



Mrs Lucy Wicks MP
Chair
Joint Committee of Public Accounts and Audit
PO Box 6021
Parliament House
Canberra ACT 2600
VIA EMAIL jcpaa@aph.gov.au

29 January 2021

Dear Mrs Wicks,

Review of the Auditor-General Act 1997

As one of Australia's leading professional services firms that works closely with the Auditor-General and the Australia National Audit Office (ANAO) on a number of large and complex audit engagements, we understand the value of their role and the importance of having a sound legislative framework to underpin it.

We know that auditing supports the trust that citizens have in organisations, regardless of whether that is in the private or public sectors. Now more than ever, trust in many organisations and institutions is under strain so we encourage the Joint Committee of Public Accounts and Audit to ensure the Auditor-General Act 1997 ("Act") allows for the Auditor-General and ANAO to continue to effectively drive accountability, remain independent and be able to attract the best audit talent into its ranks.

The 2020 Edelman Trust Barometer¹ reveals that internationally trust in our key institutions — business, government, NGOs and media — remains in decline. The Trust Barometer² has recently been updated and shows that despite an increase in trustworthiness early in the pandemic, government results have returned to levels similar to the 2020 results. We believe that auditors can play an important role in building and maintaining citizen trust in key institutions as audit provides independent assurance to stakeholders, not only around the integrity of financial information, but also around compliance with recognised ethical and professional frameworks and standards.

It is important that auditors have the ability to work within a robust framework in order to fulfill their role. It is our view that the Act, and subsequent amendments, have proven to be an effective mechanism for supporting and enabling the auditing of entities captured by the Act. To ensure this framework continues to support the Auditor General and ANAO in building and maintaining trust in government institutions, we believe that it is important that the Act is not amended in any manner that could limit their capabilities or scope. We note in the Audit-General of Australia's own submission to this Inquiry, in

¹ <https://www.edelman.com/trust/2020-trust-barometer>

² <https://www.edelman.com/sites/g/files/aatuss191/files/2021-01/2021-edelman-trust-barometer.pdf>

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particular his view that “many parts of the Act work very well and I strongly consider should not be changed³”.

Independence

Without appropriate audit independence, the trust that citizens have in auditors will diminish. We believe that the independence of the Audit-General and the ANAO is critical to achieving its overall objectives, and meeting the expectations of those that rely on their reports. As such, we believe that any amendments to the Act should be made with care to ensure the standards of independence, such as those of the Australian Professional Ethics and Standards Board in APES 110 Code of Ethics for Professional Accountants⁴ are not limited. This standard comprises:

(a) *Independence of mind* – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

(b) *Independence in appearance* – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a Firm’s, or an Audit or Assurance Team member’s integrity, objectivity or professional scepticism has been compromised.

We believe that all auditors, regardless of which sector they belong, must consider independence as an intrinsic element in the delivery of quality audit and assurance services.

Resourcing and recruitment

Without quality in audit delivery, the trust that stakeholders have in audit findings will diminish. A key factor that significantly impacts the quality of any audit practice is the availability of suitably qualified auditors and the tools, such as access to audit software and technology to undertake today’s audits. The International Organization of Supreme Audit Institutions (INTOSAI) lists eight core independence principles that they believe are essential for effective public sector auditing. One of these is “Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources”⁵.

Our experience in Australia, along with many other firms within our global network, is that there are challenges in the recruitment and retention of auditors. The Australian Auditing and Assurance Standards Board (AUASB) noted in its submission to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into the Regulation of Auditing in Australia that it was “aware of concerns that the attractiveness of the audit profession is declining, resulting in difficulties in recruiting and retaining talented staff. The decline in the number of Registered Company Auditors and the potential reduction in the number of auditors being attracted to the profession has serious implications for the industry⁶”. These types of recruitment and retention issues are likely to be similar in audit practices like the ANAO and as such, we believe any proposed revisions to the Act should be oriented to enabling the ANAO’s efforts to attract and retain audit talent.

Appointment of the Independent Auditor

³ Page 2, <https://www.apf.gov.au/DocumentStore.ashx?id=85c81c94-d4eb-47ab-bb29-9b13362e2034&subid=697765>

⁴ APES110 is the Professional Standard that guides our firm’s independence framework. We note the Auditor-General views on *independence* are considered against the Principles of the Mexico Declaration on Supreme Audit Institutions Independence issued by the International Organisation of Supreme Audit Institutions (INTOSAI), 2019.

⁵ https://www.intosai.org/fileadmin/downloads/documents/open_access/INT_P_1_u_P_10/INTOSAI-P-10_en.pdf

⁶ Page 15, https://www.auasb.gov.au/admin/file/content102/c3/PJC_Inquiry_AUASB_Submission.pdf



Schedule 2 of the Act includes a detailed description of the *Appointment, conditions of appointment etc. for the Independent Auditor* for the ANAO. We believe there is sufficient coverage within this section of the Act around the appointment, remuneration and resignation (or removal) of the Independent Auditor, but we think there is room to improve the process around the transition between the existing and incoming Independent Auditor. Best practice in all sectors requires that there be an orderly transition between auditors to ensure an effective transfer of knowledge and documentation. Our recommendation is that there be a new protocol established to ensure that the incoming Independent Auditor's appointment is confirmed at least six months ahead of the completion of any existing appointment and that a formal transition plan be implemented where practical.

We would welcome the opportunity to discuss our views further. [REDACTED]
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Kind regards,



Kristin Stubbins Partner PwC Australia	
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