

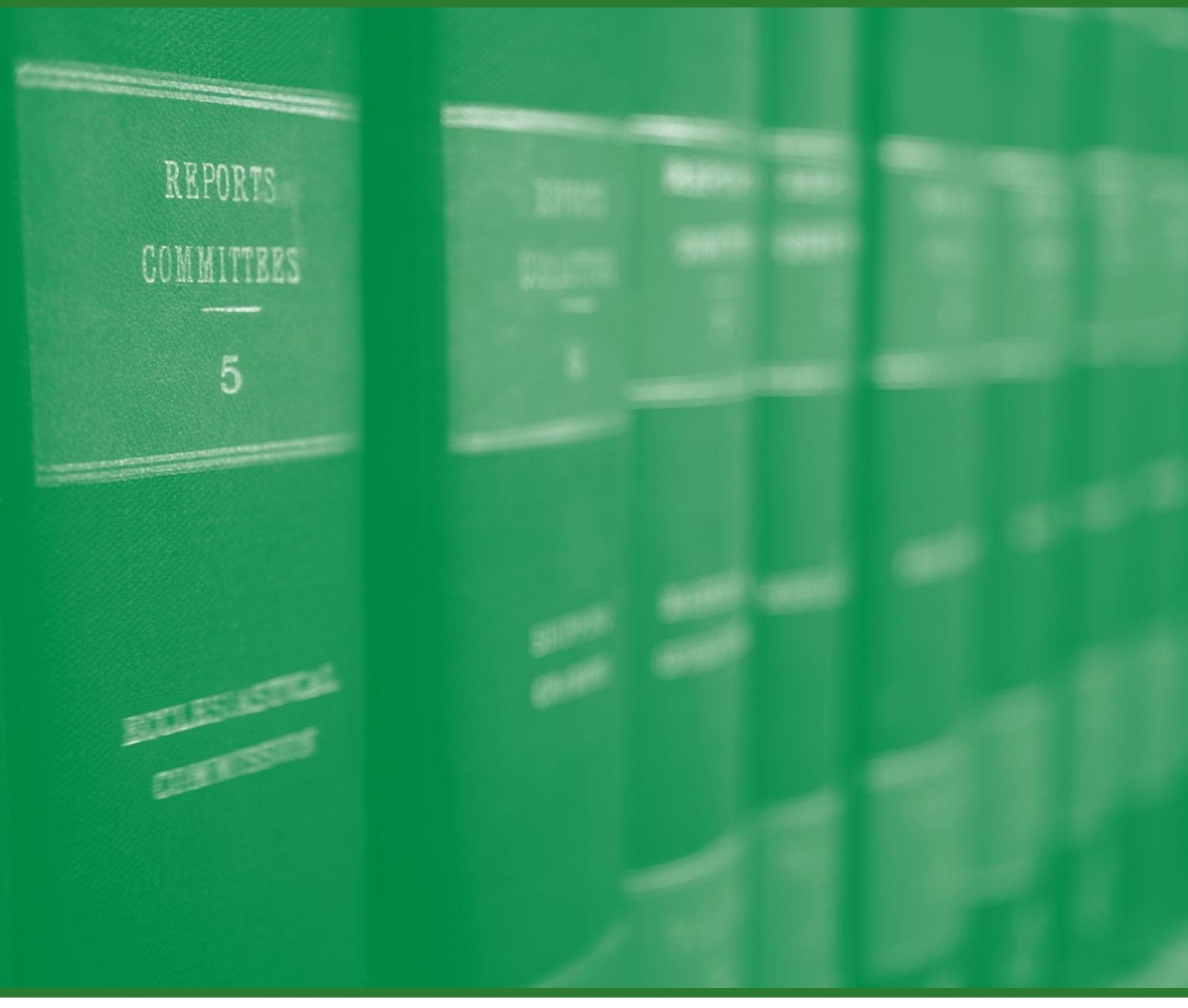


LEGISLATIVE ASSEMBLY OF NEW SOUTH WALES

Public Accounts Committee

REPORT 10/55 – AUGUST 2013

QUADRENNIAL REVIEW OF THE AUDIT OFFICE 2013





LEGISLATIVE ASSEMBLY

PUBLIC ACCOUNTS COMMITTEE

QUADRENNIAL REVIEW OF THE AUDIT OFFICE 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

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.

New South Wales Public Accounts Committee

Review of the New South Wales Audit Office
under Section 48A, Public Finance and Audit Act 1983.

11 June 2013

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1 Executive summary

1.1 Overview

This report outlines the findings of our review of the Audit Office of NSW in accordance with the terms of reference, as issued by the Public Accounts Committee. Our approach and methodology to addressing each of these findings is outlined in this report.

Our review has addressed each of the Terms of Reference points and our full findings and recommendations are detailed in Appendix 3 of this report. We have split the findings into the key delivery models currently utilised by the Audit Office, being Financial, Performance and Compliance Audits, as well as some overall findings.

1.2 Overall conclusion

From evidence gathered, the Audit Office has demonstrated that the Auditor-General has in place methodology and tools to effectively and efficiently deal with its core business and ensure compliance with the appropriate standards. Without affecting our conclusion, during the course of our review we have made certain observations and recommendations which will further strengthen and improve the effectiveness and efficiency of the Audit Office's methodology.

1.3 Acknowledgements

Grant Thornton would like to thank the Auditor-General and all the Audit Office personnel who participated in the review for their assistance throughout the process.

1.4 Findings and recommendations

Our full findings and recommendations are included at Appendix 3 of this report. Further recommendations to Treasury and the Public Accounts Committee are included in Appendix 4.

2 Introduction

2.1 Background

The Public Finance and Audit Act 1983 (the Act), details the legal basis for the accounting and audit arrangements for the New South Wales Public Sector.

Under section 48A(1) of the Act, the Public Accounts Committee (PAC) is obliged to appoint a reviewer to conduct a review of the Auditor-General and his or her office at least once every 4 years. The review is to examine the auditing practices and standards of the Auditor-General and to determine whether the Auditor-General is complying with those practices and standards in carrying out of the Auditor-General's functions under this Act.

The previous independent review was conducted in 2009 and published by the Committee on 3 August 2009. In line with the requirements of the Act, the review is to be conducted by a person appointed by the Public Accounts Committee.

Following a competitive tender, Grant Thornton was appointed on the terms and conditions agreed with the Public Accounts Committee.

2.2 The role of the Auditor General

The Auditor-General is to be appointed by the Governor for a term of 7 years and is not eligible for re-appointment, including re-appointment after the end of that term. The current Auditor-General, Mr Peter Achterstraat was appointed in 2006 and his term expires in the current year.

The role of the Auditor-General is defined by s27B(3-5) of the Act as:

- 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,
- to provide any particular audit or audit-related service to Parliament at the joint request of both Houses of Parliament,
- 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,
- to report to Parliament as required or authorised by law,
- to do anything that is incidental to the exercise of the Auditor-General's functions.

The Auditor-General may exercise his or her functions in such manner as the Auditor-General thinks fit. However, the Auditor-General is required:

- to have regard to recognised professional standards and practices, and
- to comply with any relevant requirements imposed by law.

The Auditor-General may, in the exercise of his or her functions, have regard to whether there has been:

- any wastage of public resources, or
- any lack of probity or financial prudence in the management or application of public resources.

2.3 The role of the Audit Office NSW

The Audit Office of New South Wales is the independent auditor of the New South Wales Public Sector.

The Audit Office reports directly to Parliament on the New South Wales government's financial statements and use of public money.

The Audit Office of NSW has approximately 288 employees whose role is to provide the Auditor-General with the staff and resources to undertake his responsibilities.

The Audit Office has the ability to contract out audit engagements to the private sector. Over the past four years approximately 10% of the audits are outsourced. The Audit Office maintains oversight and quality reviews over these contracts.

To fulfil his auditing functions under ss 27B and 38B of the Act, the Auditor-General conducts financial audits, compliance audits and performance audits, described by the Audit Office as follows:

Financial audits provide an independent opinion on NSW government agencies financial reports. They identify whether the agencies comply with accounting standards and relevant laws, regulations and government directions. Additional financial report audits are undertaken each year on the Total State Sector Accounts and the Statement of the Budget Result. Financial report audits also highlight opportunities for agencies to improve their accounting and financial systems. A report on each financial audit is provided to the Minister responsible for the agency, to the agency and the Treasurer and to the Parliament through the Auditor-General's Reports to Parliament.

Compliance audits seek to confirm that specific legislation, directions and regulations have been adhered to by government agencies. The legislation includes the agency's primary or significant law that is applicable to all agencies (such as the State's Constitution). Because there is a large body of law in this area, compliance is examined on a cyclical basis.

Performance audits determine whether an agency is carrying out activities efficiently, economically and in compliance with the law. These audits may review all or part of an agency's operations. Some audits consider particular issues across a number of agencies. Results of these audits are reported to the chief executive officer of the agency concerned, the responsible Minister, the Treasurer and Parliament.

2.4 The role of the Public Accounts Committee

The Public Accounts Committee was established under the Act as a statutory committee of the New South Wales Parliament comprising six members of the Legislative Assembly appointed for the duration of the four year Parliament. Under the Act, the Committee has a broad charter to review and report on the financial management and accountability matters across the NSW Public Sector on behalf of the Legislative Assembly.

The Committee's role includes a limited oversight of the Auditor-General by virtue of:

- Its power under section 57A of the Act of veto over the appointment of candidates to the position; and
- Its power under section 48A of the Act to appoint a reviewer to conduct an independent review of the Auditor-General.

The Committee is also empowered under the Act to examine any report of the Auditor-General and has adopted the practice of reviewing the response to all performance audits 12 months after their tabling. The Committee meets regularly with the Auditor-General and seeks to improve knowledge of the Auditor-General's work within the Parliament by hosting briefing sessions for members on the Auditor-General's report.

3 Auditor-General of NSW Response to the Report



Contact: P Achterstraat
Phone No: 9275 7101
Our Ref: A007624

Mr Jonathan O'Dea
Chairman
Public Accounts Committee
Parliament House
Macquarie Street
SYDNEY NSW 2000

19 June 2013

Dear Mr O'Dea

Quadrennial Review of the Audit Office of New South Wales

This letter is my response to the 2013 review of the Audit Office carried out under section 48A of the *Public Finance and Audit Act 1983*.

The Audit Office and I welcome these independent reviews of our activities. We are committed to a culture of continuous improvement and these reviews can assist us to achieve that aim. We also believe that we should be no less accountable than the agencies we audit.

The review's findings positively endorse the robust and professional frameworks we have in place to effectively and efficiently deal with our core business, comply with appropriate standards and interact with our clients.

We accept all the recommendations made by the reviewers and will implement them as soon as possible. Together with the other findings and observations in the report, they will assist the Audit Office in achieving our vision of making the people of New South Wales proud of the work we do.

Yours sincerely

A handwritten signature in blue ink that reads "Peter Achterstraat".

Peter Achterstraat
Auditor-General

4 Response to the 2009 review

4.1 Assess the Audit Office's response to the previous statutory review undertaken in 2009

The findings below represent our assessment in relation to each recommendation, and sub recommendation, raised in the 2009 PAC Review. Below each recommendation, we have summarised the issue to which it related, outlined actions taken and summarised our assessment. This assessment is categorised as either:

- Fully Addressed,
- Partially Addressed, or
- No Longer Applicable.

Where appropriate we have cross referenced to recommendations raised elsewhere in this report.

Prior to the commencement of this review the Audit Office engaged its Internal Auditors to conduct a pre PAC Triennium Review which included an assessment of the progress made towards implementing the recommendations identified during the 2009 PAC Review and the outstanding recommendations relating to the 2006 PAC Review. We used the findings of these Internal Audit reports together with the findings of our own fieldwork to make our assessment.

Our review of the 2009 PAC Review noted significant progress has been made on the recommendations. We noted that sixteen of the findings have been fully addressed, three partially addressed and two are no longer applicable.

Detailed analysis of the status of findings is noted in Appendix 2.

Finding 1

Our assessment of the status of the 2009 PAC recommendations revealed that whilst most have been fully addressed, three items have only been partially addressed.

Recommendation

In order to formally close out the 2009 recommendations, the Audit Office should assess whether any further action is required in relation to partially addressed recommendations and action them as appropriate.

The table below provides our views on the partially addressed recommendations:

| Identifier | Area | 2009 PAC recommendations | Grant Thornton assessment of implementation |
|------------|-------------------|--|---|
| 5 | Financial Audit | <p>We support the current initiative to ensure annual program of QARC reviews covers all Business Teams.</p> <p>We recommend the timing of the review be changed to enable lessons learnt to feed back into the subsequent years planning cycle.</p> | <p>Engagement findings have been discussed with the applicable engagement teams. However, the findings from the reviews of 30 June 2012 audit files, which were completed and backed up by 19 December, in accordance with legislative and auditing standard requirements, were only published to the wider audience on 4 June 2013. Earlier publication of the findings would be more useful for auditors to consider during the audit planning process for the 30 June 2013 audits.</p> |
| 15 | Performance Audit | <p>Follow up reviews conducted by the PAC should be formally fed back to the AG to inform the SAP process</p> | <p>The Auditor-General is required to respond to agency submissions on the PAC follow up on whether:</p> <ul style="list-style-type: none"> the proposed action addresses the issues that the original audit identified progress reported by the agency is satisfactory, continuing, delayed or unsatisfactory <p>This finding is still relevant as the outcomes of the PAC follow up review and any outstanding recommendations are not monitored and fed into the annual SAP process.</p> |
| 20 | Overall | <p>The Audit Office should consider publishing a rolling three year plan of performance and compliance audits similar to that published by the Victorian Auditor General's Office. This can consider both past and potential future proposed audits and provide an incentive for improved accountability. It would remain subject to changing circumstances.</p> | <p>The Audit Office does not commit to a three year rolling plan for performance and compliance audits. This is due to the constantly changing and emerging issues in the NSW Public Sector. We support this view.</p> <p>This finding remains partially addressed as disclosure remains limited, as detailed in Finding 2 below.</p> |

Finding 2

Whilst we recognise that some degree of disclosure is provided in the Audit Office's Annual Reports on the 'The Year Ahead' and 'This Year's Performance Audits' sections as well as in the 'Engagements in Progress' section on the Audit Office's website, we re-raise the sentiments of Finding 20 from the 2009 PAC review as disclosure remains limited.

