



Legislative Assembly of New South Wales

## Public Accounts Committee

Report 6/56 – FEBRUARY 2018

### QUADRENNIAL REVIEW OF THE AUDIT OFFICE 2017



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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".

# Contents

Membership _____	ii
Terms of Reference _____	iii
CHAPTER ONE – DELOITTE REVIEW OF THE AUDIT OFFICE OF NEW SOUTH WALES ___	1
APPENDIX ONE – EXTRACTS FROM MINUTES _____	2

# 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 2013
- Address any matters that may be referred to the review by the Committee during the course of the review.



**Public Accounts Committee –  
Parliament of New South Wales**

2017 Statutory Review of the Audit Office  
of New South Wales

December 2017

*VIVID Sydney 2016 Sydney Opera House*

*Credit to Destination NSW*

Margaret Crawford  
Auditor-General  
Audit Office of New South Wales  
Level 15, 1 Margaret Street  
Sydney, NSW 2000  
11 December 2017

Dear Margaret,

It is with pleasure that I enclose our report in connection with the requirements of section 48A of the Public Finance and Audit Act 1983 (the Act). This requirement involves an independent review of the Auditor-General and her Office, to examine the auditing practices and standards applied at the Audit Office of NSW (AONSW), and to determine whether the Auditor-General is complying with those practices and standards in carrying out the functions under this Act. In accordance with section 48A (11) of the Public Finance and Audit Act 1983, the Auditor-General is to forward the report prepared under this section to the Public Accounts Committee within 2 months of the receipt of the report.

We would like to take this opportunity to thank you and your team for the co-operation which we have received in performing this review.

Yours faithfully,



David White  
**Lead Audit Partner**

# Contents

1. Executive summary
2. Introduction
3. Strategic Recommendations
4. Audit Methodology
5. Adequacy of Resources
6. Effectiveness of Client Communication
7. Assessment of Value for Money
8. Risk Based Assessment of Future Auditing
9. Scope and Approach
10. Response to the 2013 Statutory Review
11. Summary of 2017 findings





*Sydney Opera House*

1

# EXECUTIVE SUMMARY

# Executive summary

## Overview

In accordance with the terms of reference as issued by the Public Accounts Committee, this report outlines the findings of our review of the Audit Office of New South Wales (AONSW).

The report provides commentary on our overall findings and separate findings for the key delivery models currently utilised by the AONSW, being Financial, Performance and Compliance Audits.

Our methodology and approach to each requirement under the terms of reference is addressed separately. Please refer to section 9.

## Scope of Review

Our review covered consideration of the AONSW's operations which included:

- Audit methodology and compliance with relevant professional and legal requirements
- Adequacy of resourcing
- Effectiveness of communication
- Value for money
- Adequacy of management's strategies for the future directions in auditing
- Follow-up from recommendations made in the previous review in 2013.

## Key observations

The role of the New South Wales Auditor-General and the Office plays a vital role in the New South Wales public service. The AONSW has continued to deliver a large number of audits in performing its duties, with some 426 general purpose financial audits and 17 performance audits being completed up until 30 June 2017.

The AONSW has also experienced significant change in the past financial year, with the Auditor-General's mandate being extended to include the financial and performance auditing of local government councils. This has resulted in 140 additional general purpose financial audits, a large number of special purpose financial reports and 3 performance audits being required, and has resulted in significant time and resources being invested by the AONSW to establish a robust audit process. This will likely require further investment as the audits are completed this year and an assessment made of the overall findings and areas for improvement.

It is also a very challenging time for the audit profession in general, with significant technological and structural changes requiring a clear strategy to ensure auditors remain effective and relevant both now and in the future.

Our review found that, the AONSW has sound processes and controls in place, and is engaged in a number of strategic initiatives aimed at driving the future direction of the Office. However, we identified four specific strategic recommendations which we believe are important to ensure that the AONSW continues to meet its objectives of remaining **effective** in delivering its mandate and providing **value for money** to Parliament and the Public. We also identified a number of other recommendations to assist the AONSW improve its audit practices.

# Executive summary

The key strategic recommendations we have identified from our review are as follows:

## Follow The Dollar

The Auditor-General currently does not have the authority to directly examine performance outcomes from services delivered by the private sector and Non-Government Organisations (NGOs). This limits the ability of the Auditor-General to ensure that public money is being spent in an accountable manner. With the increased use of the private sector and NGOs it is important that the mandate of the Auditor-General is updated to reflect changes in government commissioning practices.

## Assurance over performance based outcomes

Whilst the AONSW provides assurance over financial results of state agencies, local councils and universities, increasingly government agencies are reporting performance based outcomes in their annual reports. This reflects the growing importance and relevance of such information. It is important to ensure that this information is useful, reliable and accurate, and therefore we see benefits in this information also being subject to independent assurance from the AONSW.

## Review of the NSW Budget

The NSW Budget plays a critical role in how public finances are allocated and expenditure monitored. Whilst historically the AONSW has performed a review of the budget process and assumptions, it is not mandated and is at the discretion of the NSW Treasury. Given the importance of the NSW Budget and, consistent with other jurisdictions, there is value in the Auditor-General's mandate being updated to include an annual review of the NSW Budget.

## Local council mandate

The extension of the Auditor-General's mandate to include the audit of NSW local councils for FY16-17 has resulted in significant time and investment by the AONSW. The integration of these audits and improvements in the accountability and financial compliance by local council agencies will continue to require further investment in this transition period. There is a risk that without further investment the mandate's objectives will not be met, and will also result in the AONSW having to reallocate resources from other critical initiatives being pursued. An adequate level of funding is considered necessary during this transition period to maintain the level of operations and quality by way of a temporary transition grant.

## Summary of Findings

The following table summarises the number of recommendations identified during our review, against the requirements of the terms of reference.

Terms of reference	Overall	Financial Audits	Performance Audits
Strategic Recommendations	4	-	-
Audit Methodology	-	9	2
Adequacy of Resources	-	-	2
Effectiveness of Communication	-	5	3
Value for Money	-	-	2
Risk Based Assessment of Future Auditing	-	1	-

Our detailed recommendations are set in the relevant section of our report. For a full listing of the findings with page referencing please refer to *Section 11*.

## Overall conclusion

Our review concludes the Audit Office has demonstrated that the Auditor-General has in place methodology and tools to effectively, economically and efficiently deal with its core business and achieve compliance with the appropriate standards.

Without affecting our conclusion, we have made a number of recommendations to assist in further strengthening and improving the effectiveness and efficiency of the AONSW.

## Acknowledgements

Deloitte would like to thank the Auditor-General and all the AONSW personnel who participated in the review for their assistance throughout the process. We would like to commend the professionalism of all the staff and the manner in which the AONSW conducts itself.





*Terrace Homes*

2

INTRODUCTION

# Introduction

## Background

The Public Finance and Audit Act 1983 (the Act) details the legal basis for the administration and audit of public finances for the New South Wales Public Sector.

Under section 48A of the Act, the Public Accounts Committee (PAC or the Committee) is required to appoint a reviewer to conduct a review of the Auditor-General and his or her Office at least every four years. Section 48A(2) states that 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 2013 and published by the PAC on 15 August 2013. Following the request for tender process for the 2017 review of the AONSW, Deloitte was appointed on the terms and conditions agreed with the Public Accounts Committee.

## Public Accounts Committee

The PAC is established under the Act as a statutory committee of the New South Wales Parliament. Under the Act, the Committee has a broad charter to review and report on financial management and accountability matters across the NSW public sector on behalf of the Legislative Assembly.

The Committee's role includes a limited oversight role 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.

## Auditor-General

The Auditor-General is the external auditor for the NSW public sector, appointed to the Office by the Governor for a non-renewable term of eight years. The current Auditor-General, Margaret Crawford, was appointed in 2016.

The role of the Auditor-General is defined by s27B(3-5) of the Act. 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 under the act, 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.

## Terms of Reference

Deloitte is to conduct a review and report on:

- The audit methodologies used by the AONSW, having regards to compliance with current professional standards and legal requirements and compliance with statutory responsibilities under the Act;
- Whether the AONSW has adequate resources to carry out its functions, with particular reference to auditing of its local government sector;
- Effectiveness of the AONSW's communication with clients, particularly in relation to establishing a joint understanding of audits, the scope of compliance programs and provision of advice;
- Whether the audits provide value for money by meeting their objectives and contributing to improved accountability by government agencies;
- Consider the responses to the previous statutory review undertaken in 2013;
- The adequacy of risk based assessments of future directions in auditing and management strategies to guide such changes; and
- Any other matters that may be referred to by the Committee during the course of the review.

# Introduction

## Types of Audits conducted by the Auditor-General

To fulfil the auditing functions under the Act, the Auditor-General conducts financial audits, compliance audits and performance audits. These are described by the AONSW as follows:

- **Financial audits** provide an independent opinion on NSW government agencies financial reports. They identify whether agencies comply with accounting standards and relevant laws, regulations and government directions. 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 agency, the responsible Minister, 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).
- **Performance audits** determine whether an agency is carrying out activities effectively, 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.
- **New scope for FY17** – Local council audits. The AONSW was mandated in October 2016 to audit local councils. These are conducted under the Public Finance and Audit Act 1983 and the Local Government Act 1993. The audits

conducted are both financial and performance audit related engagements. This has resulted in an additional 140 financial audits and 3 performance audits in 2017-18.

The following provides an overview of AONSW audits completed during the **2016-17 financial year** (excludes local council mandate):

### FINANCIAL AUDIT

**426** number of general purpose financial audits completed (Excluding local councils)

**4%** Modified audit opinions as a % of total assurance engagements



Average cost of audit

**\$89,000**

### PERFORMANCE AUDIT

**17** number of audits completed

**6** Number of recommendations to improve public admin per audit



Average cost of audit

**\$272,000**

### PEOPLE



Full time equivalent staff

**275**



**57%**

Billable productivity

Source: Annual Report FY17





Thredbo

3

STRATEGIC  
RECOMMENDATIONS

# Strategic Recommendations

## Follow the dollar

### Observation

Currently, the Act does not provide the Auditor-General with the capacity to directly examine performance outcomes from government services delivered by the private and non-government organisations (NGOs). This limits the ability of the Auditor-General to ensure that public money is being spent in an accountable manner.

In its September 2013 report on the efficiency and effectiveness of the AONSW, the PAC recommended that the Act be amended to enable the Auditor-General to 'follow the dollar' by being able to directly audit functions performed by entities, including private contractors and other NGOs, on behalf of the State in the delivery of government programs. To date the changes to the Act have not taken place.

The Commonwealth and all other State Auditors-General already have these powers.

Audit Office	Follow-the-dollar powers	Audit Office	Follow-the-dollar powers
Commonwealth Auditor-General	✓	New South Wales Auditor-General	✗
Victorian Auditor-General	✓		
Queensland Auditor-General	✓		
Tasmania Auditor-General	✓		
Western Australia Auditor-General	✓		
ACT Auditor-General	✓		
South Australian Auditor-General*	✓		
Northern Territory Auditor-General*	✓		

\* The mandate is only to audit the use of public grants received by private and non government organisations

It is important to note that the mandates elsewhere only allow examination of how well not-for-profits and private partners are using government-provided funds. This is generally through a performance audit. The mandate to follow-the dollar does not entail financial statement audits or audits of activities unrelated to government-provided money.

### Recommendation



A 'follow-the-dollar' mandate is required in order to restore the oversight that the Auditor-General has traditionally had over public spending. An update to the Act would be a practical response to the contemporary concept of 'commissioning' where government services are increasingly provided by not-for-profit and private providers on behalf of government.



# Strategic Recommendations

## Assurance over performance based outcomes

### Observation

The AONSW provides assurance over the financial results of local councils, universities and state agencies. However, this assurance does not include the reliability of information contained within performance statements.

