



LEGISLATIVE ASSEMBLY

PUBLIC ACCOUNTS COMMITTEE

**CONDUCT OF THE 2009 REVIEW OF THE AUDIT OFFICE UNDER
S48A OF THE PUBLIC FINANCE AND AUDIT ACT 1983**

REPORT 1/55 – SEPTEMBER 2011

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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 and Staff

| | |
|------------------------|--|
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Terms of Reference

The Public Accounts Committee has responsibilities under Part 4 of the *Public Finance and Audit Act 1983* (the Act) to inquire into and report on activities of Government that are reported in the Total State Sector Accounts and the accounts of the State's authorities.

The Committee recommends improvements to the efficiency and effectiveness of government activities. A key part of Committee activity is following up aspects of the Auditor-General's reports to Parliament. The Committee may also receive referrals from Ministers, the Legislative Assembly and the Auditor-General to undertake inquiries.

Under section 48A of the Act, the Committee is required to appoint a reviewer at least once every three years '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 the carrying out of the Auditor-General's functions under the Act.'

Chair's Foreword

I am pleased to table this first brief report of the Public Accounts Committee of the 55th Parliament.

One of the key statutory functions of the Committee is to commission an independent review of the auditing practices and standards of the Auditor-General under s48A of the *Public Finance and Audit Act 1983* (the Act). A review is required 'at least once' every three years¹ and for this reason they are known as 'triennial reviews' of the Audit Office.

These reviews are designed to provide assurance to the public that this important public office is applying the highest standards of professional auditing practices to the conduct of financial audit, compliance reviews and performance audits.

Soon after the Committee was appointed in June 2011, we received a briefing from the Auditor-General about his Office's response to the most recent review completed in 2009. We were pleased to learn that almost all of the recommendations had been accepted and responses were either implemented or under way.

However, the Committee noted that the requirement to hold reviews every three years meant that there was only just time for the Office to complete recommendations before another review was required. In addition, as the next review falls due in 2012, the Committee of this Parliament would have only a short time to acquaint itself with the operations of the Audit Office before undertaking the important work of determining the terms of reference for the review. Further, a four-yearly review would align with the Parliamentary term which was previously changed to a fixed four years.

Like the Public Accounts Committees of the two most recent Parliaments, we considered that a more appropriate time would be once every four years and recommend accordingly.

I would like to thank the Auditor-General, Mr Peter Achterstraat for agreeing to include his response to the 2009 review in this report and for his cooperation with the Committee since it was appointed. I look forward to this healthy relationship continuing for the duration of his term as Auditor-General.

Jonathan O'Dea
Chair

¹ S48A(1) of the Act

List of Findings and Recommendations

RECOMMENDATION 1 _____ 8

That the Treasurer extend the timing of the independent reviews of the Audit Office by amending s 48A(1) of the Act by replacing '3' with '4'.

Chapter One – Reviews of the Audit Office

INTRODUCTION

- 1.1 This report provides a brief description of the way in which independent reviews of the Audit Office of NSW have been conducted before discussing the conduct of the 2009 review, the response to that review by the Audit Office and the Committee's view that there would be merit in extending the time between reviews to four years.

STATUTORY REQUIREMENTS

- 1.2 Section 48A of the *Public Finance and Audit Act 1983* (the Act) provides for an independent review of the Audit Office at least once every three years.
- 1.3 According to s 48A (2) of the Act, the purpose of the independent reviews 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 the carrying out of the Auditor-General's functions under this Act.'
- 1.4 The Public Accounts Committee is tasked with the appointing the reviewer and determining the terms and conditions of the appointment. S 48A(5) provides that the reviewer is to be paid from money appropriated by Parliament for that purpose.

Background

- 1.5 The relationship between the Public Accounts Committee and the Auditor-General is different to that between oversight committees and other officers of the Parliament such as the Ombudsman. For instance, the Public Accounts Committee does not examine the annual reports of the Auditor-General in order to gain an understanding of the operations of his office. Rather the principal functions of the Committee defined in S 57 (a1) (a) and (b) of the Act are to examine the Total State Sector Accounts and the accounts of authorities of the State. It examines reports of the Auditor-General in order to undertake these functions.
- 1.6 The independent review of the Auditor-General's auditing standards and practices is the only way of providing the Parliament with independent assurance that the Auditor-General has adopted standards of the highest professionalism and is complying with them.
- 1.7 Section 48A of the Act was inserted in 1991 following a recommendation of the Public Accounts Committee in its report on the Auditor-General's Office of July 1990.² Prior to this there was no independent reviews of the Audit Office although in 1984 and 1988 there were external 'peer reviews' of the Office.