Recommendation

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.

5 Assessment of the Financial Audit Methodology

5.1 Assess the audit methodologies used by the Audit Office of NSW in Financial Audits

The Audit Office of NSW has been using the SAGE methodology and AS2 tool, for a number of years and was informed in 2009 that this would no longer be supported by the supplier after 31 December 2014. This was reported in the last PAC review. After an investigation of alternative audit methodologies, the Audit Office has begun implementing a new audit methodology (IRIS) and TeamMate tool in a staged approach commencing December 2012.

All methodologies are assessed by the Audit Office of NSW for compliance to ensure they are adequate to meet the requirements of the Australian Standards on Auditing.

5.2 Impact of the Clarified Australian Auditing Standards

During the review period, the auditing standards have changed considerably with the introduction of the clarified Australian Standards on Auditing, which are consistent with International Standards of Auditing.

As part of this review, we have reviewed the implementation of the clarified standards. The Audit Office has implemented all aspects of the clarified standards effectively, through changes to their template documentation packs, manual, software, and provided appropriate training to personnel.

5.3 Impact of the new methodology

The Audit Office of NSW is in the initial stages of implementing a new methodology and tool. The standard references are based on International Auditing Standards, which are virtually identical to Australian Auditing Standards, and which is in line with the other global methodologies.

As part of this review we have reviewed a sample of in process mapping. For example ISA 200 *“Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing”* and ISA 720 *“The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements”* were reviewed for compliance. All the mappings are based on existing standards. Once a standard has been issued as an exposure draft the Audit Office assesses its impact on the business, which is in line with standard professional practice. Only once a standard has been published as final does the Audit Office implement the changes required to the methodology and software. The Audit Office is envisaging finalising the mapping of the standards to IRIS by the end of June 2013.

As part of the package selected, the Audit Office is also provided with real time reviews by the supplier (a big 4 auditing firm). These will be conducted on 5 engagements in Stage 1. The reviews will look at the files at 4 stages of the audit process to provide efficiency feedback and highlight any additional areas for training.

These four stages are:

- 1 Planning efficiently and compliance
- 2 IT focus (ensuring this has been documented effectively and also that the most is being obtained through the methodology on IT usage)
- 3 Interim
- 4 Final / Reporting

Stage 2 rollout will also be subject to review, with at least one file per Business Team Leader selected as part of this process.

This is envisaged as being a yearly exercise to gain efficiencies across the implementation.

The adoption of a new methodology and tool in the current period has significant risks. The Audit Office is ensuring all significant risks are being identified, monitored and appropriately addressed through a formal risk mitigation strategy, internal quality reviews and real time reviews, which is appropriate

During the coming implementation period, the internal quality reviews and real time reviews should monitor the significant risks surrounding the changes in methodology and ensure they are adequately addressed as part of the post implementation action plans

5.4 Training

The Audit Office offers extensive training to all levels of staff. The training covers technical material both auditing and financial reporting, industry updates, soft skills and business management.

The Audit Office also offers business simulations. There are two current scenarios available, the first is the role of the Auditor-General which takes candidates in a team environment through a three year cycle allowing the teams to understand the complexities between tight budgets and the constraints involved. The other simulation takes the candidates individually through managing an audit and the complexities involved. These simulations are a training tool that breeds a better understanding of the implications of decisions and what this means to the Audit Office as a whole.

The Audit Office also offers the Life Styles Inventory (LSI) program. This tool is designed to promote constructive change, transformational change, with the feedback helping individuals more clearly understand what is currently supporting and hindering their personal effectiveness, with guidance to developing more constructive styles of thinking and behaving. With researched links to personal satisfaction, stress, effectiveness and quality of interpersonal relationships.

For internal training the Audit Office uses an online system that allows booking and tracking of individual courses. There is currently no reporting functionality to allow the training and development team to assess if personnel are attending the appropriate training

for their level. This is currently addressed through the performance management of individuals.

On review of individual training schedules, the average employee obtains 10.5 days (73.5 hours) of training per year. The professional bodies impose a minimum requirement for training of 120 hours per triennium. The Audit Office should be comfortable that the higher training allocation meets the individual requirements of the employees.

Finding 3

There is currently no reporting functionality to allow the training and development team to assess if personnel are attending the appropriate training for their level. This is currently addressed through the performance management of individuals.

Recommendation:

Currently the reporting functionality of the online training system does not easily allow the user to determine if an employee has attended all the relevant courses for their level. The online training tool could be extended to incorporate this functionality.

5.5 Internal quality reviews

Accounting Professional and Ethical Standard (APES) 320.106 requires that “*A Firm shall establish a Monitoring process designed to provide it with Reasonable Assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall include an ongoing consideration and evaluation of the Firm's system of quality control, including, on a cyclical basis, Inspection of at least one completed Engagement for each Engagement Partner.*” The standard provides an example of a cycle to be every three years.

The Audit Office of NSW policy requires a minimum of one assurance engagement for each Business Team Leader (Partner equivalent) to be reviewed every year, and every Audit Leader (Manager equivalent) at least every three years.

Following a review of the Financial Audit Business Teams as at April 2013, there are 13 Business Team Leaders who actively carry out audits with two business team leaders acting in a support role. There are 28 Audit Leaders in an active capacity, and as a consequence, every audit leader is being reviewed every two years..

On review of the findings within the quality reviews, these deal appropriately with the application of accounting and auditing standards and focus on the key focus areas also within the profession as a whole.

Finding 4

The Audit Office policy and implementation is currently greater than the requirements of APES 320.

Recommendation

The Audit Office should assess the cost/benefit of these additional quality reviews.

5.6 Engagement file reviews

As part of our review, we undertook a detailed quality control review of a sample of 4 files covering each of the Financial Audit streams. The primary purpose of our review was to consider the quality of the audit work undertaken and the adequacy of audit evidence obtained to support the opinion issued and to identify whether there were any underlying recurrent issues that should be addressed.

The findings of our independent quality control reviews were also compared to the findings of the Audit Office's own internal quality control reviews and the external (ACAG) quality control review. The nature of audit quality control reviews is such that opinions formed are subjective and vary due to differing professional judgements on the approach and adequacy of audit evidence obtained. Notwithstanding these variations a number of the findings noted in our independent quality control reviews of the sample of files are consistent with the findings noted in the internal quality control reviews and external quality control reviews. This reinforces the effectiveness of the Audit Office's quality control review process. We also note that a number of the areas noted are consistent with the findings and suggested areas for improvements that have been identified by audit regulators in Australia (ASIC) and globally, and which are being actioned by audit firms.

We identified several recurrent themes across the files reviewed and we would recommend that the Audit Office consider developing a tailored action plan to address these findings.

The recurrent issues included:

Finding 5**Audit efficiency****Use of Computer Assisted Audit Techniques (CAATs)**

The use of CAATs was underutilised in the detailed testing undertaken. The procedures appeared to be focused around sampling, when CAATs can provide up to 100% comfort and therefore greater audit evidence. CAATs are also an effective fraud testing tool particularly over payroll, overheads and employee reimbursement transactions.

Recommendation

The engagement teams should review the planned audit approach on engagements to look at areas where the audit work could be undertaken more efficiently either through the use of CAATs or in the determination of sample sizes.

Finding 6**Completeness of audit documentation**

When reviewing the engagement files, several key items of documentation were not located on the files. These items were captured within the TRIM document management system, however in order to ensure the engagement file is complete, all documentation should be included within the engagement file.

Recommendation

With the change in methodology and tools in the current period, the engagement personnel should be reminded that all audit documentation should be included within the audit engagement file.

Finding 7**Assessment of work undertaken by management experts**

ASA 500 "*Audit Evidence*" provides clear and specific guidance on the reliability of such information. Our review of the work conducted by the engagement teams indicated a significant reliance on the standard template document. This document appears to be taken as the auditor's complete consideration and indications are that its use being treated as a 'form filling exercise'. In evaluating the appropriateness of that expert's work as audit evidence we were not able to see thorough consideration other than limited narrative within the standard form.

Recommendation

All engagement personnel should be reminded to fully document the assessment of work undertaken by management experts.

Finding 8**Documentation of the application of professional scepticism**

Where the engagement teams were placing reliance on expert reports or confirmations, we noted that the engagement files did not document where auditors had applied professional scepticism.

Recommendation

All engagement personnel should be reminded of the need to demonstrate professional scepticism in the documentation of audit work around significant judgements.

Finding 9**Analytical procedures**

On review of the engagement files selected, there were areas of development noted with the application of analytical procedures at the planning, execution and conclusion of the audits.

Recommendation

The introduction of the new audit tool may assist teams document the expectations and scoping of material transactions through their analytical procedures.

6 Assessment of value for money

6.1 Pricing and budgeting model

From discussions, the Audit Office is only able to recoup the charges they have generated from production of the audit, plus disbursements.

The charge rates are based on an appropriate formula including overhead allocation. On review of the charge out rates, these are comparatively below market recoverable rates by approximately 15% when compared to those offered by the private sector. Charges out rates are reviewed on an annual basis through the budgeting process.

Fees for individual audits are determined by the Business Team Leaders and are assessed, reviewed and approved annually as part of the planning process. The fees are set using the charge rates relevant to that financial period. A policy is in place to ensure independent review and approval of all fee changes exceeding 5%. From our review we did not note any deviations from this policy.

In addition, we reviewed the budget to actual for the engagements identified. In the engagements reviewed the budget was a reasonable reflection on the final costs of complete.

6.2 Benchmarking of value for money

We undertook a review of total audit costs for the Audit Office of NSW and compared those costs with the average across other state audit offices across Australia.

For the 2011 financial year, the total audit costs per \$'000 of public sector transactions:

| Audit Office | Total audit costs per \$'000 of public sector transactions |
|-------------------------------------|--|
| Audit Office of NSW | 26 cents |
| Average of Australian audit offices | 35 cents |

The Audit Office is therefore providing value for money compared to the other audit offices.

The Audit Office of NSW signed 452 audit opinions for the 2012 financial period. Many of the other Audit Offices have reviewed their stance on outsourcing, and are outsourcing large portions of their portfolios up to 50%. Where this is the case, the audit offices are unable to provide technical support to their audits and require outsourcing to alternative providers. Discussions with the Deputy Auditor-General indicate this is to enable the Audit Office of NSW to provide a full suite service.

6.3 Impact of budgetary pressures

We were advised of additional budgetary pressures impacting the Audit Office over the next review period. The Audit Office is required to implement efficiency dividends of \$5million and reduce labour expenses by \$5million over 4 years.

These targets will be difficult to meet with the pressures of increasing employee related costs and contract audit agents' fees. In addition, the Audit Office continues to absorb costs resulting from ongoing changes to the requirements of the Australian Auditing Standards and regulations.

Due to the Audit Office's mandate, the Auditor-General has no choice but to accept all audit engagements for all agencies within the public sector, which adds more pressure to meet the above mentioned objectives.

NSW Treasury Finding 1

Budgetary constraints have been identified with the efficiency dividends the Audit Office is expected to deliver that may constrain the Auditor-General's ability to meet his mandate.

Recommendation:

Continued fee and budgetary constraints could lead to a mismatch of available hours and the required level of work to be undertaken. Treasury needs to work with The Audit Office to ensure that an appropriate budget is maintained to maintain the high standards of audit quality.

7 Assessment of Performance Audit Methodology

7.1 Jurisdictional analysis

We reviewed the Auditor-General's Practice Notes and Checklists and compared these with the methodologies adopted by similar auditing bodies in other jurisdictions including the Audit Offices' of other Australian states, the Australian National Audit Office, Audit New Zealand, and the Audit Office of Canada.

Our analysis illustrates that there is a great deal of consistency in the Performance Audit methodologies adopted by the Audit Offices in the jurisdictions reviewed. Variations identified include:

- The publication of an Annual Audit Work program
- The use of an electronic audit methodology platform
- A focus for Performance Audit on three strategic themes
- The review and sign-off of meeting notes by Auditee(s) in addition to the Audit Team where there is an intention to rely on such records as audit evidence.

We did not identify any innovative approaches or methodologies from our review that warrant inclusion in this report. We do however endorse the Performance Audit Branch's intention to explore the use of the Audit Office's new Audit methodology platform (IRIS) over the next 12 to 18 months, after it has been fully embedded by the Financial Audit Branch (FAB). Refer to Finding 23 for further details.

7.2 Methodology

The Audit Office's performance audit methodology is consistent with the requirements of the following standards issued by the Auditing and Assurance Standards Board:

- Standard on Assurance Engagements ASAE 3500 Performance Engagements; and
- Standard on Assurance Engagements ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

The International Organisation of Supreme Audit Institutions (INTOSAI) Performance Audit Methodology, which are detailed and governed by the following International Standards of Supreme Audit Institutions (ISSAI) also inform the Audit Office's performance audit methodology:

- ISSAI 3000 – Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and practical experience; and
- ISAAI 3100 – Performance Audit Guidelines: Key Principles.

The Audit Office’s Performance Audit Branch’s (PAB) has a series of documents in place which is readily accessible on the Audit Office’s intranet (Alfie) and supports compliance with its methodology, being the:

- Audit Process Flowchart;
- Performance Audit checklists; and
- Performance Audit Practice Notes.