Government agencies include performance statements in their annual reports covering areas such as customer satisfaction levels, Development Authority approval times, effectiveness of flu vaccinations administered etc. The relevance of such performance statements is becoming increasingly important to the users of government services. Consequently, a number of other jurisdictions are now performing independent audits of performance measures contained within the annual reports. These include:

Audit Office	Audit of performance measures
Commonwealth Auditor-General	✓
Victorian Auditor-General	✓
Western Australia Auditor-General	✓
New Zealand Auditor-General	✓

It is essential that information in the annual reports of Government agencies, which is relied upon by its users, is both relevant and reliable. The independent audit of financial information is an essential function which provides for accountability and transparency (stewardship) over the use of government resources. With performance information the challenge resides in the collation of the data and its accuracy and completeness and the relevant KPIs that government agencies have targeted to achieve. Therefore the audit of such information may be a significant task.

Within the private sector, sustainability reporting within integrated annual reports has become relevant as stakeholders want corporate citizens to be accountable for their impact on the environment. This level of reporting would be akin to what is suggested by including performance statements within annual reports that have been verified.

### Recommendation

B

The independent assurance of performance based outcome statements by the AONSW of government organisations is likely to provide value for money but more importantly enhance the effectiveness of government.

The objective of the AONSW is to help parliament in holding government accountable for its use of public resources. A mandate to provide assurance over performance measures if implemented in a measured and gradual way, would also benefit agencies who have historically struggled with performance measurement.

In the event such assurance arrangements were mandated for the AONSW, they should be implemented in a staged approach over a number of years.

# Strategic Recommendations

## Review of the NSW Budget

### Observation

Whilst the financial statements of the Total State Sector are subject to independent audit by the AONSW, there is no such audit or review requirement for the NSW Budget. The NSW Budget has, however, been reviewed by the AONSW at the request of NSW Treasury from 2012/2013 to 2016/2017. The scope of these reviews was to consider the reasonability of both the process and assumptions underpinning the preparation of the Budget.

We note that the AONSW was not invited by NSW Treasury to review the 2017/18 NSW Budget. We understand this was because a new system was being implemented which was being used to prepare the NSW Budget and that, given these added complexities, the NSW Treasury did not want a review of their budgetary process and controls to be performed for that year.

In Victoria, we note that there is no such discretion and that the Victorian Budget is subject to review by the Victorian Audit Office annually. Similarly this is also the case in a number of other major jurisdictions outside Australia such as the United Kingdom.

### Recommendation

C

The NSW Budget has a major impact on the planning and allocation of public resources. An independent review by the AONSW plays an important role in providing assurance to Parliament and the broader public that the processes and assumptions underlying the NSW Budget are reasonable.

An independent review of the NSW Budget performed annually as a formal requirement, rather than an invitation from the NSW Treasury, may help to identify potential improvements in the budget process.

# Strategic Recommendations

## Local Council Mandate

### Background

In October 2016, the Auditor-General's mandate was extended to include financial and performance auditing of local government. As a result, the number of general purpose financial audits increased by around 140, or 30% as well as three performance audits in the first year. There was also a significant number of special purpose financial audits that were required with each local council audit.

This has resulted in significant additional time and investment by the AONSW on designing and implementation of the audit program, policy and strategy to manage the local council audits. The AONSW estimates that as a result of the new mandate, the AONSW has incurred \$1.2m of additional costs in FY17, which has not been recovered.

### Observation

The local council audits include audit risks specific to the sector and require additional knowledge and understanding by the AONSW team to ensure the audits are managed effectively and that they deliver value.

These new audits have had a fundamental change in the functioning of the AONSW, primarily through large scale partnerships entered into with various contractor auditor agents (external audit firms).

As a result, the total outsourced financial audits have increased to approximately 30% (previously 10%). This has increased the oversight time at the engagement level to drive quality and ensure consistency in the way in which financial audits are conducted by the contractor auditor agents. Consequently, the audit fees for local councils have increased on average by 20% from relatively low base fees.

Additional investment is further anticipated in the future monitoring and quality review process of the AONSW due to the significant increase in the number of audits.

Whilst the AONSW has primarily recovered the cost of the oversight, the extensive amount of time and costs incurred (and likely to continue over the next 3 to 5 years) in stakeholder engagement through face to face meetings, workshops and presentation to the councils and council groups with the primary purpose of working in partnership with the local government sector, has all been at the expense of the AONSW. It is expected that in order to achieve the level of accountability desired within local government, the stakeholder engagement delivered by the AONSW will need to be a significant investment.

In addition, the allocation of resources into this initiative has prevented the AONSW from dedicating resources to other initiatives for the future direction of the office.

### Recommendation

D

A key driver of extending the mandate of local council audits to the AONSW was to increase the standards of local council reporting and drive greater consistency in the presentation of local council results. In this transition phase, it's critical that the AONSW is able to allocate sufficient resources to support these audits.

At present the audit fees from local councils do not adequately cover the time and resources likely to be incurred by the AONSW to meet the objectives as set out above. Without additional funding, there is greater risk that the mandate's objectives will not be met, and will also result in the AONSW having to reallocate resources from other critical initiatives being pursued.

An adequate level of funding is considered necessary during this transition period to maintain the level of operations and quality by way of a temporary transition grant. This will be key to the long term strategy of the AONSW as a whole and success with implementing this mandate.

It is considered likely that the transition period will be approximately 3 to 5 years until such time as the local councils have reached an adequate measure of maturity in its reporting. The stakeholder engagement costs are estimated by the AONSW to be approximately \$800k per annum.



*Sydney Trains*

4

# AUDIT METHODOLOGY



# Audit Methodology

## Financial Audits

### Overview

For the purpose of our review we selected four state agency audits conducted during the 2016 calendar year (June/December). The files varied across different sectors of State Government. No local council audits were selected as, at the date of our review, all were currently still in progress (completion deadline of 31 October).

### Compliance with Auditing Standards

In 2013, the AONSW implemented the use of IRIS (new audit software) to document and record its audit evidence. IRIS uses the methodology of one of the "Big 4" auditing firms whilst the AONSW has in place its own Audit Support team.

From the evidence gathered, the AONSW has demonstrated that its audit methodology being applied by the AONSW is in accordance with Australian Auditing Standards.

Without impacting on our conclusion, we have identified specific areas of improvement which are noted in this section of the report.

### Compliance with legislation

Per the Act, the Auditor-General or a person authorised by the Auditor-General is, within the 10-weeks of receipt of the report to furnish an opinion stating that the Auditor-General has audited the financial report of the department or statutory body for that financial year, and indicating whether the financial report complies with the Act, and setting forth any qualifications subject to which the opinion is given.

We understand through discussions with management, the AONSW has complied with the requirements of the Act for the financial year ended 2015-16.

### Compliance through execution

In 2017, the Audit Support team introduced "Smartlite" which is a suite of streamlined and enhanced audit template working papers to help facilitate the documentation of audit evidence. They are scaleable and thus suitable to be utilised on both large and small to medium sized audit engagements.

Through our review we identified instances where audit files did not fully comply with the documentation requirements in respect of certain Auditing Standards. Although not significant and do

not materially affect the audit quality, these relate to:

- Documentation of work performed on Internally Generated Documents provided by clients (ASA 500)
- Documentation of work performed to evaluate the adequacy of substantive analytical procedures ("SAP") (ASA 520)

These documentation matters have also been identified previously by the AONSW's own internal review procedures via its Monitoring program. In the last 12 months, a series of additional training programs have been deployed by the AONSW to specifically help improve the quality of audit documentation obtained by its teams.

The audit files we reviewed were concluded just prior to the roll out of this training and Smartlite. Therefore we have not formally seen the impact the training has had on the quality and level of audit evidence documentation on the AONSW's most recent audit work papers.

As part of our review process we interviewed a number of AONSW team members, who verbally reported to us that its impact had been positive and well received by teams.

### Compliance through execution

**Recommendation:** The current coaching programs should be tailored to focus on improving staff's understanding of documentation expectations relating to internally generated documents provided by auditee agencies and evaluating the adequacy of the SAP's.

#### Why is this important?

The level of documentation required under Auditing Standards continues to increase, particularly with reference to key judgements made by the auditor. Therefore having a program in place for continuous improvements in the quality of audit documentation is important to be able to maintain compliance with Auditing Standards now and in the future.

# Audit Methodology

## Financial Audits

### Small audits

More than 50% of the AONSW's state agency audits conducted are considered "small". We categorised small as audits below \$50,000 in fees. A recovery analysis indicated that for medium to large audits, recoveries appear to be appropriate. However, for a number of smaller-sized engagements, recovery rates are lower.

This will become of increasing relevance given the AONSW's new remit in respect of local council audits which will largely fall into the "small" audit fee category.

The AONSW is about to complete a pilot program of intense coaching on 10 "small audits" to facilitate the use of Smartlite and audit methodology that drives efficiencies on small engagements.

### Small audits

2

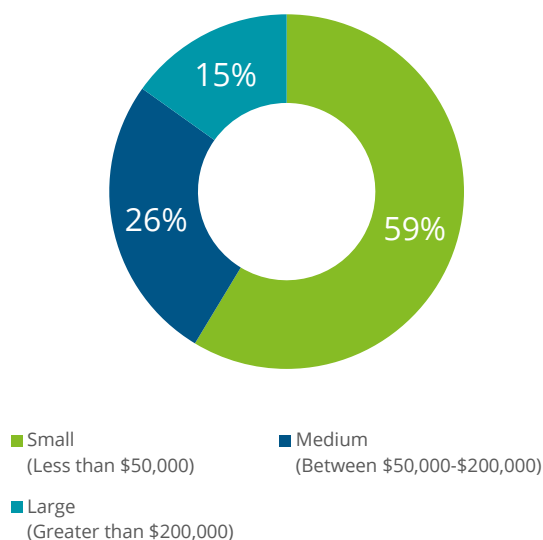
**Recommendation:** The outcomes of the "small audit" program should be collated and further communicated to staff. Coaching should be provided to all engagement management leaders to help ensure that the small audit program is adopted, where appropriate, by all teams so that learnings and efficiencies become pervasive across the audit portfolio over time.

### Why is this important?

Continued efforts on small engagements without the effective use of judgements and concessions permitted by the auditing standards may place significant pressure on the AONSW's time and resources which could impact the effectiveness and efficiencies of its audits.

Given the importance of having adequate resources to execute local council audits, such initiatives will help to ensure alignment is achieved between efficiency and quality.

NUMBER OF FINALISED AUDITS (FY16)



Source: Management Information

# Audit Methodology

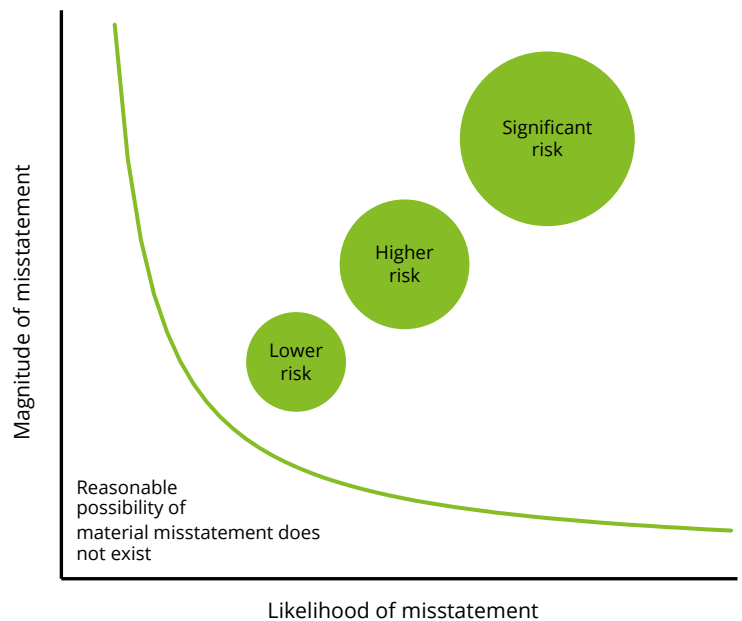
## Financial Audits

### Risk assessment approach and documentation

The graph opposite depicts the efforts placed by the AONSW in documentation with respect to the magnitude and likelihood of misstatements.

