



LEGISLATIVE ASSEMBLY

PUBLIC ACCOUNTS COMMITTEE

**EFFICIENCY AND EFFECTIVENESS OF THE AUDIT OFFICE OF
NEW SOUTH WALES**

REPORT 11/55 – SEPTEMBER 2013

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The motto of the coat of arms for the state of New South Wales is "Orta recens quam pura nites". It is written in Latin and means "newly risen, how brightly you shine".

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Membership

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Terms of Reference

The Public Accounts Committee has appointed a reviewer to examine the auditing practices and standards of the Auditor-General and determine whether the Auditor-General is complying with those practices and standards in the carrying out of the Auditor-General's functions under the Act. The Committee will also inquire into the efficiency and effectiveness of the Audit Office of NSW. In particular, the Inquiry will focus on:

- Whether the Audit Office of NSW provides value for money financial audit services, in comparison with the services and fees of similar organisations;
- Whether the Performance Audits conducted by the Audit Office provide value for money by meeting their objectives and contributing to improved accountability by government agencies within New South Wales;
- Whether the process of selecting topics for performance and compliance audits is based on robust methodology;
- Whether the selection of agencies for compliance audit is robust and based on a consideration of the particular risks of that agency;
- Whether the Audit Office has adequate resources to carry out its functions; and
- The effectiveness of the Audit Office's communication with clients, particularly in relation to establishing a joint understanding of expected audit fees, the scope of performance and compliance programs, and the provision of advice.

Chair's Foreword

The genesis of this inquiry occurred when the Committee considered its obligations under section 48A of the *Public Finance and Audit Act 1983*. The Act requires the Committee to appoint an independent reviewer to examine the auditing practices and standards of the Auditor-General every four years. While the Committee appointed a reviewer, it also pursued an opportunity to undertake a concurrent inquiry into the efficiency and effectiveness of the Audit Office of NSW.

This inquiry provided an opportunity for the Committee to examine qualitative aspects of the Audit Office's performance, as well as explore issues regarding its scope of authority. The inquiry allowed other stakeholders to participate and provide feedback about the performance of the Audit Office and their experiences working with the Audit Office.

Aside from examining the performance of the Audit Office regarding its audit services and assessing the communication, staffing and resources of the Office, the Committee also investigated the scope of the Audit Office's powers. In this respect, the Committee's investigation was guided by the findings of a number of previous reports, such as the Independent Commission Against Corruption's position paper on *Funding NGO Delivery of Human Services in NSW* and the *Future Directions Paper* of the Independent Local Government Review Panel, which proposed an expanded role for the Auditor-General.

This inquiry has essentially confirmed the Committee's long held opinion that the Audit Office is doing a very good job and provides value for money to the State of New South Wales in delivering financial and performance auditing services. As with any organisation, there are aspects of its work that can continue to improve, but the Committee believes that the Auditor-General has created an Audit Office culture to ensure this will occur.

The major recommendations of this report support an expanded role for the Auditor-General, allowing him greater freedom to conduct audits and 'shine a light' on some areas of Government spending previously outside of his remit.

The Committee seeks additional 'follow the dollar' powers for the Auditor-General to scrutinise the performance of private contractors and other non-government organisations that perform functions on behalf of the State. It also recommends that the Auditor-General be afforded similar powers over local governments, as well as seeking the inclusion of compliance audits in the Auditor-General's mandate under the *Public Finance and Audit Act 1983*.

At a time when a growing number of services are provided by third parties on behalf of the Government, it is imperative that the Auditor-General is able to confirm that those parties are delivering services in an effective and efficient manner. Without such oversight, the Committee considers that there is an increased risk for New South Wales, which is not adequately addressed by existing policies and controls.

On behalf of the Committee, thanks to all of the stakeholders who participated in the inquiry. I wish to extend a special thanks to the Auditor-General, Mr Peter Achterstraat. Mr Achterstraat will conclude his appointment as Auditor-General this month and he has been an extremely effective auditor for the State. He has helped to forge an excellent working relationship with

the Public Accounts Committee, which has significantly assisted the positive impact of both our Committee and the Audit Office.

Finally, I thank the secretariat of the Committee, in particular Mr John Miller and Mr Shane Armstrong, for their support and assistance throughout the inquiry process

Jonathan O’Dea MP

Chair

List of Findings and Recommendations

RECOMMENDATION 1	15
The Committee recommends that the Audit Office consider including a breakdown of its audit fee in its Client Service Plan for financial audit engagements.	
RECOMMENDATION 2	15
The Committee recommends that the <i>Public Finance and Audit Act 1983</i> be amended to specifically include compliance audits within the mandate of the Auditor-General.	
RECOMMENDATION 3	24
The Committee recommends that the Audit Office publish on its website a rolling 12 month indicative performance audit plan. The plan should be updated on at least a quarterly basis.	
RECOMMENDATION 4	33
The Committee recommends that any expansion of the legislative mandate of the Auditor-General should be adequately resourced.	
RECOMMENDATION 5	42
The Committee recommends that the <i>Public Finance and Audit Act 1983</i> be amended to enable the Auditor-General to ‘follow the dollar’ by being able to directly audit functions performed by entities, including private contractors and other non-government organisations, on behalf of the State in the delivery of government programs.	
RECOMMENDATION 6	53
The Committee recommends that the Auditor-General outsource at least 30 per cent of the financial audits of universities. However, the Committee considers that this percentage should not be legally binding.	
RECOMMENDATION 7	53
The Committee recommends that the Auditor-General consult with the Vice-Chancellors’ Committee and other key stakeholders, to develop a balanced strategy to address both the Auditor-General’s and Universities’ concerns around auditing the sector.	
RECOMMENDATION 8	53
The Committee recommends that the Auditor-General continue to provide an overview of the university sector in his financial audit reports to Parliament.	
RECOMMENDATION 9	53
The Committee recommends that the Government raise, with its State and Federal counterparts, the issue of the centralising the audit of the university sector, by requiring the Australian National Audit Office to take responsibility for the audits of Australian universities.	
RECOMMENDATION 10	55
The Committee recommends that the <i>Public Finance and Audit Act 1983</i> be amended to enable the Auditor-General to ‘follow the dollar’ by being able to directly audit functions	

performed by local government entities on behalf of the State in the delivery of government programs.

Chapter One – Introduction

ABOUT THE INQUIRY

- 1.1 On 21 February 2013, the Committee resolved to engage an independent reviewer to conduct a review of the Audit Office of New South Wales, in compliance with section 48A of the *Public Finance and Audit Act 1983*. At the same time the Committee also resolved to conduct an inquiry into the efficiency and effectiveness of the Audit Office.
- 1.2 The purpose of this inquiry into the efficiency and effectiveness of the Audit Office was to complement the independent review of auditing practices and standards.¹ The inquiry would examine matters relating to the Audit Office that may not have been addressed by the independent review. In particular, the inquiry focused on:
- the value for money provided by the Audit Office in carrying out financial and performance audits;
 - the robustness of the Audit Office’s process for selecting topics and agencies for audits;
 - the adequacy of the Audit Office’s resources; and
 - the effectiveness of the Audit Office’s communication with clients.
- 1.3 The Committee’s inquiry allowed for a narrower and more focused scope for the independent review, which was carried out concurrently to the inquiry. The independent review was completed by the end of June 2013, as required by the Committee’s terms of engagement, and tabled in Parliament in August 2013 under the title *Quadrennial review of the Audit Office 2013*.²
- 1.4 The Committee’s inquiry also provided an opportunity for members of the public and Audit Office clients to make submissions and comment on the performance of the Audit Office, as well as allowing for consideration of the scope of the Audit Office’s work.

¹ The terms of reference for the independent review were as follows:

Under section 48A of the Public Finance and Audit Act 1983, the review will examine the auditing practices and standards of the Auditor-General and determine whether the Auditor-General is complying with those practices and standards in the carrying out of the Auditor-General's functions under the Act. In particular, the review will:

- Assess the audit methodologies used by the Audit Office of NSW, having regard to:
 - compliance with current professional standards and legal requirements and
 - compliance with statutory responsibilities under the Public Finance and Audit Act 1983
- Assess the Audit Office's response to the previous statutory review undertaken in 2009
- Address any matters that may be referred to the review by the Committee during the course of the review.

² See Public Accounts Committee, *Quadrennial Review of the Audit Office 2013*, report 10/55, Parliament of NSW, August 2013.

CONDUCT OF THE INQUIRY

- 1.5 The Committee called for submissions, advertising the inquiry in the *Sydney Morning Herald* and on the Committee's website, and wrote to relevant stakeholders. The closing date for written submissions was 3 May 2013.
- 1.6 The Committee received 7 submissions from government agencies and other stakeholders including: Director of Public Prosecutions, University of Newcastle, WorkCover Authority of NSW, Serrated Tussock Working Party for NSW & ACT, NSW Audit Office and Mr Adam Johnston.
- 1.7 On 21 June 2013 the Committee held a public hearing at Parliament House, hearing evidence from:
- NSW Audit Office,
 - Division of Local Government,
 - NSW Treasury,
 - University of Newcastle,
 - Australian National Audit Office, and
 - Council of Social Service of New South Wales.
- 1.8 A full list of the submissions received can be found in Appendix One and a list of the witnesses who appeared before the Committee can be found in Appendix Two. The published submissions and published transcript of evidence from the hearing are available on the Committee's website.³

STRUCTURE OF THE REPORT

- 1.9 This report comprises two parts. Part One addresses the performance of the Audit Office in carrying out its functions, while Part Two considers the scope of the Audit Office's functions and whether these should be extended.
- 1.10 Part One consists of three chapters:
- Chapter Two focuses on the financial and compliance audit functions of the Audit Office.
 - Chapter Three focuses on the performance audit function of the Audit Office.
 - Chapter Four considers the effectiveness of the Audit Office's communication, as well as addressing issues relating to Audit Office's staff, resources and corporate governance.

³ See www.parliament.nsw.gov.au/publicaccounts

1.11 Part Two consists of two chapters:

- Chapter Five addresses the question of whether the Audit Office's powers to conduct audits should be extended to cover non-government organisations that are in receipt of State Government funds.
- Chapter Six addresses questions about the Audit Office's audit powers in respect of local governments and universities, as well as considering the issue of contracting out audits to the private sector.

THE AUDITOR-GENERAL AND THE AUDIT OFFICE

1.12 The Auditor-General and the Audit Office are established under Part 3 of the *Public Finance and Audit Act 1983* (the Act). The Auditor-General is the independent auditor of the New South Wales public sector. His functions are set out in section 27B of the Act, as follows:

- (a) to audit the consolidated financial statements, the general government sector financial statements and any other financial reports that the Auditor-General is required or authorised to audit by law,
- (b) to provide any particular audit or audit-related service to Parliament at the joint request of both Houses of Parliament,
- (c) to provide any particular audit or audit-related service to the Treasurer at the request of the Treasurer or to any other Minister at the request of that other Minister,
- (d) to report to Parliament as required or authorised by law,
- (e) to do anything that is incidental to the exercise of the Auditor-General's functions.⁴

1.13 Each year approximately 475 financial audits and twelve performance audits are completed by the Audit Office.⁵

1.14 In addition to the above functions, section 38B of the Act allows the Auditor-General to conduct performance audits of state authorities. A performance audit is described as:

an audit of all or any particular activities of an authority to determine whether the authority is carrying out those activities effectively and doing so economically and efficiently and in compliance with all relevant laws.⁶

1.15 Prior to 2013 the Auditor-General was appointed for a non-renewable term of seven years. In July 2013 the Act was amended to extend the term of appointment to eight years. The extended term will apply to future appointees, and not to the current Auditor-General, Mr Peter Achterstraat, whose term expires in September 2013.

⁴ *Public Finance and Audit Act 1983*, s 27B

⁵ Audit Office of NSW website, www.audit.nsw.gov.au/About-Us/Frequently-asked-questions, accessed 7 August 2013

⁶ *Public Finance and Audit Act 1983*, s 38B

1.16 The Audit Office is a statutory authority, established under the Act, which assists the Auditor-General with the performance of his duties under the Act. The Audit Office has approximately 288 employees. The Act also provides for the Auditor-General to contract out audit engagements to firms in the private sector. Over the past four years, approximately 10% of audits were contracted out.⁷

1.17 The Auditor-General has the mandate to audit agencies across the public sector, including departments, statutory authorities, state owned corporations, universities and other prescribed bodies. The Audit Office describes financial audits and performance audits in the following way:

A financial statement audit results in an independent audit opinion being expressed on the annual financial statements of an agency. This opinion expresses whether the financial statements comply with accounting standards, laws, regulations and Treasurer's directions. A performance audit assesses whether government agencies are carrying out their activities effectively, economically and efficiently and in compliance with all relevant laws.⁸

1.18 Some further detail about the rationale behind financial audits and performance audits is provided in each Audit Office report:

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.⁹

⁷ Public Accounts Committee, *Quadrennial review of the Audit Office 2013*, report 10/55, Parliament of NSW, August 2013, p 4.

⁸ Audit Office of NSW website, www.audit.nsw.gov.au/About-Us/Frequently-asked-questions, accessed 7 August 2013

⁹ Audit Office of NSW, *Financial Audit - Volume One 2013 - Focusing on themes from 2012*, inside cover.

PART ONE – EFFICIENCY AND EFFECTIVENESS OF THE AUDIT OFFICE

Chapter Two – Financial and compliance audits

- 2.1 This chapter considers the financial audit services and compliance audit services provided by the Audit Office of New South Wales. It examines the value for money provided by the Audit Office for its financial audits, as well as considering whether the Audit Office should provide a breakdown of their fees for financial audit services. The chapter also reports some criticisms about financial audits that have been conducted by the Audit Office, as well as considering the compliance audit function of the Audit Office and, in particular, whether this function should be specifically outlined in the *Public Finance and Audit Act 1983* (the Act) as part of the Auditor-General's mandate.

VALUE FOR MONEY

- 2.2 Each year the Audit Office conducts financial audits of agencies across the public sector, including departments, statutory authorities, state owned corporations, universities and other prescribed bodies. The Audit Office recoups the cost of conducting such audits by charging the agencies an audit fee.
- 2.3 The Committee received evidence from a number of inquiry participants about the value for money delivered by the Audit Office's financial audit services. The Audit Office claimed that they are providing value for money for their audit services, and a number of other agencies commented on their experiences regarding financial audits and their opinion about the value for money of the services provided.
- 2.4 The Audit Office claimed that a national benchmarking survey comparing financial audit services showed that the NSW Audit Office's costs were significantly less than the average of other State and Territory Audit Offices. They also noted that their own survey results showed that those responsible for the governance of agencies value the Audit Office's services highly.¹⁰
- 2.5 During the Committee's public hearing, the Auditor-General, Mr Peter Achterstraat, commented on the statistics comparing the costs for financial audits between states.

If we look at our costs, et cetera, on pages 5 and 6 you will see the statistics. I am very proud of those figures. The costs again are lower than other audit offices. On page 8 you can see our hourly rate is right on average with those that we outsource.¹¹

- 2.6 The following graphs show the comparisons between the NSW Audit Offices costs for financial audits and the average costs of other Australian jurisdictions. Figure 1 compares the cost of financial audits per thousand dollars of public sector transactions, while Figure 2 compares the costs per thousand dollars of public

¹⁰ Submission 6, Audit Office, p 1.

¹¹ Mr Peter Achterstraat, Auditor-General, Audit Office of NSW, transcript of evidence, 21 June 2013, p 2.

sector assets. In both cases the NSW Audit Office cost is lower than the average of state and territory audit offices. The NSW costs have also trended downwards over the three year period.

Figure 1: Financial audit costs - NSW vs other states (against transaction value)¹²

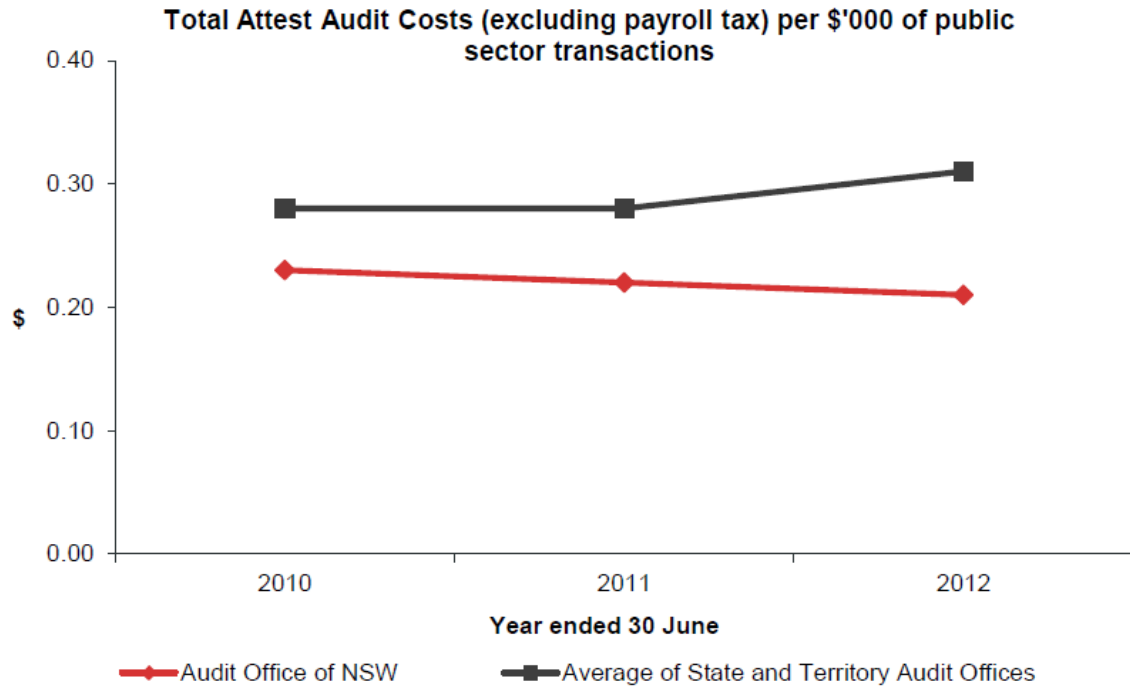
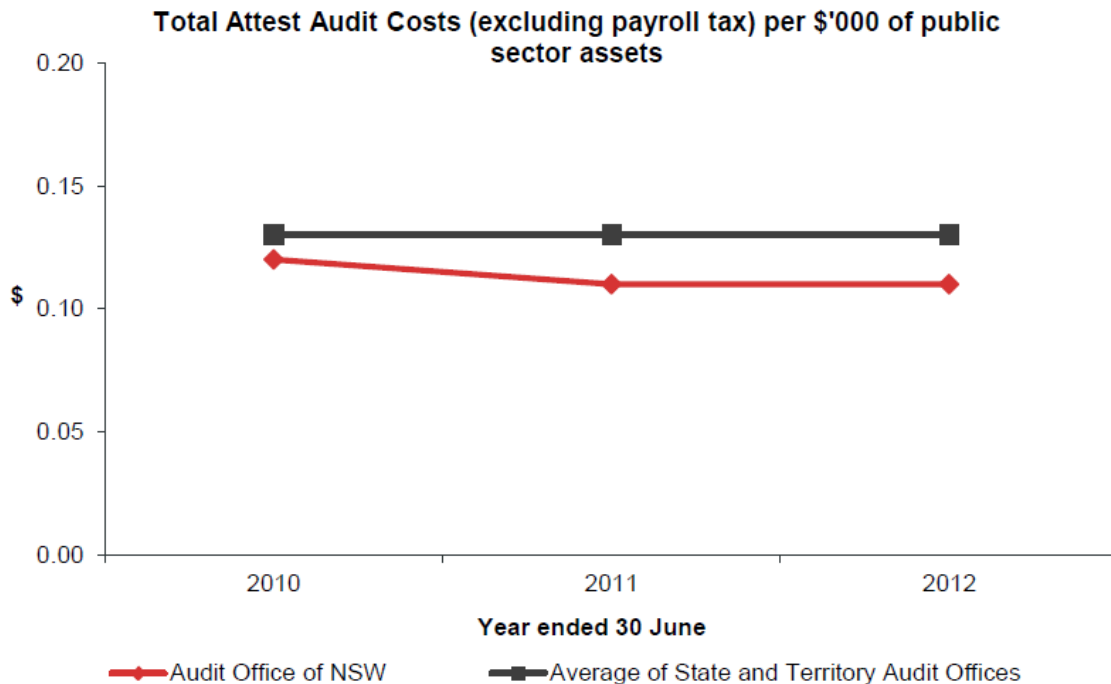


Figure 2: Financial audit costs - NSW vs other states (against asset value)¹³



¹² Submission 6, Audit Office, p6.