² Public Accounts Committee *Report on the New South Wales Auditor-General's Office*, No 49, July 1990

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REVIEWS OF THE AUDIT OFFICE

- 1.8 Peer reviews are commissioned by the Audit Office itself without the involvement of the Committee and the results of which are not made public. These cannot be seen as truly independent.
- 1.9 Since s48A of the Act commenced, the Public Accounts Committee has tabled reviews commissioned from independent reviewers in 1996, 2000, 2003, 2006 and 2009. The three most recent reviews were commissioned from private sector consultants with expertise in accounting and auditing. The 1996 review was conducted by a panel consisting of an academic, a former Deputy Auditor-General from Victoria and experts in accounting and auditing. This panel in turn advised the Committee on commissioning consultants to conduct separate aspects of the review.³ The 2000 review was conducted by a professor of accounting.⁴

³ Public Accounts Committee *Review of the Audit Office of New South Wales under s48A of the Public Finance and Audit Act*, Report 97, April 1996, volume 2, pp 2-3

⁴ Professor Allen T Craswell 'Auditing in the State's Interests Public Accounts Committee' volume 2 of *Review of the Audit Office of New South Wales under s48A of the Public Finance and Audit Act*, Report 120, February 2000.

Chapter Two – The 2009 Review of the Audit Office

- 2.1 The 2009 review was commissioned from a consulting firm called Oakton following selection by public tender. The full report was published in August 2009 by the Committee and is available on the Committee’s website.

TERMS OF REFERENCE

- 2.2 For three reviews conducted in 2003, 2006 and 2009 the Committee has not relied on the reviewer to determine how to examine the standards and practices of the Auditor-General but has developed comprehensive terms of reference to ensure the Parliament was informed about certain matters.
- 2.3 Prior to the 2006 review, the Committee of the 53rd Parliament conducted extensive research and consultation with Public Accounts Committees in other parliaments, ministers, chief executives of major state agencies, accounting firms, audit offices and professional associations of accountants to ensure that the most important issues were included in the terms of reference.
- 2.4 In 2009, the Committee resolved to adopt very similar comprehensive terms of reference,⁵ requiring the reviewer to investigate the following areas:
1. Auditing function
 - a) Compliance with current professional standards and legal requirements in undertaking auditing of all types
 2. Costs and Charges
 - a) Whether the Audit Office was providing value for money financial audit services in comparison with the services and fees of similar organisations; and
 - b) Whether Performance Audits provide value for money by meeting their objectives and contributing to improved accountability by agencies within New South Wales.
 3. Planning
 - a) Whether the process of selecting topics for performance and compliance audits was based on robust methodology including a consideration of whole of government risk management and central agency priorities; and

⁵ The exceptions being in relation to term of reference 1 about financial audit “b) whether agencies’ internal audit functions have been adequately addressed in performing financial audits and c) Audit Office efforts to prepare for the transition to new Australian Equivalents to the International Financial Reporting Standards”, Public Accounts Committee Review of the Audit Office under s48A of the Public Audit and Finance Act 1983, August 2006p8. These matters were overtaken by events and did not need to be reconsidered as part of the 2009 review.

- b) Whether the selection of agencies for inclusion in compliance audits was robust and based on a consideration of the particular risks of that agency

4. Management and Resources

- a) Whether the Audit Office has adequate resources to conduct its functions
- b) Whether appropriately skilled staff are undertaking performance audits.

5. Communication with Clients

Effective communication with clients in particular in relation to

- a) Establishing a joint understanding of expected audit fees and potential variations
- b) The scope of the performance and compliance programs and of individual audits with these programs and
- c) Provision of adequate notice of draft reports to Parliament for larger agencies to provide informed comment

6. Previous Review

Assessment of the Audit Office's response to the recommendations of the 2006 Review of the Audit Office.

7. General

Any matter that may be referred to the reviewer by the Committee during the course of the review.⁶

- 2.5 These provided the framework for the consultants to define the scope of the review.