During our file reviews we identified that teams adopt a conservative position when scoping audit risks at the planning stage of the audit.

At the planning phase the scoping of the audits is heavily driven by materiality. Financial statement lines are scoped in at the planning stage based on materiality and only assessed at a lower level of granularity during fieldwork. The description of the risks are often quite generic and not specific enough to fully understand where the risk is noted and to which assertion(s) as the procedures address most if not all assertions.



Pinpointing the risk to the relevant assertion is implied through various provisions in ASA 315 – Identifying and Assessing the Risks of Misstatement Through Understanding The Entity and its Environment, which the AO NSW is compliant with.

### Granularity of Risk Assessment

**Recommendation:** Greater focus should be placed on increasing the granularity and focus on specific risks and assertions at the planning stage of the audit. The audit procedures designed should be more focused on those higher risk account balances (such as those subject to significant judgement or fraud as an example) and assertions related to an account balance that are of a higher risk due to other considerations relevant to that agency.

### Why is this important?

Greater granularity in the risk identification process will help drive efficiencies and ensure work is focused on the most critical areas of the audit.

3

# Audit Methodology

## Financial Audits

### The use of data analytics

In all four files selected as part of our review, the use of data analytics was limited and the traditional sampling approach was predominantly relied on, except for journal entry testing (JET).

We understand that the AONSW has identified the use of analytics as one of its 5 key priority initiatives in its Corporate Plan for 2017-2020, Future Roadmap and Strategic Initiatives. The AONSW recognises the cost/benefits and insights that the use of data analytics can bring to an audit and commenced certain pilots. However, due to the significant investment of time the local council audits have required, the AONSW has not been able to deploy significant resources to this initiative to date.

#### Use of data analytics

**Recommendation:** A clear strategy should be developed and implemented to ensure the use of data analytics in audits becomes firmly embedded in the AONSW audit methodology and approach.

This may involve development of an in-house data analytics support team, third party assistance in providing data analytics expertise or a combination of both.

#### Why is this important?

Increasingly, audit firms are seeking to move away from conventional sample testing of balances and populations through the use of data analytics. This not only has the potential to give greater audit assurance through testing 100% of the population, when designed and executed appropriately it can also be significantly more efficient.

The use of data analytics also has the potential to allow greater insights to be brought to clients.

4

### Filing of audit documentation in IRIS

During our review we found one instance where the final signed audit opinion was not on file and, of the four files reviewed, one did not contain the draft findings communicated to those charged with governance. IRIS has a system in place whereby it is able to track a log of issues/findings given there is no requirement that the issued management letter should be placed on file prior to archive.

#### Filing of audit documentation

**Recommendation:** The signed audit opinion should be appropriately filed prior to archive.

Refer to Finding 16 regarding the timely finalisation of the management findings for inclusion in the CSR. This will ensure that even without the final management letter on the archive file all relevant matters are dealt with and audit evidence retained.

#### Why is this important?

The management letter is an important element of the audit working papers as it contains formal recommendations to management arising from the audit.

5



# Audit Methodology

## Financial Audits

### Independence reconciliations

Audit independence of the team is confirmed at the commencement and completion of an audit engagement via sign off and declarations by all team members with access to the IRIS audit file for that engagement.

On all files reviewed, there was no evidence of a completion check to ensure that all staff members who had charged time to the engagement code had also confirmed their independence. In most cases the explanation was reasonable as it related to administrative staff, who assist with the formatting of documents, and hence do not need to declare independence. In other instances, it entailed the involvement of audit support staff who are not directly involved on the engagement. However it is our view that such Audit Support Staff have an indirect bearing on the direction of the audit and the conclusions reached therefore they also need to declare their independence globally over all clients.

#### Independence

**Recommendation:** A global independence declaration should be performed annually and updated by staff if circumstances change during the year, with reference to the complete list of state agencies, local councils and universities audited. An appropriate framework to identify and communicate any independence conflicts should be implemented to ensure the resourcing team appropriately allocates staff to

engagements.

6

#### Why is this important?

Given the number and size of audits performed by the AONSW, there is a large staff pool which typically works across multiple engagements and at different times. It therefore can be a challenge to ensure that every team member who works on an engagement has formally confirmed their independence, as required by Auditing Standards.

### File archive policy

The archival policy of the AONSW is for all files to be archived with 60 days from the date of signing of the financial statements. This timeframe is in line with Auditing Standards which per ASA230 *Audit Documentation* require audit files to be archived “on a timely basis after the date of the auditors report”. ASQC1 requires firms to establish policies for timely completion of file assembly and indicate it should not be longer than 60 days from date of audit report. Our review found the AONSW is complying with this policy, with audit files typically being archived within the 60 day time period.

#### File archive policy

**Recommendation:** The AONSW should consider amending its internal guidance on archiving deadlines to help encourage teams to archive audit files more promptly.

A tiered approach based on size and complexity of audits with different archive date targets should be taken. This will provide more realistic short-term targets for teams and allow teams to adapt and put in place strategies to reduce file archive time.

#### Why is this important?

Increasingly, audit firms are seeking to accelerate their audit file archive process with the aim of being able to archive the file on the same day that the financial statements are signed (“archive to zero”). This is to help increase efficiencies in the audit process and to ensure that audit conclusions are being documented on a timely basis. The solution the AONSW adopts will need to efficiently deal with post balance sheet date audit products such as grant acquittals.

7

# Audit Methodology

## Financial Audits

### Greater than Normal Risk assessment

10% of the state agency audits for the 2016/2017 financial year were categorised as Greater than Normal Risk ("GTNR"). Compared to the private audit sector this is relatively high. GTNR engagements require the allocation of an Engagement Quality Assurance Reviewer ("EQCR") due to the heightened level of risk. We noted instances where engagements which ordinarily would not meet the requirements for a GTNR classification but are being classified as a higher risk engagement in order to have access to an EQCR on a specific issue.

#### GTNR assessment

**Recommendation:** There should be greater consideration and challenge of whether engagements are GTNR based on the individual circumstances of each audit. Audits should not be classified as GTNR solely to ensure an EQCR reviewer is allocated to the engagement.

#### Why is this important?

8

If engagements are classified as GTNR un-necessarily, this can result in additional procedures and audit team effort which is not required. In particular, GTNR engagements require additional senior audit team leader time. Therefore by re-considering whether engagements are GTNR may free-up additional time of senior engagement team members who can focus their efforts on other critical areas within the AONSW.

### Aggregative risk assessment on IT control findings

Our review did not highlight any material deficiencies in the design, approach and audit methodology of the AONSW in respect of its IT audit work.

In one of the audit files we reviewed, a large number of system (SAP) issues were identified by the audit team. As a consequence, the team tested the mitigating manual controls to achieve controls reliance.

However, the aggregative risk assessment of the IT issues on the overall impact to control environment was either not conducted or was conducted but not documented.

#### Aggregative risk assessment

##### Recommendation:

The AONSW has recently updated its methodology to include the Aggregative Risk Assessment that needs to be applied where appropriate. It is recommended that awareness across the audit team's needs to be raised through its training programs to ensure the team comply with the Aggregative Risk Assessment requirement going forward.

#### Why is this important?

9

The Financial Audit Team and the client will receive value added insights from the aggregative risk assessment given its ability to outline the weaknesses or deficiencies that may not be prevented by virtue of a single compensating control.

# Audit Methodology

## Performance Audits

### Background

The AONSW performance audits are undertaken under Division 2A of the Act. These audits are performed in accordance with the associated Standards on Assurance Engagements issued by the Auditing and Assurance Standards Board, ASAE 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information and ASAE 3500: Performance Engagements, Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements ('ASQC1'), the Public Finance and Audit Act, 1983 (the 'Act') and the State Records Act, 1998.

### Observation

We observed that the development of the Performance Audit Guide, which is cross referenced to ASAE 3500 and other requirements were embedded into IRIS, the Audit Methodology Platform implemented in 2013.

Based on our examination of the performance audit function and audits sampled, nothing has come to our attention that indicated the AONSW was not in compliance with the requirements under the Standards and the relevant Acts.

Notwithstanding the above, the following improvement opportunity could be considered:

#### Opportunity to Streamline Documentation

10

##### Recommendation:

Due to the recent changes in the ASAE 3500 issued on 5 October 2017, the Performance Audit Branch ('PAB') will be updating its Performance Audit Guide and implementing the corresponding changes into IRIS for adoption by 1 January 2018 (when the change comes into effect). This update provides the AONSW an opportunity to harmonise IRIS with updated practices. The AONSW may wish to consider the following when undertaking this update:

- Removal of duplicate requirements in checklists located throughout the file (a legacy of the previous manual process).
- Update of templates to remove the requirement for sign off where already recorded in IRIS.
- Examine the business rules around the IRIS file review process with a focus toward streamlining this and ensuring that senior staff time is maximised on what's important (e.g. remove Principal Analyst requirement to review and sign off every work paper).

##### Why is this important?

With the limited availability of senior personnel time and the drive to increase the number of performance audits, streamlining the process is increasingly important to ensure greater efficiencies.

# Audit Methodology

## Performance Audits

### Background

In accordance with the AONSW's mandate, performance audit topic selection is at the discretion of the Auditor-General. The AONSW publishes a three-year rolling program of audits on its website.

The AONSW's topic selection process involves senior financial and performance audit staff from across the AONSW and extensive research and stakeholder consultation, and uses a 'matrix' to provide assurance that the program responds to key risks for government and contemporary themes in public sector management.

### Observation

The AONSW has a sound process for helping the Auditor-General select performance audit topics. Topics selected by the Auditor-General have a compelling justification and the stakeholders consulted as part of the review have commented that topics selected have been relevant.

The AONSW regularly reviews and improves the selection process to ensure it remains contemporary, efficient and effective. The introduction of the three-year rolling program and development of the 'matrix', as well as current exploration of ways to better leverage audit staff knowledge, are good examples of this, and the AONSW should continue this work, including ways to improve the consistency of information collected to enhance its prioritisation methods.

The AONSW could report more information around this and the prioritisation process on its website, while retaining the need for agility to respond to emerging matters. The AONSW advised it was collating this information and planned to publish it next year.

#### SAP Framework

##### Recommendation:

The AONSW should maintain its process of continuous improvement around performance audit topic selection and prioritisation. This could include considering publishing more information around this on its website.

##### Why is this important?

Improving transparency over the selection process will help articulate to stakeholders how prioritisation decisions were made with topic selection.

11





*Kiama, Lighthouse & Blowhole*

5

ADEQUACY OF  
RESOURCES

# Adequacy of Resources

## Financial Audits

### Background

The AONSW financial audit branch (FAB) has 211 Full time Employee Equivalent as at 30 June 2017 (208 as at 30 June 2016).

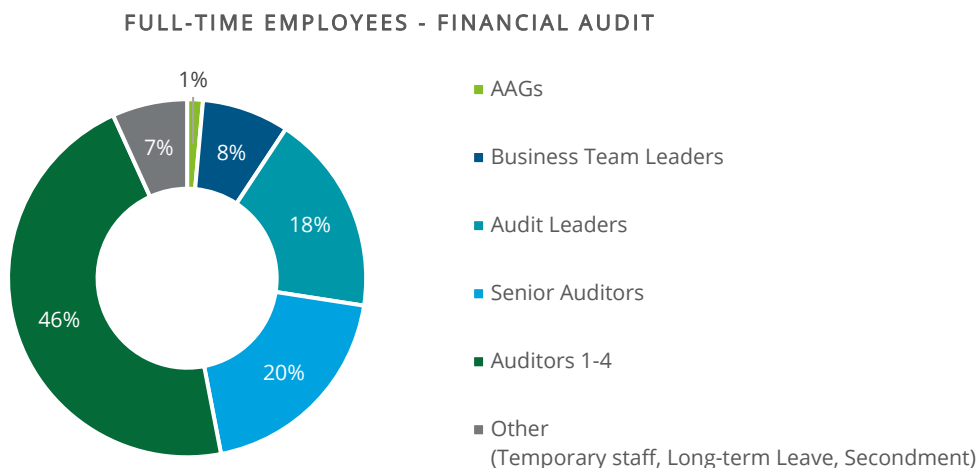
The head count of 211 is slightly ahead of the target of 202.5 primarily due to 9 to 10 Full time Equivalents on secondments to other Audit offices/ organisations or absent on leave without pay.