¹³ Submission 6, Audit Office, p7.

2.7 In addition to the above comparison of costs for financial audits, the Audit Office provided details of their own survey results, which showed the satisfaction of Parliamentarians and client agencies with the Audit Office’s financial audits.

2.8 The table below highlights that Parliamentarians have a very high level of satisfaction (97 per cent) with the work of the Audit Office and, in particular, the value of the Audit Office’s financial reports. The table also demonstrates that the results have improved over the two year period from 2010 to 2012.

Table 1: Parliamentarian survey results ¹⁴

	2012 % agree	2010 % agree
Overall Satisfaction with Audit Office Reports and Services	97	90
The Financial Reports clearly identified the significant issues and their implications	93	87
The Financial Reports assisted me to monitor financial performance of the NSW Public Sector	92	85

2.9 While the above results are excellent, the Audit Office has conceded that their focus on delivering value to Parliamentarians may have had a corresponding impact on the way in which government agencies perceive their services.

In practice our primary focus of delivering value to Parliament has a negative impact on the perception of value to agencies. Our survey results demonstrate this tension and show that the perception of value is higher from those charged with governance. Parliamentarians and Chairs of Audit Committees have a higher perception of value from our services than Chief Executive Officers or Chief Financial Officers. ¹⁵

2.10 In his evidence before the Committee, the Auditor-General noted that the satisfaction of Parliamentarians with the Audit Office is significantly higher than the Directors General and Chief Executives of agencies, however he highlighted that this same discrepancy is seen in the private sector, when you look at the boards of organisations versus the chief executive officers:

...the only point I want to make is that on page 4 you can see that in the private sector generally the view of the boards of organisations are much more positive towards internal audit and audit than the views of the Chief Executive Officers. I guess that is a fact of life. On page 4 there are two pie charts. We can see on the right-hand side that 79 per cent of board members in big private companies believe that internal audit provides value, but only 44 per cent of executive management.

I guess this is a teaser to explain that our statistics show that Parliamentarians are all in the 90s. In fact, the latest result is now 98 per cent this year up from 97. Audit committees, those independent people charged with governance, rank our value for money and our performance extremely highly, whereas the directors general and

¹⁴ Submission 6, NSW Audit Office, p3.

¹⁵ Submission 6, NSW Audit Office, p3.

the chief executive officers are still very high by comparison but are not in the same league. I guess it is consistent with what happens in the private sector.¹⁶

2.11 In their submission, the Audit Office argued that the discrepancy, between Parliamentarians and CEOs in the perceived value of auditors, is mirrored in the private sector. The pie charts referred to above by the Auditor-General were sourced from a PricewaterhouseCoopers study of private sector boards and executive management teams. The study showed that 79% of Board Members found internal audits contributed significant value, compared with just 44% of Executive Managers.¹⁷

2.12 The Audit Office's own survey of government agencies showed somewhat similar results. The table below outlines the perceptions of senior Government agency staff about the value for money provided by the Audit Office's financial audit services. The results for Chief Executive Officers are of a similar scale to the results noted in the PricewaterhouseCoopers study.

Table 2: Agency survey results¹⁸

	2012 % agree	2011 % agree	2010 % agree
Audit Committee Chairs			
The Audit Office financial audit services provide value for money	80	69	n/a
Chief Executive Officers			
The Audit Office financial audit services provide value for money	41	44	n/a
Chief Financial Officers			
The Audit Office financial audit services provide value for money	63	58	58

2.13 Some of the other agencies responding to the inquiry provided their own opinion of the value for money provided by the Audit Office's financial audit services.¹⁹ These are discussed further in the following pages.

2.14 The Office of the Director of Public Prosecution's (ODPP) view of Audit Office's financial audit services was that they are reasonable and good value for money.

Overall it is the view of the ODPP that the Audit Office provides value for money financial audit services; the Audit Office has adequate resources to carry out its functions; and communication by the Audit Office with the ODPP is considered effective.²⁰

2.15 Mr Philip Gaetjens, Secretary of NSW Treasury, commented on the quality of work done by the Audit Office for Treasury, noting that they shared a good working relationship with the Office.

¹⁶ Mr Peter Achterstraat, transcript of evidence, 21 June 2013, p 2.

¹⁷ Submission 6, NSW Audit Office, p4.

¹⁸ Submission 6, NSW Audit Office, p5.

¹⁹ See, for example, Submissions 1, 2 and 4; and the transcript of evidence, 21 June 2013.

²⁰ Submission 1, Director of Public Prosecutions, p 2.

We have had the Audit Office involved in the total State sector accounts, the half-year review and the budget, and I think, certainly from the Treasury perspective, that work was done well; it was done in a good working relationship.²¹

Breakdown of financial audit costs

2.16 While the abovementioned stakeholders had positive views of the value for money provided by the Audit Office, the following section outlines the views of other stakeholders who found it difficult to gauge the value for money of the financial audit process.

2.17 WorkCover indicated that they found it difficult to gauge the value for money provided by the Audit Office, because of a lack of detail in the Audit Office's fees.

As the Audit Office does not provide sufficient details for us to compare and contrast the fee charged for similar audits performed by either the Audit Office or other organisations, we are unable to form an opinion regarding whether the Audit Office is providing value for money financial audit services.²²

2.18 Mr Gaetjens of NSW Treasury advised that his department's interactions with other agencies had led them to question whether value for money was being provided by the Audit Office. However, he noted that this was a judgement based on opinion rather than a judgement based on empirical evidence.²³

2.19 Mr Gaetjens intimated that a reason for the lack of empirical evidence was that there was little information provided by the Audit Office on their invoices to agencies. He suggested that disaggregating bills, as well as benchmarking against external contractors on quality of work, comparable time of work and how the work is done, could provide for more objective, evidence-based judgements about the value for money provided by the Audit Office.²⁴

2.20 Mr Ronsisvalle of NSW Treasury stated that they had sought a breakdown of costs from the Audit Office regarding the Office's work on the Total State Sector Accounts. But he noted that no response has thus far been provided, reporting that "we have asked a number of times for a breakdown and we have not received that."²⁵

2.21 However, not all stakeholders considered that breaking down audit costs should be expected of financial auditors. When questioned by the Committee, Mr Tony Hall of the University of Newcastle replied that they received no breakdown of itemised costs on their bill from the Audit Office. But he also stated that they did not expect one, suggesting that this would also be normal practice for commercial audits conducted by the private sector.

Dr GEOFF LEE MP: When you get your bill, is it a single bill that is itemised in respect of what they spend their money on or time?

²¹ Mr Philip Gaetjens, Secretary, NSW Treasury, transcript of evidence, 21 June 2013, p15.

²² Submission 4, WorkCover Authority of NSW, p2.

²³ Mr Philip Gaetjens, transcript of evidence, 21 June 2013, p14.

²⁴ Mr Philip Gaetjens, transcript of evidence, 21 June 2013, p14.

²⁵ Mr Mark Ronsisvalle, Deputy Secretary, NSW Treasury, transcript of evidence, 21 June 2013, p15.

Mr HALL: No. We would not expect that either. It is normal for commercial audits as well as the audits with the Audit Office to just have a fee specified. We do not know how many hours that might represent with the Audit Office. Commercially, yes, we would have an understanding of how many hours are involved. Yes, we do not have that transparency, but the thing for us and, as I understand it, the rest of the sector is that we are required to have the Audit Office audit us, so those discussions do not happen other than our grumbling about the fee.²⁶

- 2.22 While it may be normal practice for commercial audits not to provide an itemised bill at the conclusion of an audit, the Committee understands that it would be common practice for a commercial auditor tendering for an audit contract to provide an estimate of the cost of an audit. This cost estimate would typically include a breakdown of the expected hours worked and any other costs that may apply.
- 2.23 The Committee was interested to learn about the manner in which the Audit Office advises agencies about its fees for financial audits.
- 2.24 The Audit Office submitted that it provided clear information to client agencies regarding audit fees. They stated that estimated fees for audits and associated arrangements are 'communicated to agencies through discussions and briefing meetings with key agency management personnel (usually the CFO) and the audit director.' And further noted that the key documents which confirm fee arrangements include the Terms of Engagement and the Client Service Plan.²⁷
- 2.25 While the Audit Office do not submit tenders for their work, they do provide agencies with a Client Service Plan at the beginning of an audit. The Client Service Plan outlines the details of the audit engagement, including an estimate of the audit fee. If a proposed Client Service Plan is acceptable to an agency, then the CEO of the agency is required to agree to the terms in writing. Thus confirming to the Audit Office that the plan for the audit, including the audit fees, have been understood and accepted by the agency.
- 2.26 Currently, the audit fee quoted in the Client Service Plan is typically a single figure, with no further breakdown of charges.

University concerns about financial audits

- 2.27 The University of Newcastle raised a number of concerns about the financial audit process and the content of the Auditor-General's financial audit reports. The concerns raised included issues regarding the length of time taken to complete the audit, the number of staff involved in the audit process, the efficiency of the Audit Office compared with commercial contractors, and the content of the reports to Parliament delivered by the Auditor-General.²⁸ These matters are more fully examined in Chapter Six – Universities and Local Government.

²⁶ Mr Anthony Hall, Financial Controller, University of Newcastle, transcript of evidence, 21 June 2013, p23.

²⁷ Submission 6, Audit Office of NSW, p37.

²⁸ Submission 2, The University of Newcastle, p.1, Mr Anthony Hall, Transcript of evidence, 21 June 2013, p.21

COMPLIANCE AUDITS

2.28 The Committee received comparatively little evidence about compliance audits. However, the issue was raised by the Audit Office in their submission and during the public hearing. The topic of compliance audits was also examined by the independent review that was conducted concurrently with this inquiry.

2.29 The Audit Office noted that there have been just three compliance audits undertaken since 2009. The topics for these compliance audits were:

- 2009 – Total Asset Management,
- 2010 – Electronic Procurement,
- 2012 – Internal Audit and Risk Management.²⁹

2.30 The Audit Office outlined the process for selecting agencies for compliance audits, indicating that agencies are selected for compliance audits based on:

- the relevance and materiality of the specific compliance matters to that agency and the State
- the likelihood and extent of benefits from potential findings and recommendations
- the engagement scope and budget.³⁰

2.31 The independent *Quadrennial review of the Audit Office 2013* included information about the methodology applied by the Audit Office for compliance audits, noting that it was similar to the approach for financial audits.

The Audit Office methodology for Compliance Audit is noted to be relatively linear to the Financial Audit methodology. In performing a compliance audit:

- The Audit Office seeks the mandate and funding from Treasury prior to commencement of the audit.
- The audit is scoped based on the number of agencies the Audit Office will audit to achieve a representative coverage across the sector. Generally, Treasury is provided a fee estimate for approval. The Audit Office includes the nine principal agencies (with the biggest budget allocation) in its scope for review.
- A Detailed Audit Plan is created and approved by the Financial Audit Branch executives.
- An Audit Program which is different for every compliance audit is developed.
- The Technical Panel is consulted as part of the quality review process.
- The findings for the compliance audit are included in each of the agency's annual management letters and followed up the subsequent year.

²⁹ Submission 6, NSW Audit Office, p2.

³⁰ Submission 6, NSW Audit Office, p2.

- The report is tabled in Parliament in the Financial Audit volumes.³¹

2.32 However, the independent review pointed out that the Audit Office does not have a specific mandate under the *Public Finance and Audit Act 1983* to conduct compliance audits. The review suggested that this limited the Audit Office's ability to be proactive in developing its compliance audit function.³²

2.33 The Audit Office's submission explained that compliance audits are currently conducted under section 27B(3)(c) of the *Public Finance and Audit Act 1983*, which provides that one of the Auditor-General's functions is 'to provide any particular audit or audit-related service to the Treasurer at the request of the Treasurer or to any other Minister at the request of that other Minister.' In effect, the Audit Office requires Treasury's willingness to request and provide the funds for the audit.³³

2.34 During the public hearing, representatives of the Audit Office advised that there had previously been a recommendation to amend the Act, but that such changes had not yet been implemented.

Mr WHITFIELD: In the previous Public Accounts Committee inquiry there was a recommendation that the Act should be changed to allow the Auditor-General to do a compliance audit and that that should be funded...

CHAIR: What is your current understanding of the status of previous recommendations?

Mr WHITFIELD: My current understanding of the previous recommendations is that Treasury were going to make some amendments to the Public Finance and Audit Act, but they have yet to see the light of day.

Mr ACHTERSTRAAT: Just to clarify what a compliance audit is for those who are interested in a particular department. If we are asked by somebody to do an audit on whether a particular department is complying with the particular procedures for fringe benefits—the car fleet or the total asset management plan—it is not a financial audit and it is not a performance audit, we just ask: is the department complying.³⁴

2.35 The *Quadrennial review of the Audit Office 2013* supported the recommendation to introduce changes to the Act such that compliance audits would form part of the Audit Office's mandate under the Act.

We endorse the Audit Office's efforts in pursuing changes to the *Public Finance and Audit Act 1983* to include Compliance Audit in the Audit Office's mandate and recommend Treasury push forward with the suggested changes to the Act to include this mandate.³⁵

³¹ Public Accounts Committee, *Quadrennial review of the Audit Office 2013*, report 10/55, Parliament of NSW, August 2013, p25.

³² Public Accounts Committee, *Quadrennial review of the Audit Office 2013*, p25.

³³ Submission 6, NSW Audit Office, p20.

³⁴ Mr Anthony Whitfield, Deputy Auditor-General, and Mr Peter Achterstraat, Auditor-General, Audit Office of NSW, transcript of evidence, 21 June 2013, p25.

³⁵ Public Accounts Committee, 2013, *Quadrennial review of the Audit Office 2013*, p25.

- 2.36 The NSW Financial Audit 2011 (the Lambert Report) similarly recommended that the Auditor-General's powers be enhanced by 'providing the Auditor-General with explicit power to undertake compliance audits'.³⁶

COMMITTEE COMMENT

- 2.37 The Committee considers that in most cases the Audit Office's financial audit services provide value for money. The comparison between the costs of financial audits conducted by the NSW Audit Office and the average of other states and Territories demonstrates the competitiveness of the services provided by the NSW Audit Office, as do the exceptional results in the Audit Office's surveys of parliamentarians.
- 2.38 While it is pleasing that the costs for financial audits per \$'000 of public sector transactions/assets are lower for the NSW Audit Office than the average of the other states and territories, the Committee considers that this ought to be expected for a state with a large budget. In much the same way that the Australian National Audit Office would be expected to have lower costs per \$'000 than the states and territories.
- 2.39 The Committee noted some criticisms of the financial audit process raised by the University of Newcastle and will further explore, in Chapter Seven, the issue of contractors and commercial firms conducting financial audits for universities and local councils.
- 2.40 Some inquiry participants raised the possibility of the Audit Office providing a breakdown of their fees for financial audits. The Committee understands that it would be common practice for a commercial auditor tendering for an audit contract to provide an estimate of the cost of an audit, which would typically include a breakdown of the expected hours worked and other costs that may apply.
- 2.41 While the Audit Office does not submit tenders for its work, it does provide a Client Service Plan which outlines the details of the audit engagement, including an estimate of the audit fee. The Committee recommends that the Audit Office should consider including a breakdown of its audit fee in its Client Service Plan for financial audit engagements.
- 2.42 While compliance audits were not addressed comprehensively in the evidence received, the Committee considers that this is an important function of the Auditor-General. The Committee therefore agrees with the findings of the independent *Quadrennial Review of the Audit Office 2013*, which recommended that compliance audits should be included in the Auditor-General's mandate under the *Public Finance and Audit Act 1983*.
- 2.43 Given that the Audit Office currently undertakes occasional compliance audits at the request of the Treasurer, the Committee does not expect that including compliance audits in the legislative mandate of the Auditor-General would significantly affect the resourcing of the Audit Office. However, the Committee

³⁶ NSW Treasury, *NSW Financial Audit 2011*, Sydney, September 2011, p 12-50.

considers that the Government should ensure that the Auditor-General is adequately resourced to perform his functions.

RECOMMENDATION 1

The Committee recommends that the Audit Office consider including a breakdown of its audit fee in its Client Service Plan for financial audit engagements.

RECOMMENDATION 2

The Committee recommends that the *Public Finance and Audit Act 1983* be amended to specifically include compliance audits within the mandate of the Auditor-General.