Audit Process Flowchart

The flowchart sets out the audit steps “below the line” which are required to be performed internally by the Audit Team as well as the steps “above the line” which are the correspondence points with the Auditee(s). The flowchart also highlights the nine points where sign off of the corresponding checklists are required.

Performance Audit Checklists

The checklists serve as a mandatory quality control check at key stages of the performance audit process, as they are required to be completed and signed off by the Business Team Leaders and Engagement Reviewer. The checklists were reviewed following the 2009 PAC review, and changes were made:

- As a response to the recommendations raised in this review;
- To reflect current auditing standards and best practice, in particular ASAE 3500 – Performance Engagements, ASQC 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements and APES 320 – Quality Control for Firms; and
- In consideration of suggestions made by PAB staff.

The milestones from the review process are detailed in Figure 1 below.

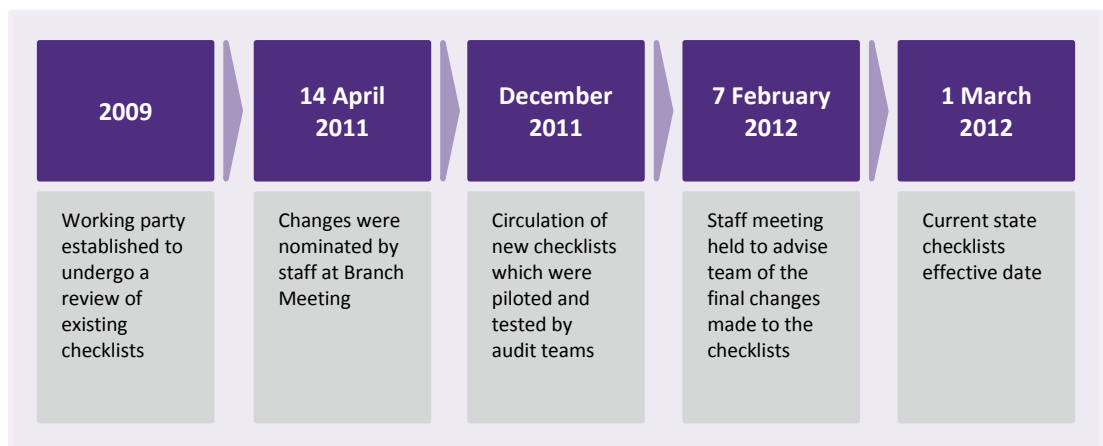


Figure 1: Performance Audit Checklist Review Milestones

The following checklists are currently used by PAB:

| Checklist | |
|------------------|-------------------------|
| 1 | Developing the topic |
| 2 | Audit scope |
| 3 | The audit plan |
| 4 | Midpoint (optional) |
| 5 | Preliminary conclusions |
| 6 | The draft report |
| 7 | The final report |
| 8 | Tabling the report |
| 9 | Closure |

Whilst we acknowledge the adjustments PAB has made to its Performance Audit Checklists to reflect changes in legislation and to incorporate recommendations from the 2009 review, a lack of cohesion between the checklists is observed.

From our sample of six performance audit files reviewed, there were two instances (Declaration of Independence completion and PU and PS codes closure) whereby the outstanding items from the checklists were not subsequently followed up.

Finding 10

Whilst we acknowledge the adjustments PAB has made to its Performance Audit Checklists to reflect changes in requirements of legislation and to incorporate recommendations from the 2009 review, a lack of cohesion between the checklists is observed. From our sample of six performance audit files reviewed, there were two instances (Declaration of Independence completion and PU and PS codes closure) whereby the outstanding items from the checklists were not subsequently followed up.

Recommendation:

To enhance the effectiveness of the checklists in ensuring all key processes are completed, the Audit Office should consider adding an “Outstanding Items” component to each of the checklists from Checklist 2 onwards. This will necessitate the audit team to run through the previous Checklist to roll over any outstanding items and ensure that they are completed and signed off.

Performance Audit Practice Notes

The Performance Audit Practice Notes provide guidance to PAB staff on the Audit Office’s end-to-end procedures for conducting a performance audit. These cover the topic selection process through to the planning, conduct, reporting, tabling and post-tabling quality assurance processes. The table below illustrates the links between each Practice Note and specific Checklist:

| PN | Description | Checklist |
|----|--|-----------|
| 01 | Topic Selection | |
| 02 | Starting and developing the audit | 1&2 |
| 03 | Liaising with the agency | |
| 04 | Developing audit objectives | 3 & 4 |
| 05 | Gathering evidence | 5 |
| 06 | Writing the report and clearing the report with the agency | 6 & 7 |
| 07 | Preparing work papers | |
| 08 | Pre and post tabling activities | 8 & 9 |
| 09 | Engaging and managing consultants | |
| 10 | Cold reviews | |

Each Practice Note includes:

- References and details of the specific Standards in which it relates to (if any)
- Policies and procedures for the relevant section
- Appendices of examples and supporting materials, eg Checklists and templates
- Practice Note effective date
- TRIM (Audit Office’s filing system) reference number

The Audit Office’s Practice Notes were also revised to align to the changes in the Checklists detailed in the previous section.

Finding 11

We identified a couple of instances whereby the Audit Office’s Performance Audit Practice Notes did not reflect current practices, specifically:

PN 02: Starting and developing the audit

- Quality control requirements require the Management File Index, the audit Running Sheet and the Quality Assurance Checklist to be started at commencement of the audit, and continually updated throughout the audit with the dates and actions taken. This is inconsistent with the actual practice whereby the Management File Index is optional based on the preferences of the Audit Leader. Based on our review of six performance audit files, we noted that only two files contained a Management File Index. Under the Quality Control Requirements section, it states that “At the start of the audit, the Management File Index, the audit Running Sheet and the Audit Risk / QA Checklist also need to be started.” This suggests that the use of all three forms is mandatory. However in actual fact and based on the audit team’s understanding, the Management File Index and QA checklist are optional and based on the preference of the Audit Leader.

PN 08: Pre and post tabling activities

- In preparation for tabling, it is required under the Practice Note to invite agency management to attend the media briefing. However, the Audit Office does not have the mandate to issue invitations to the media briefing as they are held at Parliament House. Instead, the audit team advises agency management of tabling dates and the media releases / briefing that follow the tabling of the report.
- Standard letter and schedule attachment along with the monitoring and reporting checklist to be sent to agencies within 10 days of tabling a report. In reality this is often performed within a month of tabling date.
- Within 4 weeks of tabling a report, a survey questionnaire should be forwarded to the Agency Chief Executive Officer. In reality this is often performed in batches between one to two months post tabling.

Recommendation:

The Audit Office should review its current Performance Audit Practice Notes to ensure it reflect current practices, with distinctions made between what is a mandatory requirement and what is optional. Further, we encourage the Audit Office to include a version control on its Practice Notes. This allows for documentation / tracking of the changes made as well as a prompt for periodic reviews (eg. annual) to ensure the Practice Notes always reflect the Audit Office's current practices.

Quality control

The performance audit quality control system is detailed in the Performance Audit Branch 'Quality Control System Policy to fulfil ASQC1' which was approved in September 2012 and includes:

| Quality control review | Details |
|------------------------|--|
| Hot review | <ul style="list-style-type: none"> • Core of quality control at the individual audit level • Focuses on significant judgements and conclusions of the Audit Team and on compliance with ASAE 3500 • Performed during the planning and conduct stages of the audit • Undertaken for all performance audits because they are considered "significant" public sector audits as defined in APES320 • The Business Team Leader (BTL) provides the engagement reviewer (ER) with checklists at the end of each audit phase and provides documentation of supporting judgements and conclusions reached |
| Cold review | <ul style="list-style-type: none"> • Undertaken on completed performance audits by a person independent of the audit (ie peer review) • Compliance by the audit team with the quality control system policy and procedures is checked • Conducted on a cyclical basis • At least one completed audit for each BTL will be selected for cold review each year • At least one completed audit for each Audit Leader will be selected for cold review every three years • Conducted by an appropriately experienced and qualified auditor, which may be a Branch member independent from the audit, Audit Office experienced colleagues or external reviewers such as ACAG • Report includes recommendations for corrective or remedial action in relation to deficiencies noted |
| Statutory review | <ul style="list-style-type: none"> • Section 48A of the <i>Public Finance and Audit Act 1983</i> requires a review of the Audit Office to be conducted at least once every 4 years • The previous review was performed in 2009 |

In March 2012, the Audit Office also engaged in an external (cold) review by its peers in the Australasian Council of Auditors-General (ACAG). The review panel included peers from the Victorian Auditor-General's Office, the Tasmanian Audit Office and the South Australian Audit Office.

The review concluded that the Audit Office's Performance Audit function is Satisfactory with improvement opportunities, which is defined by ACAG as "Reviewed files demonstrate a generally acceptable level of quality in that they achieve minimum standard of expectation in relation to compliance with the Australian Auditing Standards, professional standards, and regulatory and legal requirements."

Desktop review

A desktop review of the following Performance Audits was performed as part of our review:

| No | Review | Agencies |
|----|---|---|
| 1 | Settling Humanitarian Entrants in New South Wales | <ul style="list-style-type: none"> Community Relations Commission for a Multicultural NSW Department of Premier and Cabinet |
| 2 | Managing Overtime: RailCorp and Roads and Maritime Services | <ul style="list-style-type: none"> Rail Corporation NSW Roads and Maritime Services |
| 3 | Improving the Literacy of Aboriginal Students in NSW Public Schools | <ul style="list-style-type: none"> Department of Education and Communities |
| 4 | Monitoring Local Government | <ul style="list-style-type: none"> Department of Premier and Cabinet Division of Local Government |
| 5 | Managing Drug Exhibits and Other High Profile Goods | <ul style="list-style-type: none"> NSW Police Force |
| 6 | Managing Gifts and Benefits | <ul style="list-style-type: none"> Department of Planning and Infrastructure Environment Protection Authority Transport for NSW WorkCover Authority |

The sample was selected from the reviews completed since March 2012 as the Performance Audit Branch (PAB) implemented significant changes to their audit methodology in March 2012. We did not see the value in reviewing files pre this update as some of the matters arising are likely to have been addressed in the revised methodology.

Finding 12

Our desktop review revealed the following non-compliance with internal policy and procedures:

- Gaps were identified in the submission of Weekly / Fortnightly Project Status Reports for five out of the six files reviewed. Gaps ranged between two to five weeks.
- For one Performance Audit, the Declaration of Independence was not signed off by all team members, which included the Auditor-General, Assistant Auditor General, Business Team Leader, Audit Leader and Senior Performance Auditor. However there is an annual Declaration of Independence which is signed off by all members.
- Two Auditor-General's Eleven Consider Points were not completed.
- The Selection Matrix, which includes an analysis of lines of inquiry options based on significance, risk of poor management, likely impact of audit and auditability was not utilised in determining the lines of enquiry for one audit.
- The Quality Assurance Strategy was not completed for one audit.
- For two audits, the Team Staff Development Plan was not completed.
- The Project Running Sheet was not used and updated for one audit.
- For one audit, the Audit Scorecard was not completed due to delays in sending out client surveys.
- For one audit, the final (closure) checklist was yet to be signed off by the Engagement Reviewer.
- For three audits, the Quality Assurance checklist was not completed.
- The work papers for three audits were not finalised and signed off by the Business Team Leader within four weeks of completion of the audit.
- Five out of the six audits reviewed had not closed their respective PU (pre-commencement and post-tabling activities) and PS codes (audit conduct activities).

Recommendation:

Performance Audit teams should ensure internal policies and procedures are adhered to at all stages of the audit process and compliance should be monitored by the Business Team Leader / Engagement Reviewer.

Additionally, we encourage the Audit Office to perform a spot check exercise on a quarterly basis to ensure that PU and PS codes for reviews that had been tabled for a month are closed to ensure that staff do not mistakenly and inappropriately charge their time to those codes.

Finding 13

From an efficiency standpoint, we observe that the following forms are used by the PAB audit teams for quality assurance and project tracking purposes:

- Checklists 1 to 9, with Checklist 4 (midpoint) being optional based on audit risk level
- Audit Scorecard
- Quality Assurance checklist
- Project running sheet
- Management file index
- Weekly Project Status Report

We recognise that each of the checklists serves a different purpose and level of assurance to the audit process. However, our review identified what we consider to be a duplication of effort in the checklists being completed without any additional assurance. As a result, Audit Office performance auditors are unnecessarily encumbered with paperwork.

We also note that the level of detail and extent to which the checklists above are utilised varies amongst the audit teams.

Recommendation:

Based on our desktop review and consultation with PAB staff, we recommend that the Audit Office review the utility of these forms to streamline its quality assurance and project tracking process. Our suggestion would be to:

- Eliminate the Quality Assurance Checklist and Audit Scorecard;
- Revise Checklists 1 – 9 to incorporate the components of the Quality Assurance Checklist (mostly around ensuring the involvement of the Auditor-General in the process) and the Audit Scorecard (which could be incorporated in Checklist 9 – Closure);
- Define the types of information which should be documented in the Project Running Sheet (eg. telephone conversation details as well as key liaison details with the auditee(s) and stakeholders; and
- Make the Management File Index optional.

8 Assessment of Compliance Audit Methodology

Strategy and mandate

The Audit Office conducts compliance audits upon request from Treasury. Its goal is to conduct between one to two compliance audits each year.

NSW Treasury Finding 2

The Audit Office's ability to be proactive in developing its compliance audit function is limited as the Audit Office does not have a specific mandate under the *Public Finance and Audit Act 1983* to conduct compliance audits. The Act mandates the Audit Office to conduct financial audits and performance audits.

Therefore the Audit Office has to seek mandate and funding from the NSW Treasury prior to commencement of each compliance audit. Whilst it is within the Audit Office's interests to conduct compliance audits, they are usually the first to be removed from the Audit Office program if resources are constrained.