CONDUCT OF THE REVIEW

- 2.6 The reviewer conducted fieldwork by examining the files, conducting interviews and comparing the Audit Office's operations to similar agencies.

- 2.7 Strict confidentiality surrounds the conduct of the review but, throughout the process, the reviewer met all the conditions set by the Committee.

- 2.8 The reviewers made 21 recommendations, all of which were accepted by the Auditor-General.⁷

- 2.9 The Committee notes the Auditor-General's initial response to the 2009 review:

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 help us

⁶ Public Accounts Committee Review of the New South Wales Audit Office under section 48A, Public Finance and Audit Act 1983, August 2009, p16

⁷ Ibid p.8

achieve that aim. We also believe that we should be no less accountable than the agencies we audit.

The review's findings are a very positive endorsement of the robust and professional frameworks we have in place to effectively and efficiently deal with our core business and to interact with our clients.⁸

- 2.10 At its meeting of 10 August 2011, the Committee considered the report of the Oakton review of the Audit Office and the Auditor-General's response of 29 July 2011 which is reproduced in Appendix 1. This shows that 16 of the 21 recommendations have been implemented and the remaining five are in progress.
- 2.11 The Committee notes that in relation to recommendation 20 that the Audit Office 'should consider publishing a rolling three year plan of performance audits and compliance audits', the Audit Office has chosen not to publish a three year plan but only an annual program on the grounds that the program may need to change with circumstances and might be counter-productive.⁹ The Committee endorses this preference by the Audit Office in preserving some flexibility in announcing audits planned for the medium term.
- 2.12 The Committee considers that that the 2009 review was conducted with a high level of professionalism according to clearly defined scope for the review. Its recommendations were broadly accepted by the Audit Office and it provided the Committee and the Parliament with assurance that the Auditor-General is leading a high performing agency.

⁸ Letter from Mr Peter Achterstraat, Auditor-General of NSW, to Mr Paul McLeay MP, former Chair of the Public Accounts Committee, 6 July 2009, in Public Accounts Committee Review of the Audit Office under section 48A of the Public Finance and Audit Act 1983, August 2009, p8

⁹ Letter from Mr Peter Achterstraat, Auditor-General of NSW, to Mr Jonathan O'Dea MP, Chair of the Public Accounts Committee, 29 July 2011, p10

Chapter Three – Timing of Reviews

- 3.1 This Chapter provides the reasoning behind the Committee's view that there would be merit in extending the time between reviews to four years by amending the Act.

REASON FOR THE TIMING

- 3.2 Section 48A was inserted in the Act in 1991 in the same amending Act that provided the Auditor-General with a fixed seven year term.¹⁰ The amending Act broadly reflects the recommendations of the Public Accounts Committee's *Report on the New South Wales Auditor-General* which followed a comprehensive inquiry into the operations of the Office.¹¹
- 3.3 The Public Accounts Committee noted in its 1990 report that 'no particular views were expressed on the ideal frequency' of an external review and the report gave no reason for its recommendation that a review be conducted once every three years.¹²
- 3.4 The Committee notes that this choice of timing predates the change to fixed four year parliamentary terms in New South Wales. It might have been thought that triennial reviews would enable Committees of most parliaments to commission a review, however in the present circumstances, this would occur if a review was held once every four years.
- 3.5 As noted in Chapter Two, there has not been time for the Audit Office to complete the implementation of recommendations to the 2009 review despite the full acceptance of them. Similar issues were reported about not completing implementation of previous review recommendations in the course of earlier reviews.

INCREASED STANDARDISATION

- 3.6 Since 1990, there have been significant developments in national and international accounting and auditing standards. In particular, earlier reviews were highly critical of the processes for conducting performance audits. Since then the processes have been developed and the reasons for selecting particular audits have been communicated better.
- 3.7 The two most recent reviews in 2006 and 2009 were very positive about the level of compliance with auditing standards by the staff of the Audit Office and only identified a few examples of low level non-compliance. Their recommendations were broadly agreed by the Auditor-General and were either adopted or are in the process of being adopted.