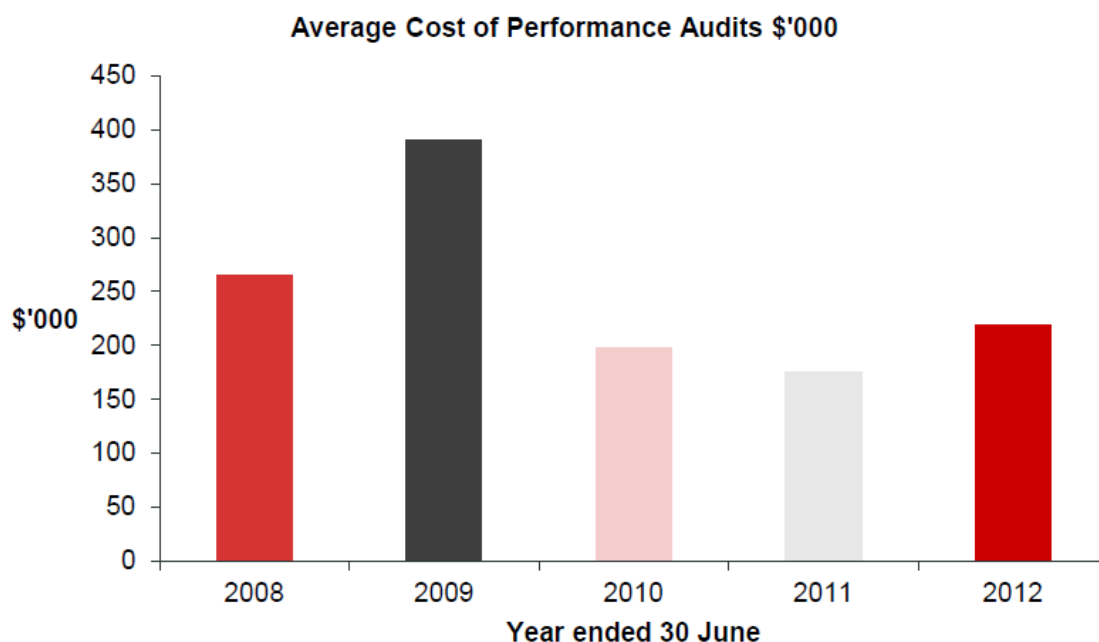
Chapter Three – Performance audits

3.1 This chapter examines the performance audit services provided by the Audit Office. It considers the value for money performance audits provide and examines the processes applied by the Audit Office when selecting performance audit topics. The chapter also reviews suggestions for the Audit Office to publish a future performance audit plan.

VALUE FOR MONEY

3.2 The Auditor-General publishes approximately 12 performance audit reports per year, with the number published varying from one year to the next. The average cost of a performance audit for the year 2011-12 was \$219,000 and the following table outlines the average cost of performance audits over the five years from 2008 to 2012.

Figure 3: Average cost of performance audits ³⁷



3.3 As can be seen from the table, the average cost of performance audits has reduced over the five year period. The Audit Office's submission indicated that this 'reduction has been part of a deliberate strategy to spend more time on selecting topics, adopting a tighter audit scope and producing shorter, sharper reports.' However, 2012 has seen an increase in cost compared with the previous two years. The Audit Office argued that this was a result of 'undertaking more complex, and arguably more contentious audit on matters of high public interest,' such as, *Responding to Domestic and Family Violence, Two Ways*

³⁷ Submission 6, NSW Audit Office, p14.

*Together – NSW Aboriginal Affairs Plan, and Government Expenditure and Transport Planning in Relation to Implementing Barangaroo.*³⁸

3.4 One way to measure the value for money provided by the performance audits conducted by the Audit Office is to measure the satisfaction with the services provided, particularly the satisfaction of the Parliamentarians for whom the reports are compiled.

3.5 The Audit Office provided the results of recent surveys of Parliamentarians about performance audit reports. As indicated in the table below, a very high percentage of Parliamentarians assessed the performance audit reports and services to be of a high quality, and a similarly high percentage considered that the reports provided valuable information. The level of satisfaction with the performance audits had also increased over the two year period between 2010 and 2012.

Table 3: Parliamentarian survey - assessment of performance audits³⁹

Statement	2012 % agree	2010 % agree
Reports and services are high quality	95%	85%
Responsive to requests	100%	91%
Advice which meets their needs	100%	86%
Reports provide valuable information	98%	91%
Reports communicate issues clearly	93%	87%

3.6 The Audit Office indicated that their survey results demonstrate that performance audits provide value for money by meeting their objective and contributing to improved accountability by Government agencies within New South Wales. The Audit Office also outlined two further measures that demonstrate the value of their performance audits:

- We rated above the average of the four other participating Audit Offices in four key performance audit areas, high quality reports and services, valuable information on public sector performance, improving public sector administration, and reporting issues clearly.
- Our Performance Audits add value as demonstrated by feedback from agencies and the extent of implementation of our recommendations.⁴⁰

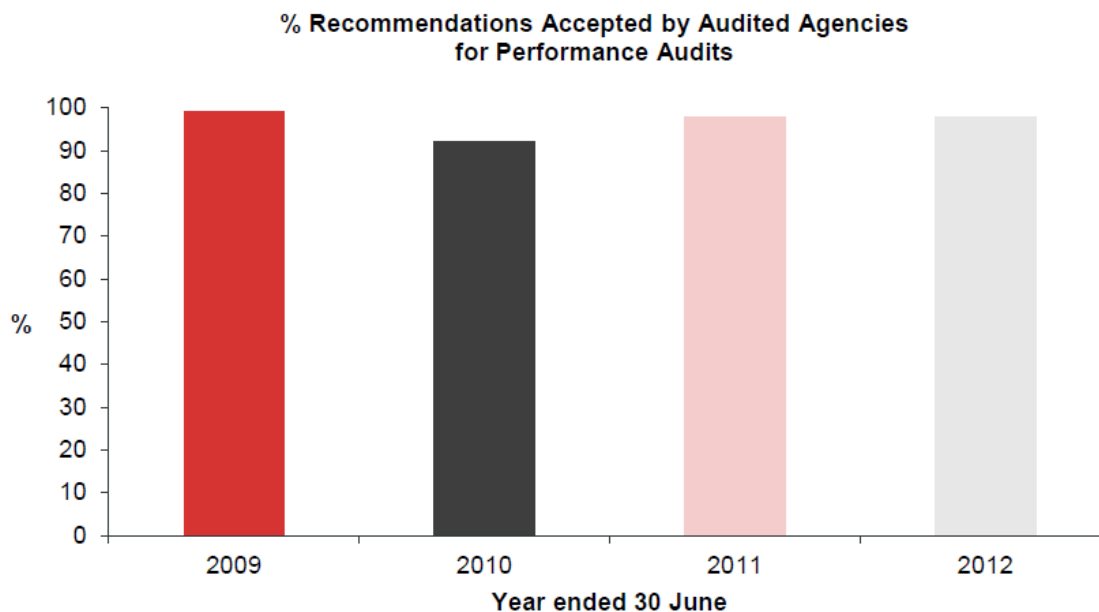
³⁸ Submission 6, NSW Audit Office, p14.

³⁹ Submission 6, NSW Audit Office, p9.

⁴⁰ Submission 6, NSW Audit Office, p1.

3.7 The graph below shows the level of acceptance of Audit Office recommendations made in performance audit reports. In their submission, the Audit Office argued that the percentage recommendations accepted is a reasonable proxy for whether they understood the business.⁴¹

Figure 4: Acceptance of performance audit recommendations⁴²



3.8 The very high percentage of recommendations accepted by agencies that have been the subject of a performance audit reflects the appropriateness of the reports and recommendations made by the Audit Office.

3.9 Other agencies responding to the inquiry provided generally positive feedback about the conduct of performance audits and the value of the recommendations made by the Audit Office. For example, WorkCover Authority of NSW reported on a recent performance audit in which they had been involved.

WorkCover recently underwent a performance audit in relation to gifts and benefits. WorkCover was chosen to participate in this audit as it is a regulatory agency and was identified as being at greater risk of exposure to receiving gifts and benefits.

The Audit Office of NSW conducted this audit in a very professional manner and met the objectives of this performance audit. The recommendations made by the Audit Office of NSW have been incorporated into WorkCover's gifts and benefits policy.⁴³

3.10 The Office of the Director of Public Prosecutions (ODPP) similarly considered that the recommendations made in a performance audit conducted in 2008 were valuable, even if the overall objectives of the audit had not been fully addressed.

⁴¹ Submission 6, NSW Audit Office, p13.

⁴² Submission 6, NSW Audit Office, p13.

⁴³ Submission 4, WorkCover Authority of NSW, p2.

The 2008 Performance Audit was an extensive review into the efficiency of the ODPP. ... In general, the objectives of the review were unable to be met but the recommendations by the Audit Office were helpful to the ODPP, bringing about change and enabling it to focus on improving key areas of the agency.⁴⁴

3.11 While the bulk of the evidence made to this inquiry has reflected positively on the value of performance audit function of the Audit Office, the recently tabled *Quadrennial Review of the Audit Office* noted a mixture of both positive and negative responses made by agencies that had been the subject of a performance audit. The Quadrennial Review examined the responses of 16 agencies which had completed a survey questionnaire between July 2011 and July 2012. The following comments were reported from performance audit clients.

Clients have commended the Audit Office in their efforts to:

- Grasp key concepts in an efficient and timely manner; and
- Maintain professionalism in the interaction and effective communication between the agency and Audit Office.

Negative comments that have been received from within the client surveys relate to:

- Reports were not a true reflection of the operating environment and context within the organisation and included key issues and opinions that were not previously communicated with the organisation;
- Benefits of auditors having knowledge in regards to the review topic through briefings with key agencies prior to the review, gathering a comprehensive understanding of the context of the agencies and engaging in active communication with the agency;
- Review was not beneficial in adding value to the management of the activity;
- Suggestions in improving the scope.⁴⁵

PROCESS FOR SELECTING PERFORMANCE AUDIT TOPICS

3.12 One of the terms of reference for this inquiry was whether the process of selecting topics for performance audits is based on a robust methodology.

3.13 Mr Philip Gaetjens of the Treasury commented on the process for selecting performance audits, indicating that he did not feel the process was transparent. He was aware of the Audit Office's early steps in the process, in seeking suggestions and information from agencies and Parliamentarians, but he was not sure what happened after that.

We know that there are questions asked of what should we do and then decisions are made. I do not think we are aware of the link of what is done compared to the input that is received. I do not think that is transparent. Again, I do not think there is an objective or transparent basis upon how the final decisions are made on which to

⁴⁴ Submission 1, Director of Public Prosecutions, p1.

⁴⁵ Public Accounts Committee, *Quadrennial review of the Audit Office 2013*, p 30.

do performance reports. I am not saying that is good or bad but I just do not think it is very evident as to how the decision is finally made.⁴⁶

3.14 In his evidence to the inquiry, the Auditor-General stated that, at the end of the day, he has complete discretion over how performance audit topics are selected and which topics will be selected in any particular year. However, he also made the following comments, which provide an overview of how he selects performance audit topics, as well as how the lines of inquiry for a particular audit are developed.

We currently undertake approximately 12 performance audits each year. I have absolute discretion as to the areas to choose. Therefore, it is beholden on me to be very transparent for the areas which I choose. Throughout the year we have significant issues groups. ... In a nutshell, I write to the heads of agencies and I write to all members of Parliament. We have a watching brief throughout the whole year to see questions asked in Parliament, issues raised by the public in newspapers and letters written to me, to distil what areas we should look at. Of the 12 areas I generally like to choose one from Education, one from Health, one from Transport, one from Law and Order, et cetera.

As to the lines of inquiry, we meet very closely with the agency once we have chosen to do the audit. We work with them to ask whether there are reasons why it should not go ahead. For example, we were going to do an audit with the Roads and Maritime Service earlier this year. Our system had shown that there was an issue with motorcycle accidents. After working with the agency we decided it was better to defer that because of other work they were doing. One of our criteria is that there is no point in us doing an audit if at the same time the agency is changing their arrangements and we come out and say they should do X and they say that they are already doing X. That would be a waste.

As to other criteria we look at, on page 17 is the Auditor-General's 11-point selection criteria. They include things such as if someone else is looking at a topic. If the Independent Commission Against Corruption is looking at it or the Ombudsman is looking at it we do not take it further. I tend to like topics where there is a normative standard that I can audit against. For example, if a member of Parliament wrote to me and asked what the government was doing in relation to poverty, that is probably not the type of performance I would undertake because I have got no normative standard to compare with. I would be purely giving my views on what a government should do. However, if somebody wrote to me and said department X was given \$100 million to do the following things in relation to poverty, these are the things the business case said, they are the things I would audit.⁴⁷

3.15 The Audit Office, in its submission to the inquiry, argued that the process for selecting performance audit topics is based on a robust methodology. The submission noted that the methodology is underpinned by a Strategic Audit Planning process, which identifies an inventory of key issues and potential topics for each portfolio of government agencies.

3.16 The submission highlighted the Office's continuous monitoring of risks faced by NSW Government agencies and its identification of performance gaps, which

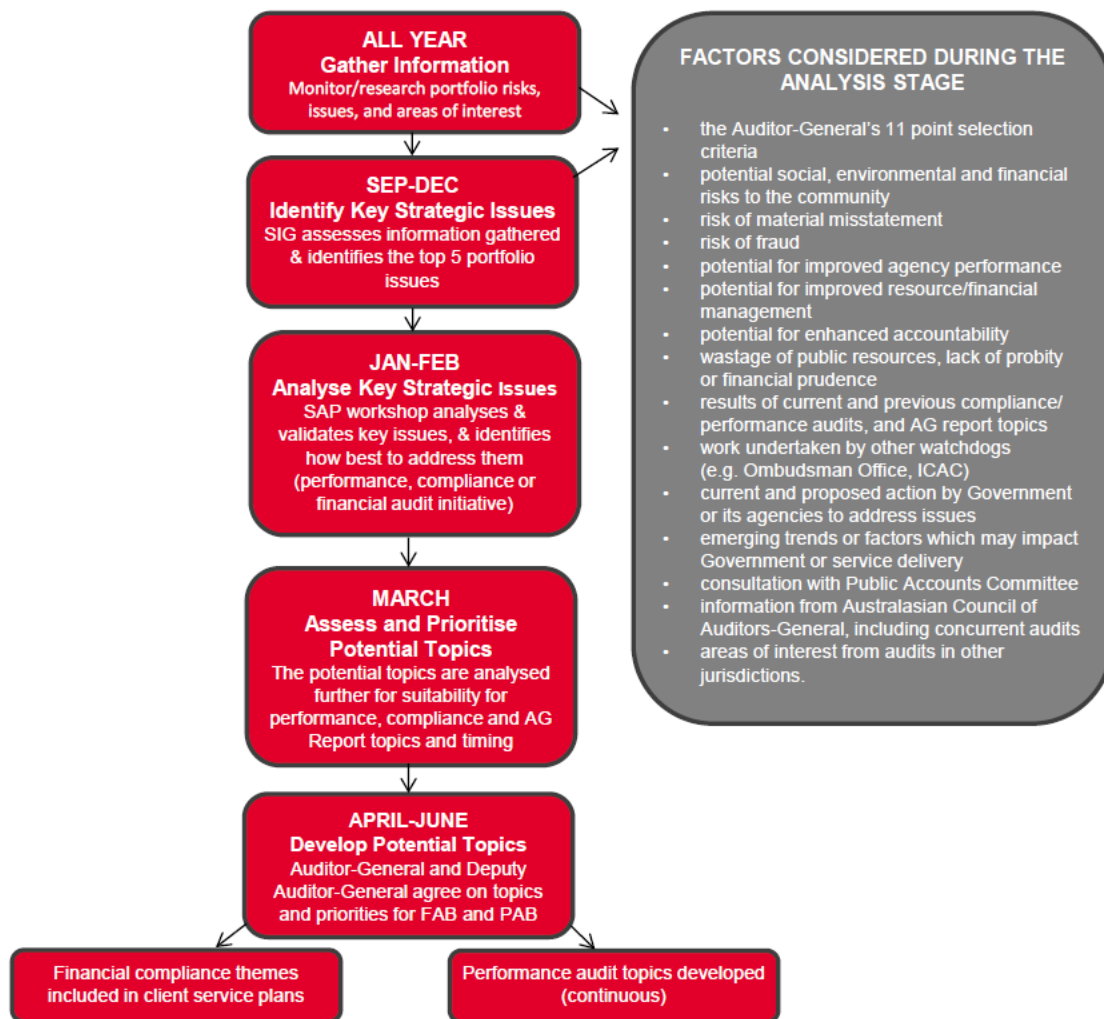
⁴⁶ Mr Philip Gaetjens, transcript of evidence, 21 June 2013, p14.

⁴⁷ Mr Peter Achterstraat, Auditor-General, Audit Office of NSW, transcript of evidence, 21 June 2013, p3.

feed into the Strategic Audit Planning process. The Audit Office also noted that the potential topics for performance audits are assessed against selection criteria, which target the Office’s work to add most value to Parliament.⁴⁸

3.17 The following diagram outlines the process used and activities involved in selecting audit topics. It includes an overview of the timeline involved throughout the year in identifying issues and then assessing and developing potential topics for performance audits.

Figure 5: Audit topic development process⁴⁹



3.18 The Auditor-General’s 11 point selection criteria for selecting topics is summarised below. Each topic proposed as a potential subject for a performance audit must be assessed against the following criteria in order to be considered for inclusion in the audit program.

1. the topic is of interest to Parliament and the person in the street

⁴⁸ Submission 6, NSW Audit Office, p1.

⁴⁹ Submission 6, NSW Audit Office, p18.

2. the activity to be audited is clearly defined and key questions can be established
3. the audit does not duplicate the work of other subject experts
4. suitable audit criteria exist, which:
 - have the potential to identify significant performance gaps
 - are based on objective standards, such as regulations, procedures, output or outcome targets, better practice in other jurisdictions etc
5. the audit focuses on how the State's money is used, expresses issues in dollar terms, and wherever possible, identifies areas where better value for money might be obtained
6. use of statistics, such as:
 - comparisons with other jurisdictions
 - trends over time
 - regional NSW and inter jurisdictional comparisons
7. the audit is likely to provide specific answers to key questions and, if possible, identifies three major issues and three recommendations that impact the person in the street
8. the results of the audit can be expressed in a clear, concise, simple report of around 10-15 pages that addresses the Auditor-General's concerns
9. the report is likely to include recommendations that are:
 - practical and relate to the person in the street
 - clear and concise
 - outcomes-based
 - tangible, where benefits clearly exceed costs
10. it is likely our recommendations will be implemented and others will use our work
11. there are opportunities to engage the public or key external stakeholders to inform the audit are exploited, through:
 - any other audits/reviews done or planned on the issue
 - audits done on the topic in other jurisdictions
 - potential performance gaps, recommendations and risks
 - auditability and suitability.⁵⁰

⁵⁰ Submission 6, NSW Audit Office, p17.