Whilst it has also been suggested that the Audit Office conducts compliance audits under its performance audit mandate, we recognise the difference in the skill sets required and the approaches in conducting each type of audit.

The Audit Office has pursued changes to the *Public Finance and Audit Act 1983* through Treasury to include Compliance Audit in its mandate. However, the Act is yet to be updated.

Recommendation:

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.

Methodology

Since the 2009 PAC review, the Audit Office has conducted three compliance audits. In assessing the Audit Office compliance audit methodology we walked through their most recent compliance audit of TPP09/05 'Internal Audit and Risk Management Policy for the NSW Public Sector' and confirmed the Audit Office's compliance with ASAE 3000 and ASAE 3100.

A Financial Audit Director was assigned to drive and manage this audit, with the oversight of a Financial Audit Assistant Auditor-General. A Financial Audit Director is assigned responsibility for the execution of Audit Office compliance 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 FAB 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 letter and followed up the subsequent year.
- The report is tabled in Parliament in the Financial Audit volumes.

9 Evaluate the effectiveness of Performance Audit

We are satisfied that the Performance Audits conducted by the Audit Office have been effective based on our weighing up of six indicators, which are detailed below:

9.1 The Objectives set for Performance Audits (subject to our review sample of six performance audits) are focused on improving accountability across the NSW Public Sector

This is attributable to the Audit Office's commitment to its topic selection and scoping process. This is highlighted via its significant average actual spend under its PU code (for the preliminary research, topic development including scoping as well as post-tabling activities) of \$76,102 compared with its average budget of \$57,496 per audit.

Finding 14

Strategic Audit Planning, Special Interest Group and Watching Briefs

Apart from those recommended by Parliamentarians or other stakeholders, the Audit Office uses its annual Strategic Audit Planning (SAP) process in deciding on audit themes and priorities for the year ahead. Special Interest Groups (SIGs) have been established to identify key strategic and emerging issues and risks in the following areas:

- Environment, Land Management and Primary Industries;
- Utilities and Infrastructure;
- Transport;
- Public Sector Management;
- Family & Community Services;
- Health;
- Justice;
- Education; and
- Arts, Sport, Investment and Regional Issues.

A PAB representative (watching brief) is assigned to work closely with each SIG. The SIG identifies the top five portfolio issues for the SAP workshop which is held to deliberate the topics for the Auditor-General and Deputy Auditor-General's approval.

The PAB has recognised that the SIGs cover a wide spread of department clusters and are catered for the FAB. They have identified areas in which the SIG would not normally provide coverage from a performance audit perspective.

The PAB has proposed an extension to these SIGs and nominated PAB representatives to ensure the Audit Office covers and is aware of the emerging issues and risks in all areas of the NSW public sector.

Recommendation:

We acknowledge that this reflects the internal consideration of the future Audit Office, and endorse the PAB's proposal.

Scoping

In scoping the audit, significant analyses are involved, including the Auditor-General's 11 Criteria and the Selection Matrix for potential lines of inquiry.

9.2 The outcomes reported (subject to our review sample of six performance audits) against Original Scope and Objectives were clear

The Audit Office's reports reviewed addressed the lines of inquiry and audit criteria which govern the basis (ie objective) of the audit as well as consider the scope of the review.

The Audit Office has an effective Audit Plan template in place which includes the audit objective, assumptions, exclusions, approach rationale, schedule and resources, risk level, budget and milestones, quality assurance strategy, communication strategy, risk management strategy and staff development plan.

Throughout the audit, weekly / fortnightly status reports are provided to the Business Team Leader to ensure that the audit is still in line with the Audit Plan.

Finding 15

The Audit Plan template is not available on Alfie (Audit Office's intranet) resulting in variations in the content of the Audit Plan across the reviews, in particular the use of an Audit Schedule. The Audit Schedule (calendar) is currently not mandatory according to Audit Office's PN 02 and Checklist 3.

Recommendation:

The use of an Audit Schedule (which was used in 4 out of the 6 audits reviewed) should be formalised and made compulsory. Whilst having set milestone target dates, we view the use of an audit schedule as a useful resource planning tool for the Audit Office in establishing the dates for key meetings, staff leave and fieldwork visits early on in the review. Any deviations to the plan can also be addressed and budgeted in a timely fashion.

9.3 Agency responses to the recommendations made (subject to our review sample of six performance audits) were mostly in support or in support of principle

Four of the six performance audits we reviewed received very positive responses from the Auditees, whereby recommendations were either supported in full or supported in principle.

The remaining two audits received some initial rejection from the Auditees in their formal responses, but upon further examination we note that there has been progress by the Auditees in the implementation of the recommendations raised by the Audit Office in these reviews.

9.4 Appropriate and timely follow-up of Recommendations by the Audit Office (subject to our review sample of six performance audits)

As a requirement of section 38C of Division 2A of the *Public Finance and Audit Act 1983*, the Audit Office sends out the final report to the auditee(s) at least 28 days prior to tabling the report to obtain their formal response, indicating acceptance or rejection of recommendations raised in the report. This formal response is included in the tabled report.

Within a month of tabling, the Audit Office sends out a second follow up letter to the Auditees to obtain their feedback on whether the recommendations in the final audit report are accepted or rejected.

Finding 16

The follow up letter (including an action plan template attached) sent out by the Audit Office to the Auditee(s) within a month of tabling date has in some cases caused frustration amongst the Auditee(s) as this is viewed as a duplication of the formal response and previously provided.

Recommendation:

To streamline this process, and to commit Auditee(s) to their responses, it is recommended that the Audit Office sends out the action plan template along with their final report and letter seeking a formal response 28 days prior to the tabling date. This action plan can also be included in the tabled report to place more accountability on the Auditee(s) in actioning the recommendations that they agree to.

9.5 Adequate Performance Audit follow up conducted by the Public Accounts Committee

The Auditor-General's performance audits tabled from October 2009 go through the PAC's systematic examination 12 months post tabling. In examining these audits, the PAC looks into what the agencies have done in response to the recommendations made by the Auditor-General and seeks feedback on the recommendations and the audit process generally. Where the PAC determines that further information is required, PAC invites the Agency CEOs and the Auditor-General to a hearing to respond to questions.

Since the PAC's 2009 review of the Audit Office, the Audit Office has tabled 41 performance audit reports, of which 30 have been followed up or are in the process of being followed up based on the following reports / inquiries published by PAC:

- Report 15/54 (178)
- Report 3/55
- Report 5/55
- 20 Sept 2012 Inquiry
- 27 Mar 2013 Inquiry

PAC Finding 1

Our review highlighted the lack of evidence of the PAC follow up for the following reviews:

| Performance Audit | Tabling Date |
|--|--------------|
| Administering Domestic Waterfront Tenancies | 23 Sept 09 |
| Government Licensing Project | 7 Oct 09 |
| Government Investment in V8 Supercar Racing at Sydney Olympic Park | 23 Jun 10 |

Recommendation:

To avoid performance audits and its recommendations getting lost in the follow up process, we encourage the PAC to maintain a register of all the Audit Office’s tabled performance audits and their recommendations. To facilitate this process, we recommend the Audit Office to forward the table populated by the Auditee(s) as part of the Audit Office’s own follow up process to the PAC upon receipt.

PAC Finding 2

Figure 2 provides a closer look into the PAC follow up process. It highlights a couple of key questions that challenge the robustness of the follow up process, being:

- Is the implementation of recommendations evidenced by the PAC once submission is provided by the agencies?
- Who follows up on the outstanding recommendations following PAC’s follow up review?

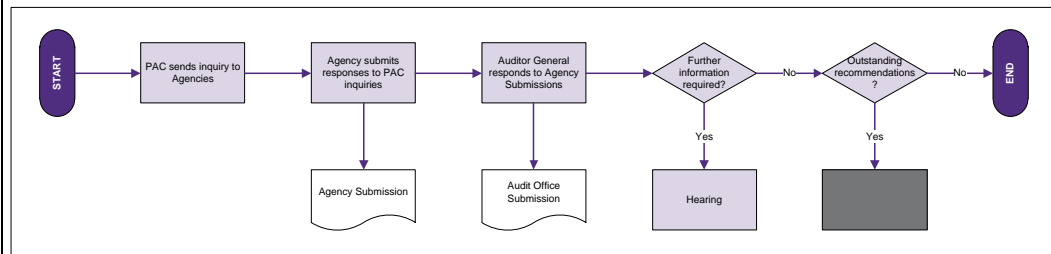


Figure 2: NSW Public Accounts Committee Follow Up Process

Recommendation:

We stress the importance of evidencing the Auditees’ implementation of recommendations when accepting agency submissions. This ensures that the work involved in the Performance Audit delivered by the Audit Office is not devalued.

We note that the Australian National Audit Office implementation of recommendations arising from their performance audits is monitored by the relevant agency’s Audit and Risk Committee. We encourage PAC to explore this option which will also strengthen its ties with the various Audit and Risk Committees.

Finding 17

Recommendation 15 from 2009 PAC review is that the PAC follow up process is fed back to the Auditor-General to inform the SAP process. We have repeated this recommendation.

Recommendation

PN08 should also be updated to ensure that the outcome of the PAC review is monitored and fed back to the SAP process.

9.6 Results of the Audit Office's own client surveys related to Performance Audit reviews conducted were mixed

Between July 2011 and July 2012 a total of 18 letters and invitations to participate in the completion of the survey questionnaire were issued and responses were received from 16 agencies. There were a significant number of responses received from the performance audit clients, being a mixture of positive and negative. 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.

Benchmarks for determining value for money

The establishment of benchmarks for determining value for money is very subjective. Potential measures or criteria for determining value for money could include:

- Stated objectives of the review are met
- Reviews undertaken in a cost effective manner
- Percentage of recommendations accepted
- Parliamentarian, Agency (Auditee) and PAC satisfaction with the Performance Audits performed.

As the Audit Office is funded by Parliament to conduct Performance Audits it is inappropriate to just use cost as a basis for determining value for money. It is also inappropriate for Client Agencies to make a value for money judgement as they do not fund the Audit Program.

Whilst the Audit Office has not established its own criteria for determining the value for money of the Performance Audits it conducts, it does report on a number of the measures outlined above in its Annual Report. It also engages an independent Market Research Company, ORIMA Research to conduct an annual benchmarking comparison of survey results across the five Australian Audit Offices that participate in the benchmarking process, where participants are asked to rate and provide their feedback on the Value of the Office's Performance Audit Services.

In terms of value for money, clients are asked to rate on a five-point agreement scale whether:

- The audit made a valuable contribution by providing the organisation with a sense of assurance regarding the administration of the audited activity

- The audit made recommendations that will help the organisation improve management of the activity (specific wording of the Audit Office of NSW).

The 2011-12 ACAG Benchmarking Report reviewed as part of this audit identified that no Audit Office participants provided a rating on whether the 13 Performance Audits conducted in the period “made a valuable contribution by providing the organisation with a sense of assurance regarding the administration of the audited activity”. However, 61.5% of participants did agree that the audit “made recommendations that will help the organisation improve management of the activity”.

The full Survey results for 2011-12 indicated that:

- Parliamentarians continue to rate the Auditor-General’s Performance Audit reports highly, however, there was a slight drop in positive responses to the reports delivered during this period.
- Parliamentarians who had referred to Performance Audit reports in the previous 12 months felt the reports were easy to understand, with 91 per cent in agreement, (down from 97 per cent in 2010) and clearly identified the significant issues and their implications, with 87 per cent of respondents in agreement, (down from 93 per cent in 2010).
- Some parliamentarians were less enthused about the layout and design of the reports in 2012 than they were in 2010.
- Although Parliamentarians rate the Audit Office’s Performance Audits highly, only a 39% of respondents access the reports on a regular basis.

From an Audit Client or Auditee perspective the results of these surveys indicated that:

- Organisation was provided with adequate opportunity to comment on the audit finding and issues prior to the finalisation of the report (100% agreed, above 87% in 2011)
- Only 69% of AONSW participants surveyed agreed that the final performance audit report presented the audit findings and issues clearly
- Final audit report presented the audit findings and issues accurately (50% agreed, below 57% in 2011)
- Final audit report presented the audit findings and issues in a balanced/fair manner (50% agreed, similar to 53% in 2011)
38% of respondents disagreed that the Final audit report presented the audit findings and issues in an accurate and balanced/fair manner (compared to 21% in 2011 who disagreed that reports were accurate, and 27% who disagreed that reports were balanced/fair).

The PAB has responded positively to the results of the surveys and the feedback received and through discussions with the PAC and Agencies is seeking to make adjustments to the format of its reports and its engagement with Parliamentarians and Client Agencies to ensure that they meet with their requirements going forward. We endorse this response and initiative and do not consider that an additional recommendation is required for these matters to be addressed by the Audit Office.

The Audit Office currently allows a funding envelope or allocation of \$250,000 per Performance Audit and this envelope is used as the basis for determining the resource budget for conducting the review.

Our review of the sample of six Performance Audits identified that four of the reviews went over budget and two were delivered under budget.

Finding 18

Whilst there appeared to be an appropriate allocation of time for the Performance Audit team (consisting of the Assistant Auditor General, Business Team Leader, Audit Leader and Senior Performance Auditor) there appeared to be little time budgeted for the input and review of the Auditor General. In each case the actual time spent exceeded that budgeted which challenges the robustness of the original budget.

Recommendation:

The PAB should ensure that there is an appropriate allocation of time budgeted for each member of the Performance Audit team for each audit, including sufficient time for the review and input of the Auditor General.

10 Assess whether the Audit Office has adequate resources

10.1 Financial Audit

Staffing

Staffing numbers have increased during the four year review period from 260 to 288. Our analysis of the skills, experience and qualifications of staff indicates that the Audit Office appears to be successfully addressing the need to attract and retain quality staff.