¹⁰ *Public Finance and Audit (Auditor-General) Amendment Act 1991*

¹¹ Public Accounts Committee *Report on the New South Wales Auditor-General's Office* No 49 July 1990

¹² *Ibid.* p.171

- 3.8 This would suggest that there is little need to conduct rigorous reviews of the Audit Office's standards and their level of compliance with them every three years.

COMMITTEE'S VIEWS

- 3.9 At its meeting with the Auditor-General on 5 August, the Committee noted that the requirement to hold reviews every three years meant that there was only just time for the Office to complete recommendations before another review was required.
- 3.10 In addition, as the review falls due in 2012, the Committee of this Parliament would have only a short time to acquaint itself with the operations of the Audit Office before undertaking the important work of determining the terms of reference for the review.
- 3.11 The Committee also considers that the timing of the reviews should be aligned with the four year term of Parliament so that a review is conducted once each term.

FUNDING ISSUES

- 3.12 Section 48A (5) provides that 'the remuneration payable to the reviewer is to be paid from money appropriated by Parliament for the purpose.' It is difficult to predict the cost of the review because the reviewer is selected by a tender process. In order to ensure that the review is conducted in a professional way, a consultant with highly specialised skills is required. The costs of these services depends on the market at the time of calling for tenders but a comprehensive review of a complex organisation such as the Audit Office would be a six figure sum.
- 3.13 Specific funding for the review was not provided for the 2009 review and the money had to be found in the Legislative Assembly's budget. This was a significant reason for the Committees Office being over budget in that year and diverted resources from other committee activities.
- 3.14 The Committee considers that it would prefer for that situation not to arise again and on 8 September 2011, the Chair wrote to the Treasurer requesting that the timing be extended to once every four years so that the next review would not be due until the 2012-13 financial year.

PREVIOUS RECOMMENDATIONS

- 3.15 Following the two most recent reviews of the Audit Office in 2006 and 2009, Public Accounts Committees of previous Parliaments have recommended that the timing of the reviews be changed from every three years to every four years.
- 3.16 Following the review of 2006, the former Committee Chair wrote to the Treasurer requesting that the Act be amended to change the timing to every four years.¹³ After the 2009 review the Committee Chair approached the Speaker to write to the Premier to seek a similar amendment, principally because of the

¹³ Letter from Ms Noreen Hay MP, Chair of the Public Accounts Committee to the Hon Michael Costa MLC, Treasurer, Minister for Infrastructure and Minister for the Hunter, 5 September 2006

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TIMING OF REVIEWS

effect of the 2009 review on the budget of the Legislative Assembly.¹⁴ In neither case was a reply received and the provisions remain unamended.

- 3.17 The Committee considers that these issues continue to be sound reasons for changing the timing from triennial to quadrennial.

Views of the Audit Office

- 3.18 At a meeting on 5 August 2011, the Auditor-General advised that while it is not appropriate for him to comment on the policy relating to his Office, he would have no objection should the Government choose to propose amendments to the Act to extend the period between reviews from three years to four.

RECOMMENDATION 1

That the Treasurer extend the timing of the independent reviews of the Audit Office by amending s 48A(1) of the Act by replacing '3' with '4'.

¹⁴ Letter from the Hon Richard Torbay MP, Speaker of the Legislative Assembly to the Hon K K Keneally MP, Premier and Minister for 23 June 2010

Appendix One – Response of the Auditor- General to the 2009 Review

| 2009 PAC Triennial Review – Summary of Recommendations – Status July 2011 | | | | | |
|--|---------------------------------------|--|--|--|--|
| The table below is a summary of the key issues and recommendations arising from the 2009 PAC review, together with the Audit Office response and the current status. | | | | | |
| Ref | Terms of Reference | Issue | Recommendation | Audit Office Response | Status July 2011 |
| #1 | One (A) Financial Audit Page 19 | The current licence agreement for the Audit Offices AS2 financial audit software supplied by Deloitte 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 to methodology is likely to be in excess of 12 months. | The Audit Office implement a project to review the market for appropriate financial audit methodology and enabling software. Consideration should be given to the software used by other comparable jurisdictions. | Agreed. We intend to implement a project to review the market for appropriate financial audit methodology and enabling software. We will consider the software used by other comparable jurisdictions. | In progress Current status: <ul style="list-style-type: none"> AS 2 licence agreement has been extended to 31 December 2012. Project Charter drafted and Steering Committee and project team formed Possible replacement products researched and identified Of 25 possible products only 4 identified that meet most of our required specifications Enquiries made of possible products in NZ, Canada, UAE and Netherlands. All use Teammate, which is one of the 4 products we have identified as a possible solution Only one of the Big 4, KPMG, and none of the 2nd tier firms we have approached are prepared to share their methodology or technology with us |