The AONSW has conducted 426 state agency financial audits in FY17. Of these audits, approximately 10% are outsourced to contractor auditor agents. This is considerably lower compared to certain other Audit offices.

The Local Government Act 1993 expanded the Auditor-General's mandate to include financial and performance auditing of local governments for FY16/17. 140 new audits are now conducted, 12 of which are conducted in-house and for the balance a partnership is in place with contractor audit agencies. This has raised the total number of audits under contract audit arrangements to approximately 30%.

### Observation

Based on our evaluation of the utilisation and FTE metrics, the FAB has adequate resources however the long term integration of local council audits and the continuous pressure on audit fees requires that the AONSW continues to focus on streamlining the manner in which audits are executed and the best mix of in-house vs use of contract audit arrangements.



Source: Management Information

# Adequacy of Resources

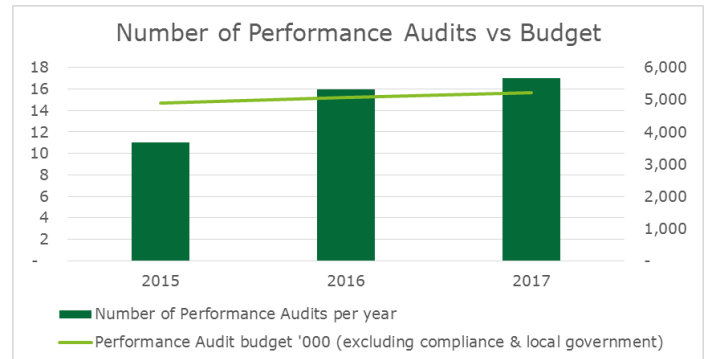
## Performance Audit

### Background

The AONSW PAB employed 25.4 full time equivalent staff as at 30 June 2017 and produced more performance audit reports over the last 3 years with only marginally more funding and staff.

The AONSW has managed to remain under budget whilst increasing the number of audits delivered, resulting in a cost per audit materially lower than the national average of all Australian audit offices.

Treasury has provided an additional \$1.2m to the AONSW to fund performance audit activities in the local government sector. This is expected to translate to a further 6 PAB staff and an additional 3 performance audits in the local government space per year.



Source: Management Information & Annual Reports

### Observation

Staff time devoted to important activities essential to a well running performance audit function are not charged to individual engagements within Elite, the current time recording system. These include areas such as:

- developing the performance audit program and high-level stakeholder engagement;
- attending Parliament to engage with the Public Accounts Committee;
- preparing submissions and attending Parliamentary hearings to assist the Public Accounts Committee follow-up and other reviews;
- making submissions to other Parliamentary committees and attending hearings;
- contributing to standard-setting and performance audit practice in Australia and the Pacific, maintaining a compliant methodology; and
- assessing and addressing complaints or disclosures about other agencies.

The categorisation of these activities as “not billable” may therefore be seen as “not productive”, and may impair any planning of future performance metrics or initiatives that may not be directly attributable to an engagement. The AONSW’s leadership team has also identified this issue and is considering measures to address it.

#### Tracking of time

##### Recommendations

The AONSW should expand on the current program to review Elite’s tracking of time such as pre-scoping sessions, to ensure it captures key codes that will count as billable time such as program development, strategic initiatives, relationship or stakeholder development activities.

In addition, the AONSW should set role specific time targets to monitor productivity in the context of the above activities.

#### Why is this important?

It is important for PAB to be able to monitor the difference between value adding time not related to an audit and genuine available capacity. It will also enable more detailed analysis for setting appropriate KPIs at an individual level.

12



# Adequacy of Resources

## Performance Audit Resource Benchmarking

### Observations

AONSW delivers its performance audits at a lower cost per audit than the average for most Australian audit offices (\$272,166 vs the national average of \$363,468) and has done so consistently for the past 5 years.

Based on benchmarking data from the Australasian Council of Auditors-General (ACAG) as well as the State and Commonwealth financial reports, the AONSW's performance audit costs are materially lower as a proportion of total assets and expenditure in NSW than the average for all Australian audit offices.

This analysis suggests that the AONSW is effective at managing its available resources to deliver on its immediate performance audit program of work. However, it is noted that the 3 year rolling roadmap for performance audits is developed on the basis of its existing budgetary constraints or a "supply" side planning outcome.

A "demand" driven planning process for performance audits would reference the overall mandate of the Auditor-General of ensuring that the government is delivering on the key performance outcomes from its services. This can identify a range of high risk topics that may not be addressed due to the current budgetary constraints, both in terms of the coverage of issues across all of government entities, local councils and universities as well as the breadth of scope for each performance audit.

### Future performance audit funding requirements

13

#### Recommendation

In addition to the 3 year rolling roadmap currently in place, as part of its performance audit program development, the AONSW should consider developing a "demand" driven "roadmap". The purpose of this roadmap is to help identify high risk performance audit topics or topics that may require broader than normal scope, that currently are not in the program, due to a lack of available resources.

Any gap due to budgetary constraints that may not be tolerable, can be the basis for mounting a case for additional funding to pursue its objectives.

#### Why is this important?

Setting out a "demand" driven performance audit program will help the AONSW provide a holistic perspective of what it is aiming to achieve through its performance audits. This may also assist in articulating the case for securing sufficient resources to meet its mandate and will become an increasingly important exercise with any "follow the dollar" changes.





*Lightning Ridge*

6

EFFECTIVENESS OF CLIENT  
COMMUNICATION



# Effectiveness of communication

## Parliamentary Reporting Process

### Background

Key findings and messages from audits are summarised into the reports and the preparation and review process is initiated. To maximise efficiencies and to ensure milestones are met the AONSW has set up templates where collaborative and concurrent reviews are performed.

### Observation

Whilst we note that the Parliamentary reporting process is effective, it could be more automated. The project management and milestone tracking are largely manual in nature and emails are the primary mode of communication for follow up.

Due to the manual nature of the process, some of the controls involved may be detective rather than preventative.

#### Manual project management

14

**Recommendation:** To minimise disruption and avoid surprises in the process, the AONSW should implement an automated project management tool with real time updates via Mobile Applications.

#### Why is this important?

The manual intensity of the process and reliance on communication by various report owners to multiple people is time consuming and it increases the risk of human error.

### Observation

The AONSW is in the process of redesigning its reporting as part of the 'Reporting Process' strategic initiative. This continuous improvement initiative is responding to a desire to update the look, feel and focus of reports.

We note that the AONSW are leveraging innovative report designs and technical writing recently adopted in the 2017 "Report on State Finances". It has also engaged an expert writer for its new Governance and Internal Controls report.

#### Innovation in technical writing

15

**Recommendation:** There is a continued opportunity for the AONSW to consult with experts in the field of innovative technical writing to keep pace with contemporary trends.

#### Why is this important?

The success of any thought leadership and tabled reports to Parliament having an impact is dependant on the skill of the writers, the editors and the innovation in thinking and a tone from the top.

# Effectiveness of communication

## Financial Audits Client Service Reporting

### Background

The AONSW formally communicates to key stakeholders in a number of different reports as follows:

The *client service plan* is provided to the Audit and Risk Committee (ARC) preceding the commencement of any audit.

The *client service report (CSR)* is provided to the ARC at the finalisation of the audit prior to the audit opinion being issued.

The *management letter* is provided to management and conveys any deficiencies in processes and controls within business processes and areas of governance identified during the course of the audit.

As part of our review we considered the timeliness, design and content of these reports as well as future considerations for effective communication to stakeholders.

Recent survey results indicate the CFOs are satisfied with the audit process and reporting but were slightly less satisfied with the value of the audit. In particular, CFOs are less positive about whether the AONSW understands their needs and having a “no surprises” approach to reporting.

FINANCIAL AUDIT CLIENTS (SATISFACTION)



### Observation

In all of the client service reports we noted a brief comment as to whether any compliance issues were noted but no specific wording around the internal processes and controls was included and there was no mention of IT matters.

In the management letters, we found instances where a systemic issue was not communicated in the client service report. Such communication may have been verbal however such matters of importance should be raised early in the CSR as management letters are issued 6 weeks after the Audit Opinion.

#### Documentation of management letters

**Recommendation:** Management letter points need to be resolved before the CSR is issued. The criteria for assessing the importance of the management letter point must be considered and finalised in such a manner that this can be included in the CSR. Client Service Reports should include relevant details pertaining to operational and financial processes and controls which are considered a weakness or deficiency.

#### Why is this important?

Timely agreement of relevant management letter points will help improve CFO satisfaction and help ensure that the provision of advice is on time and relevant.

# Effectiveness of communication

## Financial Audits Client Service Reporting

### Observation

In line with the strategy adopted by the leadership regarding Parliamentary reporting to drive readability of reports, we believe the same strategy should be adopted to engage and meet the needs of stakeholders such as CFOs and ARC Chairs.

The current CSRs are word based but also quite traditional in terms of their style and presentation.

The client service plans and reports are prepared using a template format. The design is consistently used across all audits. The template is a word based template but quite generic and could be more tailored to the specific client.

### Redesign of client reporting templates

#### Recommendation:

Consideration should be given to re-designing the client service plan and report templates. These should be updated to reflect greater use of graphics and tables as a means of presenting key issues and observations.

Other presentation ideas should be considered as part of the redesigned template to help provide greater insights to the users of such reports.

### Why is this important?

17

Ensuring stakeholder engagement is an important aspect of the AONSW. Improved reporting templates with more visual illustrations of important information and key findings will help improve stakeholder engagement. This can also make complex issues such as accounting changes easier to understand and explain to users of the report/s.

### Key Audit Matters

For all financial year ends of listed entities ending on or after 15 December 2016 the new reporting requirements under ASA 701 are applicable. This amendment requires that Key Audit Matters ("KAMs") be communicated on such audit reports pertaining to general purpose financial statements.

KAMs are those matters that, in the auditor's professional judgement, required significant auditor attention in performing the audit. KAMs are selected from matters communicated with those charged with governance. They are determined by taking into account areas of higher risk; significant auditor judgements; and the effect on the audit of significant events or transactions.

The standard does not require audit reports of public sector entities to comply with such provisions.

### Key Audit Matters

#### Recommendation:

The AONSW should consider whether to adopt a similar form of reporting to KAMs for some of its own audits, particularly those which are considered having a high public interest.

The time and cost associated with the wording of such key audit matters would require investment by the AONSW.

A policy will need to be developed to establish which engagements will follow such reporting and the level of internal consultation required to ensure a consistent approach.

### Why is this important?

18

KAMs form of reporting provides greater insights into the risks of a business and what procedures the auditor has performed to address such risks. As listed companies globally adopt this form of reporting, over time other entities may adopt a similar form of reporting in order to provide greater transparency to the users of the financial statements.

# Effectiveness of communication

## Performance Audits – Government Entities

### Background

Communication with government entities and other auditees around performance audits takes place throughout the engagement lifecycle through meetings and correspondence.

The PAB team is assigned engagements based on their availability and the auditee will assign a liaison to facilitate the audit process from their end. It is understood that the liaison selected by the auditee can make or break the efficient and effective conduct of a performance audit, depending on their seniority and ownership of the process. It is also crucial when avoiding conflicting views that senior people are involved at key stages of the audit.