An annual staff survey is undertaken to ensure staff satisfaction is maintained. Results indicate employee satisfaction has remained stable for the previous four year period within the range of 76 to 79%.

Technology

Prior to the commencement of our fieldwork the Audit Office upgraded their hardware to ensure an efficient audit delivery model with the introduction of the new audit methodology IRIS for this June year end.

Technical support

The Audit Office maintains a technical support team. By necessity, the Audit support team employs only senior professional staff. Staff are rotated within the audit practice and where necessary temporary or contract staff are also engaged to fill particular gaps, complete specific projects or for their specific skill set.

The team also performs a large amount of background work for the Australasian Council of Auditors-General (ACAG), with a Senior Manager dedicating 2.5 days per week to the role with assistance when required from other team members for submissions. This role does take a large proportion of time, and should be factored into any decisions undertaken on the role of the AST as the Audit Office does not receive any additional funding in relation to this role.

By currently not outsourcing large percentages of work, the Audit Office maintains it is therefore able to support the technical team as it currently stands.

Finding 19

The Audit Office is currently supporting the ACAG to a greater degree than the other Audit Offices nationally.

Recommendation:

With the increased constraints due to budgetary pressures, the Audit Office may wish to raise this with ACAG to source additional funding.

10.2 Performance Audit

Staffing

The Audit Office's PAB under the Auditor-General and Deputy Auditor-General is led by the Performance Audit Assistant Auditor-General. As at 8 April 2013, the PAB team consists of:

| | |
|-----------------------------------|----|
| Performance Business Team Leaders | 2 |
| Performance Audit Leaders | 8 |
| Senior Performance Auditors | 11 |
| Admin Assistant | 1 |

The Audit Office has a competency matrix across the office, which sets the expectations for each role, from the Admin Assistant to the Assistant Auditor-General. The core competencies identified are Communication, Leadership, Thinking and Judgement, Business Focus and Professional Expertise. These are catered for each Branch.

In assigning staff to a particular audit, the PAB Executives consider staff:

- Availability;
- Experience and knowledge;
- Interest;
- Ability to work together.

Learning and development

New members of the PAB attend a Performance Audit Workshop conducted by the Australasian Council of Auditor-Generals (ACAG). This workshop runs for five days and increases participants' knowledge in the planning, conduct and follow up of a performance audit.

Each year, a Staff Development Action Plan is created and agreed upon for each staff member. Staff members and their Audit Leader / Business Team Leader work closely to identify their areas of development for the following year. Following this process, the PAB Executives identify a common area of development amongst the team and source external training for the Branch. The Staff Development Action Plan is revisited at commencement and conclusion of every new performance audit.

A post audit evaluation is also presented at Branch meetings whereby the audit team shares with their colleagues the lessons from the audit, ie what worked well and what didn't.

PAB learning and development is very much self-driven by the team members. As part of their roles as watching briefs, the team members identify industry conferences or seminars which may be beneficial in their development and submits a request, which is approved by their Business Team Leader and the Assistant Auditor-General.

Finding 20

The Audit Office has an overall budget for learning and development which is not broken down to the specific branches. As such, no formal analysis has been performed to investigate if the budget has been fully utilised for the purposes for which it was intended.

Recommendation:

Given the lack of structure in the learning and development activities for performance auditors (compared with financial auditors), learning and development for PAB is dependent on the proactivity of the individual staff member. Recognising that some staff may not be as proactive as others, and that staff at certain stages of their career may require more learning and development, the Audit Office should break down its budget and share its allocation with staff. This may be done at a Branch or even individual level, and will prompt and encourage staff to take ownership and responsibility for their own development.

Technology**Finding 21**

The Audit Office's Performance Audit Branch (PAB) does not currently utilise an Electronic Audit Methodology Platform to support the conduct of Performance Audit reviews. It currently prepares a number of manual files as described earlier in our report. It does however use its Electronic Document Management system (TRIM) to retain supporting evidence in addition to that held on the manual files.

Recommendation:

We understand from our discussions with the PAB that it will explore the opportunity to utilise the Audit Office's new Audit methodology platform (IRIS) over the next 12 to 18 months, after it has been fully embedded by the Financial Audit Branch (FAB). We endorse this initiative.

Whilst there is likely to be a significant amount of investment required in the first year in ensuring that the platform is appropriately tailored for use by the PAB, we believe that there are number of benefits in utilising such technology in the medium to longer term, including:

- The ability to see at a glance the status of the audit/working paper schedules
- Greater linkage between working papers and ease of referencing
- Enforced adoption and compliance with the audit methodology
- The ability to access and review audit work papers remotely
- Retained evidence (audit trail) of preparation, review and sign-offs
- Security of working papers
- Automated reporting functionality.

11 Assess the effectiveness of communication with clients

11.1 Financial Audit

The Client Service Plan (CSP) is the primary communication document with financial audit clients. This document highlights risks identified, budget and allocated team members and their qualifications.

The Client Service Report (CSR) communicates the financial audit outcomes to those charged with the governance of the client agency. The report must contain as a minimum:

- all significant matters identified
- misstatements and other matters of governance interest
- all significant matters identified for any component within a group

These documents in combination will address the requirements of ASA 260 *“Communicating to those charged with Governance”*.

From the client surveys conducted, 76% of the Financial Audit clients are satisfied with the audit process and the audit reporting, this remains consistent with the prior year. The Audit Office also achieved 74% of all opinions issued within 10 weeks of receiving the agencies’ financial statements and 61% of management letters were issued to clients within 6 weeks from issuance of the audit opinion; this is consistent with the prior year.

FAB tables around 10 Financial Audit Report volumes in Parliament each year. The PAC consults and agrees with the Audit Office which repeat recommendations it should follow-up with respective agencies.

11.2 Performance Audit

In identifying its clients, the Audit Office views:

- The Parliament as its primary client;
- The PAC as the key representative of Parliament;
- The Agency as the auditee; and
- Other stakeholders include special interest of community groups, academics, unions, professional groups and financial audit.

Communication with the PAC (key representative of the Parliament)

The Auditor-General maintains a solid relationship and effectively engages with PAC at key stages of its performance audit process.

Each year the Auditor-General writes to Members of Parliament (MPs) requesting for performance audit topic suggestions. The Auditor-General considers the suggestions put forward by Parliamentarians and discusses the Audit Office's proposed annual program with the PAC.

The Auditor-General also informs the PAC when a performance audit commences, attends PAC meetings to discuss the audit reports the Audit Office is tabling and briefs the PAC once the report is tabled. We note that in some performance audits, the Audit Office has involved Parliament more heavily in its audit planning / conduct stage by interviewing MPs prior to site visits if they have a specific interest in the topic.

Additionally, the Audit Office supports the PAC in its follow up reviews of performance audits conducted by the Audit Office by providing feedback on agency responses and if needed, the Auditor-General and audit team attends hearings to assist in the inquiry process.

Communication with the Agency (Auditee)

The Audit Office adopts the following approach to liaison with agency:

- Close involvement with agency during planning
- Regular feedback during conduct
- Discuss preliminary audit conclusions
- Discuss audit report
- Regular contact during tabling phase

A Communication Strategy is formulated and included in the Audit Plan to ensure there is effective communication with the agency engaged throughout the audit. This is evidenced with particular favourable statistics from the results of the Audit Office survey to its Auditees on its communication, with respect to the:

- Audit Process - The auditor's interaction with their organisation's staff during the audit was conducted in a professional manner (94% agreed, similar to 93% in 2011); and
- Audit Reporting - The Organisation was provided with adequate opportunity to comment on the audit finding and issues prior to the finalisation of the report (100% agreed, above 87% in 2011).

Finding 22

Section 38C of Division 2A of the *Public Finance and Audit Act 1983* requires the Audit Office to send out the final report to the Auditee(s), Minister and Treasurer at least 28 days prior to tabling the report. The Audit Office, however, also sends out a Week Before Letter and a Day Before Letter as courtesy to the Auditee(s), Minister and Treasurer as courtesy and to ensure all parties are fully aware of the tabling date and the media interest that typically follows.

In view of optimising the processes around its communication to agencies and stakeholders, the Week Before Letter and Day Before Letter are unnecessary from a compliance perspective.

Recommendation:

We recommend that the Audit Office eliminate the Day Before Letter as the Week Before Letter is sufficient courtesy and notice.

Appendix 1 – Scope and approach

Scope, purpose and approach

Scope

The scope of the review as outlined in Section 48A of the *Public Finance and Audit Act 1983 (NSW)*, and defined in the terms of reference issued by the PAC was to assess and provide recommendations about the auditing practices and standards of the Auditor-General and to determine whether the Auditor-General is complying with those practices and standards.

Purpose

The purpose of the review was to determine whether the Auditor-General is performing his functions in accordance with the *Public Finance and Audit Act 1983* and professional and legal requirements. The review should also consider whether these functions are performed effectively and efficiently, in a way that enhances the performance of the New South Wales public sector.

Approach

| Focus area per the Committee | Objective of audit test | Procedures performed |
|--|--|--|
| Assess the Audit Office's response to the previous statutory review undertaken in 2009 | To test whether issues identified in the previous statutory review undertaken in 2009 was properly addressed | <ol style="list-style-type: none"> 1 Obtained an understanding of the 2009 Review results and response of the Auditor-General with reference to Public Accounts Committee Report 1/55; 2 Incorporated each fact into testing in every aspect of the audit below. |
| Assess the audit methodologies used by the Audit Office of NSW | To assess the adequacy of audit methodology | <p>Financial Audit</p> <ol style="list-style-type: none"> 1 Interviewed the audit personnel to understand any changes in audit methodology since 2009 and the reasons behind the changes; inquired the impacts of updates in accounting and auditing standards on the audit methodology; 2 Compared and referenced audit manual to accounting standards and auditing standards to assess compliance; 3 Compared audit software to auditing standards to assess compliance; 4 On a sample basis, interviewed with engagement team to assess their understanding about audit methodology and proper training obtained; 5 On a sample basis, selected client files to perform file review from planning to completion; and investigate areas where noncompliance is noted. <p>Performance Audit</p> <ol style="list-style-type: none"> 1 Reviewed the Performance Audit Branch Practice Notes and Checklists and compared with the methodologies adopted by similar auditing bodies |

| Focus area per the Committee | Objective of audit test | Procedures performed |
|---|--|---|
| | | <p>in other jurisdictions. Other jurisdictions included the Audit Offices' of other Australian states, the Australian National Audit Office, and National Audit Office in the UK, New Zealand and Canada;</p> <ol style="list-style-type: none"> 2 Reviewed the Audit Office's methodology against the following auditing and professional standards <ul style="list-style-type: none"> • Standard on Assurance Engagements ASAE 3500 Performance Engagements as issued by the Auditing and Assurance Standards Board • ISSAI 3000 – Standards and guidelines for performance auditing based on International Organisation of Supreme Audit Institutions (INTOSAI) Auditing Standards • Standard on Assurance Engagements ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information; 3 Performed a desktop review of a sample of performance audits conducted during the period and ensure compliance or alignment with internal policy and procedures and specific legislative requirements detailed in Division 2A of the Public Finance and Audit Act 1983; 4 Reviewed the Audit Office's own feedback from Agencies subject to Performance Audit during the period and contact a sample of Agency representatives to obtain their views on the methodology applied. <p>Compliance Audit</p> <ol style="list-style-type: none"> 1 Reviewed the Audit Office's methodology against the following auditing and professional standards <ul style="list-style-type: none"> • Standard on Assurance Engagements ASAE 3100 Compliance Engagements • Standard on Assurance Engagements ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. |
| <p>Assess whether the Audit Office's financial audit services provide value for money, in comparison with the services and fees of similar organisations;</p> | <p>To assess the efficiency and effectiveness of the financial audit</p> | <ol style="list-style-type: none"> 1 Interviewed the audit personnel to understand the budget and pricing model as well as the fee acceptance process; 2 Used non-for-profit sector/public sector in other states as benchmarks to compare with fees and costs of a sample of clients (difference in reporting framework will be adjusted); 3 On a sample basis, selected client files to perform file review from planning to completion, and investigated areas where efficiency may be improved. |
| <p>Evaluate the effectiveness of the Performance Audits conducted by the Audit Office, in terms of meeting their objectives and contributing to improved accountability by government agencies within New South Wales</p> | | <ol style="list-style-type: none"> 1 Ascertained appropriate benchmarks for determining the value for money of Performance Audits delivered, through review of the practices adopted by other jurisdictions and concepts adopted by the Audit Office. Other jurisdictions included the Audit Offices' of other Australian states, the Australian National Audit Office, Audit New Zealand, and National Audit Office in the UK; 2 Reviewed the objectives set for a sample of the Performance Audits conducted, to determine whether these are focused on improving accountability across the NSW Public Sector; 3 Determined what if any, measures are used by the Audit Office and the Public Accounts Committee for assessing achievement i.e. what does success look like; 4 Performed a desktop review of a sample of |

| Focus area per the Committee | Objective of audit test | Procedures performed |
|---|--|--|
| | | <p>performance audit reports and compare the outcomes reported against the original scope and objectives agreed with the respective agency;</p> <p>5 Reviewed agency responses to the recommendations made and attempted to quantify where performance improvements have been or are likely to be made;</p> <p>6 Checked to ensure that there has been appropriate and timely follow-up of recommendations by the Audit Office for the sample of Performance Audits selected for review to determine whether agencies are implementing the actions agreed;</p> <p>7 Reviewed the Performance Audit follow up conducted by the Public Accounts Committee during the period;</p> <p>8 Reviewed the results of the Audit Office's own client surveys related to Performance Audit reviews conducted;</p> <p>9 Reviewed any Performance or value for money audit benchmarking conducted by the Audit Office.</p> |
| Whether the Audit Office has adequate resources to carry out its function | To assess the adequate team structure/resources used in different audits | <p>1 Obtained an understanding of existing employment policy in terms of qualification and experience requirements; interview with the Auditor-General regarding selection of team leaders/resources and execution of employment policy; on a sample basis, interview with staff at different level/private contractor to assess their understanding about their roles and responsibilities and to assess the adequacy of level of training they received;</p> <p>2 Reviewed the audit software for adequacy;</p> <p>3 Reviewed annual report of the Audit Office in terms of actual spending and understand any significant changes.</p> |
| The effectiveness of the Audit Office's communication with clients | | <p>1 For any client file examined in above sectors, review client correspondence to assess timely and adequate communication.</p> |
| Address any matters that may be referred to the review by the Committee in due course | Periodic and timely reporting to the Committee | Weekly update from the audit team regarding review progress. |