Publication of future audit plan

3.19 In order to address perceived concerns about the limited disclosure of scope of the performance audit program, the 2009 independent review of the Audit Office under section 48A of the *Public Finance and Audit Act 1983*, recommended that the Auditor-General should consider publishing a rolling 3 year plan for future performance audits.

3.20 The 2009 review suggested that publishing such a plan would ensure effective notice is provided to stakeholder groups, and noted that the Victorian Auditor-General's Office published just such a plan.⁵¹

3.21 The recommendation was one of the few recommendations from the 2009 review that the Auditor-General did not implement. During the public hearing on 21 June 2013, the Auditor-General explained his reasons for not publishing a 3 year plan for future performance audits.

...in the last triennial review, where the reviewers had a different view to me was in relation to mapping out in concrete the three-year plan for performance audits. Other States do that. They say these are all the audits we are going to do in the next three years. I am much more flexible and I have a different view. I only go out 12 months because I think the world changes and there are various priorities.⁵²

3.22 The 2013 independent review of the Audit Office revisited the issue of publishing a plan of future performance audits, in light of the Auditor-General's position. The review agreed with the Auditor-General's view that a three year plan was not feasible due to the constantly changing and emerging issues in the NSW public sector.

3.23 However, the review still expressed concern about the degree of disclosure of future performance audits, noting that disclosure was limited to two sections in the Annual Report entitled "The Year Ahead" and "This Year's Performance Audits", as well as a section on the website entitled "Engagements in Progress". The review made the following recommendation about publishing a rolling 12 month plan.

The Audit Office commits a significant amount of effort in its annual Strategic Audit Planning process. For public information and visibility, we encourage the Audit Office to publish a rolling Annual Audit Work Program, which is revisited throughout the year as an alternative to the publication of a three year plan for performance and compliance audits. This provides the public and the NSW public sector with some insight and transparency into the areas the Audit Office plans to audit. We note this recommendation is also consistent with the practices of the Australian National Audit Office, Victorian Auditor-General's Office, Tasmanian Audit Office and the Office of the Auditor-General of Western Australia.⁵³

⁵¹ Public Accounts Committee, *Review of the Audit Office under s 48A of the Public Finance and Audit Act 1983*, 2009, p43.

⁵² Mr Peter Achterstraat, transcript of evidence, 21 June 2013, p3.

⁵³ Public Accounts Committee, *Quadrennial review of the Audit Office 2013*, p8.

COMMITTEE COMMENT

- 3.24 The Committee found that the average cost of performance audits has trended downwards over the past five years, however costs may spike from one year to the next, depending on the complexity of the audits undertaken.
- 3.25 Other measures that indicate the value for money provided by the performance audit services of the Audit Office include: the satisfaction of those parties for whom the reports are compiled, as well as the acceptance of performance audit recommendations. On both of these measures the Audit Office has performed exceptionally well. The 2012 survey results show that over 90 per cent of Parliamentarians agreed that the Office's performance audit reports were of high quality and provided valuable information, while the percentage of recommendations accepted by agencies was greater than 90 for the past four years.
- 3.26 The Committee found that while the Audit Office has in place a robust and transparent process for selecting performance audit topics, there may be a lack of understanding among some government agencies about how the performance audit program is developed. In addition, the limited disclosure of the Audit Office's future audit program may reduce the transparency of performance audits and limit the ability of stakeholders to be aware of upcoming audits. Therefore the Committee considers that it would be beneficial for the Audit Office to publish on its website a rolling 12 month indicative audit plan, which should be updated on at least a quarterly basis.

RECOMMENDATION 3

The Committee recommends that the Audit Office publish on its website a rolling 12 month indicative performance audit plan. The plan should be updated on at least a quarterly basis.

Chapter Four – Communication, staff, resources and corporate governance

4.1 This chapter addresses two terms of reference of the inquiry, examining the effectiveness of the Audit Office’s communication with clients, as well as considering whether the Audit Office has adequate resource to carry out its functions. The chapter also considers matters relating to staff quality and corporate governance, which were raised during the inquiry.

EFFECTIVENESS OF COMMUNICATION

4.2 One of the questions the Committee wished to examine during the inquiry was how well the Audit Office communicates with its clients. As an organisation that works with a vast array of other agencies through its financial audit and performance audit programs, the Audit Office must be an effective communicator.

4.3 Communication is important throughout the entire audit process, from the initial planning stages through to the provision of feedback and recommendations to agencies at the conclusion of an audit. The Auditor-General himself also has an important role to play in publicising the outcomes of an audit once his report has been tabled in Parliament.

4.4 The Committee heard evidence from the Audit Office, and a number of other inquiry participants, regarding the effectiveness of the Audit Office’s communication. Much of the evidence presented a positive view of the Audit Office’s communication, though some evidence suggested there was still room for improvement in some aspects of the Office’s communications.

4.5 The Audit Office claimed that it is a highly effective communicator, noting that it ranked highly against other audit offices in benchmarking surveys, as well as scoring highly on the communication sections of its own client surveys.

4.6 The Audit Office provided results from a national parliamentary and agency survey, in which a number of the questions related directly to the effectiveness of the Office’s communication. Overall, 93% of responders were satisfied with the clarity of the Audit Office’s reports and communications:

Table 4: National parliamentary and agency survey – communication ⁵⁴

Statement	2012 % agree	Rank vs other jurisdictions
Financial Audit Branch results		
Financial Audit reports are easy to understand	91	2
The Financial Audit Branch’s interaction with agency staff during the audit was conducted in a professional manner	93	2

⁵⁴ Submission 6, NSW Audit Office, p35.

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Financial Audit Branch management letters clearly communicated audit findings and issues	93	2
The agency was given adequate opportunity to comment on Financial Audit findings and issues before publication of management letters	92	2
Communication between the Financial Auditors and the agency was effective	94	1
Performance Audit Branch results		
Performance Audit reports are easy to understand	91	3
The Performance Audit Branch's interaction with agency staff during the audit was conducted in a professional manner	94	2
The agency was allowed sufficient opportunity to comment on Performance Audit findings and issues before finalisation of the report	100	1
Communication between the Performance Auditors and the agency was effective	75	4

4.7 In addition to the above national survey results, the Audit Office's own client survey conducted in 2012 found the following results:

Table 5: Audit Office agency survey – communication ⁵⁵

Survey Statement	Audit Committee Chairs % agree	CEOs % agree	CFOs % agree
Communication between auditors and the agency was effective	n/a	72	94
The agency had adequate opportunity to comment on the audit findings and issues before finalisation of the management letter	n/a	n/a	91
The agency was promptly informed of significant issues	95	65	87
Auditors respond promptly to requests/our needs	n/a	65	91
Audit Office communications were timely	94	80	85
The Audit Office's communications including reports, opinions and management letters clearly communicated findings and issues	95	80	96

4.8 Generally, the results of the above surveys indicate a medium to high level of satisfaction with the Audit Office's communications. However, some of the results, particularly CEOs' satisfaction with the office's promptness in responding to requests or informing agencies of significant issues, suggest that there is still room for improvement in some aspects of the Audit Office's communications.

⁵⁵ Submission 6, NSW Audit Office, p36.

4.9 The Committee heard from a number of inquiry participants who commented on the effectiveness of the Audit Office's communication. While most of the comments indicated a good level of communication, one organisation felt that communication could be enhanced in some areas.

4.10 The Director of Public Prosecutions highlighted the professional manner and communication skills of Audit Office staff, outlining the process and discussions that occur prior to the commencement of financial audits.

In relation to the annual audits, they are conducted in a professional manner with good communication between the Auditors and ODPP staff. The Audit Office commences each audit by meeting with the ODPP CFO and senior financial staff. The purpose of this meeting is to review prior year management letter item progress, discuss management and other operational changes, discuss the upcoming audit and agree the timetable. It is in this meeting that the Audit Office will discuss the topics that have been selected as areas of focus for the audit.

Following the initial meeting, the Audit Office will then provide a Client Service letter for the upcoming audit. The timetable outlined in this letter is then typically followed closely by both the Audit Office and ODPP. Any concerns or issues along the way are also typically resolved quickly and amicably.⁵⁶

4.11 WorkCover similarly noted that the Audit Office typically communicates clearly and effectively. The Safety, Return to Work and Support Division (SRWSD) of the department also suggested that they had experienced an improvement in the communications of the Audit Office over the last few years, stating that:

The Audit Office has listened to our concerns and made changes to the way they conduct their audits such as:

- Adopting a cluster-wide approach to the audit of all the agencies that make up the Safety, Return to Work and Support division
- Having one Audit partner oversight all of the audits across the cluster
- Adopting a consistent approach to the conduct of these audits
- Leveraging of the work of other audits done across the cluster where the operations of the agencies interact.

Overall these changes have resulted in the audits of the agencies of SRWSD being more effective and have definitely improved the communication of audit findings throughout the conduct of the audits to Management.

The Audit Office through its client service plans each year communicates clearly to its clients the expected fee for their financial audit. They also identify the key risk areas that they will examine during their audit and the timing and scope of the audit. This plan is developed in consultation with their clients and the discussions that occur during its development are beneficial to both the Audit Office and their clients.⁵⁷

⁵⁶ Submission 2, Director of Public Prosecutions, p.1

⁵⁷ Submission 4, WorkCover Authority of NSW, p.3

- 4.12 In contrast to the above positive assessments, the University of Newcastle suggested that there was room for improvement in the communication skills of some areas of the Audit Office. The university felt that the level of engagement of the Audit Office's Technical Team was insufficient when dealing with complex issues arising during an audit. The university described its experiences of dealing with the Technical Team in previous years, underlining the lack of communication from the team, which left the university unable to understand the reasons for the audit decisions made by the team.

Prior to the introduction of the commercial audit firm in 2013 UoN experienced some difficulties when disagreements over the correct treatment of a complex transaction arose that involved decision by the Audit Office's Technical Team. In such circumstances it was observed that the approach adopted by the Audit Office was to invite a paper outlining the university's position and rationale for a particular treatment. In response the Technical Team would issue its decision, which the Audit Office would adopt. Unfortunately, no further discussion or engagement would occur after that point. In our experience this approach did not enable the University to understand the rationale for the Technical Team's decision or of its rejection of the University's position.⁵⁸

- 4.13 In comparison with the above experience, the university described the level of engagement and effectiveness of communication which occurred in 2013, when a commercial audit firm had been contracted by the Auditor-General to conduct the financial audit process:

What we found this last year gone with the agency firm, there were more questions around the tax side of things and it was evident that in dealing with that firm that the tax issues, in particular, were quickly able to be understood by the field work team. Some did have to get passed to the tax special area within that firm, but, again, they were quickly dealt with. We had that ability to actively engage with them and reach a consensus view on things.⁵⁹

- 4.14 The university considered that, in light of such experiences, a review of the processes involving the Technical Team and its communications with Audit Office clients would be helpful in improving the effectiveness of the Audit Office.⁶⁰

Communication of audit outcomes and the Auditor-General's relationship with the media

- 4.15 At the completion of a performance audit the findings and recommendations of the audit are compiled in a performance audit report, which is first presented to the agency for a response, before being tabled in Parliament. Financial audit reports, which present the Auditor-General's audit opinion on the financial statements of public sector agencies, are similarly tabled in Parliament.

- 4.16 It has been a common practice of the current Auditor-General, Mr Peter Achterstraat, to issue a media release and hold a press conference following the tabling in Parliament of a report by the Audit Office. The media release and press conference serve to highlight the key findings of the report, and bring to the

⁵⁸ Submission 2, University of Newcastle, p.2

⁵⁹ Mr Anthony Hall, Financial Controller, University of Newcastle, transcript of evidence, 21 June 2013, p 24.

⁶⁰ Submission 2, University of Newcastle, p.2

public's attention the matters raised in the report, often prompting media consideration and discussion.

- 4.17 The Auditor-General's most recent performance audit report *Counting the cost of alcohol abuse* provides an illustrative example. The report featured in a number of media articles and prompted public discussion about the cost of alcohol abuse to the New South Wales Government.⁶¹

STAFF AND RESOURCING

Quality of staff

- 4.18 The quality of staff employed at the Audit Office was an issue that generated mixed feedback from inquiry participants. A small number of participants questioned the skills and experience of Audit Office staff, while the Audit Office responded strongly to such criticisms and highlighted the expertise, engagement and commitment of its staff.
- 4.19 Mr Mark Ronsisvalle of the NSW Treasury commented on the skill level of staff in the Audit Office. He felt that, from his department's perspective, the skill base of the staff conducting performance audits and drafting performance audit reports could have been a little higher. He stated that his department had spent a 'fair bit of time working with the Audit Office people' to get the quality of performance audit reports to a standard that they thought was reasonable.⁶²
- 4.20 The University of Newcastle felt that there was scope to enhance the skills of staff, especially when dealing with accounting and taxation matters that are outside of the areas they normally deal with when auditing NSW government departments and other statutory bodies.⁶³ Mr Tony Hall advised that the university occasionally encountered complex taxation matters and found that the resolution of these matters with the Audit Office could become an overly involved process. Mr Hall provided the following example to support his view:

A few years ago we set up a foundation, a controlled entity of the university, so that donors were able to then pay their donations to that entity. We created a board to wholly focus on the fundraising side of the university. That board of members of the community and people with expertise in that area were to administer the funds that we had held. All of the funds that we had accumulated within the university over many years that were held in trust or held in various ways for specific purposes were passed across to that entity.

We had quite a few back and forward arguments with the Audit Office on how that transaction, the passing of that money over to that entity, should be treated. We

⁶¹ See for example: ABC News website, *Report estimates alcohol abuse costs NSW more than \$1 billion a year*, 6 August 2013, www.abc.net.au/news/2013-08-06/report-estimates-alcohol-abuse-costs-nsw-more-than-241-billion/4868168; The Australian, *NSW tries to put price tag on booze abuse*, 6 August 2013, www.theaustralian.com.au/news/nation/nsw-tries-to-put-price-tag-on-booze-abuse/story-e6frg6nf-1226692059581; The Age, *Charge drunks when they need help, says report*, 7 August 2013, www.theage.com.au/national/charge-drunks-when-they-need-help-says-report-20130806-2rdgw.html, Newcastle Herald, *OPINION: Alcohol abusers should pay costs incurred*, www.theherald.com.au/story/1703659/opinion-alcohol-abusers-should-pay-costs-incurred/?cs=308, all accessed 22 August 2013.

⁶² Mr Mark Ronsisvalle, Deputy Secretary, NSW Treasury, transcript of evidence, 21 June 2013, p 16.

⁶³ Submission 2, University of Newcastle, p2.

were not satisfied that the decision of the technical team was correct. Several years later we wound up that entity and transferred things back into the university for a range of unrelated reasons. We then had to unwind what was done in the first place. It was due to that exercise that it became clear again that what was insisted of us in the first place was highlighted as being quite unusual when we had to undo it. We were able to point out that the requirements that they had of us in the initial stage was not the most sensible way to treat those transactions, and that was made evident when we had to undo it.⁶⁴

4.21 In response to the above criticism from the university, Mr Anthony Whitfield of the Audit Office declared that the Audit Office has a highly qualified technical team, and contended that the Audit Office’s views had been confirmed by external tax advisers.

We do have a highly qualified team of people in our technical area who deal with complex issues. The way that we work is that it is up to the director and the manager on the audit to resolve those technical issues in the first place. If they need to get advice they go to the audit support team which is our technical area. In the case of taxation advice we have a panel made up of the big four, and we used them in 2011 when the issue that was referred to by Mr Hall to look at that tax advice.

My understanding is that we looked at that, and also the university in-house counsel and they reviewed the contracts that stood behind that revenue recognition issue and we came to a view that things were being handled correctly. My understanding is that the university's finance team were not happy with the consequence of that review and they went and obtained further advice which confirmed our original view and that of the big four. Again, it was revisited in 2012 and the contract agent has confirmed the view of ourselves and the big four audit tax firms that we used in 2011.⁶⁵

4.22 The quality of Audit Office staff was also stressed by the Auditor-General in his evidence to the Committee when he noted that ‘in relation to our staff, our staff engagement, commitment and integrity is amongst the highest in any public sector agency.’⁶⁶

4.23 The Audit Office noted that it employs staff with a variety of specialist skills and expertise to audit specialised industries in the public sector. It noted that the NSW Public Service Commission People Matters Survey showed that the Audit Office compared favourably to other public sector agencies. The Office also provided the following results of its 2012 staff survey to demonstrate the commitment and engagement of Audit Office staff.

Table 6: Staff survey results⁶⁷

Measure	Result %
Willing to put in the extra effort to achieve a professional result	95
Engagement	81

⁶⁴ Mr Anthony Hall, Financial Controller, University of Newcastle, transcript of evidence, 21 June 2013, pp24-25.

⁶⁵ Mr Anthony Whitfield, Deputy Auditor-General, Audit Office of NSW, transcript of evidence, 21 June 2013 p25.

⁶⁶ Mr Peter Achterstraat, Auditor-General, Audit Office of NSW, transcript of evidence, 21 June 2013, p 1.

⁶⁷ Submission 6, NSW Audit Office, p27.

Loyalty – willing to recommend the Audit Office as a great place to work	91
Satisfaction – fairly well to extremely satisfied	93
Morale – good to very high	87

Adequacy of resourcing of the Audit Office

4.24 The question of whether the Audit Office has sufficient resources to adequately perform its functions was examined by the Committee during the inquiry. However, the issue was not one that garnered a substantial amount of evidence. The evidence received indicated that the Audit Office’s resources are currently adequate, though some considered that budgetary constraints may put pressure on this situation and it should be closely monitored to ensure that adequate funding is maintained.