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| Ref | Terms of Reference | Issue | Recommendation | Audit Office Response | Status July 2011 |
|-----|--|---|--|--|--|
| #2 | One (A) Financial Audit Page 20 | Many of the Financial Audit files we reviewed 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. Signing off the actual checklists provided the best evidence of the actual work undertaken. | Reinforce the need to comply with the Audit Office requirements to sign off checks and approvals within current Financial Audit processes. 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. | We agree that signing the actual checklist provides the best evidence of the actual work undertaken. Staff will be reminded that checklists with provision for internal sign off by the reviewer need to be signed off internally, not just at the index level. | <ul style="list-style-type: none"> • Project plan drafted • Assessment criteria finalised • Product specifications completed • Proposal document drafted <p>The project has been delayed by more than 2 months waiting for the State Contracts Control Board approval to progress the project.</p> |
| | | | | <p>Complete</p> <p>AS/2 has external (index level) sign off on all templates – the internal sign off is an additional sign off and is now only required on two key documents the (2312) audit completion checklist and the (2311) Engagement Reviewer form.</p> <p>Improved edit histories and sign-off procedures are part of the specifications for the replacement methodology.</p> <p>Mini QARCs were not reinstated as they address compliance aspects (completion of forms) rather than audit quality (compliance with standards).</p> <p>The QARC process is extensive – (one file per Director annually), and addresses audit quality in</p> | |

| Ref | Terms of Reference | Issue | Recommendation | Audit Office Response | Status July 2011 |
|-----|---------------------------------------|---|---|---|---|
| #3 | One (A) Financial Audit Page 21 | There is an opportunity to improve the transparency of workpapers 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 workpapers. | <p>Agreed. We will consider the options available and implement a standardised and consistent method to:</p> <ul style="list-style-type: none"> • record audit issues • follow them through to resolution <p>thereby improving audit efficiency and reducing the risk of issues being overlooked.</p> | <p>depth using criteria similar to that used by other audit firms, ASIC, ICAA and CPA.</p> <p>Complete</p> <p>Audit teams are required to use 'insight forms' to gather observations while in the field. The observations should then be transferred to an issues register for discussion and resolution with client management. Issues registers should record how the matters have been dealt with and resolved.</p> <p>A Communications template has been developed to record verbal communications between the audit team and management.</p> <p>A new management letter template has been developed for use on all engagements. It details:</p> <ul style="list-style-type: none"> • Our observations • The risks identified • Our recommendations • Management's responses • The date management intends to action the items by. |
| #4 | One (A) Financial | Some workpapers appeared incomplete because comments and review points had not been documented as having been | Reinforce process for clearing review points in accordance with revised approach adopted by the Audit Office | <p>Agreed. Review notes are no longer retained on final audit files. All matters raised in review notes</p> | <p>Complete</p> <p>The manner in which review notes</p> |

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| Ref | Terms of Reference | Issue | Recommendation | Audit Office Response | Status July 2011 |
|-----|---------------------------------------|--|--|---|--|
| | Audit Page 21 | addressed and resolved. | | must now be adequately addressed in the relevant workpapers. | <p>have been addressed must be documented in the workpapers so the audit file stands on its own. All review notes are removed from the file once they have been addressed prior to finalisation of the audit file.</p> <p>This requirement has been communicated to all members of FAB and reinforced in training.</p> <p>Instructions for running back up procedures now specify that the removal of review notes is checked as part of the file completion process.</p> |
| #5 | One (A) Financial Audit Page 21 | <p>The 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 Business Team Leaders (BTL) 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 BTL's across the annual cycle during 2009 with results expected 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 timing of reviews and reporting is being accelerated to ensure findings are released prior to the subsequent planning cycle.</p> | <p>Complete</p> <p>The timing of QARC reviews has been brought forward significantly. The QA review of audit files commences as soon as practicable after the files are required to have been backed up – i.e. 60 days after signing the IAR.</p> <p>For 12 x 30 June audit files this is 60 days after 20 October – i.e. the last week of December (the reviews commence in January after the Xmas break)</p> <p>For 4 x 31 December audit files this is 60 days after 20 April - i.e. the last week of June.</p> <p>The aim is to have the reviews</p> |