Appendix 2 – Detailed responses to the 2009 review

The Audit Office's response to the previous statutory review undertaken in 2009

| Identifier | 2009 PAC issue identified | 2009 PAC recommendations | Grant Thornton assessment of implementation | Status |
|------------|--|---|--|-----------------------|
| 1 | The current licence agreement for the Audit Offices AS2 financial audit software is due to expire in December 2010. The lead time on ensuring an appropriate replacement audit enabling software is found, and can be successfully implemented with the follow on changes in methodology, is likely to be in excess of 12 months. | The Audit Office implements a project to review the market for appropriate financial audit methodology and enabling software. | <p>The Audit office has assessed the remaining packages and also discussed with several other Audit Offices both within Australia and overseas.</p> <p>The Audit Office has moved to implement a new methodology and audit tool, which is able to be tailored to the approach required for its purposes.</p> <p>The first stage implementation has already commenced, with the final stage of the implementation in 2013/2014 year ends.</p> | Fully addressed |
| 2 | <p>Failure to sign off some checklists/recorded approval of documents. Many files contained checklists with provision for internal sign off by the reviewer and the date of review. These were not always completed, although the forms had been signed off at the index level in the AS2 software indicating that the work had been completed.</p> <p>Signing off the actual checklists provided the best evidence of the actual work undertaken.</p> | <p>Reinforce the need to comply with the Audit Office requirements to sign off checks and approvals within current Financial Audit processes.</p> <p>Consider reintroduction of Mini Quality and Review Committee (QARC) or revised file completion checklist utilising the existing "status of Forms and Templates" document to assist in ensuring compliance.</p> | The Audit Office reviewed the assessment and concluded the need for additional quality reviews was not considered necessary. | No longer applicable. |

| Identifier | 2009 PAC issue identified | 2009 PAC recommendations | Grant Thornton assessment of implementation | Status |
|------------|---|--|--|----------------------|
| 3 | There exists an opportunity to improve the transparency of work papers by adopting a more consistent approach to raising potential audit issues and following these through to their resolution. Standardisation will improve audit and audit review efficiency and reduce the likelihood of issues being overlooked. | Promote the use of a standardised approach to raising and resolving potential audit issues throughout work papers. | This has been addressed through the use of "Collection of insights". These are then transferred to the management letter points or Client Service report in order to ensure all aspects are captured. | Fully addressed |
| 4 | Some work papers appeared incomplete because comments and review points had not been documented as having been addressed and resolved. | Reinforce process for clearing review points in accordance with revised approach adopted by the Audit Office. | The close down policy details that the review notes are deleted upon the completion of the file. The engagement files reviewed indicate that this has been carried through. | Fully addressed |
| 5 | <p>The Quality and Review Committee (QARC) cold review process is a key method of ensuring consistency and continuous improvement. The level of the program in 2007 and 2008 was in accordance with APES 320 Quality Control for Firms and aimed to cover all BTL's on a rolling 3 yr basis. However the timing of the reviews meant that the results were not available to build into the subsequent years planning processes.</p> <p>Management have increased the number of reviews to cover all Business Team Leader's across the annual cycle during 2009 with results expected prior to be communicated prior to 30 June.</p> | <p>We support current initiative to ensure annual program of QARC reviews covers all Business Teams.</p> <p>We recommend the timing of the review be changed to enable lessons learnt to feed back into the subsequent years planning cycle.</p> | <p>The QARC reviews have been extended since this to go beyond the requirements of APES 320.</p> <p>Engagement findings have been discussed with the applicable engagement teams. However, the findings from the reviews of 30 June 2012 audit files, which were completed and backed up by 19 December, in accordance with legislative and auditing standard requirements, were only published to the wider audience on 4 June 2013. Earlier publication of the findings would be more useful for auditors to consider during the audit planning process for the 30 June 2013 audits.</p> | Partially addressed |
| 6 | There has been a poor response rate on the client and Audit Office reviewer in house surveys for Contract Audit agents- approximately 30% over the last three years. Client and Audit Office reviewer response is an important element in overall quality control process. | The Audit Office promotes completion of Client and Reviewer Surveys for all contracted audits. | This is being assessed at the PAC level and therefore not included within our scope. | No longer applicable |

| Identifier | 2009 PAC issue identified | 2009 PAC recommendations | Grant Thornton assessment of implementation | Status |
|------------|---|--|---|-----------------|
| 7 | The AG's Practice Manual currently refers to a 'Performance Audit Policy' that does not exist | The AG's Practice Manual needs to be updated to include a 'Performance Audit Policy' that it currently refers to by which does not exist. The Policy should bring together the Audit Offices mandate for performance audit together with the methodology framework for use in all Performance Audits and the alignment with professional standards | <p>Policies relevant to PAB are available on the office intranet (Alfie).</p> <ul style="list-style-type: none"> Quality Control policy ASQC-1. Actioning Performance Audit Agency Survey Results. | Fully addressed |
| 8 | Without a formal assessment of the "lines of inquiry" against the Risk Matrix or potential options for lines of inquiry the basis for the approach taken to a particular performance audit is weakened. | Formal assessment of the lines of inquiry against the defined Risk Matrix should be conducted in all instances as part of the planning stage of each performance audit. | Requirement is contained in PN04 - Developing the Audit Plan. Selection Matrix is used in determining the lines of inquiry and analyses the options based on the significance, risk control management, likely impact of audit and auditability. | Fully addressed |
| 9 | Audit documentation did not demonstrate a link between the individual planning being undertaken on a specific audit and the overarching Strategic Audit Plan. | Individual audit plans should have tangible links to the Strategic Audit Plan and these should be incorporated into the planning documentation at the commencement of the audit. | <p>Performance Audit topics do not always come through the SAP process. It may arise out of:</p> <ul style="list-style-type: none"> Parliamentarian / Ministerial recommendation Special Interest Group (SIG) Watching Brief proposal Conversations between the Auditor-General and relevant agencies. <p>Audits that have been selected demonstrate appropriate links to the overarching Audit Office Strategy via documentation in the individual audit scopes and audit plans (which include the 3 x 3 analysis, Auditor-General's 11 consider points and risk management strategy).</p> | Fully addressed |
| 10 | Process and requirements around the current "HOT" review process is limited. This may impact the quality of the final product. | <p>The roles of the Hot Reviewer to be further defined and to include:</p> <ul style="list-style-type: none"> a mandated responsibility to sign off that the audit approach complies with the internal methodology ensuring that the question posed by the audit aligns with the conclusions reached and that this is consistent with the planned objective ensuring that lines of inquiry have been properly pursued and that the reason behind any divergences from these is transparent in working papers. | <p>Working Party was established to review PABs checklists.</p> <p>The HOT review process and methodology has been documented in the Quality Control System Policy. The Business Team Leader (BTL) provides the Engagement Reviewer (ER) with checklists at the end of each audit phase and provides documentation, supporting judgements and conclusions reached. The ER completes the review component of the checklists, culminating an overall quality control sign off at the end of checklist 7. The ER is the Performance Audit Assistant</p> | Fully addressed |

| Identifier | 2009 PAC issue identified | 2009 PAC recommendations | Grant Thornton assessment of implementation | Status |
|------------|--|---|--|-----------------|
| | | Staff undertaking "HOT" reviewer role need to be well trained in the use of the Audit Office's internal methodology and be aware of the likely issues of compliance. | Auditor-General who is well versed with the Audit Office's methodology. | |
| 11 | The weekly status report is an important means of advising the audit manager of issues as they arise throughout the audit. It is an important compensatory control (for management) that ensures all planning criteria have been addressed in those instances where the audit trail from the audit plan to the fieldwork conducted is not particularly clear. The audit noted some gaps in the provision of weekly status reports. | The importance of the weekly status report should be enforced through mandated adherence to policy | PN02 - Starting and Developing the Audit reinforces the requirement for Regular Project Status Reports (minimum fortnightly- upon agreement with BTL). | Fully addressed |
| 12 | There was no tangible evidence of how the Risk Management Strategy, which is completed as part of the audit planning process, is revisited during the audit along with analysis of whether risks were realised fed into audit process improvement. The Strategy covers both audit process and risks related to the audits objectives. It is likely that during the course of the audit risks may be realised and new strategies or changes in methodology adopted to mitigate the risks. | The Audit scorecard, which provides an internal assessment at completion of the audit, should be expanded to incorporate an assessment against the Risk Management Strategy, to ensure contingent issues identified in the planning stage are satisfied throughout the course of the audit and provide appropriate closure. | Checklists 2 to 9 require the BTL and ER to sign off on the identification and management of risks in accordance with the Risk Management Strategy. The audit scorecard has been altered to confirm the review of the Risk Management Strategy and if any changes are in practice is required. This remains the responsibility of the Audit Leader. | Fully addressed |
| 13 | In one audit, the lines of inquiry provided in the final report varied slightly from the lines of inquiry in the planning documentation. The variation suggested to the reader that the audit may have represented a change in scope. | It is recommended that the clearance process for reports include provision that there has been reconciliation between planned audit objectives, criteria, scope, lines of inquiry published in the final report. | Checklist 7 outlines the requirement of the BTL to confirm that 'The report's conclusion answers the audit objective and each LOI/key question'. Checklist 6 outlines the requirement of the BTL to confirm that 'The objective, key questions/LOI and criteria in the draft report are the same as in the audit plan' and 'The draft report's conclusion clearly answers the audit objective and each LOI/key question. The findings and recommendations clearly support the conclusions'. | Fully addressed |
| 14 | In one audit, the audit opinion was not a specific statement against the audit objective and while there was an implied | Opinions in the published report must address the primary objective of the audit. Contextual discussion supporting the opinion must | From a sample of 6 PA Reviews, Audit Objectives have been sufficiently addressed | Fully addressed |

| Identifier | 2009 PAC issue identified | 2009 PAC recommendations | Grant Thornton assessment of implementation | Status |
|------------|---|---|---|---------------------|
| | opinion, there was no definitive statement to satisfy the reader that the audit objective had been achieved. | specifically address each line of enquiry to ensure the report is structured in a manner that is consistent with the audit plan. | | |
| 15 | The new role of the PAC as the body responsible for following up the implementation of audit recommendations is a significant improvement in the Audit Office's ability to promote greater accountability. To enhance this process, the findings of the PAC to follow up should be formally fed back into the Audit Office's Strategic Audit Planning process. | Follow up reviews conducted by the PAC should be formally fed back to the AG to inform the SAP process | <p>The Auditor-General is required to respond to agency submissions on the PAC follow up on whether:</p> <ul style="list-style-type: none"> the proposed action addresses the issues that the original audit identified progress reported by the agency is satisfactory, continuing, delayed or unsatisfactory <p>This finding is still relevant as the outcomes of the PAC follow up review and any outstanding recommendations are not monitored and fed into the annual SAP process.</p> | Partially addressed |
| 16 | <p>It was noted that some audits commenced during the year did not stem from the planning process conducted but were initiated from other sources.</p> <p>Existing processes do not document consideration of the merits of commencing these audits against others marked for completion.</p> <p>Commencing audits which have not risen from the agreed planning processes renders much of this planning redundant and may result in an inefficient use of resources.</p> | <p>The Strategic Audit Planning process should be broadened to reflect discretionary 'unplanned' audits which arise during the current period. These changes should be published in a revised SAP on the agency website.</p> <p>The Audit Office commit to a rolling three year strategic audit plan which is updated regularly to make explicit the implications of commencing previously unplanned audits and to reflect segment and industry coverage over the period.</p> | <p>PN01 – Topic Selection addresses the various sources in which a topic arises, which includes the unplanned audits which arise during the period.</p> <p>Refer to Recommendation 20 for the addressing of the rolling three year strategic audit plan recommendation.</p> | Fully addressed |
| 17 | The selection of agencies for inclusion in the initial 2009 Compliance audit program has been based on a list of affected agencies and then smoothing coverage across business teams. This may result in a sample selection that does not reflect a cross section of Governance risk profile in relation to the particular compliance risk subject to audit. | Selection of agencies for inclusion within compliance audits should primarily be based on ensuring an appropriate representation across the Governments risk profile in relation to the compliance risk subject to audit. We suggest the new Compliance Audit Framework be amended to provide guidance on agency selection. | Based on our walkthrough of Audit Office's compliance audit of TPP 09/05 we noted the selection of agencies for inclusion in the audit scope generally includes the nine "primary" agencies with the highest budget allocations, and the highest risk. Further, the Financial Audit BTLs are requested to nominate agencies within their Special Interest Groups (SIGs) which they consider should be included in the scope. | Fully addressed |