4.25 The Director of Public Prosecutions considered that the Audit Office has adequate resources to carry out its functions effectively.⁶⁸ The Audit Office similarly claimed to have the ‘right resources to deliver our services and meet our current mandate’ and further noted the resource management, training and other key strategic initiatives that the office was investing in, in order to ‘be smarter and more productive’.⁶⁹

4.26 While emphasising the current capability of the Audit Office to perform its functions, the Office also suggested that it is facing some resource challenges. They noted that their salary offering was between 5 – 9 per cent lower than market benchmarks, due to the NSW Government Wages Policy restrictions, and indicated that this was leading to an increase in employee departures in the current year.

Our remuneration offering is meant to be pitched at the 25 per cent percentile [the bottom quarter] of the Finance and Accounting grouping (Mercer CED rated). This is significantly lower than most professional services firms. Our remuneration offering is now between 5 per cent and 9 per cent lower than the Mercer benchmarks due to the NSW Government Wages Policy restrictions

This remuneration drift is becoming very evident in 2013. At the end of the third quarter of the current year annualised employee-initiated terminations were 10.6 per cent (3.9 per cent higher than the same period last year). Of those, 54 per cent were recently qualified auditors. Many left to more highly paid roles within the NSW public sector.⁷⁰

4.27 The independent *Quadrennial review of the Audit Office 2013* similarly commented on budget constraints, suggesting that requirements to meet efficiency dividends may put pressure on the ability of the Auditor-General to meet his mandate. The review recommended that the Audit Office and Treasury work together to ensure that appropriate funding is maintained.⁷¹

⁶⁸ Submission 1, Director of Public Prosecutions, p1.

⁶⁹ Submission 6, NSW Audit Office, pp 2, 27-34.

⁷⁰ Submission 6, NSW Audit Office, p2.

⁷¹ Public Accounts Committee, *Quadrennial review of the Audit Office 2013*, p16.

- 4.28 The Audit Office also noted that there had been discussions within Government regarding expanding the mandate of the office. The Audit Office referred to the potential for it to have a greater role in the auditing of local government and non-government organisations, as well as a specific mandate to undertake compliance audits, and indicated that:

Unless these are accompanied by additional resources, they would lead to a further reduction in the discretionary resources available to the Auditor-General for performance auditing.⁷²

- 4.29 Other issues regarding the potential for the Audit Office's mandate to be expanded will be considered in further detail in Part Two – Scope of the Audit Office's Work.

CORPORATE GOVERNANCE

- 4.30 Corporate governance was raised by the Auditor-General as an aspect of the Audit Office's work for which the organisation is seen as leader in the field. Corporate governance has been the focus of a number of Audit Office reports in the past.⁷³ Mr Achterstraat highlighted the ongoing achievements of the Audit Office in this field.

If we look at corporate governance, the Audit Office of New South Wales is seen of as one of the forerunners. Two weeks ago BHP was given the award for the best corporate governance annual report in the private sector. The Audit Office of New South Wales was given the award for the best corporate governance provisions in the public sector. We are very proud to have that. We are also very proud that our corporate governance model is now being picked up in various other places, various other departments. I have been asked to talk on it at various places, including the Commonwealth Association of Public Administration in New Delhi. They are recognising the corporate governance approach taken by the Audit Office of New South Wales.⁷⁴

COMMITTEE COMMENT

- 4.31 The Committee considers that the Audit Office is an effective communicator. The majority of the evidence presented to the Committee indicated that the Audit Office performs well in this area and has continued to improve over recent years.
- 4.32 Some survey results and comments from inquiry participants suggest that there may be room to improve communication. The Committee believes that the Auditor-General should continue to focus on and to seek to improve this important aspect of the Audit Office's functions.
- 4.33 The Committee congratulates the current Auditor-General for his effective media presence and relationship with the media. His efforts in this area have been outstanding in bringing to light the issues addressed in his reports.

⁷² Submission 6, NSW Audit Office, p30.

⁷³ See for example, Audit Office of NSW, *Auditor-General's Report Parliament Volume Two 2011*, pp 12-18.

⁷⁴ Mr Peter Achterstraat, transcript of evidence, 21 June 2013, p1.

- 4.34 The Committee notes that the current position description for the Auditor-General does not include any mention of managing the Audit Office's media presence and capability. However, the Committee considers that this is an important aspect of the Auditor-General's role and expresses concern about its omission from the Auditor-General's position description.
- 4.35 The quality of Audit Office staff was considered to be very high by most inquiry participants, however the Committee acknowledges that a number of submissions indicated there was some room for improvement in skill levels of some staff. The Committee wishes to highlight the importance of skilled staff and sufficient training to ensure that staff are capable of performing their roles, and believes that the Auditor-General is cognisant of these needs and has in place the appropriate measures to achieve them.
- 4.36 The Committee found that the Audit Office is adequately resourced to perform its current functions. However, the Committee considers that budgetary constraints may put pressure on the ability of the Auditor-General to meet his mandate, especially if additional responsibilities and functions are added to the role of the Auditor-General. The Committee therefore suggests that the Audit Office's funding should continue to be monitored to ensure that it has the appropriate level of funding to effectively carry out its functions. Further, the Committee recommends that any additions to the legislative mandate of the Auditor-General, such as compliance audits or 'follow the dollar' powers, should be adequately resourced.

RECOMMENDATION 4

The Committee recommends that any expansion of the legislative mandate of the Auditor-General should be adequately resourced.

PART TWO - SCOPE OF THE AUDIT OFFICE'S WORK

Chapter Five – 'Follow the dollar' and non-government organisations

Introduction

- 5.1 The second term of reference for this inquiry seeks to determine whether performance audits conducted by the Audit Office provide value for money by meeting their objectives and contributing to improved accountability by government agencies within New South Wales.
- 5.2 Allied to this, the Committee decided to inquire into the authority of the Auditor-General to 'follow the dollar' when conducting a performance audit. This enables the Auditor-General to evaluate the way in which government funds are spent by organisations tasked to do so, such as non-government organisations (NGOs) or partner organisations.
- 5.3 Currently, the *Public Finance and Audit Act 1983* (the Act) does not provide the Auditor-General with the capacity to directly examine performance outcomes from State investments in the private and non-government sectors. This imposes limits on the ability of the Auditor-General to ensure that public money is being spent in an accountable manner.
- 5.4 As delivery of government services continue to be devolved to NGOs and partner organisations, the inability of the Auditor-General to adequately monitor the performance associated with government expenditure is likely to become more of an impediment to accountability. Indeed, it should be noticed that outsourcing community service delivery is a topic of key focus in this current Parliament, with the Legislative Assembly Committee on Community Services recently releasing an interim report as part of their inquiry into outsourcing community service delivery.⁷⁵
- 5.5 'Follow the dollar' provisions have become features in many Audit Acts in Australian jurisdictions:
- Western Australia in 2006;
 - Tasmania in 2008; and
 - Commonwealth, Queensland, Victoria, and Northern Territory in 2012.⁷⁶
- 5.6 Currently, a Bill to give the Australian Capital Territory Auditor-General 'follow the dollar' powers is before its Legislative Assembly, though there are no 'follow the dollar' provisions in the South Australian audit legislation.⁷⁷

⁷⁵ Legislative Assembly Committee on Community Services, Report 1/55, *Outsourcing Community Service Delivery (Interim Report)*, 2013

⁷⁶ Mr Peter Achterstraat, Auditor-General, Audit Office of NSW, Correspondence to Chair, dated 31 July 2013, pp 2-5.

⁷⁷ Mr Peter Achterstraat, Correspondence to Chair, p 5.

- 5.7 Several submitters raised 'follow the dollar' powers in their submissions to the Committee, and the issue was covered extensively with several witnesses during the public hearing process.
- 5.8 This chapter examines the rationale for, and arguments in favour of, establishing 'follow the dollar' provisions in the *Public Finance and Audit Act 1983*, as well as arguments for the maintenance of the status quo.

THE RATIONALE FOR 'FOLLOW THE DOLLAR' PROVISIONS

- 5.9 The Committee was interested in the powers currently available to the Auditor-General under the *Public Finance and Audit Act 1983* as well as the rationale for adopting 'follow the dollar' provisions. The Committee heard evidence in favour of giving the Auditor-General the power to 'follow the dollar', as well as some arguments in support of the status quo.
- 5.10 The Act in its current form allows adequate consideration of expenditure through the acquittal of accounts, but contains no ability to monitor and measure performance. In his appearance before the Committee, the Auditor-General noted that in relation to monitoring the acquittal of funds, the current legislation was adequate,⁷⁸ but noted a key deficiency in his current powers relating to monitoring the performance of NGOs or partners spending taxpayer funds on behalf of the government under the Act:

The way we can audit it, if the Department of Family and Community Services, for example, has a contract with a non-government organisation to provide foster care services, I can do the audit to see whether the Department of Family and Community Services has a robust performance management system and does its review on a quarterly basis, et cetera, the performance of the non-government organisations. I can do that, but I could not test the veracity of the information the non-government organisations would be giving to the department. In other states they can do that.⁷⁹

- 5.11 He then went on to explain how 'follow the dollar' provisions work in other Australian jurisdictions, and the benefits provided in ensuring accountability:

[Follow the dollar] ...suggests that if the government of any kind at any level provides funding to a non-government organisation or a partner, the accountability there could be beefed up. The Commonwealth has recently introduced follow the dollar provisions, as have some of the other states, where, if money is given to a non-government organisation or, from the Commonwealth point of view, the Commonwealth gives money to the State, in the past merely acquittals were done but now, under the new legislation, the Commonwealth Auditor-General is able to follow the dollar to see how effectively that is being done.⁸⁰

- 5.12 This rationale for providing the Auditor-General with the ability to more effectively monitor the performance of bodies delivering services on behalf of the Government was supported by Adam Johnston, who noted:

⁷⁸ Mr Peter Achterstraat, Auditor-General, Audit Office of NSW, transcript of evidence, 21 June 2013, p4.

⁷⁹ Mr Peter Achterstraat, transcript of evidence, 21 June 2013, p4.

⁸⁰ Mr Peter Achterstraat, transcript of evidence, 21 June 2013, p4.

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...public money should not cease to be public money because it is transferred into another organisation's bank account. Indeed, if the Government is funding NGOs to provide goods and services, it is legally inviting the same NGOs to act as its agents or "to step into its shoes".

Thus, if the agent is empowered to exercise the authority and/or disperse the funds of the principal, the agent should be subject to the same compliance regime as the principal.⁸¹

- 5.13 For Mr Johnston, establishing a 'follow the dollar' provision seemed to be a logical progression, as parts of government service delivery continued to be dispersed to NGOs and partner organisations:

...surely the Audit Office as the oversight body for public finances should be able to shine a light on how NGOs disperse public money on behalf of the State.⁸²

- 5.14 Through its public hearing program, the Committee also took evidence from the Australian National Audit Office (ANAO), a jurisdiction that received 'follow the dollar' powers in 2012. The ANAO advised that it was currently working on its first performance audit using 'follow the dollar' powers to examine the administration of the Mersey Hospital in Tasmania, the only Federally-owned and funded hospital operated on behalf of the Australian Government by the Tasmanian Government.⁸³

- 5.15 Having had 'follow the dollar' powers for more than a year, witnesses from the ANAO articulated the rationale from the perspective of an auditor for having 'follow the dollar' powers:

...as an audit office we think powers such as this are very important. We know there are a range of sensibilities involved in this space but I guess it has been a long held view of Auditors-General that the inability to follow the money trail has been potentially a significant impediment to being able to conduct a full audit. We certainly think they are quite important powers to have and obviously need to be exercised properly and responsibly. We do see it as quite important, particularly in this day and age where a lot of Government business is done on behalf of Governments by other parties.⁸⁴

- 5.16 The Committee enquired how the Federal legislation functioned, with witnesses from the ANAO providing the definition of a 'Commonwealth partner' in the *Auditor-General Act 1997 (Cth)*, and noting that if a 'Commonwealth partner' was a State or Territory body, or part of a State or Territory that the ANAO required the agreement of the Joint Committee of Public Accounts and Audit (The Commonwealth equivalent to the New South Wales Public Accounts Committee) to undertake the audit.⁸⁵

⁸¹ Submission 7, Mr Adam Johnston, pp 3-4.

⁸² Submission 7, Mr Adam Johnston, p 4.

⁸³ Dr Tom Ioannou, Group Executive Director, Performance Audit Services Group, Australian National Audit Office, transcript of evidence, 21 June 2013, p30.

⁸⁴ Mr Russell Coleman, Audit Principal, Australian National Audit Office, transcript of evidence, 21 June 2013, p32.

⁸⁵ Mr Russell Coleman, transcript of evidence, 21 June 2013, p29.

- 5.17 The Committee also asked about the way in which the ANAO considered using its 'follow the dollar' powers. The ANAO noted that they had an annual planning process to determine which performance audits to conduct, and during that process they would consider whether there was any natural need or benefit to using 'follow the dollar' powers.⁸⁶

RETENTION OF THE STATUS QUO

- 5.18 The Committee also heard from several witnesses who argued that the current audit and reporting requirements for NGOs receiving government funding in New South Wales were robust, or who suggested other potential ways in which the Auditor-General could ensure accountable expenditure of public funds.
- 5.19 The Council of Social Services of New South Wales identified itself as "less convinced"⁸⁷ of the value of 'follow the dollar' provisions, noting there were already mechanisms in place that promoted accountability. It advised that while accounting requirements varied depending on the revenue level of NGOs, most of its members were required to provide audited accounts due to their status as incorporated organisations.⁸⁸ The Committee heard that organisations receiving grants or contracts remained accountable through the provision of financial statements:

That auditing, while it is purely financial, is normally accompanied by some form of performance measure, or, if you like, qualitative reporting on what we have done with the money to achieve particular outcomes. Depending on the nature of the contract, those outcome measures might be required to provide throughout the course of a contracting period or they might be provided at the end of a contracting period and of course the level and nature of that information varies depending on the contracts for the funding agency and the like.⁸⁹

- 5.20 The Committee asked about the current level of involvement of the Auditor-General, with NCOSs replying:

We actually believe that the Audit Office has a very important role in terms of some of its performance auditing and we would see that that would encompass, if you like, program funding, perhaps not for individual organisations – non-government organisations – but certainly for the stream of funding that a group of non-government organisations might be receiving from government. We would say that that is actually contemplated within the powers of the Auditor currently to do performance auditing of any government expenditure of money or use of resources in that regard.⁹⁰

- 5.21 In discussing the current powers of the Auditor-General in more detail, NCOSs agreed with the suggestion that the role for the Auditor-General may be to

⁸⁶ Dr Tom Ioannou, transcript of evidence, 21 June 2013, p 30.

⁸⁷ Ms Alison Peters, Director, Council of Social Services of NSW, transcript of evidence, 21 June 2013, p36.

⁸⁸ Ms Alison Peters, transcript of evidence, 21 June 2013, pp 33-34.

⁸⁹ Ms Alison Peters, transcript of evidence, 21 June 2013, p34.

⁹⁰ Ms Alison Peters, transcript of evidence, 21 June 2013, p34.

exercise its current powers to audit government agencies to ensure their own individual oversight regimes are sufficiently effective.⁹¹

5.22 Treasury also expressed caution, noting that spot checking NGOs and partners may be possible, but that they were 'less convinced' about the need for 'follow the dollar' provisions.⁹²

5.23 Treasury suggested public sector improvements in contract management may be an effective measure in ensuring acquittal certificates were fully provided as a way of improving accountability.⁹³

5.24 NCOSS also wondered whether 'follow the dollar' provisions would be of sufficient value were they to be adopted, wondering whether the Auditor-General would be able to adequately assess performance:

...we would also say that following the money is not always a true reflection of the value of the work. Certainly with respect to matters of fraud, for example, or misuse of funds, yes, but we are actually more interested in whether, combined with the financial resources, the human resources deployed actually make a difference, and whether or not the Auditor would be able to make such assessments, I am not entirely sure about.⁹⁴

5.25 Continuing on the theme of identifying fraud, NCOSS questioned whether it would be possible to identify misuse of funding and fraud through the audit process, suggesting that internal controls and whistleblowing mechanisms were more valuable tools.⁹⁵

5.26 Considering the issue of fraud, and the potential for NGOs or partners to deliberately or inadvertently 'double dip' into government funds through two different processes to perform the same task, the Auditor-General suggested that 'follow the dollar' provisions may prevent this from occurring.⁹⁶

5.27 Treasury expressed concern that 'double dipping' may be possible, but in considering the role 'follow the dollar' may play in preventing this, noted:

I am not necessarily convinced that it needs to be the Auditor-General who would pick that up; any auditor could pick that up if they are charged with the same responsibilities.⁹⁷

5.28 The Committee asked the Auditor-General about alternative mechanisms to 'follow the dollar' that could also increase accountability. The Auditor-General noted that departmental internal auditors would have to increase their work in this area, and could:

⁹¹ Ms Alison Peters, transcript of evidence, 21 June 2013, p38.

⁹² Mr Philip Gaetjens, Secretary, NSW Treasury, transcript of evidence, 21 June 2013, p17.

⁹³ Mr Mark Ronsisvalle, Deputy Secretary, NSW Treasury, transcript of evidence, 21 June 2013, p18.

⁹⁴ Ms Alison Peters, transcript of evidence, 21 June 2013, p35.

⁹⁵ Ms Alison Peters, transcript of evidence, 21 June 2013, p37.

⁹⁶ Mr Peter Achterstraat, transcript of evidence, 21 June 2013, p5.

⁹⁷ Mr Philip Gaetjens, transcript of evidence, 21 June 2013, p16.

...insist that the non-government organisation, before it gets the contract to do the work, must provide certain certifications, et cetera, and those internal audit areas may in fact say that these are the requirements. For a rollover of the contract we want hard evidence to show that you have actually delivered on past contracts, things like that. It could be done within the constraints of the internal audit area but sometimes an external auditor gives a little more gravitas.⁹⁸

COSTS AND THRESHOLDS

5.29 The Committee moved on to canvass the practicalities behind 'follow the dollar' provisions, discussing the potential costs such provisions would have, and whether a threshold that would exclude smaller NGOs and partners from examination would apply.