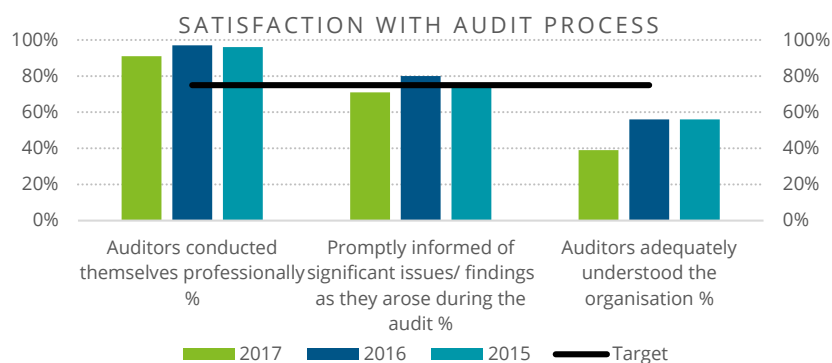
The feedback on the effectiveness of communication from the perspective of the auditee is obtained through surveys carried out at the end of the performance audits on the process, reporting and value. We have summarised some of the key findings from these surveys in the following graphs.

### Observations

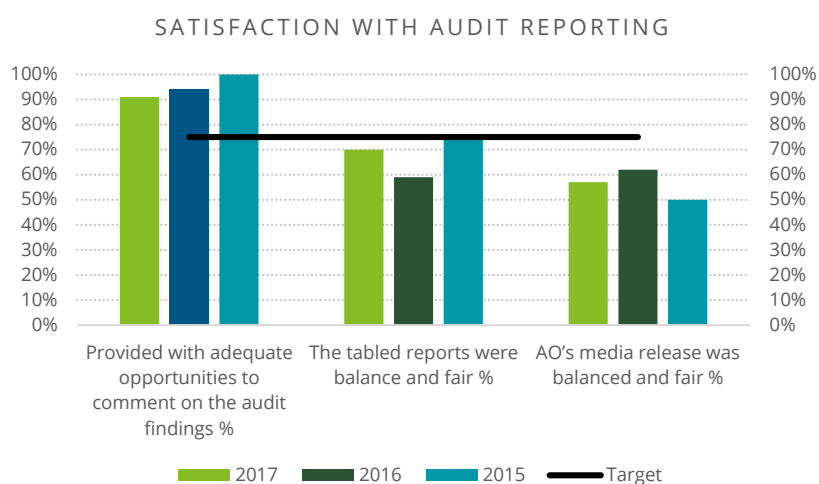
There was a material deterioration in particular elements of feedback on the audit process from previous years, specifically on the AONSW's understanding of the organisation and operating environment. This was consistent with the feedback obtained from agency stakeholders as part of this review.

The AONSW also tracks the percentage of recommendations accepted by agencies as one of their KPI's. This saw significant improvement in 2017 from the previous period from 67% to 77%, but still well below its target of 90%.

As the AONSW did not meet its targets for auditee satisfaction of the audit and recommendations accepted by the auditee, measures to improve the ratings are required. It is noted that the AONSW has already implemented initiatives to improve stakeholder relationships, which includes a stakeholder relationship plan.



Source: AONSW 2016-17 Performance Audit Client Survey



Source: AONSW 2016-17 Performance Audit Client Survey

### Stakeholder Engagement

19

#### Recommendations:

The AONSW should consider implementing a sector-based staffing approach to improve auditee engagement results. This could entail Principal Analysts taking responsibility for establishing relationships with key performance audit stakeholders in their allocated sector; developing better knowledge of that sector; working more closely with financial audit Directors in the sector; and overseeing most of the audits in that sector.

To support this approach, AONSW should develop sector-based Stakeholder Engagement Plans, which may include specific actions to prioritise and address difficult relationships.

#### Why is this important?

While it is important to note the inherently different perspectives between an auditee and auditor for performance audits, obtaining alignment on objectives and agreement on the way forward is essential to improving the outcomes for the public.

# Effectiveness of communication

## Performance Audits – Parliamentarians

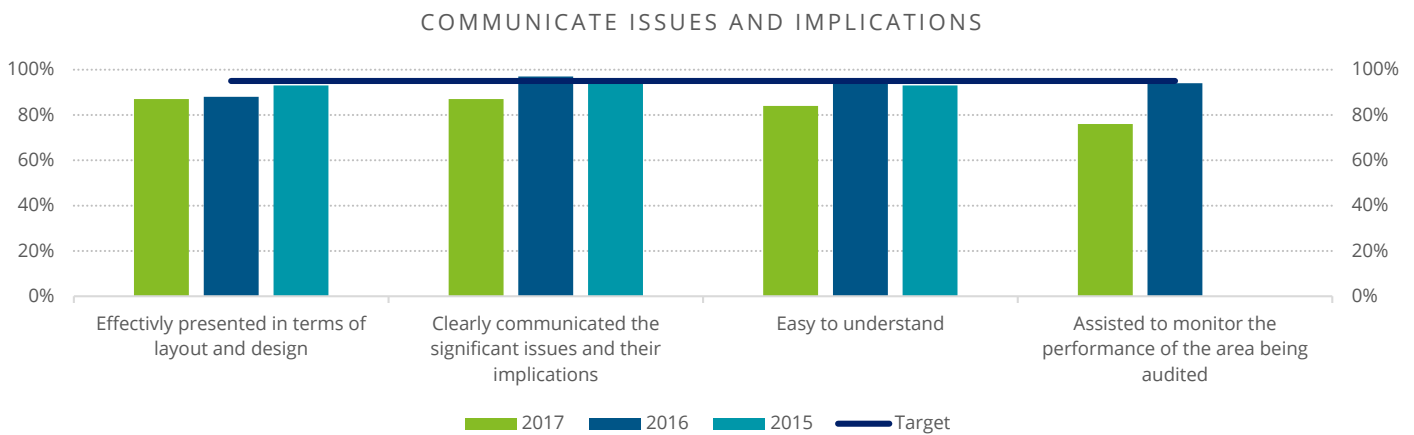
### Background

From our review it was noted that the community and the citizen were seen as the key 'client' that the AONSW keeps at the centre of its thinking when planning and undertaking performance audits. The current proxy for the citizen when determining the success or value with the performance audits is through the parliamentarians.

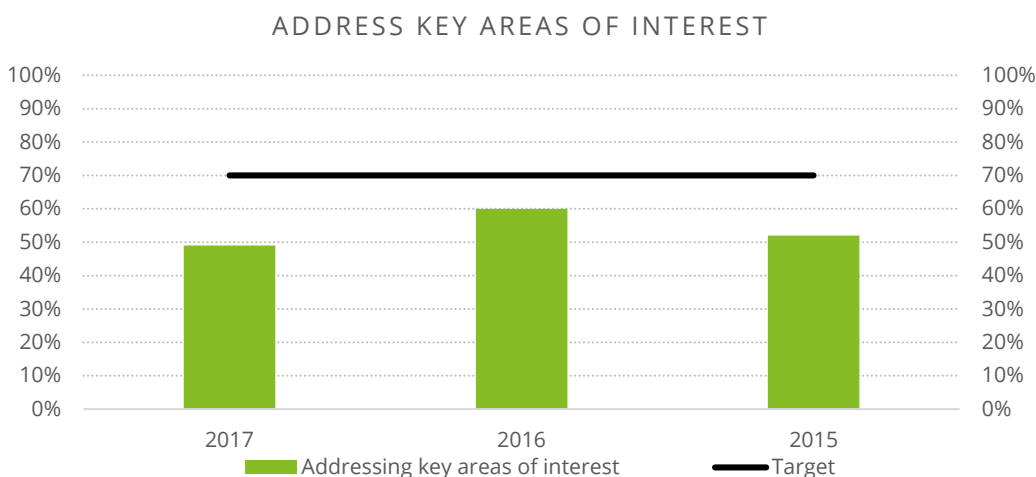
Communication with Parliamentarians are seen as an important means of obtaining independent feedback on the performance of the AONSW. It is understood that the Auditor-General proactively engages with them as often as possible and a draft program of performance audits is provided to the Public Accounts Committee for feedback.

### Observation

The key feedback on the effectiveness of communication with Parliamentarians is an annual survey. However a low proportion of parliamentarians typically respond (38 out of 135 or 28% in 2017 similar to the previous 5 years). Notwithstanding this, there was a substantial decline in 2016/17 around Parliamentarians seeing the AONSW performance audits addressing key areas of interest as high or very high (70% to 49%). However, it should be noted that the survey indicated that 100% of parliamentarians that responded on whether the AONSW was addressing key interests was rated as moderate or higher. Feedback on the performance audit reports themselves, also experienced a drop (95% to 87%).



Source: AONSW 2017 Survey of Parliamentarians



Source: AONSW 2017 Survey of Parliamentarians

# Effectiveness of communication

## Performance Audits – Parliamentarians

### Stakeholder Engagement Opportunity

#### Recommendation

The AONSW should consider engaging with parliamentarians via correspondence throughout the year to obtain their feedback on the major issues impacting their constituents. This would be in addition to sending the forward program to the Public Accounts Committee for feedback on an annual basis.

### Why is this important?

The decline in ratings against the AONSW's own targets and against historical performance should be remedied. The AONSW has already put in place initiatives to address these and the recommendations provided are there to supplement the existing programs being developed.

20

### Observation

The Audit Office makes an effort to communicate its report messages to the public through social media and its website. However, there is an opportunity to do more in both disseminating findings and in obtaining feedback and suggestions from the public.

### Social Media Strategy

#### Recommendation

The AONSW should develop a social media plan that incorporates a means of communicating directly with the community and gauging the impact of its performance audit reports and messaging.

### Why is this important?

With advances in technology and the macro changes in which citizens communicate with each other and institutions, it is increasingly important for the AONSW to engage more directly with citizens via social media.

21





Lord Howe Island

7

ASSESSMENT OF VALUE  
FOR MONEY



# Assessment of Value for Money

## Financial Audits

### Background

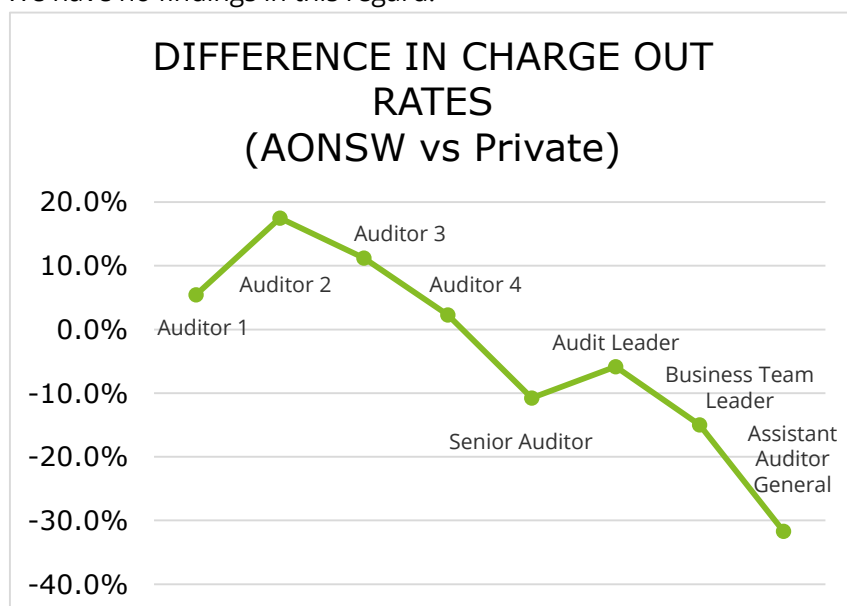
Each engagement has a robust engagement budget policy in place and the engagement team is expected to recover the time and cost charged on the Jobs. The charge out rates per employee levels are reviewed as part of the budget planning process and are assessed for reasonableness every year.

The primary drivers of the charge out rates are grant revenue, head count, available hours, expected utilisation rates and operating costs of the AONSW.

### Observation – charge out rates

Whilst the charge out rates for field staff (below the engagement management team) are higher compared to the private sector, we observed a lower charge out rate per hour for the engagement management team. However the recovery of the staff cost followed the same trend. This appears to suggest that the recovery rates are appropriately set to recover the underlying cost relevant to the staff mix and fees set for agencies/local councils.