| Ref | Terms of Reference | Issue | Recommendation | Audit Office Response | Status July 2011 |
|-----|---|--|---|---|---|
| #6 | One (A) Financial Audit Page 22 | 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 promote completion of Client and Reviewer Surveys for all contracted audits | Agreed. We will promote completion of Client and Reviewer Surveys for all contracted audits. | Complete The Audit Office promoted the importance of the completion of the surveys to Business Team Leaders and Clients. 2010 results achieved - 91% from Business Team Leaders and 52% from Clients. |
| #7 | One (A) Performance Audit Page 24 | The AG's Practice Manual currently refers to a 'Performance Audit Policy' that does not exist. | The AGs Practice Manual needs to be updated to include a 'Performance Audit Policy' that it currently refers to but 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. | The Practice Manual is being updated and will reference to the existing document "Performance Audit Branch Quality Control System – Policy and Procedures". | Complete The Practice Manual was replaced by the Audit and Assurance policy and guidance material available to all staff on the office intranet. It now links to the Performance Audit policies including the PAB-Quality Control System Policy and Procedure. |
| #8 | One (A) Performance Audit Page 26 | Without a formal assessment of the "lines of inquiry" against the Risk Matrix of 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. | This is part of current requirement. Teams to reminded of this and compliance to be monitored. | Complete This requirement is in Practice Note 4. Business Team Leaders monitor compliance. |
| #9 | One (A) Performance | Audit documentation did not demonstrate a link between the individual planning being undertaken on a specific audit and the | Individual audit plans should have tangible links to the Strategic Audit Plan and these should be incorporated into | This is part of current requirement. Teams to be advised to address this in the audit plan and | In progress Reasons for identification and |

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| Ref | Terms of Reference | Issue | Recommendation | Audit Office Response | Status July 2011 |
|-----|--|--|---|--|--|
| | Audit Page 26 | overarching Strategic Audit Plan. | the planning documentation at the commencement of the audit. | compliance to be monitored. | approval of audit will be included in Audit Plans. Practice Note 6 will be updated by October 2011. |
| #10 | One (A) Performance Audit Page 27 | 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>Staff undertaking the "HOT" reviewer role need to be well trained in the use of the Audit Office's internal methodology and be aware of likely issues of compliance.</p> | <p>The Engagement ("Hot") Reviewer sign-offs will be clarified to address these points.</p> <p>The "Performance Audit Branch Quality Control System – Policy and Procedures" will be amended regarding the reviewer's knowledge of the methodology and awareness of compliance issues.</p> | <p>Complete</p> <p>Only appropriately skilled practitioners can be hot reviewers. This is a requirement of our Audit and Assurance policies applicable to all engagements. PA checklists were revised in line with the Audit and Assurance ASAE3500 standard in January 2009. This includes hot reviewer responsibilities that must be attested in checklists.</p> <p>We will further refine this as part of our ongoing review of policies and practices.</p> |
| #11 | One(A) Performance Audit Page 27 | 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. | <p>The importance of the weekly status report be enforced through mandated adherence to policy.</p> | Agreed. | <p>Complete</p> <p>Practice note 3 was amended in June 2010 to make the weekly status report mandatory. Business Team Leaders monitor compliance.</p> |
| #12 | One (A) Performance Audit | 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 | The Audit scorecard, which provides an internal assessment at completion of the audit, should be expanded to incorporate an assessment against the Risk | Agreed. | <p>In progress</p> <p>Management of engagement risk is questioned throughout the audit via our checklist sign-off by BTL</p> |