5.30 The Auditor-General expressed optimism that costs would be minimal or even ameliorated through savings:

It may well be that it will have no effect on the non-government organisations because they are already accountable, and all it would cost would be an impost of my staff going in for one or two days to check things out. In relation to our costs, I would be hoping that the savings we make for the State would more than compensate the extra resources that would be needed to fund this. It would also depend on Parliament. If this were to occur, Parliament could then choose the level of activity – not specific activity but the quantum by the dollars that are appropriate.⁹⁹

5.31 Considering the issue of thresholds, the Council of Social Services for New South Wales agreed there should be thresholds,¹⁰⁰ along with Treasury, who agreed there should be thresholds, but declined to commit to a definition in terms of dollar amount or size of organisation. Treasury noted that value for money should be a factor in determining any thresholds, were they to be set.¹⁰¹

5.32 The committee enquired whether there were any thresholds at the Federal level, with the ANAO advising that there were no thresholds of funding under the *Auditor-General Act 1997 (Cth)* in theory, but that in practice it would be unlikely to audit small organisations, as it was more likely that problems of sufficient significance would arise in larger bodies.¹⁰²

5.33 The Auditor-General noted the potential benefit of thresholds for NGOs and providers, as it would enable them to understand whether they may be subject to investigation, but believed that an Auditor-General would use discretion under the provisions. He indicated that ultimately, the matter was one for the Parliament:

...it may give clarity and certainty to non-government organisations to know upfront whether they will be subjected to it. Clearly an Auditor-General would do a risk

⁹⁸ Mr Peter Achterstraat, transcript of evidence, 21 June 2013, p5.

⁹⁹ Mr Peter Achterstraat, transcript of evidence, 21 June 2013, p5.

¹⁰⁰ Ms Amanda Smithers, Senior Policy Advisor, Council of Social Services of NSW, transcript of evidence, 21 June 2013, p 36.

¹⁰¹ Mr Philip Gaetjens, transcript of evidence, 21 June 2013, p17.

¹⁰² Mr Russell Coleman, transcript of evidence, 21 June 2013, p30.

assessment to determine which contacts they would look at and I doubt very much whether much smaller areas would be looked at. It would be up to Parliament to determine whether to put a monetary figure in there or not.¹⁰³

COMMITTEE COMMENT

- 5.34 The Committee acknowledges that 'follow the dollar' provisions have been enacted in most Australian jurisdictions and have functioned without controversy through this time.
- 5.35 Further, the Committee notes that these provisions are used judiciously in jurisdictions in which they are available, and that there is no evidence to suggest that being able to 'follow the dollar' places a significant impost on Auditors-General, government departments, or NGOs and partner organisations.
- 5.36 The current powers available to the Auditor-General are noted, but it is clear to the Committee that they are insufficient to allow appropriate monitoring and accountability through the conduct of a performance audit, especially given the increasing trend in New South Wales in providing government services through NGO and partner providers.
- 5.37 While internal audit controls and whistleblowing are both useful mechanisms to uncover fraud, 'follow the dollar' provisions do not detract from these anti-fraud mechanisms. Further, it is not the primary purpose of 'follow the dollar' to uncover fraud, it is primarily to ensure accountability of expenditure and service delivery and prevent maladministration.
- 5.38 The Committee notes that improvements in contract management and strengthening internal audit processes within government departments would increase accountability, but believes that these would still be insufficient to adequately monitor the performance of taxpayer funds. The Committee acknowledges the vital importance internal audit plays in the administration of government departments, but agrees with the Auditor-General that the presence of an external auditor may be able to obtain better outcomes. The Auditor-General operates at arm's length from both the department and the NGO/partner organisation, and carries with it the authority of the Act and the support of the Public Accounts Committee.
- 5.39 The presence of 'follow the dollar' provisions should not act as an impediment to any of the abovementioned accountability mechanisms. Instead, it should complement them and provide another, most likely seldom-used layer of oversight. And while 'follow the dollar' provisions may not be regularly used, the Committee considers that having the potential for the Auditor-General to undertake a performance audit will have value in encouraging good practice among NGOs and partner organisations.
- 5.40 The Committee notes the clarity of the argument advanced by Mr Johnston, who saw 'follow the dollar' as a natural progression as delivery of government services continued to be outsourced:

¹⁰³ Mr Peter Achterstraat,, transcript of evidence, 21 June 2013, p5.

...surely the Audit Office as the oversight body for public finances should be able to shine a light on how NGOs disperse public money on behalf of the State.¹⁰⁴

- 5.41 It is a natural progression that the Auditor-General should be able to 'follow the dollar' to the final point of service delivery as a way of monitoring expenditure from appropriation to final expenditure.
- 5.42 It is clear to the Committee that 'follow the dollar' provisions now constitute a best practice power for Auditors-General in Australian jurisdictions. With increasing delivery of government services through the private and not for profit sector, it is vitally important for the Auditor-General to be able to adequately monitor performance and expenditure. Having this power should ensure that any further increase in delivery of services by NGOs and partners is done in a framework that contains adequate monitoring and evaluation.

RECOMMENDATION 5

The Committee recommends that the *Public Finance and Audit Act 1983* be amended to enable the Auditor-General to 'follow the dollar' by being able to directly audit functions performed by entities, including private contractors and other non-government organisations, on behalf of the State in the delivery of government programs.

- 5.43 Considering costs, the Committee does not believe that there would necessarily be a significant increase in costs to 'follow the dollar'. Indeed, if accountability and reporting regimes are already sufficiently strong, were the Auditor-General to elect to use 'follow the dollar' provisions, such an investigation should be of minimal length and low cost.
- 5.44 Indeed, it appears that 'follow the dollar' provisions are used only sparingly in other jurisdictions, which would suggest using them should not generate significant cost increases over time.
- 5.45 The Committee is not entirely convinced that such costs would be ameliorated through savings made, and believes this theory would need to be tested, but acknowledges that ensuring accountability is seldom cost-free.
- 5.46 In recommending the adoption of 'follow the dollar' provisions, as with other changes to the legislative mandate of the Auditor-General, the Committee proposes that adequate funding should be made available to support the extended functions of the Auditor-General. This statement is consistent with Recommendation 4 of the report.
- 5.47 The Committee notes that most of the evidence received supports the introduction of thresholds, but notes the common sense approach taken in the Commonwealth jurisdiction to determining whether or not to use 'follow the dollar' provisions.
- 5.48 Auditors-General are intimately familiar with managing risk and determining the appropriate use of resources, and the Committee suggests that a risk-based

¹⁰⁴ Submission 7, Mr Adam Johnston, p.4

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approach be taken by the Auditor-General if 'follow the dollar' powers are enacted in law.

5.49 Accordingly, the Committee makes no recommendation of a threshold under which a partner or NGO would not be required to take part in a performance audit under which 'follow the money' provisions are used. Instead, the Committee believes a risk-based approach should be used by the Auditor-General in determining whether or not to use these provisions.

5.50 The Committee notes, however, that should the Parliament itself wish to set a threshold, it should do so, and that any revision of this threshold should remain a power of the Parliament. However, the Committee makes no suggestion as to the level at which any threshold should be set.

Chapter Six – Universities and Local Government

Introduction

- 6.1 The second term of reference for this inquiry seeks to determine whether performance audits conducted by the Audit Office provide value for money by meeting their objectives and contributing to improved accountability by government agencies within New South Wales.
- 6.2 In relation to this term of reference, the Committee decided to further examine the role the Auditor-General plays in auditing universities based in New South Wales, and recent developments in this field. Further, the Committee inquired into whether there were any benefits in the Auditor-General playing a role in auditing local government finances in New South Wales, as occurs in several other Australian jurisdictions.
- 6.3 Currently, the *Public Finance and Audit Act 1983* requires all public universities in New South Wales, along with any controlled entities, to have their financial reporting subjected to audit by the Audit Office of New South Wales.
- 6.4 A request from the NSW Vice Chancellor's Committee led to the Auditor-General agreeing to appoint a contract agent to undertake the audit of the University of Newcastle's 2012 financial reports.¹⁰⁵ The purpose of this was to determine whether there were any significant differences in an audit performed by the Auditor-General or a private sector auditor.
- 6.5 Regarding the issue of the power to audit local council finances, both Victoria and Queensland have this power.¹⁰⁶ One of the purposes for this power is to allow for measurement of performance over time, and benchmarking and reporting performance to Parliament.

UNIVERSITIES

- 6.6 The Auditor-General advised that it is currently mandatory for him to act as the external auditor of the 10 universities in New South Wales that function under State legislation but that universities can select their own internal auditor.¹⁰⁷
- 6.7 The Auditor-General made it clear that he supported the status quo with regard to the power of his office to audit universities in New South Wales:

I believe that where someone is a steward of other people's money, it is very rare that they should be in a position to choose their own auditor. If we look at private companies owned by families et cetera, yes, they may be able to choose their own external auditor, but even if we look at the Corporations Act where the board and

¹⁰⁵ Submission 2, The University of Newcastle, p.1

¹⁰⁶ Mr Peter Achterstraat, Transcript of evidence, Friday 21 June 2013, p.6

¹⁰⁷ Mr Peter Achterstraat, Transcript of evidence, 21 June 2013, p.7

management can choose the internal auditor, they must go to the shareholders to determine who will be the external auditor.¹⁰⁸

- 6.8 This point was supported by Treasury, who also noted private sector audit requirements and the rationale behind the practice.¹⁰⁹
- 6.9 The Auditor-General indicated that if he no longer had the role of external auditor for universities, that someone else, rather than the University, such as the shareholder Minister should have the responsibility of appointing any external auditor.¹¹⁰
- 6.10 The Auditor-General did note that he had appointed a contract agent to conduct the annual audit of the accounts of the University of Newcastle, and that he had ensured that none of the partners of the contract agent were connected to the University council, and that he would be concerned with any situation in which an external auditor had a connection to any university.¹¹¹
- 6.11 Mr Anthony Whitfield of the Audit Office of New South Wales noted that in contracting out the audit of the University of Newcastle, three of the big four accounting firms were conflicted, and that a second-tier firm was eventually chosen to do the work. Mr Whitfield also noted that this was a continual problem, and that the tendering process had also raised other concerns. In discussing the contracting out of an audit for an Area Health Service, he noted:
- We ended up with a situation where the two big four firms came in with a similar quote and one of the big four firms said “Well, we will reduce our quote by 50 per cent to get the audit.” We did not give the audit to that firm because we had concerns about the quality of the work. If it said it was going to cost 2,000 hours to do the work but were only going to charge us for 1,000 hours, the question is, were they going to do the 2,000 hours work?¹¹²
- 6.12 In correspondence to the Committee, the Mr Whitfield also argued that, in order to provide an annual overview of the university sector, it was necessary for the Audit Office to undertake the majority of financial audits of NSW universities. He suggested that if universities were allowed to appoint their own auditors then the Audit Office would be required to perform additional reviews in order to produce an overview. This, in turn, would increase the burden on the university and the overall costs of the audit.¹¹³
- 6.13 The Committee received a submission from the University of Newcastle comparing their experience being audited by the Auditor-General and being audited by the contract agent.

¹⁰⁸ Mr Peter Achterstraat, Transcript of evidence, 21 June 2013, p.7

¹⁰⁹ Mr Philip Gaetjens, Transcript of evidence, Friday 21 June 2013, p.20

¹¹⁰ Mr Peter Achterstraat, Transcript of evidence, 21 June 2013, p.7

¹¹¹ Mr Peter Achterstraat, Transcript of evidence, 21 June 2013, p.8

¹¹² Mr Anthony Whitfield, Transcript of evidence, 21 June 2013, Friday 21 June 2013, p.8

¹¹³ Mr Anthony Whitfield, Audit Office of NSW, Correspondence to the Chair, p1.

6.14 The University of Newcastle made the following broad points about the audit by the contract agent:

- The audit process was shorter;
- A smaller team was involved; and
- The audit process was more efficient.¹¹⁴

A shorter audit process

6.15 In its appearance before the Committee, the University of Newcastle indicated that they believed the audit process undertaken by the Auditor-General's Office of New South Wales "seemed to take an awful lot longer than we would expect."¹¹⁵

6.16 Mr Anthony Whitfield of the Audit Office of New South Wales reported to the Committee that in terms of the time taken conducting field work, and then subsequent finalisation by the Audit Office, that the audit undertaken by the contract agent was "virtually the same" as the audit undertaken in the previous year by the Audit Office.¹¹⁶

A smaller audit team

6.17 The Audit Office of New South Wales refuted the evidence provided in the University of Newcastle's submission that the contract agent used a smaller team to conduct their audit. The Committee was advised that the contract agent used a team of approximately fourteen people, which was similar to the size of the team used by the Audit Office.¹¹⁷

A more efficient process

6.18 The University of Newcastle also indicated that the audit process was more efficient, with the contract agent able to more readily deal with issues related to corporate structures and taxation due to their experience dealing with these matters for private sector clients.¹¹⁸

6.19 The University of Newcastle compared the way these matters were treated by both the Audit Office and the contract agent, reporting that the Audit Office did not actively engage with the University to discuss matters, instead taking a written submission and providing a formal response, failing to adequately explain the rationale behind a decision.¹¹⁹ Further, the University reported that they were also not satisfied that the response was correct. On the other hand, the contract agent responded quickly, and engaged actively to reach a consensus.¹²⁰

¹¹⁴ Submission 2, The University of Newcastle, p.1, Mr Anthony Hall, Transcript of evidence, Friday 21 June 2013, p.21

¹¹⁵ Mr Anthony Hall, Transcript of evidence, Friday 21 June 2013, p.23

¹¹⁶ Mr Anthony Whitfield, Transcript of evidence, 21 June 2013, p.25

¹¹⁷ Mr Anthony Whitfield, Transcript of evidence, 21 June 2013, p.25

¹¹⁸ Mr Anthony Hall, Transcript of evidence, 21 June 2013, p.22

¹¹⁹ Submission 2, The University of Newcastle, p.2

¹²⁰ Mr Anthony Hall, Transcript of evidence, 21 June 2013, p.24

- 6.20 The Audit Office replied that tax issues were examined by a panel made up of members of the “big four” accounting firms, and that they were used when tax issues were discussed in the past. Further, the Audit Office noted that the contract agent also confirmed the position adopted by the Audit Office the previous year.¹²¹

Value for money and feedback to the Audit Office

- 6.21 In its submission, the University of Newcastle noted it was difficult to determine whether the fees by the Auditor-General represented value for money due to the statutory obligation of using the Auditor-General as its auditor. It indicated that it anticipated that cost savings could be made, given the points made above about the audit conducted by the contract agent.¹²²

- 6.22 In its appearance before the Committee, the University of Newcastle made the observation that commercial firms had to compete in the market, and the Audit Office of New South Wales did not experience the same commercial pressures and, as a result, were able to take longer to complete a project.¹²³ It also noted that a university based in New South Wales not subject to audit by the Audit Office of New South Wales, instead engaged a commercial firm and paid “substantially lower” fees.¹²⁴

- 6.23 Addressing this point, Mr Whitfield of the Audit Office of New South Wales reported to the Committee that the contract agent determined the total number of hours the audit would take, not the Audit Office, and that the ultimate hours actually worked by the contract agent were similar to the hours worked by the Audit Office in conducting the previous year’s audit.¹²⁵

- 6.24 Mr Whitfield also noted that the use of a contract agent wasn’t necessarily representative of the fees that may be charged by a commercial firm:

When we use private sector contractors we know for a fact that they regard the audits as lower risk because the Auditor-General is signing the opinion, not them, and therefore the susceptibility of them to be sued is not there. If agencies were given the right to appoint their own auditors I would suggest that the fees would be markedly different because the contract agent would no longer be a contract agent, they would be assuming all legal liability for professional indemnity insurance, and they would make sure that they were either doing additional work, or covering that off in some other way.¹²⁶

- 6.25 The University of Newcastle also claimed that the report prepared by the Auditor-General was “excessive” compared to what was required under the *Public Finance and Audit Act 1983*, and that they believed the report was inconsistent with the university’s own financial reporting.¹²⁷

¹²¹ Mr Anthony Whitfield, Transcript of evidence, 21 June 2013, p.25

¹²² Submission 2, The University of Newcastle, p.2

¹²³ Mr Anthony Hall, Transcript of evidence, 21 June 2013, p.23

¹²⁴ Mr Anthony Hall, Transcript of evidence, 21 June 2013, p.23

¹²⁵ Mr Anthony Whitfield, Transcript of evidence, 21 June 2013, p.25

¹²⁶ Mr Anthony Whitfield, Transcript of evidence, 21 June 2013, pp.25-26

¹²⁷ Mr Anthony Hall, Transcript of evidence, 21 June 2013, p.21

6.26 The Audit Office of New South Wales refuted this point, noting:

The view that we are reporting outside our legislative requirement is also not valid because within the Public Finance and Audit Act it is up to the Auditor-General to report on any matters he thinks are of interest to the Parliament and to the Treasurer.¹²⁸

6.27 Mr Whitfield also noted that the different philosophical approach taken by a private sector auditor may result in a reduction in accountability:

I spent 30 years in the private sector before joining the Audit Office. I was a partner in one of the big four firms. The big four and contract agents have an attitude of doing the minimum amount of work to sign an opinion. That does not necessarily hold for the public sector where there is an expectation that the Auditor-General will be looking more closely and that because of the level of public monies involved that there will be slightly more than a light touch audit applied to the audit of public sector agencies. With respect, I would submit that applies to the universities as well.¹²⁹

6.28 The Committee asked the University of Newcastle what feedback it had provided to the Audit Office on its experience being audited by the contract agent, with the University of Newcastle advising:

Towards the end of the audit, the partner from the agency firm and the director from the Audit Office who has been our director for a number of years, visited with us and they talked through the audit process. We highlighted everything that we thought went well. We saw ourselves mainly giving feedback on the performance of the agency firm, because that is rightly what the Audit Office were interested in, so we were not really pointing out differences, we were just saying what we were happy with. Also, since then, the University has written to the Auditor-General, giving feedback on our process.¹³⁰

6.29 The Audit Office advised that it was currently reviewing the outcomes of the contract agent audit of the University of Newcastle and that it was developing a strategy to assess how audits of New South Wales universities were handled in the future.¹³¹

Benchmarking

6.30 The issue of using data gained through audits for benchmarking was also briefly addressed. The University of Newcastle expressed reservations about benchmarking and drawing comparisons, especially 'when the benchmarks use data that we have not agreed on', and suggested that some of the information used was not based on information in its Annual Report.¹³²

¹²⁸ Mr Anthony Whitfield, Transcript of evidence, 21 June 2013, p.25

¹²⁹ Mr Anthony Whitfield, Transcript of evidence, 21 June 2013, p.26

¹³⁰ Mr Anthony Hall, Transcript of evidence, 21 June 2013, p.22

¹³¹ Mr Anthony Whitfield, Transcript of evidence, 21 June 2013, p.26

¹³² Mr Anthony Hall, Transcript of evidence, 21 June 2013, p.27

6.31 The Audit Office provided a contrary view, noting that universities had the right to disagree with the draft version of the report, and that there had been no disagreement on anything prepared for any overview.¹³³

6.32 Finally, the following information from Treasury, should be noted, and is discussed in more detail below:

Because universities receive over 30% of their base funding from the Commonwealth Government, Treasury sees some logic in NSW universities being subject to public sector reporting requirements and audit by an Auditor-General. Accordingly, as an alternative to current arrangements, the PAC could consider whether all public universities in Australia should be subject to both:

- Commonwealth Government financial reporting requirements; and
- Audit by the Commonwealth Auditor-General, who has the power to contract those audits to private sector firms.