We have no findings in this regard.



Source: Management Information

### Observation – cost management and recovery

Based on our review of sample budgets and discussions with the AONSW staff, the engagement time and cost budget approximately equals the audit fees recoverable from the client. Any costs exceeding 2% of the audit fees require approvals from the AONSW Deputy Auditor-General. Time and costs are monitored by the engagement team during the conduct of the audit engagement and through Chief Financial Officer monthly reporting to the Office Executives.

While the AONSW is able to recoup the time and costs on the selected files for review we observed the following during the course of our review, The AONSW issued 20 modifications in 2016-17. Out of the 20 modifications, 16 were new (13 in 2015-16) and 4 were repeat modifications (5 in 2016). The number of repeat modifications reduced significantly from the previous year.

The AONSW appears to have appropriately recouped the time and costs whilst also improving the accountability and quality of financial audits by driving the agencies to remediate on matters that lead to qualifications.

We have no finding in this regard.

# Assessment of Value for Money

## Performance Audits

### Background

Unlike financial audits, performance audits are funded through grants. From a cost perspective, as described in the 'Adequacy of Resources' section, the AONSW delivers its performance audits at a lower cost per audit than the average for most Australian audit offices for the past 5 years.

As such, determination of value for money for performance audits is referenced to by parties outside of the AONSW, predominately through three key perspectives:

- The Community and its Citizens
- The Public Accounts Committee and the Parliamentarians
- The Government Entities and other auditees

### Community and its Citizens

Feedback is not directly captured from the public. The AONSW reflects on what it believes to be in the public interest when pursuing its goal of obtaining insights to *'inform and challenge government to improve outcomes for citizens'*.

### Public Accounts Committee and the Parliamentarians

Parliamentarian feedback is formally obtained through annual surveys to determine the value provided by the performance audits. This is captured around the frequency the reports are used, how useful they found the reports and whether they addressed their key areas of interest

### Government Entities and other auditees

Feedback from auditees is obtained after every engagement. Satisfaction with the audit value is gauged through a series of questions around balance of the assessment, recommendations helping to improve performance and timing of the audit.

### Observation

The feedback from auditees and parliamentarians regarding the value of performance audits are not always actionable. Significant time is invested with estimating potential causes for changes in ratings of response. Further there is no indication of value directly from users of the performance audit reports, which are accessible by the public.

There are naturally differences in perspectives and focus between the auditor and auditee when undertaking performance audits. Differences in perspectives about risk or importance, the likely resourcing impacts or opinions on responsibility can impact the value perceived. As such, while these KPIs are essential, they should not be considered in isolation or without a frame of reference to other sources for judgements around value.

#### Feedback and surveys

##### Recommendations

The AONSW should consider extending its dynamic face to face feedback sessions with its stakeholders (both parliamentarians and auditees). This would enable the AONSW to explore and understand more deeply the issues. This should be undertaken by staff or contractors independent from the review.

The AONSW should also investigate a way of tracking reader responses on the value of the report through its website. It may wish to consider asking users who download the report to provide details (such as an email address) to enable a survey to be undertaken. Once established, these may be considered as a KPI to use to balance against auditee survey results.

#### Why is this important?

22

Surveys are an important measure to gauge performance, however face to face feedback sessions will allow issues to be explored in more depth.

In addition, users or readers of the performance audit reports are often best placed to judge the value of the performance audit reports, so measures to obtain feedback directly from them can also be used to help inform performance.

# Assessment of Value for Money

## Compliance Audits

### Background

Compliance audits are administered by the Financial Audit Branch (FAB) and are now undertaken under Division 2A as a performance audit, where an additional \$220,000 of funding from Treasury has been granted for this purpose. Previously these compliance audits have been undertaken at the request of Treasury under Section 27B (3) (c) of the Act.

Unlike performance audits, the nature of compliance audits are largely rules based and with basic testing procedures. They are undertaken in accordance with *ASAE 3100: Compliance Engagements*. The topics of compliance audits focus on implementation of key legislation and government wide policies typically issued by Treasury, the Department of Finance, Services and Innovation or the Department of Premier and Cabinet.

### Observation

As part of our review we obtained feedback from key stakeholders who indicated that there is substantial value in compliance audits being performed and the feedback from the reports. However, no formal feedback is currently being obtained from users as to the value of such reports.

It was also noted that while the FAB and PAB are part of the same SAP process, PAB are not directly consulted in relation to the compliance audit program development.

### Stakeholder Feedback Compliance Audits

23

#### Recommendation

The AONSW should consider enhancing collaboration between FAB and PAB to improve the planning and topic selection process for compliance audits. In addition, the AONSW should update the FAB satisfaction surveys to include specific questions on the value of compliance audit as seen by the responsible agencies and auditees.

#### Why is this important?

It is important to ensure that the areas chosen to perform compliance audits remains relevant and that regular feedback is obtained on their value and effectiveness.





*Blue Mountains, Three Sisters*

# 8

## RISK BASED ASSESSMENT OF FUTURE AUDITING

# The Future Direction of Audit

The core functioning of the AONSW is to conduct audits and report to the Parliament of New South Wales. In order to maintain the credibility and trust of the citizens of NSW, the AONSW has to effectively manage the following key risks:

- Audit insights are not relevant and do not result in a demonstrable improvement in public administration
- Audits are not defensible resulting in lost credibility, trust and confidence by government and the public.
- AONSW does not act according to ethical standards and are not transparent and results in a consequent loss of reputation.
- AONSW don't keep pace in a contestable environment and is not efficient.
- AONSW cannot develop or access required capabilities compromising the ability to achieve objectives.
- AONSW lose confidential information (including client and personal staff information) resulting in legal or regulatory breaches, or reputational damage.

Through our understanding of the AONSW's Corporate Plan for 2017 -2020 and Future Ready Roadmap, the AONSW has categorised its key objectives into the following areas of focus depicted as "How we want to operate".



Dynamic

Integrated

Insightful

Connected

Developing Potential

Agile

## Being Dynamic, Insightful and Connected whilst operating as one Integrated office

- The Audit Office Key Stakeholders include the Parliament of New South Wales, Citizens, NSW Councils, NSW Government Entities and NSW Universities. In order to effectively engage with the stakeholders, an immediate priority is to develop a more user friendly website that engages stakeholders.
- Given the large amount of local council audits under contract audit agent arrangements, the AONSW is planning to implement better project management tools to efficiently deliver high quality audits and thereby reduce reputational risk. Please refer to finding 14 which we believe can assist in driving efficiencies whilst remaining compliant.
- We understand through our discussions with the AONSW, its data analytics initiative aims to better understand data and present actionable insights to the agencies. Please refer to finding 4 where we similarly identify the need.
- The audit office has categorized its initiatives related to internal systems and processes into the reporting processes and internal technology and system changes. We understand the AONSW will be implementing new designs as part of the 'Reporting Process' strategic initiative for its reports in 2017-18. Please refer to finding 15 and 17 where we similarly identify the need. We understand from our discussions with management, the new templates will aim to improve the layout and design of these reports, as well as to facilitate easy readability.
- The AONSW is further considering replacement of its existing data center, enhancements in cyber security and developing a robust corporate reporting framework to enhance its decision making.

## Being Agile and Developing People's Potential

- The AONSW is exploring the opportunity to invest in creating a new modern office space that enables collaboration, integration and more agile ways of working.
- The AONSW is also exploring investing in human capital skills and the capabilities required in the future.



# The Future Direction of Audit

Mindful consideration of the AONSW's Corporate Plan 2017-2020 indicate positive alignment with trends and future evolution of the audit profession that we observe. The trends are depicted below.



A sharper focus on areas of risk



Automate



A more seamless audit experience



Centralize



Benchmarking against industry, peer, and third-party data



Big insights from big data



Artificial Intelligence

## Recommendation:

24

### Products

To further enhance delivery and service offering to state and local council auditees, we recommend the AONSW consider the following in its Future Ready Roadmap:

- I. Consideration of a secure, online collaboration site that facilitates a two-way dialogue between the audit team and the auditee agency to effectively manage engagement coordination. This will provide a seamless audit experience. Benefits are likely to include greater transparency, streamlined request process, improved monitoring and enhanced interactions. This will be critical to save time and costs and generate efficiencies.

### People and Culture

In order to keep pace with the changing needs of Auditees and how the AONSW deliver the service going forward we recommend the AO consider obtaining external data or market feedback to assess the current skill requirements against the skills required of the graduate of the future.

### Systems and Processes

Focusing on innovative trends in reporting and delivery of data and insights to clients will ensure stakeholders remain engaged. Refer to finding 14 and 15 for relevant recommendations.

### Why is this important?

Efficient and quality audits with valuable insights will be a key area of focus for the AONSW. In order to effectively engage with their staff, contractor auditor agents, the auditee agencies and other stakeholders, a number of the initiatives noted above and within this report are critical to the success of the AONSW meeting its objectives.





*Sea Cliff Bridge, Wollongong*

9

# SCOPE & APPROACH



# Audit Methodology

Scope	Approach and response
<p>To address the compliance of the audit methodologies used by the AONSW with current professional standards and legal requirements and compliance with statutory responsibilities under the Public Finance and Audit Act 1983.</p> <p>In respect of financial audits we performed the procedures detailed herein.</p>	<ul style="list-style-type: none"> <li>• Identified changes in auditing standards since the previous review in 2013 and select a sample of audit personnel (varying seniority) to be interviewed to understand how changes in audit methodology have been implemented since 2013. Considerations was given to areas such as training, technology and technical support.</li> <li>• Interviewed staff to gain an understanding of their knowledge of the audit methodology and latest changes.</li> <li>• Obtained and reviewed the financial audit manual and performance audit guide of the AONSW through comparison to Australian Auditing Standards to assess for compliance.</li> <li>• Enquired from audit personnel as to the support provided to the financial audit branch audit teams for technical accounting queries and audit risk related queries.</li> <li>• Conducted interviews to understand the process for managing the financial audit branch technical queries and resolution thereof.</li> <li>• Conducted interviews to understand and assess the process of managing and communicating updates in accounting and auditing standards to teams.</li> <li>• Selected a sample of completed audit files and assessed compliance of the audit conducted in line with audit manual and audit standards.</li> </ul> <p>Our selection of the financial audit files was based on:</p> <ul style="list-style-type: none"> <li>• Size (hours and duration)</li> <li>• Engagement risk</li> <li>• The portfolio sizes of the various Audit Directors</li> <li>• Complexity and risk based factors associated with the audit such as:               <ul style="list-style-type: none"> <li>– The type of the audit report and audit findings;</li> <li>– Fraud associated with the client;</li> <li>– Risks in the public sector;</li> </ul> </li> <li>• For the audit files selected for testing, considered compliance of those audits with Division 3 of the Public Finance and Audit Act 1983.</li> <li>• Compare findings from our audit file reviews to the AONSW's own self-reviews under the QARC and assess the adequacy of the internal quality reviews being performed by AONSW.</li> </ul> <p>Our selection of the performance audit files was based on a random selection during the previous two years.</p>

