows, on behaviours.

As a former auditor, I remember that corruption was **not** my focus. Actually, I felt those audit partners I worked with would **not** appreciate if I found something suspicious as they were very close to the auditee.

As an educator, it is clear to me that the current emphasis in auditor education is a focus on records and structures. However, fraud examination requires a deep understanding of human behaviours.

I suggest this requires an agency which employs multi-disciplinary investigative teams to detect and reduce the potential for corruption.

Thank you Mr/Madam Speaker.

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7/February/2020