This would result in all public universities in Australia being subject to the same reporting requirements and the same auditor. However, this would require the agreement of the Commonwealth, State and Territory Governments and amendments to legislation in each jurisdiction.¹³⁴

LOCAL GOVERNMENT

6.33 The Committee also inquired into giving the Auditor-General the authority to audit local council finances. Treasury noted that under the current legislation, if a local government did not choose an external auditor, responsibility for an audit automatically defaulted to the Auditor-General.¹³⁵

6.34 Grahame Gibbs of the Division of Local Government advised that the current accounting and auditing requirements for local government required councils to prepare financial statements at the end of each financial year in accordance with Australian accounting standards. These statements are required to be audited and submitted to the Division of Local Government within four months of the end of the financial year.¹³⁶

6.35 Regarding the appointment of auditors, councils are required to tender for audit services, with auditors appointed for a six year period.¹³⁷

6.36 The Committee asked Mr Gibbs whether he believed the current requirements and current arrangements for the appointment of auditors were sufficient and desirable, with Mr Gibbs agreeing that they were. When asked if using the Auditor-General for these roles may be more cost-effective or result in an

¹³³ Mr Anthony Whitfield, Transcript of evidence, 21 June 2013, p.27

¹³⁴ Mr Philip Gaetjens, Secretary of The Treasury, Correspondence to the Chair, 26 July 2013, p 4.

¹³⁵ Mr Philip Gaetjens, Transcript of evidence, 21 June 2013, p.19

¹³⁶ Mr Grahame Gibbs, Transcript of evidence, 21 June 2013, p.10

¹³⁷ Mr Grahame Gibbs, Transcript of evidence, 21 June 2013, p.10

increase in accountability, Mr Gibbs replied that he had no information to think it would provide any additional benefit to the status quo.¹³⁸

6.37 The Committee asked the Auditor-General if he believed extending his authority to local government would be cost effective or result in an increase in accountability compared to the current practice of allowing local government to use external auditors. The Auditor-General noted that centralised oversight had potential benefits and would not necessarily result in increased costs to his office in the short term:

My view is that one single body, such as the Auditor-General, with oversight of audits done on local council would enable an amalgam of the information to be presented to Parliament. The Auditor-General could either contract out 90 per cent of the work, or 20 per cent or 40 per cent, but could ensure that the same standards are used in every local government. At the moment it is possible for some local governments to commission an external audit based on certain parameters and another one on something else.¹³⁹

6.38 The Committee inquired in more detail into the potential impact on the resources of the Audit Office of New South Wales, and the way the Auditor-General might go about his work if his office were given the authority to audit the finances of local government. The Auditor-General replied:

If the legislation were changed to give us the authority to do financial audits on local councils, then we obviously would ramp that up slowly. We probably would start in a situation where we would just monitor existing contracts. If certain local councils have a three-year contract with a particular firm, we would probably just work with them to see how that is done and I guess there would not be a great deal of expense from our point of view. If we decided to go further, to do 20 per cent or 30 per cent of the audits ourselves, then we would have to look at funding that. Obviously, the local council would not be paying its external auditor; it would be paying us.¹⁴⁰

6.39 The Auditor General also referred to the findings of the Independent Local Government Review Panel. The Panel made a number of proposals relating to the Auditor-General in its *Future Directions for NSW Local Government* paper. While the Future Directions paper is not the final report of the Panel, it sets out the options and proposals that the Panel is considering for inclusion in its final report. The Panel proposed placing financial audits of local government under the oversight of the Auditor General, while noting that most would continue to be contracted out to private firms.

The Panel has concluded that NSW should follow the example of Queensland and Victoria in placing local government audits under the oversight of the Auditor General. Most of the work would continue to be carried out by private firms, but under contract to the Auditor General, who would ensure quality and consistency. The Auditor General would also prepare an annual overview report to Parliament,

¹³⁸ Mr Grahame Gibbs, Transcript of evidence, Friday 21 June 2013, p.10

¹³⁹ Mr Peter Achterstraat, Transcript of evidence, 21 June 2013, p.6

¹⁴⁰ Mr Peter Achterstraat, Transcript of evidence, 21 June 2013, p.7

providing an independent assessment of the financial health of the local government system.¹⁴¹

- 6.40 The Committee asked witnesses whether allowing the Auditor-General to have a broad overview of local government expenditure would have benefits in terms of benchmarking, or ensuring that certain common audit standards were observed across local government.
- 6.41 Mr Gibbs of the Division of Local Government indicated that there were no concerns with regard to the standards of audits currently conducted, and that he was unsure of the value of comparing financial audits between councils. He stated that he believed that councillors would respect the auditor's opinion on the status of a council's financial statements, if the auditor was the Auditor-General or an external auditor.¹⁴²
- 6.42 Treasury noted there was currently analytical benchmarking done by TCorp, the State finance authority, which has conducted a financial assessment across all local governments against a standard methodology. Treasury noted that audit should be considered part of a suite of measures that could evaluate the performance of a council.¹⁴³
- 6.43 Treasury also noted:
- It would be difficult to compare a small suburban council with a large council that covers a lot of Western New South Wales. There are differences, but in terms of financial metrics you can still benchmark.¹⁴⁴
- 6.44 Considering expanding the role of the Auditor-General to benchmark councils, Mr Gibbs of the Division of Local Government indicated that benchmarking to understand how councils share resources may be useful, and that the Auditor-General would be well placed to conduct an audit of this kind.¹⁴⁵
- 6.45 Further, Mr Gibbs noted expanding the current scope of audit to performance audits of local councils may be of assistance to councillors. He noted that councils were currently required to develop long term financial and asset management plans in consultation with the community, and noted:
- I certainly think that there is an opportunity or consideration should be given to auditing those long term plans to make sure they reflect a realistic picture of what future budgets should look like.¹⁴⁶
- 6.46 The Auditor-General also canvassed the possible costs of being commissioned by the Parliament to conduct performance audits of local government, suggesting the best way to perform one may be to select five or six representative councils

¹⁴¹ Independent Local Government Review Panel, *Future Directions for NSW Local Government - Twenty Essential Steps*, April 2013, p 15.

¹⁴² Mr Grahame Gibbs, Transcript of evidence, 21 June 2013, p.11

¹⁴³ Mr Philip Gaetjens, Transcript of evidence, 21 June 2013, p.19

¹⁴⁴ Mr Philip Gaetjens, Transcript of evidence, 21 June 2013, p.19

¹⁴⁵ Mr Grahame Gibbs, Transcript of evidence, 21 June 2013, p.12

¹⁴⁶ Mr Grahame Gibbs, Transcript of evidence, 21 June 2013, p.12

to conduct a performance audit. He noted that this would likely require supplemental funding from the Parliament.¹⁴⁷

- 6.47 Engaging the Auditor-General to 'conduct issue-based performance audits in key areas of local government activity' was also a recommendation of the Independent Local Government Review Panel.¹⁴⁸
- 6.48 Finally, the Committee asked Mr Gibbs whether oversight of local government by the Auditor-General would assist councillors in better understanding their responsibilities to provide certain services to ratepayers. He noted that a centralised audit role may ensure that a council is actually delivering services in line with community expectations, and was doing so in an efficient and effective manner.¹⁴⁹

COMMITTEE COMMENT

Universities

- 6.49 The Committee notes the positive experience of the University of Newcastle working with a contract agent on behalf of the Auditor-General. It is clear that the university was more satisfied by the services provided by the contract agent and found the handling of certain matters, such as university tax affairs, to be more to their satisfaction.
- 6.50 The Committee was also heartened to hear evidence from the Auditor-General that suggested there was very little difference between the outcome or timelines of an audit conducted by the Audit Office and the contract agent. This reflects well on the Audit Office of New South Wales, as it indicates they are competitive with private sector firms. It also suggests that private firms are able to achieve the same results in a similar timeframe to the Audit Office.
- 6.51 By encouraging the Audit Office to contract out a greater percentage of its financial audits of universities, the Committee considers that it will introduce some competition to the auditing of the sector, as private firms compete for tenders. It will also provide an alternative against which the Audit Office can be compared, which will provide greater assurance that the Audit Office is working efficiently, for those audits it conducts itself.
- 6.52 The Committee is therefore recommending that the Auditor-General should contract out at least 30 per cent the financial audits of universities. However, the Committee does not believe that the level of financial audits to be outsourced should be specifically outlined in legislation. The Committee expects that the Government's response to this report will verify the steps that the Auditor-General has taken, or will take, to outsource at least 30 per cent of the audits of universities, but it does not consider that amendments to the *Public Finance and Audit Act 1983* will be required.

¹⁴⁷ Mr Peter Achterstraat, Transcript of evidence, 21 June 2013, p.7

¹⁴⁸ Independent Local Government Review Panel, *Future Directions for NSW Local Government - Twenty Essential Steps*, April 2013, p 25.

¹⁴⁹ Mr Grahame Gibbs, Transcript of evidence, 21 June 2013, p.12

- 6.53 In regards to encouraging the Auditor-General to move towards a more contestable approach to providing financial audit services, as recommended above, the Committee considers that the Auditor-General should consult with the Vice-Chancellors' Committee and other key stakeholders, to develop a balanced strategy to address both the Auditor-General's and Universities' concerns around auditing the sector.
- 6.54 Finally, the Committee considers that the Auditor-General should continue to provide an overview of the university sector in his annual financial audit reports to Parliament.

RECOMMENDATION 6

The Committee recommends that the Auditor-General outsource at least 30 per cent of the financial audits of universities. However, the Committee considers that this percentage should not be legally binding.

RECOMMENDATION 7

The Committee recommends that the Auditor-General consult with the Vice-Chancellors' Committee and other key stakeholders, to develop a balanced strategy to address both the Auditor-General's and Universities' concerns around auditing the sector.

RECOMMENDATION 8

The Committee recommends that the Auditor-General continue to provide an overview of the university sector in his financial audit reports to Parliament.

- 6.55 The Committee notes that at the public hearing, the University of Newcastle reported it had shared its submission with the other universities based in New South Wales and that six of them had indicated their support of the content and hoped to have their next audit carried out by a private sector firm.¹⁵⁰
- 6.56 The Committee was disappointed that, despite apparent widespread support in the University sector to permit private firms to audit University accounts, there was only one submission from a University, and no submission from the New South Wales Vice Chancellor's Committee. For a sector seeking a change in the status quo, the lack of support for such a position was puzzling.
- 6.57 Regarding Treasury's point about centralisation of auditing the university sector, the Committee agrees with Treasury's point that it may be more appropriate for audit of the sector to be undertaken by the Commonwealth, due to the status of the Commonwealth as the primary provider of base funding. The Committee encourages the Government to raise this issue with its State and Federal counterparts in the most appropriate forum.

RECOMMENDATION 9

The Committee recommends that the Government raise, with its State and Federal counterparts, the issue of the centralising the audit of the university

¹⁵⁰ Mr Anthony Hall, Transcript of evidence, 21 June 2013, p.21

sector, by requiring the Australian National Audit Office to take responsibility for the audits of Australian universities.

Local Government

- 6.58 In a broad sense, the Committee supports the establishment of better financial comparators across the local government sector. The Committee also supports the position of Treasury that the Auditor-General should have some oversight of local government affairs, given that the Auditor-General is the default auditor of any local council that fails to appoint an external auditor.
- 6.59 The Committee notes that the Independent Local Government Review Panel has proposed placing financial audits of local government under the oversight of the Auditor-General. The Committee further notes the view that the Auditor-General must be responsible for each agency's financial audit if he is to be able to provide an overview of the sector to Parliament.
- 6.60 However, given that there was little evidence to this inquiry that argued for the need to expand the Auditor-General's role to include the oversight of local government financial audits, and given that the Committee has not widely consulted with all of the relevant stakeholders on this particular issue, the Committee will not make a recommendation regarding the financial audits of local government. The Committee believes that the matter deserves further consideration and suggests that this should occur as part of the broader review of the Local Government Acts.
- 6.61 Despite the Committee's reservations about recommending changes to the financial audits of local government, the Committee considers that there should be provisions made to allow the Auditor-General to undertake performance audits of local government activities. Providing power to the Auditor-General to 'follow the dollar' in similar ways to those discussed in Chapter 5 would be of benefit in ensuring State funds are spent appropriately and local governments acting as service providers are held to account.
- 6.62 The Committee notes that expanding the functions of the Auditor-General to include conducting performance audits of the local government sector may require further funding by Government. As with other changes to the mandate of the Auditor-General, the Government should ensure that the Auditor-General is adequately resourced to perform his functions, as proposed in Recommendation 4 of this report.
- 6.63 The Committee also considers benchmarking of performance to be a valuable tool for both the Government and also local Councils, especially around issues such as resource sharing. Benchmarking has the potential to assist councillors, especially those that may be more time or resource-poor and unable to access detailed information on other councils themselves.

RECOMMENDATION 10

The Committee recommends that the *Public Finance and Audit Act 1983* be amended to enable the Auditor-General to 'follow the dollar' by being able to directly audit functions performed by local government entities on behalf of the State in the delivery of government programs.

Appendix One – List of Submissions

1	Director of Public Prosecutions
2	The University of Newcastle
3	Confidential
4	WorkCover Authority of NSW
5	Serrated Tussock Working Party for NSW & ACT
6	NSW Audit Office
7	Mr Adam Johnston

Appendix Two – List of Witnesses

21 JUNE 2013, WARATAH ROOM

Witness	Organisation
Mr Peter Achterstraat, Auditor-General	
Mr Rob Mathie, Assistant Auditor-General	Audit Office of NSW
Mr Anthony Whitfield, Deputy Auditor-General	
Mr Grahame Gibbs, Manager	Division of Local Government, Department of Premier & Cabinet
Mr Philip Gaetjens, Secretary	
Mr Mark Pellowe, Senior Director	NSW Treasury
Mr Mark Ronsisvalle, Deputy Secretary	
Mr Tony Hall, Financial Controller	The University of Newcastle
Mr Russell Coleman, Audit Principal	Australian National Audit Office
Dr Tom Ioannou, Group Executive Director	
Ms Alison Peters, Director	Council of Social Service of New South Wales
Ms Amanda Smithers, Senior Policy Officer	

Appendix Three – Examples of 'follow the dollar' legislation

This appendix includes examples of 'follow the dollar' legislation that have been enacted in other jurisdictions around Australia. These jurisdictions include: the Commonwealth, Queensland, Victoria, Tasmania, Western Australia and the Northern Territory.

Commonwealth

The Commonwealth has powers to conduct performance audits on Commonwealth partners.

Auditor General Act 1997

18B Commonwealth partners

(1) The Auditor-General may conduct a performance audit of a Commonwealth partner:

(a) if the partner is, is part of, or is controlled by, the Government of a State or Territory--at the request of the responsible Minister or the Joint Committee of Public Accounts and Audit; or

(b) otherwise--at any time.

(2) A person or body is a Commonwealth partner if:

(a) the Commonwealth provides money for a particular purpose (the Commonwealth purpose); and

(b) the person or body receives some or all of the money, whether directly or indirectly, because the person or body:

(i) agrees to use the money in achieving the Commonwealth purpose; or

(ii) has entered into a contract that relates to the Commonwealth purpose;
and

(c) an audit of the person or body could not be conducted under another section of this Division.

(3) The audit may be conducted only to the extent that it assesses the operations of the Commonwealth partner in relation to achieving the Commonwealth purpose.¹⁵¹

Queensland

Queensland provides for audits to determine whether property (including money) provided to a non-public sector entity was used economically, efficiently and effectively.

¹⁵¹ Commonwealth *Auditor-General Act 1997*, s 18b

Auditor-General Act 2009

36A Auditor-general may conduct audit of matters

(1) The Auditor-General may conduct an audit of a matter relating to property that is, or was, held or received by a public sector entity and given to a non-public sector entity.

(2) The object of conducting the audit includes deciding whether the property has been applied economically, efficiently and effectively for the purposes for which it was given to the non-public sector entity.

Note— Property includes money. See the Acts Interpretation Act 1954, section 36.

(3) If the Auditor-General conducts an audit under subsection (1), the Auditor-General must apply the general standards set out in the Auditor-General's report mentioned in section 58.¹⁵²

Victoria

Victoria provides for audits to determine whether any financial benefit given to a non-public body has been applied economically, efficiently and effectively. In practice, this is a limited power, as it does not apply to persons or bodies contracted to provide services, as this does not constitute a 'financial benefit'.

Audit Act 1994

16C Audits in relation to financial benefits given by the State or authorities

(1) The Auditor-General may conduct any audit he or she considers necessary to determine whether a financial benefit given by the State or an authority to a person or body that is not an authority has been applied economically, efficiently and effectively for the purposes for which it was given.¹⁵³

Tasmania

Tasmania provides for the audits examining the efficiency, effectiveness and economy with which a related entity performs functions for the Government.

Audit Act 2008

22. Audits of accounts of related entities

If a state entity performs any of its functions -

(a) in partnership or jointly with another person or body; or

(b) through the instrumentality of another person or body; or

¹⁵² Queensland *Auditor-General Act 2009*, s 36a

¹⁵³ Victoria *Audit Act 1994*, s 16C

(c) by means of a trust –

the accountable authority must give written notice of that fact to the Auditor-General, and the person, body or trust is referred to as a 'related entity' of the State entity.

23. Examinations and investigations

(1) The Auditor-General may at any time carry out an examination or investigation for one or more of the following purposes:

(f) examining the efficiency, effectiveness and economy with which a related entity of a State entity performs functions –

(i) on behalf of the State entity; or

(ii) in partnership or jointly with the State entity; or

(iii) as the delegate or agent of the State entity;¹⁵⁴

Western Australia

Western Australia provides for audit of accounts and financial statements of related entities, in addition to performance audits.

Auditor General Act 2006

17. Audits of accounts of related entities

(1) If an agency performs any of its functions in one or more of the following ways –

(a) in partnership or jointly with another person or body;

(b) through the instrumentality of another person or body;

(c) by means of a trust,

the accountable authority of the agency must give written notice of that fact to the Auditor-General, and the person, body or trust is referred to as a related entity of the agency.