# Adequacy of Resources

Scope	Approach and response
<p>Assess whether the AONSW has adequate resources to carry out its functions, with particular reference to the auditing of the local government sector.</p> <p>We assessed the adequacy of the AONSW team composition considering the existing client portfolio and the local council audit mandate. We particularly focussed on the following:</p> <ul style="list-style-type: none"> <li>• Utilisation of staff</li> <li>• Team mix</li> <li>• Subject matter expertise within teams</li> <li>• Specialisation and focus groups if any</li> <li>• Mental and physical wellness</li> <li>• Diversity within the team: diversity of age, gender, culture, market experience and sector experience.</li> </ul>	<p>We engaged with AONSW to:</p> <ul style="list-style-type: none"> <li>• Understand the policies and processes to recruit and employ both graduate staff and experienced hires;</li> <li>• Understand the learning and development policies to ensure continuous professional development is appropriately implemented;</li> <li>• Assess the monitoring mechanisms of staff utilisation;</li> <li>• Understand policies to performance manage staff.</li> </ul> <p>We also undertook the following:</p> <ul style="list-style-type: none"> <li>• On a sample basis interviewed staff at engagement manager and engagement controller level to assess their understanding about their roles and responsibilities and to assess the adequacy of level of training they received , and the support mechanism in place for audit and accounting technical.</li> <li>• On a sample basis interviewed staff at engagement manager and engagement controller level to assess wellness and diversity objectives. We further reviewed employee survey results that AONSW carried out during FY17.</li> <li>• We reviewed the staff mix on sample engagements and assessed the reasonableness of the staff mix including involvement of specialists.</li> <li>• Analysed the benchmark data available to assess how the AONSW resources compared with its national peers</li> <li>• We further reviewed the current financial audit delivery model that the AONSW has in place for the local council mandate through a workshop with the AONSW Senior Leadership.</li> <li>• Engaged with human resource department to understand headcount year on year and assessed the employee turnover and reasoning.</li> </ul>

# Effectiveness of communication

Scope	Approach
<p>Consider the effectiveness of the AONSW's communication with clients, particularly in relation to establishing a joint understanding of audits, the scope of compliance programs, and the provision of advice.</p> <p>AONSW's communication framework for the financial audits primarily includes the following:</p> <ul style="list-style-type: none"> <li>• Client service plan for all financial audits</li> <li>• Client service report for all financial audits</li> <li>• Communication with the representatives of the public accounts committee and the agency (auditee) for performance audit conducted.</li> </ul> <p>AONSW's communication framework for Performance audits are set out in its Performance Audit Guide and for individual audits its Communication Plans.</p>	<p><u>Financial audits</u></p> <ul style="list-style-type: none"> <li>• Assessed the effectiveness of the existing communication framework and templates used by the AONSW considering recent changes in the regulatory landscape, technology and use of analytics</li> <li>• Assessed the adequacy and timing of the communication made with the Auditee and those charged with governance considering its objectives of adding value and reporting deliverables expected</li> <li>• Based on a sample of financial audits selected, we assessed the key focus areas identified during the financial audits and assessed the AONSW communication to their clients on such matters</li> </ul> <p>In doing so we took into consideration those audit focus areas which are considered to be critical by the regulator. These include:</p> <ul style="list-style-type: none"> <li>• Impairment testing and asset values</li> <li>• Revenue recognition</li> <li>• Expense deferral</li> <li>• Off-balance sheet arrangements</li> <li>• Estimates and accounting policy judgements</li> <li>• Impact of the new revenue standard, financial instruments,</li> <li>• leasing standard and accounting for insurance services.</li> </ul> <p><u>Performance audits</u></p> <p>Based on a sample of performance audits selected we:</p> <ul style="list-style-type: none"> <li>• Assessed the effectiveness of the existing communication framework and templates used by the AONSW for performance audits in line with regulatory requirements and its own guidance</li> <li>• Assessed the adequacy and timing of the communication made with the Auditee and those charged with governance considering its objectives of adding value and reporting deliverables expected</li> <li>• Conducted interviews with stakeholders to gauge their perspectives on the effectiveness of communication</li> <li>• Analysed survey results on communication and reporting and compared them with their peers where such information was available.</li> </ul>

# Value for Money

Scope	Approach
<p>Deloitte was requested to establish whether the audits conducted by the AONSW provide value for money by meeting their objectives and contributing to improved accountability by government agencies within New South Wales.</p> <p>AONSW has carried out a significant number of financial audits (426 for FY17) and to a lesser extent performance audits (17) and one compliance audit. The total number of financial, performance and compliance audits carried out by the AONSW is increasing every year. The increase in number of financial audits is not only a reflection of the increased activity in the public sector space but also to ensure appropriate governance procedures and policies are in place.</p>	<p><u>Qualitative aspect of value for money – present and future</u></p> <ul style="list-style-type: none"> <li>• Engaged with the leadership of the AONSW to better understand the differences in mandates the AONSW has in comparison with its peers as well as innovation within the public sector to ensure the AONSW can keep pace with the needs of the public</li> <li>• Reviewed of the audit delivery model to ensure the model (Time and costs) is applied in the most effective way to appropriately address risks in the public sector</li> <li>• Considered other measures of “value for money”. This will include but is not limited to:               <ul style="list-style-type: none"> <li>– reviewing the quantum and quality of findings and recommendations year on year with respect to the AONSW’s audit files in conjunction with the actual audit costs incurred in performing the work</li> <li>– Considering quality of deliverables in conjunction with the actual audit costs incurred in performing the work</li> <li>– Reviewed the CFO and the audit committee chair survey results carried out in FY17</li> </ul> </li> <li>• Examined the survey feedback responses from stakeholder in relation to value and compared that with</li> <li>• Interviewed a sample of agency representatives to obtain feedback of the performance audits selected</li> </ul> <p><u>Financial aspect of value for money</u></p> <ul style="list-style-type: none"> <li>• Compared AONSW financial audit branch charge out rates to those applied in the private sector</li> <li>• Reviewed the annual report of the AONSW in terms of actual spending and understand any significant variances relevant to other AONSWs and private sector</li> <li>• Utilised the benchmark data to assess the costing of AONSW’s audits to other national audit offices.</li> </ul>

# Response to the Previous Statutory Review

Scope	Approach
The AONSW is required to undergo a review every 4 years of the auditing practices and standards implemented by the AONSW to assess compliance of the audit methodologies with those practices and standards when carrying out of the Auditor – General's functions under the PFA 1983.	<ul style="list-style-type: none"><li>• Review of the findings and recommendations outlined in the previous statutory review carried out by the external consultant in 2013.</li><li>• Discussions and interviews with representatives of the AONSW on the measures implemented to address the findings.</li><li>• Review of any internal audit reports and their findings on the progress towards implementing the recommendations relating to the 2013 statutory review.</li><li>• Understanding the impact any findings had on the existing practices and standards during the period under review through discussions with key management.</li><li>• Assess during the current review if recommendations had been implemented</li></ul>





*Hunter Valley*

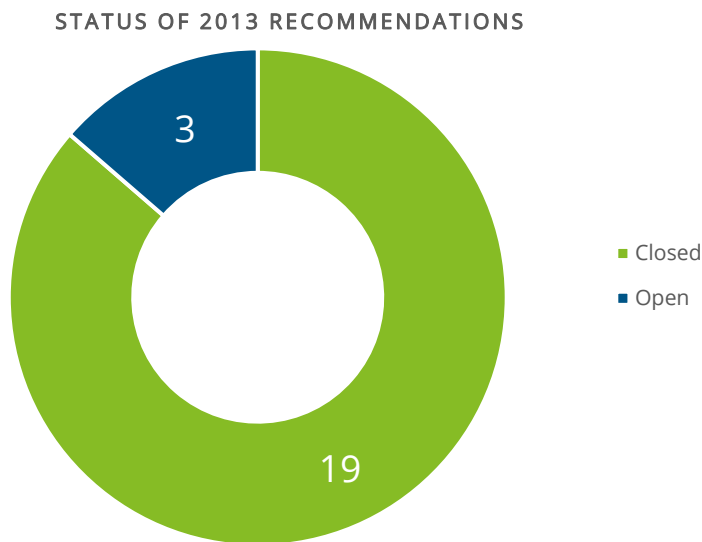
10

RESPONSE TO THE 2013  
STATUTORY REVIEW



# Response to the 2013 Statutory Review

In 2013, Grant Thornton assessed the status of the 2009 PAC recommendations. This revealed that whilst most had been fully addressed, three items had only been partially addressed. These have been considered by us in finding 1 of 2013 and based on our work performed, these 2009 recommendations have been remediated.



Source: 2013 statutory review report

From the 2013 recommendations provided by Grant Thornton, there were a total of 22 recommendations provided of which 19 have been closed based on our 2017 statutory review performed. There are currently 3 open recommendations from the 2013 review. These are recurring findings and still applicable in 2017. They are dealt with as follows:

- Use of CAATs – refer to finding 4 on page 19
- Completeness of audit documentation – refer to finding 5 on page 19
- Substantive analytical procedures – refer to finding 1 on page 16

A full listing of 2013 recommendations follow this page.

# Response to the 2013 Statutory Review

In 2013, Grant Thornton assesses the status of 2009 PAC recommendations. This revealed that whilst most had been fully addressed, three items had only been partially addressed. These have been listed below. Based on the work performed during the 2017 review we were able to conclude that such recommendations have been remediated.

#	Findings	Original recommendation	Management's comment	Deloitte's comment
1	<p><b>2009 PAC Recommendations</b></p> <p><b>#5) QARC Review Process</b></p> <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>PAC 2013 review found that 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>	<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>While the 2009 recommendation supported annual reviews, the 2013 recommendation felt the frequency was in excess of requirements. Both issues have been addressed in the reviewed QARC program.</p>	<p>Closed.</p> <p>QARC policy is still consistent with 2009 in that a minimum of one engagement should be reviewed for each BTL each calendar year.</p> <p>During 2017, there were 11 monitoring reviews (including 6 contract audit agents engagements) and 5 coaching reviews which covered each BTL.</p> <p>We reviewed the timing of the publication of the findings/ observations from the coaching and monitoring reviews during the period under review and note the findings/ observations were made available to the practitioners to build into the subsequent cycles planning processes.</p>
2	<p><b>#15) Recommendations fed back to Auditor-General</b></p> <p>The new role of the PAC as the body responsible for following up the implementation of audit recommendations is a significant improvement in the AONSW'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 AONSW's Strategic Audit Planning process.</p> <p>PAC 2013 review found that the Auditor-General is required to respond to agency submissions on the PAC follow up on whether:</p> <ul style="list-style-type: none"> <li>the proposed action addresses the issues that the original audit identified</li> <li>progress reported by the agency is satisfactory, continuing, delayed or unsatisfactory</li> </ul> <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>	<p>Follow up reviews conducted by the PAC should be formally fed back to the AG to inform the SAP process</p>	<p>Outstanding issues from PAC follow-up reviews were included in materials considered by SIGs in 2013 for SAP in November 2013.</p> <p>This process will be repeated in material to SIGs for their July 2014 meetings that will inform submissions for November 2014 SAP.</p> <p>We shall continue to urge PAC themselves to follow-up outstanding/repeat performance audit recommendations; as they do for repeat recommendations from financial audit volumes.</p>	<p>Closed.</p> <p>PAC have requested AG's submission in some of their follow up. We were informed that the PAC follow up are considered by the PAB as part of their strategic audit planning process.</p>

# Response to the 2013 Statutory Review

#	Findings	Original recommendation	Management's comment	Deloitte's comment
	<p><b>#20) Audit Program</b></p> <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>PAC 2013 review found that the AONSW 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>The AONSW 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>Audit plans for both financial audit (one year) and performance audit (3 year) have been published on the AO website since March 2014, and updated quarterly (most recently in June 2014) to reflect updated progress, content and context (e.g. government reorganisations); plus new topics or postponed topics.</p>	<p>Closed.</p> <p>Performance audit and financial audit program has been published on the AONSW website.</p>
2	<p><b>Rolling Annual Audit Work Program</b></p> <p>Whilst we recognise that some degree of disclosure is provided in the AONSW'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 AONSW's website, we re-raise the sentiments of Finding 20 from the 2009 PAC review as disclosure remains limited.</p>	<p>The AONSW commits a significant amount of effort in its annual Strategic Audit Planning process. For public information and visibility, we encourage the AONSW 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 AONSW plans to audit. We note this recommendation is also consistent with the practices of the Australian National AONSW, Victorian Auditor-General's Office, Tasmanian AONSW and the Office of the Auditor-General of Western Australia.</p>	<p>Agree in principle. Will assess this after the Strategic Audit Planning process is complete in January 2014.</p>	<p>Closed.</p> <p>Refer above, rolling annual audit work program is published on the AONSW website. (Similar to 2009 finding #20 above).</p>
3	<p><b>Training and Development Reporting</b></p> <p>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.</p>	<p>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.</p>	<p>Agreed. The on-line training tool's functionality will be reviewed.</p>	<p>Closed.</p> <p>Online training tool has been reviewed and employees can run their transcript on MiCareer. In addition, procedures on how to manage training records have been published on Alfie. All the Managers have access to view their team's records on MiCareer system.</p>