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| | Page 28 | 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. | Management Strategy, to ensure contingent issues identified in the planning stage are satisfied throughout the course of the audit and provide appropriate closure. | | and Engagement Reviewer, and in weekly reports from the teams to their BTL. The Performance Audit Scorecard will be enhanced to add an assessment against the Risk Management Strategy at the conclusion of each audit. |
| #13 | One (A) Performance Audit Page 28 | 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 and the audit objectives, criteria, scope and lines of inquiry published in the final report. | This is part of current requirement. Teams to be advised to address this and compliance to be monitored.. | Complete These questions are asked in the checklists. Reconciliation against objectives etc is considered during audit progress (checklist 4), audit conclusions (checklist 5) and draft report (checklist 6). |
| #14 | One (A) Performance Audit Page 28 | In one audit, the audit opinion was not a specific statement against the audit objective and while there was an implied opinion, there was no definitive statement to satisfy the reader that the audit objective had actually been achieved. | Opinions in the published report must address the primary objective of the audit. Contextual discussion supporting the opinion must specifically address each line of enquiry to ensure the report is structured in a manner that is consistent with the audit plan | This is part of current requirement. Teams to be advised to address this and compliance to be monitored. | Complete AAG PAB and BTLs monitor compliance. The Deputy Auditor-General also reviews the draft report to ensure the audit conclusions are properly expressed and supported. As our reporting style to engage the public develops, we expect the opinion/conclusion to address the objective of the audit and the criteria. The structure of the report may not follow the structure of the Lines of Inquiry or the audit plan. |
| #15 | Two (B) Performance | The new role of the PAC as the body responsible for following up the implementation of audit recommendations | Follow up reviews conducted by the PAC should be formally fed back to the AG to inform the SAP process. | Agreed. | Complete PAC provide us with access to |

CONDUCT OF REVIEW OF THE AUDIT OFFICE
RESPONSE OF THE AUDITOR-GENERAL TO THE 2009 REVIEW

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| | Audit Page 34 | Is a significant improvement in the Audit Office's ability to promote greater accountability. To enhance this process, the findings of the PAC follow up should be formally fed back into the Audit Offices Strategic Audit Planning process. | | | their follow-up reports and these are considered as part of topic selection during SAP. We are developing a relationship with the new PAC and we will seek 6-monthly feedback from them. |
| #16 | Three (A) Performance Audit Page 36 | It was noted that some audits commenced during the year did not stem from the planning process conducted but were initiated from other sources. Existing processes do not document consideration of the merits of commencing these audits against others marked for completion. Commencing audits which have not arisen from the agreed planning processes renders much of this planning redundant and may result in an inefficient use of resources. | The Strategic Audit Planning (SAP) 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. 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. | Agreed Agreed | Complete to the extent possible within developing strategy of public and PAC engagement The SAP Policy and Framework published in November 2009 includes a process to consider urgent audits that may arise. Our move to more responsive topic selection and timing as part of PAC & public engagement strategy means the number of such audits may increase. |
| #17 | Three (B) Compliance Audit Page 37 | 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 Governments 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 is amended to provide guidance on agency selection. | We believe the selection of agencies for inclusion in the 2009 compliance program reflects the government's risk profile as it is based on The Treasury's 'nominated' agency listing. These agencies have the more strategic asset holdings that support government services. Wherever possible a nominated agency was selected for each business team. The selected agencies were discussed with The Treasury to confirm their appropriateness for inclusion in the review program. | Complete Two compliance audit engagements were performed during 2010-11, both with extremely broad coverage of agencies <ul style="list-style-type: none"> • agency compliance with TPP 09-05, internal audit and risk management policy, covering all 139 agencies subject to the requirements • agency compliance with e- |

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| #18 | Four (A) Compliance Audit Page 39 | <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 seeking 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>We confirm the Audit Office is in the process of seeking separate funding from Treasury for the compliance program.</p> | <p>procurement and e-tendering requirements - 19 agencies reviewed.</p> <p>Treasury and the other stakeholder agencies were consulted before and during the conduct of the engagements.</p> <p>This PF&A Act does not give the Auditor-General the mandate to perform compliance audits unless requested by the Treasurer under s27B(3)(c). This limits the number and scope of compliance audits we can perform.</p> <p>In progress</p> <p>The current Commission of Audit is reviewing the Office's mandate to determine whether it should be widened to include compliance audits. Latest indications are that the Commission will seek to have the mandate widened to include compliance audits and for funding to be provided to the Office to perform these audits.</p> |
| #19 | Four (B) Performance Audit Page 41 | <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</p> | <p>The Audit Scorecard which provides an internal assessment at the completion of the audit, should be expanded to incorporate an assessment against the Development Plans to ensure issues identified in the planning stage are satisfied throughout the course of the audit and provided appropriate feedback</p> | <p>Agreed.</p> | <p>In progress</p> <p>The documentation of staff development is now recorded in success Factors. Any inclusion in audit plans is consistent with this and an extension of it.</p> |