(2) The Auditor-General may audit the accounts and financial statements of a related entity of an agency to the extent that they relate to functions that are being performed by the related entity –

(a) on behalf of the agency; or

(b) in partnership or jointly with the agency; or

(c) as the delegate or agent of the agency.

18. Examinations and investigations

¹⁵⁴ Tasmania *Audit Act 2008*, ss 22 & 23(1)(f)

(1) In this section — 'audited local subsidiary' means a local subsidiary that has appointed the Auditor-General as its auditor under section 16(2).

(2) The Auditor-General may at any time carry out an examination or investigation for one or more of the following purposes —

- (a) examining the accounting and financial management information systems of the Treasurer or an agency to determine their effectiveness in achieving or monitoring programme results;
- (b) investigating any matter relating to the accounts of the Treasurer, an agency or an audited local subsidiary;
- (c) investigating any matter relating to public money, other money or statutory authority money or to public property or other property;
- (d) examining an agency's compliance with legislative provisions, public sector policies or its own internal policies;
- (e) examining the efficiency and effectiveness of an agency, a number of agencies, a part of an agency or an audited local subsidiary;
- (f) examining the efficiency and effectiveness with which a related entity of an agency performs functions —
 - (i) on behalf of the agency; or
 - (ii) in partnership or jointly with the agency; or
 - (iii) as the delegate or agent of the agency.¹⁵⁵

Northern Territory

Audit Act

15 Audit of performance management systems

(1) The Auditor-General may conduct an audit of performance management systems of any Agency or other organisation in respect of the accounts of which the Auditor-General is required or permitted by a law of the Territory to conduct an audit.

(1A) Despite subsection (1), the Auditor-General must conduct an audit of the performance management systems of an organisation to the extent necessary to investigate the use of public moneys paid by an Agency to the organisation if the Minister:

- (a) believes the payment is made for delivering projects, or undertaking significant service provision activities, that could be delivered or undertaken by the Agency; and

¹⁵⁵ Western Australia *Auditor-General Act 2006*, ss17, 18

(b) directs the Auditor-General to audit the performance management systems of the organisation to investigate the use of the public moneys.

(2) An audit under this section may be conducted as a separate audit or as part of another audit (including an audit of another Agency or organisation under this section).

(3) The object of an audit conducted under this section includes determining whether the performance management systems of the Agency or organisation, in respect of which the audit is being conducted, enable the Agency or organisation to assess whether its objectives are being achieved economically, efficiently and effectively.

(4) In conducting an audit under this section, the Auditor-General must have regard to the prescribed requirements, if any, relating to the establishment and maintenance of performance management systems that apply to the Agency or organisation.

Appendix Four – Extracts from Minutes

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 41)

Thursday 21 February 2013
9.45am
Room 1043, Parliament House

MEMBERS PRESENT

Mr O’Dea, Mr Bassett, Mr Daley, Mr Williams, Dr Lee

APOLOGIES

Mr Torbay

1. Confirmation of minutes of meetings of 28 November 2012

Resolved, on the motion of Mr Daley, seconded by Mr Bassett: That the minutes of the meeting of Thursday 28 November 2012 be confirmed.

6. Inquiry into the efficiency and effectiveness of the Audit Office of NSW

- i. Draft Terms of Reference for the Inquiry into the efficiency and effectiveness of the Audit Office

Resolved, on the motion of Mr Williams, seconded by Dr Lee: That the Committee adopt the following Terms of Reference and advise the House of the new Inquiry, notify the Auditor-General, prepare a media release, advertise the inquiry and call for submissions, with a closing date of 2 May 2013:

The Public Accounts Committee has appointed a Reviewer to examine the auditing practices and standards of the Auditor-General and determine whether the Auditor-General is complying with those practices and standards in the carrying out of the Auditor-General's functions under the Act. The Committee will also inquire into the efficiency and effectiveness of the Audit Office of NSW. In particular, the Inquiry will focus on:

- Whether the Audit Office of NSW provides value for money financial audit services, in comparison with the services and fees of similar organisations;
- Whether the Performance Audits conducted by the Audit Office provide value for money by meeting their objectives and contributing to improved accountability by government agencies within New South Wales;

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- Whether the process of selecting topics for performance and compliance audits is based on robust methodology;
- Whether the selection of agencies for compliance audit is robust and based on a consideration of the particular risks of that agency;
- Whether the Audit Office has adequate resources to carry out its functions; and
- The effectiveness of the Audit Office's communication with clients, particularly in relation to establishing a joint understanding of expected audit fees, the scope of performance and compliance programs, and the provision of advice.

11. Adjournment

The Committee adjourned at 10.40am until 9.45am on Thursday 28 February 2013.

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 42)

Thursday 28 February 2013
9.45am
Room 1043, Parliament House

MEMBERS PRESENT

Mr O'Dea, Mr Bassett, Mr Daley, Mr Williams

APOLOGIES

Dr Lee, Mr Torbay

1. Confirmation of minutes of meetings of 21 February 2013

Resolved, on the motion of Mr Daley, seconded by Mr Williams: That the minutes of the meeting no 41 on Thursday 21 February be confirmed.

6. Inquiry into the efficiency and effectiveness of the Audit Office of NSW

Resolved, on the motion of Mr Daley, seconded by Mr Williams: That the Committee note the media release regarding the Inquiry into the efficiency and effectiveness of the Audit Office which was distributed on 26 February 2013.

10. Adjournment

The meeting closed at 11.00am.

The next meeting will be on Thursday 14 March 2013, at 9.45am in Room 1043

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 43)

Thursday 14 March 2013
9.45am
Room 1043, Parliament House

MEMBERS PRESENT

Mr O'Dea, Mr Bassett, Mr Daley, Mr Williams, Dr Lee, Mr Torbay

1. Confirmation of minutes of meetings of 28 February 2013

Resolved, on the motion of Mr Bassett, seconded by Mr Williams: That the minutes of the meeting of Thursday 28 February 2013 be confirmed.

8. Inquiry into the efficiency and effectiveness of the Audit Office of NSW

The secretariat provided an update on the inquiry, confirming that the inquiry had been advertised and submissions called for.

9. Adjournment

The Committee adjourned at 10.17am until 10:30am on Monday 18 March 2013.

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 48)

Thursday 9 May, 2013
9.45 am
Room 1043, Parliament House

Members present

Mr O’Dea (Chair), Mr Bassett, Mr Daley, Dr Lee, Mr Piper, Mr Williams

Officers in attendance

Rachel Simpson, John Miller, Emma Wood, Jenny Gallagher

The Chair commenced the meeting at 9.45 am.

1. Confirmation of minutes

Resolved, on the motion of Mr Bassett, seconded by Mr Williams: that the minutes of the meeting held on 27 March 2013 be confirmed.

4. Inquiry into the efficiency and effectiveness of the Audit Office

a. Submissions received

The Chair noted that submissions had been received from: University of Newcastle; NSW Trustee & Guardian; WorkCover Authority of NSW; and Serrated Tussock Working Party for NSW & ACT.

Resolved, on the motion of Mr Piper, seconded Mr Williams: that the Committee authorises the publication of submission 1-5.

b. Future hearing date

The Committee agreed to hold a public hearing on Friday, 21 June 2013.

8. Next meeting

The committee adjourned at 10.27 am until 9.45 am on Thursday, 23 May 2013.

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 49)

Thursday 23 May 2013
3.31 pm
Room 1043, Parliament House

Members present

Mr O’Dea (Chair), Mr Bassett, Mr Daley, Dr Lee, Mr Piper, Mr Williams

Officers in attendance

Ms Simpson, Ms Painter, Ms Wood, Ms Gallagher, Ms Shevtsova, Mr Marson Lilopeza (Solomon Islands), Ms Jane Kiroha and Ms Julie Masike (Bougainville)

The Chair commenced the meeting at 3.31pm

2. Apologies - nil

Resolved, on the motion of Mr Williams that: the Committee allow visitors from the Solomon Islands and Bougainville Parliaments to observe the Committee’s proceedings.

3. Confirmation of minutes of meeting no. 48 on 9 May 2013

Resolved, on the motion of Mr Piper, seconded by Mr Williams: that the minutes of the meeting held on 9 May 2013 be confirmed.

4. Inquiry into the efficiency and effectiveness of the Audit Office of NSW

Resolved on the motion of Mr Bassett, seconded by Mr Piper: that the Committee authorise the publication of submissions 6 and 7; and that submission 3 be removed from the Committee’s website and made confidential from today.

11. Next meeting

The Committee adjourned at 4.17pm until 9.45 am on Thursday 30 May 2013.

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 50)

Thursday 30 May 2013

9.49am

Room 1043, Parliament House

Members Present

Mr O’Dea (Chair), Mr Bassett, Mr Daley, Dr Lee, Mr Piper, Mr Williams

Officers in Attendance

Rachel Simpson, Pauline Painter, Emma Wood, Jenny Gallagher, Sasha Shevtsova

1. Confirmation of Minutes

Resolved, on the motion of Mr Piper, seconded by Dr Lee: That the minutes of meeting No 49 held on 23 May 2013 be confirmed.

2. Inquiry into the efficiency and effectiveness of the Audit Office of NSW

(a) Proposed witnesses for public hearing 21 June 2013

Resolved, on the motion of Mr Bassett, seconded by Mr Williams, that the Committee invite representatives from the following organisations to appear at the public hearing on 21 June 2013:

- Audit Office of NSW
- The University of Newcastle
- Department of Premier and Cabinet
- NSW Treasury
- NSW Health
- Australian National Audit Office
- NCOSS
- Anglicare / Salvos / Mission Australia
- Department of Local Government
- LGSA

(b) Redaction of confidential material in Submission 7

Resolved, on the motion of Mr Piper, seconded by Dr Lee: That the Committee redact the name of individuals referred to in Submission 7, and that the redacted version be published on the _____ Committee’s _____ website.

The committee adjourned at 10.24am until 9.45am on Thursday 20 June 2013.

**MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS
COMMITTEE (NO.51)**

Thursday 20 June 2013
9.48am
Room 1043, Parliament House

Members Present

Mr O’Dea (Chair), Mr Bassett, Mr Daley, Dr Lee, Mr Piper, Mr Williams

Officers in Attendance

Rachel Simpson, Emma Wood, Sasha Shevtsova

1. Confirmation of Minutes

Resolved, on the motion of Mr Piper, seconded by Mr Williams:
That the minutes of meeting No 50 held on 30 May 2013 be confirmed.

**6. Public Hearing - Inquiry into the efficiency and effectiveness of the
Audit Office of NSW and Follow-up of the Auditor-General's
performance audits October 2011-March 2012**

The Committee noted the Notice of Hearing for the public hearing scheduled for Friday 21 June 2013.

The committee adjourned at 10.15am until 9.15am on Friday 21 June 2013.

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 52)

Friday 21 June 2013

9:31 am

Waratah Room, Parliament House

Members Present

Mr O’Dea (Chair), Mr Bassett, Mr Daley, Dr Lee, Mr Piper

Apologies

Mr Williams

Officers in Attendance

Rachel Simpson, Abigail Groves, Emma Wood, Sasha Shevtsova

1. Public Hearing - Inquiry into the efficiency and effectiveness of the Audit Office of NSW and Follow-up of the Auditor-General's performance audits October 2011-March 2012

(a) Media orders

Resolved on the motion of Mr Daley, seconded by Mr Piper: That the Committee authorises the audio-visual recording, photography and broadcasting of the public hearing on 21 June 2013 in accordance with the NSW Legislative Assembly’s guidelines for coverage of proceedings for parliamentary committees administered by the Legislative Assembly.

(b) Publication orders

Resolved on the motion of Mr Daley, seconded by Mr Piper: That the corrected transcript of evidence given today be authorised for publication and uploaded on the Committee’s website. Resolved on the motion of Mr Daley, seconded by Mr Piper: That witnesses be requested to return answers to questions taken on notice and supplementary questions within 2 weeks of the date on which the questions are forwarded to the witness.

Public Hearing: Inquiry into the Efficiency and Effectiveness of the Audit Office

The press and public were admitted. The Chair opened the public hearing.

Mr Peter Achterstraat, Auditor-General, Audit Office of NSW, and Mr Anthony Whitfield, Deputy Auditor-General, Audit Office of NSW, were sworn and examined. Evidence concluded. The witnesses withdrew.

Mr Grahame Gibbs, Manager Investigations and Performance, Division of Local Government, was sworn and examined. Evidence concluded. The witness withdrew.

Mr Philip Gaetjens, Secretary, NSW Treasury; Mr Mark Ronsisvalle, Deputy Secretary, NSW Treasury, and Mr Brian Pellowe, Senior Director, NSW Treasury, were affirmed and examined. Evidence concluded. The witnesses withdrew.

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Mr Anthony Hall, Financial Controller, University of Newcastle was affirmed and examined and Mr Anthony Whitfield, Deputy Auditor-General, Audit Office of NSW, appeared on his former oath. Evidence concluded. The witnesses withdrew.

Mr Russell Coleman, Audit Principal, Australian National Audit Office, and Dr Thomas Ioannou, Group Executive Director, Performance Audit Services Group, Australian National Audit Office, appeared before the Committee via teleconference. Evidence concluded. The witnesses withdrew.

Ms Alison Peters, Director, Council of Social Service of New South Wales, and Ms Amanda Smithers, Senior Policy Adviser, Council of Social Service of New South Wales, were affirmed and examined. Evidence concluded. The witnesses withdrew.

The Chair closed the hearing.

2. Other business

The Committee noted that Mr Shaun McBride, Acting Director, Policy Division, Local Government NSW was scheduled to appear at the hearing.

Resolved on the motion of Dr Lee, seconded Mr Bassett: That the Committee write to Mr McBride with indicative questions.

Resolved on The motion of Dr Lee, seconded Mr Bassett: That the Committee write to the NSW Ministry of Health with additional questions regarding the Inquiry into the Efficiency and Effectiveness of the Audit Office of NSW.

Resolved on the motion of Dr Lee, seconded Mr Bassett: That the transcript of Mr Hall's evidence be kept confidential and reconsider publication at the next Committee meeting.

The committee adjourned at 4:15 pm until 9.45am on Thursday 15 August 2013.

MINUTES OF MEETING 55

Thursday, 15 August 2013

9.56 am

Room 1043, Parliament House

Members present

Mr O’Dea (Chair), Mr Bassett, Dr Lee, Mr Piper, Mr Williams

Apologies

Apologies were received from Mr Daley

Officers in attendance

Rachel Simpson, John Miller, Leon Last, Sasha Shevtsova, Jenny Gallagher, Laura Sloane

1. Confirmation of minutes no. 54 held on 13 August 2013

Resolved on the motion of Mr Piper, seconded by Mr Bassett, that draft minutes no. 54 be confirmed.

6. Inquiry into the efficiency and effectiveness of the Audit Office

6.1 Correspondence received

The Committee noted the following correspondence received:

- 9 August 2013 – from Mr Peter Achterstraat, Auditor-General re paper summarising “follow the money” legislative mandates in place or proposed in other Australian jurisdictions.

6.2 Confidential evidence from 21 June 2013 hearing

Resolved on the motion of Mr Piper, seconded by Mr Williams, that the Committee does not publish the transcript of evidence for the witnesses appearing between NSW Treasury and the Australian National Audit Office.

6.3 Answers to questions on notice received

The Committee noted the following answers to questions on notice received:

- The Treasury – Mr Philip Gaetjens, Secretary
- NSW Audit Office – Mr Peter Achterstraat, Auditor-General
- Local Government – Mr Shaun McBride, Acting Director, Policy Division

Resolved on the motion of Mr Bassett, seconded by Mr Piper, that the Committee authorise publication of the answers to questions on notice.

The briefing concluded at 11.02 am.

MINUTES OF MEETING 57

Thursday, 29 August 2013
9.48 am
Room 1043, Parliament House

Members present

Mr O’Dea (Chair), Mr Bassett, Mr Piper, Dr Lee, Mr Williams

Officers in attendance

Rachel Simpson, John Miller, Leon Last, Jenny Gallagher, Shane Armstrong, Laura Sloane

1. Confirmation of minutes no. 56 held on 22 August 2013

Resolved on the motion of Mr Williams, seconded by Mr Bassett, that draft minutes no. 56 be confirmed.

2. Inquiry into the efficiency and effectiveness of the Audit Office of NSW

The Committee noted the following item of correspondence received:

- 23 August 2013 – Dr Mary Foley, Director General, NSW Ministry of Health re response to questions on notice in relation to NSW Health’s management of funded non-government organisations.

Resolved, on the motion of Mr Piper, seconded by Mr Bassett, that the responses to questions on notice be published on the Committee website.

5. Next meeting

The Committee adjourned at 10:50 am until 9.45 am on Thursday, 12 September 2013 in Room 1043.

MINUTES OF MEETING No 58

Thursday 12 September 2013
9.46 am
Room 1043, Parliament House

Members present

Mr O’Dea (Chair), Mr Bassett, Dr Lee, Mr Piper, Mr Williams

Officers in attendance

Rachel Simpson, John Miller, Leon Last, Sasha Shevtsova, Jenny Gallagher, Laura Sloane

1. Confirmation of minutes no. 57 held on 29 August 2013.

Resolved on the motion of Mr Piper, seconded Dr Lee: That draft minutes no.57 held on 29 August 2013 be confirmed.

4. Inquiry into the efficiency and effectiveness of the Audit Office of NSW

4.1 Confidential evidence

Resolved on the motion of Dr Lee, seconded Mr Piper: That the Committee authorise the publication of confidential material, from the transcript of the hearing on 21 June 2013, which has been quoted or referenced in the Committee’s final report.

4.2 Correspondence received

Resolved on the motion of Mr Bassett, seconded Mr Piper: That the Committee publish correspondence received from the Audit Office of NSW.

4.3 Draft Report

Resolved on the motion of Mr Piper, seconded Mr Williams, that:

- the Committee adopt the draft report on the Inquiry into the Efficiency and Effectiveness of the Audit Office of NSW subject to no proposed amendments being received by 12:00pm on Tuesday 17 September 2013
- the draft report be the report of the Committee, signed by the Chair and presented to the House
- the Chair and Secretariat be permitted to correct any stylistic, typographical and grammatical errors
- once tabled, the report be posted on the Committee’s website.

8. Next meeting

The Committee adjourned at 11:34am until 4.00pm Thursday 12 September 2013 in the Macquarie Room.