| Identifier | 2009 PAC issue identified | 2009 PAC recommendations | Grant Thornton assessment of implementation | Status |
|------------|---|--|--|---------------------|
| 18 | <p>During 2007 and 2008 the Audit Office did not conduct a separate Compliance Audit program. The primary reason for this was the divergence of resources to deal with changes in Accounting and then auditing standards. This has resulted in an increase in overall time spent on Financial Audits.</p> <p>As part of the reintroduction of Compliance audit program the Audit Office is in the process of seeing separate funding from Treasury.</p> | <p>We support the Audit Offices initiative of seeking separate funding for its compliance audit program. The office should seek that the program becomes fully funded to avoid potential issues with cross subsidisation with Financial Audit.</p> | <p>The Audit Office has made significant efforts in pursuing changes to the Public Finance and Audit Act 1983 to include Compliance Audit in the Audit Office's mandate. The Report of the NSW Financial Audit (The Lambert Report) further supports this initiative by recommending that the Auditor-General is provided with explicit power to undertake compliance audits. The Audit Office continues to await a response from Treasury in pushing forward with the suggested changes to the Act to include this mandate.</p> | Fully addressed |
| 19 | <p>There was no tangible evidence sighted of how the audit Development Plan, which is part of the Performance Audit planning process and highlights areas for on the job development, feeds back into staff development.</p> <p>In addition we noted there appeared to have been only limited access to the available client surveys for use in consideration of staff performance and development.</p> | <p>The Audit Scorecard, which provides an internal assessment at completion of the audit, should be expanded to incorporate an assessment against the Risk Management Strategy, to ensure contingent issues identified in the planning staff are satisfied throughout the course of the audit and provided appropriate feedback to audit staff where necessary.</p> <p>The practice of disseminating the performance audit client surveys should also be enhanced to ensure timely feedback is provided where possible to feed into staff development.</p> | <p>The Scorecard has been amended to ensure that BTLs and the ER or AAG confirms that 'The development needs of team members addressed'.</p> | Fully addressed |
| 20 | <p>There is currently only limited disclosure with regards to the scope of the performance and compliance audit programs. Publishing a plan ensuring effective notice is provided across all stakeholder groups and may have the added benefit of improving accountability without the need to undertake all audits.</p> | <p>The Audit Office should consider publishing a rolling three year plan of performance and compliance audits similar to that published by the Victorian Auditor General's Office. This can consider both past and potential future proposed audits and provide an incentive for improved accountability. It would remain subject to changing circumstances.</p> | <p>The Audit Office does not commit to a three year rolling plan for performance and compliance audits. This is due to the constantly changing and emerging issues in the NSW Public Sector. We are in support of this view.</p> <p>This finding remains partially addressed as disclosure remains limited, as detailed in Finding 2 of our report.</p> | Partially addressed |
| 21 | <p>Our analysis of the status of previous recommendations revealed that whilst most have been fully addressed, some items in relation to three areas have only been partially addressed. In addition the Internal audit pre PAC Triennium Review undertaken prior to our assessment raised a number of recommendations which the Audit Office have agreed to action.</p> | <p>In order to formally close out the 2006 Recommendations the Audit Office should assess whether any further action is required in relation to partially addressed recommendations and ensure all recommendations raised in the recent Internal Audit are actioned as appropriate.</p> | <p>All FA recommendations have been fully addressed.</p> <p>All PA recommendations have either been fully addressed or are no longer applicable.</p> | Fully addressed |

Appendix 3 – Summary of findings from the 2013 statutory review

The summary of findings from the 2013 statutory review

| Identifier | Area | Issue identified | Recommendations | Audit Office response |
|------------|-----------------|---|--|--|
| 1 | Overall | Our assessment of the status of the 2009 PAC recommendations revealed that whilst most have been fully addressed, some items have only been partially addressed. | In order to formally close out the 2009 recommendations, the Audit Office should assess whether any further action is required in relation to partially addressed recommendations and action them as appropriate. | Accepted. We will assess further action as required. |
| 2 | Overall | Whilst we recognise that some degree of disclosure is provided in the Audit Office's Annual Reports on the 'The Year Ahead' and 'This Year's Performance Audits' sections as well as in the 'Engagements in Progress' section on the Audit Office's website, we re-raise the sentiments of Finding 20 from the 2009 PAC review as disclosure remains limited. | 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. | Agree in principle. Will assess this after the Strategic Audit Planning process is complete in January 2014. |
| 3 | Financial Audit | There is currently no reporting functionality to allow the training and development team to assess if personnel are attending the appropriate training for their level. This is currently addressed through the performance management of individuals. | Currently the reporting functionality of the online training system does not easily allow the user to determine if an employee has attended all the relevant courses for their level. The online training tool could be extended to incorporate this functionality. | Agreed. The on-line training tool's functionality will be reviewed. |

| Identifier | Area | Issue identified | Recommendations | Audit Office response |
|------------|-----------------|---|--|--|
| 4 | Financial Audit | The Audit Office policy and implementation is currently greater than the requirements of APES 320. | The Audit Office should assess the cost/benefit of these additional quality reviews. | We have determined our current policy best meets our quality objectives for financial audit. |
| 5 | Financial Audit | Use of Computer Assisted Audit Techniques (CAATs). The use of CAATs was underutilised in the detailed testing undertaken. The procedures appeared to be focused around sampling, when CAATs can provide up to 100% comfort and therefore greater audit evidence. CAATs are also an effective fraud testing tool particularly over payroll, overheads and employee reimbursement transactions. | The engagement teams should review the planned audit approach on engagements to look at areas where the audit work could be undertaken more efficiently either through the use of CAATs or in the determination of sample sizes. | Accepted. The use of CAATs is being determined as part of the roll out of the new audit methodology. |
| 6 | Financial Audit | Completeness of audit documentation. When reviewing the engagement files, several key items of documentation were not located on the files. These items were captured within the TRIM document management system. However, to ensure the engagement file is complete, all documentation should be included within the engagement file. | With the change in methodology and tools in the current period, the engagement personnel should be reminded that all audit evidence to support the audit opinion should be included within the audit engagement file. | Accepted. This will be implemented with the roll out of the new methodology. |
| 7 | Financial Audit | Assessment of work undertaken by management experts. ASA 500 "Audit Evidence" provides clear and specific guidance on the reliability of such information. Our review of the work conducted by the engagement teams indicated a significant reliance on the standard template document. This document appears to be taken as the auditor's complete consideration and indications are that its use being treated as a 'form filling exercise'. In evaluating the appropriateness of that expert's work as audit evidence we were not able to see any thorough consideration other than limited narrative within the standard form. | All engagement personnel should be reminded to fully document the assessment of work undertaken by management experts. | Accepted. |

| Identifier | Area | Issue identified | Recommendations | Audit Office response |
|------------|-------------------|--|---|---|
| 8 | Financial Audit | Documentation of the application of professional scepticism. Where the engagement teams were placing reliance on expert reports or confirmations, we noted that the engagement files did not document where auditors had applied professional scepticism. | All engagement personnel should be reminded of the need to demonstrate professional scepticism in the documentation of audit work around significant judgement areas. | Agreed. Will reinforce the need for auditors to document professional scepticism applied to expert reports. |
| 9 | Financial Audit | Analytical procedures. On review of the engagement files selected, there were areas of development noted with the application of analytical procedures at the planning, execution and conclusion of the audits. The introduction of the new audit methodology and tool may assist teams to document the expectations and scoping of material transactions through their analytical procedures. | The introduction of IRIS may assist teams to document the expectations and scoping of material transactions through their analytical procedures. | Agreed. |
| 10 | Performance Audit | Whilst we acknowledge the adjustments PAB has made to its Performance Audit Checklists to reflect changes in requirements of legislation and to incorporate recommendations from the 2009 review, a lack of cohesion between the checklists is observed. From our sample of six performance audit files reviewed, there were two instances (Declaration of Independence completion and PU and PS codes closure) whereby the outstanding items from the checklists were not subsequently followed up. | To enhance the effectiveness of the checklists in ensuring all key processes are completed, the Audit Office should consider adding an "Outstanding Items" component to each of the checklists from Checklist 2 onwards. This will necessitate the audit team to run through the previous Checklist to roll over any outstanding items and ensure that they are completed and signed off. | Accepted. Review of checklists and practice notes to be complete by July 2014. |
| 11 | Performance Audit | We identified a couple of instances whereby the Audit Office's Performance Audit Practice Notes did not reflect current practices, specifically: PN 02: Starting and developing the audit <ul style="list-style-type: none"> Quality control requirements require the Management File Index, the audit Running Sheet and the Quality Assurance Checklist to be started at commencement of the audit, and continually updated throughout the audit with the dates and actions taken. This is inconsistent with the actual practice whereby the Management File Index is optional based on the preferences of the Audit Leader. Based on our review of six performance audit files, we noted that only two files contained a | The Audit Office should review its current Performance Audit Practice Notes to ensure it reflect current practices, with distinctions made between what is a mandatory requirement and what is optional. Further, we encourage the Audit Office to include a version control on its Practice Notes. This allows for documentation / tracking of the changes made as well as a prompt for periodic reviews (eg annual) to ensure the Practice Notes always reflect the Audit Office's current practices. | Accepted. Review of checklists and practice notes to be complete by July 2014. |

| Identifier | Area | Issue identified | Recommendations | Audit Office response |
|------------|------|---|-----------------|-----------------------|
| | | <p>Management File Index. Under the Quality Control Requirements section, it states that "At the start of the audit, the Management File Index, the audit Running Sheet and the Audit Risk / QA Checklist also need to be started." This indicates that the use of all three forms is mandatory. However in actual and based on the audit team understanding, the Management File Index and QA checklist are optional and based on the preference of the Audit Leader.</p> | | |
| | | <p>PN 08: Pre and post tabling activities</p> <ul style="list-style-type: none"> • In preparation for tabling, it is required under the Practice Note to invite agency management to attend the media briefing. However Audit Office does not have the mandate to issue invitations to the media briefing as they are held at the Parliament House. Instead, the audit team advises agency management of tabling dates and the media releases / briefing that follow the tabling of the report. • Standard letter and schedule attachment along with the monitoring and reporting checklist are sent to agencies within 10 days of tabling a report. In reality this is often performed within a month of tabling date. • Within 4 weeks of tabling a report, a survey questionnaire is forwarded to the agency Chief Executive Officer. In reality this is often performed in batches between one to two months post tabling. | | |

| Identifier | Area | Issue identified | Recommendations | Audit Office response |
|------------|-------------------|---|--|---|
| 12 | Performance Audit | <p>Our desktop review revealed the following non-compliance with internal policy and procedures:</p> <ul style="list-style-type: none"> • Gaps were identified in the submission of Weekly / Fortnightly Project Status Reports for five out of the six files reviewed. The status report gaps ranged between two to five weeks. • For one performance audit, the Declaration of Independence was not signed off by all team members, which included the Auditor-General, Assistant Auditor General, Business Team Leader, Audit Leader and Senior Performance Auditor. However there is an annual Declaration of Independence which is signed off by all members. • Two Auditor-General's Eleven Consider Points were not completed. • The Selection Matrix, which includes an analysis of lines of inquiry options based on significance, risk of poor management, likely impact of audit and auditability was not utilised in determining the lines of enquiry for one audit. • The Quality Assurance Strategy was not completed for one audit. • For two audits, the Team Staff Development Plan was not completed. • The Project Running Sheet was not used and updated for one audit. • For one audit, the Audit Scorecard was not completed due to delays in sending out of client surveys. • For one audit, the final (closure) checklist was yet to be signed off by the Engagement Reviewer. • For three audits, the Quality Assurance checklist was not completed. • The work papers for three audits were not finalised and signed off by the Business Team Leader within four weeks of completion of audit. • Five out of the six audits reviewed had not closed their respective PU (pre-commencement and post-tabling activities) and PS codes (audit conduct activities). | <p>Performance Audit teams should ensure internal policies and procedures are adhered to at all stages of the audit process and compliance should be monitored by the Business Team Leader / Engagement Reviewer.</p> <p>Additionally, we encourage the Audit Office to perform a spot check exercise on a quarterly basis to ensure that PU and PS codes for reviews that had been tabled for a month are closed to ensure that staff do not mistakenly and inappropriately charge their time to those codes.</p> | <p>Partially accepted. We will close our PS codes within a month, but keep the PU code open to allow completion of post-audit work including analysis of client survey results.</p> <p>Proposed implementation date October 2013.</p> |

| Identifier | Area | Issue identified | Recommendations | Audit Office response |
|------------|-------------------|---|---|--|
| 13 | Performance Audit | <p>From an efficiency standpoint, we observe that the following forms are used by the PAB audit teams for quality assurance and project tracking purposes:</p> <ul style="list-style-type: none"> • Checklists 1 to 9, with Checklist 4 (midpoint) being optional based on audit risk level • Audit Scorecard • Quality Assurance checklist • Project running sheet • Management file index • Weekly Project Status Report <p>We recognise that each of the forms above serve different purposes and provide assurance to the audit process. However, our review identified some duplication of efforts in achieving equal level of assurance resulting in the risk of Audit Office performance auditors being unnecessarily encumbered with paperwork.</p> <p>We also note that the level of detail and extent to which the tools above are utilised vary amongst the audit teams.</p> | <p>Based on our desktop review and consultation with PAB staff of all levels, we recommend that Audit Office review the utility of these forms to streamline its quality assurance and project tracking process. Our suggestion would be to:</p> <ul style="list-style-type: none"> • Eliminate the Quality Assurance Checklist and Audit Scorecard; • Revise Checklists 1 – 9 to incorporate the components of the Quality Assurance Checklist (mostly around ensuring the involvement of the Auditor-General in the process) and the Audit Scorecard (which could be incorporated in Checklist 9 – Closure); • Define the types of information which should be documented in the Project Running Sheet (eg. telephone conversation details as well as key liaison details with the auditee(s) and stakeholders; and • Make the Management File Index optional | <p>Accepted. We will conduct the proposed review and consider the suggestions of the Reviewer.</p> <p>Review of checklists and practice notes to be complete by July 2014.</p> |
| 14 | Performance Audit | <p>Apart from those recommended by Parliamentarians or other stakeholders, the Audit Office uses its annual Strategic Audit Planning (SAP) process in deciding on audit themes and priorities for the following year. Special Interest Groups (SIGs) have been established to identify key strategic and emerging issues and risks in the following areas:</p> <ul style="list-style-type: none"> • Environment, Land Management and Primary Industries; • Utilities and Infrastructure; • Transport; • Public Sector Management; • Family & Community Services; • Health; • Justice; • Education; and • Arts, Sport, Investment and Regional Issues. <p>A PAB representative (watching brief) is assigned to work closely with each SIG. The</p> | <p>We acknowledge that this reflects the internal consideration of the future Audit Office, and endorse the PAB's proposal.</p> | <p>Accepted.</p> <p>Proposed implementation date October 2013.</p> |