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| | | have been only limited access to the available client surveys for use in consideration of staff performance and development. | to audit staff where necessary. 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.. | | The Performance Audit Scorecard will be amended to add an assessment of team members progress against the development plan. |
| #20 | Five (B) Planning Page 44 | 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 | 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. | We will publish details of the proposed numbers of performance audits across outcome areas over the medium-term. | Complete An annual program of performance audits will be published on the net. Any longer term program may be counter-productive because it may change under new PAC and public engagement strategy. |
| #21 | Six Page 46 | 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. | 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. | We will assess what further action is required in relation to the partially addressed recommendations from the 2006 review. We will ensure that the recent Internal Audit recommendations are appropriately actioned. | Complete The three partially completed actions from 2006 PAC report have now all been fully addressed. The Office's Governance Unit ensures all internal audit recommendations are satisfactorily actioned, A status report is held by that Unit. |

Appendix Two – Extract from Minutes

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 2)

3.30pm, Thursday, 23 June 2011
Room 1043, Parliament House

MEMBERS PRESENT

Mr Bassett, Dr Lee, Mr O’Dea, Mr Torbay and Mr Williams.

Apologies

An apology was received from Mr Daley.

4. Visit to the Audit Office

The Committee agreed to visit the Audit Office on 5 August at which time a response to the 2009 Triennial Review of the Audit Office would be discussed.

6. General Business

The Committee requested a discussion paper on the merits of conducting independent reviews of the Audit Office on a quadrennial rather than a triennial basis.

The Committee adjourned at 4.04 until 8.30 am on Friday, 5 August 2011.

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 4)

9.12 am, Friday, 26 August 2011
Room 1043, Parliament House

MEMBERS PRESENT

Mr Daley, Mr O’Dea, Mr Torbay and Mr Williams.

APOLOGIES

Apologies were received from Mr Bassett and Dr Lee.

5. Independent Reviews of the Auditor-General under section 48A of the *Public Finance and Audit Act 1983*

The Committee considered the 2009 review of the Audit Office and a briefing note recommending that reviews be held every four years rather than every three years.

Resolved on the motion Mr Torbay, seconded by Mr Daley:

- i) That the Committee prepare a brief report to the House on the conduct of the review, the Auditor-General's response and any recommendations it might have about the process and
- ii) That the Chair write to the Treasurer:
 - a) requesting that s 48A of the Public Finance and Audit Act 1983 be amended to extend the timing of reviews from triennial to quadrennial,
 - b) alerting him to the statutory requirement to include an appropriation in the Budget for 2012-2013; and
 - c) noting the requirement for a budgetary allocation for the review which could be deferred should the requested amendment proceed.

The Committee adjourned at 9.38 am until 9.30 am on Wednesday, 7 September 2011.

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 6)

9.33 am, Wednesday, 14 September 2011
Room 1043, Parliament House

MEMBERS PRESENT

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

4. Draft report into Conduct of the 2009 Review of the Audit Office under s48A of the Public Finance and Audit Act 1983.

The Committee considered the draft report into Conduct of the 2009 Review of the Audit Office under s48A of the *Public Finance and Audit Act 1983*.

Chapter One proposed.

Resolved on the motion of Dr Lee, seconded by Mr Williams: That the Committee adopt Chapter One.

Chapter Two proposed.

Resolved on the motion of Dr Lee, seconded by Mr Williams: That the Committee adopt Chapter Two.

Chapter Three proposed.

Resolved on the motion of Mr Bassett, seconded by Mr Williams: That the Committee adopt Chapter Three.

Resolved, on the motion of Mr Bassett, seconded by Mr Williams: That the Committee adopt the report.

PUBLIC ACCOUNTS COMMITTEE
EXTRACT FROM MINUTES

Resolved on the motion of Mr Bassett, seconded by Mr Williams: That the Chair table the report in the House on Thursday 15 September.

The Committee adjourned at 10.03 am until 9.30 am on Wednesday, 12 October 2011.