| Identifier | Area | Issue identified | Recommendations | Audit Office response |
|------------|-------------------|--|--|--|
| | | <p>SIG identifies the top five portfolio issues for the SAP workshop which is held to deliberate the topics for the Auditor-General and Deputy Auditor-General's approval.</p> <p>The PAB has recognised that the SIGs cover a wide spread of department clusters and but are catered for the FAB. They have identified areas in which the SIG would not normally provide coverage from a performance audit point of view.</p> <p>The PAB has proposed an extension to these SIGs and nominated PAB representatives to ensure the Audit Office covers and is aware of the emerging issues and risks in all areas of the NSW public sector.</p> | | |
| 15 | Performance Audit | The Audit Plan template is not available on Alfie (Audit Office's intranet) resulting in variations in the content of Audit Plan across the reviews, in particular the use of an Audit Schedule. The Audit Schedule (calendar) is currently not mandatory according to Audit Office's PN 02 and Checklist 3. | The use of an Audit Schedule (which was used in 4 out of the 6 audits reviewed) should be formalised and made compulsory. Whilst having set milestone target dates, we view the use of an audit schedule as a useful resource planner tool for the Audit Office in establishing the dates for key meetings, staff leave and fieldwork visits early on in the review. Any deviations to the plan can also be addressed and budgeted in a more timely fashion. | <p>Accepted. We will include this in the review of practice notes and checklists.</p> <p>Review of checklists and practice notes to be complete by July 2014.</p> |
| 16 | Performance Audit | The follow up letter (with the table template attached) sent out by the Audit Office to the Auditee(s) within a month of tabling date has in some cases caused frustration amongst the Auditee(s) as this is viewed as a duplication of the formal response and a waste of time. | To streamline this process, and to commit Auditee(s) to their responses, it is recommended that the Audit Office sends out the table template along with their final report and letter seeking a formal response 28 days prior to the tabling date. This table can also be included in the tabled report to place more accountability on the Auditee(s) in actioning the recommendations that they agree to. | <p>Accepted in principle. We can encourage Auditees to respond to each recommendation specifically in their response to be included in the audit report, but cannot compel them to do so. Where they do not, we will utilise our current practice.</p> <p>Proposed implementation date January 2014.</p> |
| 17 | Performance Audit | Recommendation 15 from the 2009 PAC review is that the PAC follow up process is fed back to the Auditor-General to inform the SAP process. We have repeated this recommendation. | PN 08 should also be updated to ensure that the outcome of the PAC review is monitored and fed back to the SAP process. | <p>Accepted.</p> <p>Proposed implementation date October 2013.</p> |

| Identifier | Area | Issue identified | Recommendations | Audit Office response |
|------------|-------------------|--|---|---|
| 18 | Performance Audit | Whilst there appeared to be an appropriate allocation of time for the Performance Audit team (consisting of the Assistant Auditor General, Business Team Leader, Audit Leader and Senior Performance Auditor) there appeared to be little time budgeted for the input and review of the Auditor General. In each case the actual time spent exceeded that budgeted which challenges the robustness of the original budget. | The PAB should ensure that there is an appropriate allocation of time budgeted for each member of the Performance Audit team for each audit, including sufficient time for the review and input of the Auditor General. | Accepted We will establish guidelines for the expected time of supervisors and reviewers on audits, including DAG and AG, as part of our review of checklists and practice notes. Review of checklists and practice notes to be complete by July 2014. |
| 19 | Financial Audit | The Audit Office is currently supporting the ACAG to a greater degree than the other Audit Offices nationally. | With the increase in constraints due to budgetary pressures, the Audit Office may wish to raise this with ACAG to source additional funding. | This has been raised previously with ACAG and will be raised again at the next ACAG Business Meeting. |
| 20 | Performance Audit | The Audit Office has an overall budget for learning and development which is not broken down to the specific branches. As such, no formal analysis has been performed to investigate if the budget has been fully utilised for the purposes for which it was intended. | Given the lack of structure in the learning and development activities for performance auditors (compared with financial auditors), learning and development for PAB is dependent on the proactivity of the individual staff member. Recognising that some staff may not be as proactive as others, and that staff at certain stages of their career may require more learning and development, the Audit Office should break down its budget and share its allocation with staff. This may be done at a Branch or even individual level, and will prompt and encourage staff to take ownership and responsibility for their own development. | Accepted. Proposed implementation date July 2014. |

| Identifier | Area | Issue identified | Recommendations | Audit Office response |
|------------|-------------------|---|--|---|
| 21 | Performance Audit | The Audit Office's Performance Audit Branch (PAB) does not currently utilise an Electronic Audit Methodology Platform to support the conduct of Performance Audit reviews. It currently prepares a number of manual files as described earlier in our report. It does however use its Electronic Document Management system (TRIM) to retain supporting evidence in addition to that held on the manual files. | <p>We understand from our discussions with the PAB that it will explore the opportunity to utilise the Audit Office's new Audit methodology platform (IRIS) over the next 12 to 18 months, after it has been fully embedded by the Financial Audit Branch (FAB). We endorse this initiative.</p> <p>Whilst there is likely to be a significant amount of investment required in the first year in ensuring that the platform is appropriately tailored for use by the PAB, we believe that there are number of benefits in utilising such technology in the medium to longer term, including:</p> <ul style="list-style-type: none"> • The ability to see at a glance the status of the audit/working paper schedules • Greater linkage between working papers and ease of referencing • Enforced adoption and compliance with the audit methodology • The ability to access and review audit work papers remotely • Retained evidence (audit trail) of preparation, review and sign-offs • Security of working papers • Automated reporting functionality. | <p>Accepted. We will explore the opportunity to utilise the new audit methodology, and evaluate the costs and benefits of doing so, keeping in mind the Reviewer's comments that that this is likely to require significant additional investment in the first year.</p> <p>Proposed date to complete review, September 2014.</p> |
| 22 | Performance Audit | <p>Section 38C of Division 2A of the Public Finance and Audit Act 1983 requires the Audit Office to send out the final report to the Auditee(s), Minister and Treasurer at least 28 days prior to tabling the report. The Audit Office, however, also sends out a Week Before Letter and a Day Before Letter as courtesy to the Auditee(s), Minister and Treasurer as courtesy and to ensure all parties are fully aware of the tabling date and the media interest that typically follows.</p> <p>In view of optimising the processes around its communication to agencies and stakeholders, the Week Before Letter and Day Before Letter are unnecessary from a compliance perspective.</p> | <p>We recommend that the Audit Office eliminate the Day Before Letter as the Week Before Letter is sufficient courtesy and notice.</p> | <p>Accepted.</p> <p>Proposed implementation date January 2014.</p> |

Appendix 4 – Recommendations for NSW Treasury and the Public Accounts Committee

For the Consideration of the NSW Treasury

| Identifier | Issue identified | Recommendations |
|------------|---|---|
| 1 | Budgetary constraints have been identified with the efficiency dividends the Audit Office is expected to deliver that may constrain the Auditor-General's ability to meet his mandate. | Continued fee and budgetary constraints could lead to a mismatch of available hours and the required level of work to be undertaken. Treasury needs to work with The Audit Office to ensure that an appropriate budget is maintained to maintain the high standards of audit quality. |
| 2 | The Audit Office's ability to be proactive in developing its compliance audit function is limited as the Audit Office does not have a specific mandate under the Public Finance and Audit Act 1983 to conduct compliance audits. The Act mandates the Audit Office to conduct financial audits and performance audits. Therefore the Audit Office has to seek mandate and funding from the NSW Treasury prior to commencement of each compliance audit. Whilst it is within the Audit Office's interests to conduct compliance audits, they are usually the first to be removed from the Audit Office program if resources are constrained. | 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. |

For the Consideration of the Public Accounts Committee

| Identifier | Issue identified | Recommendations | | | | | | | | |
|--|---|--|--------------|---|------------|------------------------------|----------|--|-----------|--|
| 1 | <p>Our review highlighted the lack of evidence of the PAC follow up for the following reviews:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Performance Audit</th> <th style="text-align: left;">Tabling Date</th> </tr> </thead> <tbody> <tr> <td>Administering Domestic Waterfront Tenancies</td> <td>23 Sept 09</td> </tr> <tr> <td>Government Licensing Project</td> <td>7 Oct 09</td> </tr> <tr> <td>Government Investment in V8 Supercar Racing at Sydney Olympic Park</td> <td>23 Jun 10</td> </tr> </tbody> </table> | Performance Audit | Tabling Date | Administering Domestic Waterfront Tenancies | 23 Sept 09 | Government Licensing Project | 7 Oct 09 | Government Investment in V8 Supercar Racing at Sydney Olympic Park | 23 Jun 10 | <p>To avoid performance audits and its recommendations getting lost in the follow up process, we encourage the PAC to maintain a register of all the Audit Office's tabled performance audits and their recommendations. To facilitate this process, we recommend the Audit Office to forward the table populated by the Auditee(s) as part of the Audit Office's own follow up process to the PAC upon receipt.</p> |
| Performance Audit | Tabling Date | | | | | | | | | |
| Administering Domestic Waterfront Tenancies | 23 Sept 09 | | | | | | | | | |
| Government Licensing Project | 7 Oct 09 | | | | | | | | | |
| Government Investment in V8 Supercar Racing at Sydney Olympic Park | 23 Jun 10 | | | | | | | | | |
| 2 | <p>Figure 2 provides a closer look into the PAC follow up process. It highlights a couple of key questions that challenge the robustness of the follow up process, being:</p> <ul style="list-style-type: none"> • Is the implementation of recommendations evidenced by the PAC once submission is provided by the agencies? • Who follows up on the outstanding recommendations following PAC's follow up review? | <p>We stress the importance of evidencing the Auditees' implementation of recommendations when accepting agency submissions. This ensures that the work involved in the Performance Audit delivered by the Audit Office is not devalued.</p> | | | | | | | | |

Appendix 5 - Glossary

Glossary

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|----------|---|
| ACAG | Australasian Council of Auditor-General |
| ASIC | Australian Securities and Investment Commission |
| AS/2 | Audit Office's existing audit tool |
| CAAT | Computer Aided Audit Technique |
| CSP | Client Service Plan |
| CSR | Client Service Report |
| FAB | Financial Audit Branch |
| IRIS | Audit Office's new audit methodology |
| LSI | Life Styles Inventory |
| ORIMA | Independent Market Research Company engaged by the Audit Office |
| PAB | Performance Audit Branch |
| PAC | Public Accounts Committee |
| SAGE | Audit Office's existing audit methodology |
| TRIM | Document management system |
| TeamMate | Audit Office's new audit tool |

Appendix One – 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

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

5. Independent Review of the Audit Office

- i. Briefing note
- ii. Draft Terms of Reference for the Independent Review of the Audit Office
- iii. Timeline

Resolved, on the motion of Dr Lee, seconded by Mr Bassett: That the Committee adopt the following Terms of Reference for the Review of the Audit Office and invite individuals and organisations to submit an expression of interest to undertake the review, with a closing date for submission of 15 March 2013:

Under section 48A of the *Public Finance and Audit Act 1983* (NSW), 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.

The Review will be completed by 30 June 2013.

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

Thursday 22 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.

5. Independent Review of the Audit Office

- i. Request for tender
- ii. Tender evaluation process

Resolved, on the motion of Mr Daley, seconded by Mr Bassett: That the Committee adopt the draft Request for Tender and Tender Evaluation Process as circulated in the meeting papers, subject to amendments to the weightings in the scoring matrix as specified by the Chair, and any other typographical corrections.

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.

6. Independent Review of the Audit Office

The Chair provided an update on the pre-tender briefing held on Monday 11 March 2013.

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 45)

Thursday 21 March 2013
4.00pm
Room 1036, Parliament House

MEMBERS PRESENT

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

2. Confirmation of minutes of meetings of 14 March 2013 and 18 March 2013

Resolved, on the motion of Dr Lee, seconded by Mr Bassett: That the minutes of the meetings of Thursday 14 March 2013 and Thursday 18 March 2013 be confirmed.

5. Independent Review of the Audit Office

Resolved, on the motion of Mr Bassett, seconded by Mr Piper: That the Committee confirm the recommended appointment of Grant Thornton as the independent reviewer for the Review of the Audit Office...

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 46)

Wednesday 27 March 2013
09:45 am
Room 1254, Parliament House

MEMBERS PRESENT

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

1. Confirmation of minutes of meetings of 21 March 2013

Resolved, on the motion of Mr Piper, seconded by Dr Lee: That the minutes of the meeting of 21 March 2013 be confirmed.

3. Independent Review of the Audit Office

Resolved, on the motion of Mr Piper, seconded by Dr Lee: That the Committee send the list of stakeholders invited to make a submission to the inquiry to the Department of Premier and Cabinet and the Auditor-General.

Resolved, on the motion of Dr Lee, seconded by Mr Williams: That the Committee write to the Auditor-General confirming the appointment of Grant Thornton as the independent reviewer acknowledging that this is a matter of public record.

DRAFT MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 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

Mr Daley

Officers in Attendance

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

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

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

11. Quadrennial review of the Audit Office of NSW

Resolved on the motion of Mr Piper, seconded Mr Williams: That the report be presented to the House.

The Committee adjourned at 10:05 am until 9.45 am on Thursday, 22 August 2013 in Room 1043.