# Response to the 2013 Statutory Review

#	Findings	Original recommendation	Management's comment	Deloitte's comment
4	<p><b>AONSW Policy</b></p> <p>The AONSW policy and implementation is currently greater than the requirements of APES 320.</p>	<p>The AONSW should assess the cost/benefit of these additional quality reviews.</p>	<p>We have determined our current policy best meets our quality objectives for financial audit.</p>	<p>Closed.</p> <p>We sighted regular updates on Alfie outlining quality audit review updates and reviewed <i>Section 2.8.1 Monitoring Activities</i> and agree with AONSW's current policies.</p>
5	<p><b>Use of Computer Assisted Audit Techniques (CAATs)</b></p> <p>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.</p>	<p>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.</p>	<p>Accepted. The use of CAATs is being determined as part of the roll out of the new audit methodology.</p>	<p>Open – Refer to finding on page 19.</p> <p>We sighted the CAATs guide on Alfie which detailed the type of procedures that are readily available and the current areas of focus.</p> <p>Based on our 4 file reviews, we noted CAATs used in sampling and journal entries specifically.</p> <p>However, we still believe that there is room for further CAATs in the form of data analytics used in substantive analytical procedures in sections such as payroll and revenue.</p>
6	<p><b>Completeness of audit documentation</b></p> <p>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.</p>	<p>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.</p>	<p>Accepted. This will be implemented with the roll out of the new methodology.</p>	<p>Open – Refer to finding on page 19.</p> <p>Based on our 4 file reviews, we noted that this finding still exists. There were instances of final reporting documents which were captured in the TRIM document management system but the final version was not included in the Iris engagement file.</p>
7	<p><b>Assessment of work of management experts</b></p> <p>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.</p>	<p>All engagement personnel should be reminded to fully document the assessment of work undertaken by management experts.</p>	<p>Accepted. Audit teams have been reminded of the importance of documenting their thorough consideration of the work of management experts within the audit file.</p>	<p>Closed.</p> <p>Training has been provided to staff in relation to assessment of the work undertaken by experts.</p> <p>Based on our 4 file reviews, the planned involvement of experts and the evaluation of the expert's work were documented appropriately.</p>



# Response to the 2013 Statutory Review

#	Findings	Original recommendation	Management's comment	Deloitte's comment
8	<p><b>Documentation of professional scepticism.</b></p> <p>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.</p>	<p>All engagement personnel should be reminded of the need to demonstrate professional scepticism in the documentation of audit work around significant judgement areas.</p>	<p>Agreed. Will reinforce the need for auditors to document professional scepticism applied to expert reports.</p>	<p>Closed.</p> <p>Based on our file reviews, professional scepticism was discussed in the kick-off meeting agenda item 10 (team conduct) but was not specifically mentioned in the expert report.</p> <p>However, we noted that methodology and assumptions were challenged with sensitivity analysis also performed. We therefore consider the concept of professional scepticism to be documented appropriately.</p>
9	<p><b>Analytical procedures.</b></p> <p>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.</p>	<p>The introduction of the new audit methodology and tool (IRIS) may assist teams to document the expectations and scoping of material transactions through their analytical procedures.</p>	<p>Agreed. Analytical procedures are supported by extensive guidance in the NSW Audit guide in Iris. Training has been delivered to all teams covering planning and completion analytical procedures.</p>	<p>Open – Refer to finding on page 16.</p> <p>Based on our file reviews, the risk assessment analytics and overall conclusion analytics enables teams to identify any unusual or unexpected variances but was not always adequately documented.</p>
10	<p><b>Performance audit checklists</b></p> <p>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.</p>	<p>To enhance the effectiveness of the checklists in ensuring all key processes are completed, the AONSW 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.</p>	<p>Accepted.</p> <p>Review of checklists and practice notes to be complete by July 2014.</p>	<p>Closed.</p> <p>Based on the sample file assessments performed, there are 6 Quality Control Checklists embedded in IRIS (TeamMate). TeamMate also flags any step that has been modified after it has been reviewed, easily identifying any steps that need to be followed up or reviewed.</p>

# Response to the 2013 Statutory Review

#	Findings	Original recommendation	Management's comment	Deloitte's comment
11	<p><b>Performance Audit Practice Notes outdated</b></p> <p>We identified a couple of instances whereby the AONSW's Performance Audit Practice Notes did not reflect current practices, specifically:</p> <p>PN 02: Starting and developing the audit</p> <ul style="list-style-type: none"> <li>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 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.</li> </ul> <p>PN 08: Pre and post tabling activities</p> <ul style="list-style-type: none"> <li>In preparation for tabling, it is required under the Practice Note to invite agency management to attend the media briefing. However AONSW 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.</li> <li>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.</li> <li>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.</li> </ul>	<p>The AONSW 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 AONSW 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 (e.g. annual) to ensure the Practice Notes always reflect the AONSW's current practices.</p>	<p>Accepted.</p> <p>Review of checklists and practice notes to be complete by July 2014.</p>	<p>Closed.</p> <p>The latest Performance Audit Guide - Version 2.0, dated January 2017 is embedded into TeamMate. We were informed that the Performance Audit Guide will undergo a further review to eliminate duplication and further streamline the process. This has also been enhanced by incorporating required steps into TeamMate.</p>

# Response to the 2013 Statutory Review

#	Findings	Original recommendation	Management's comment	Deloitte's comment
12	<p><b>Non-Compliance with Internal Policy</b></p> <p>Our desktop review revealed the following non-compliance with internal policy and procedures:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>Two Auditor-General's Eleven Consider Points were not completed.</li> <li>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.</li> <li>The Quality Assurance Strategy was not completed for one audit.</li> <li>For two audits, the Team Staff Development Plan was not completed.</li> <li>The Project Running Sheet was not used and updated for one audit.</li> <li>For one audit, the Audit Scorecard was not completed due to delays in sending out of client surveys.</li> <li>For one audit, the final (closure) checklist was yet to be signed off by the Engagement Reviewer.</li> <li>For three audits, the Quality Assurance checklist was not completed.</li> <li>The work papers for three audits were not finalised and signed off by the Business Team Leader within four weeks of completion of audit.</li> <li>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).</li> </ul>	<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 AONSW 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>	<p>Closed.</p> <p>The introduction of TeamMate and embedded steps has enhanced the monitoring process and review process to enable staff to fully understand their obligations.</p>

# Response to the 2013 Statutory Review

#	Findings	Original recommendation	Management's comment	Deloitte's comment
13	<p><b>Duplication of Forms</b></p> <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"> <li>• Checklists 1 to 9, with Checklist 4 (midpoint) being optional based on audit risk level</li> <li>• Audit Scorecard</li> <li>• Quality Assurance checklist</li> <li>• Project running sheet</li> <li>• Management file index</li> <li>• Weekly Project Status Report</li> </ul> <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 AONSW 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 AONSW 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"> <li>• Eliminate the Quality Assurance Checklist and Audit Scorecard;</li> <li>• 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);</li> <li>• Define the types of information which should be documented in the Project Running Sheet (e.g.. telephone conversation details as well as key liaison details with the auditee(s) and stakeholders; and</li> <li>• Make the Management File Index optional</li> </ul>	<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>	<p>Closed.</p> <p>With the initial review and introduction of TeamMate, the 9 checklists were reduced to 6 Quality Control Checklists embedded in IRIS (TeamMate). PAB acknowledges that there are still opportunities for improvement and further streamlining.</p>



# Response to the 2013 Statutory Review

#	Findings	Original recommendation	Management's comment	Deloitte's comment
14	<p><b>Special Interest Groups</b></p> <p>Apart from those recommended by Parliamentarians or other stakeholders, the AONSW 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"> <li>• Environment, Land Management and Primary Industries;</li> <li>• Utilities and Infrastructure;</li> <li>• Transport;</li> <li>• Public Sector Management;</li> <li>• Family &amp; Community Services;</li> <li>• Health;</li> <li>• Justice;</li> <li>• Education; and</li> <li>• Arts, Sport, Investment and Regional Issues.</li> </ul> <p>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.</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 AONSW covers and is aware of the emerging issues and risks in all areas of the NSW public sector.</p>	<p>We acknowledge that this reflects the internal consideration of the future AONSW, and endorse the PAB's proposal.</p>	<p>Accepted. Proposed implementation date October 2013.</p>	<p>Closed. While currently there is a PAB representative on each SIG, we were informed that the value contributed to PAB's topic selection and prioritisation was limited.</p>

# Response to the 2013 Statutory Review

#	Findings	Original recommendation	Management's comment	Deloitte's comment
15	<b>Audit Plan</b> The Audit Plan template is not available on Alfie (AONSW'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 AONSW'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 AONSW 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.	Accepted. We will include this in the review of practice notes and checklists.  Review of checklists and practice notes to be complete by July 2014.	Closed. The Audit Schedule has been incorporated into the Audit Plan template and is published on Alfie.
16	<b>Follow up Letter</b> The follow up letter (with the table template attached) sent out by the AONSW 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 AONSW 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.	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.  Proposed implementation date January 2014.	Closed. This has been removed from the process and AO only send out the report, as seen in the 2 files assessed.
17	<b>Feedback to Auditor-General</b> 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.	Accepted. Proposed implementation date October 2013.	Closed. PAC publish their follow-up reports online and on occasion request AG to provide a submission to the PAC as part of the follow-up process. We were informed that these reports are assessed prior to the SAP by the relevant PAB Principal Analyst.

# Response to the 2013 Statutory Review

#	Findings	Original recommendation	Management's comment	Deloitte's comment
18	<p><b>Review of the Auditor-General</b></p> <p>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.</p>	<p>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.</p>	<p>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.</p> <p>Review of checklists and practice notes to be complete by July 2014.</p>	<p>Closed.</p> <p>The PAB Audit Budget worksheet on Alfie has guidance on the number of hours for AG and DAG's review. This was assessed as part of the file assessment and noted that there was sufficient time budgeted for AG and DAG's review.</p>
19	<p><b>Supporting ACAG</b></p> <p>The AONSW is currently supporting the ACAG to a greater degree than the other AONSWs nationally.</p>	<p>With the increase in constraints due to budgetary pressures, the AONSW may wish to raise this with ACAG to source additional funding.</p>	<p>This has been raised previously with ACAG and will be raised again at the next ACAG Business Meeting.</p>	<p>Closed.</p> <p>We understand that such support is no longer provided to ACAG. The support primarily acted as a reporting channel to the ACAG over the previous review period. However, no such reporting assistance is provided to ACAG now. The AONSW only assists the ACAG in relation to resources for Quality monitoring reviews to be conducted. We understand from our discussions with the AO NSW that such support is minimal with minimum investment from AO NSW.</p>
20	<p><b>Overall Budget for Learning and Development</b></p> <p>The AONSW 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.</p>	<p>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 AONSW 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.</p>	<p>Accepted.</p> <p>Proposed implementation date July 2014.</p>	<p>Closed.</p> <p>Training budgets are developed and monitored for PAB. Further training curriculums are being updated and finalised for PAB.</p>

# Response to the 2013 Statutory Review

#	Findings	Original recommendation	Management's comment	Deloitte's comment
21	<p><b>Electronic Audit Methodology Platform</b></p> <p>The AONSW'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>	<p>We understand from our discussions with the PAB that it will explore the opportunity to utilise the AONSW'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"> <li>• The ability to see at a glance the status of the audit/working paper schedules</li> <li>• Greater linkage between working papers and ease of referencing</li> <li>• Enforced adoption and compliance with the audit methodology</li> <li>• The ability to access and review audit work papers remotely</li> <li>• Retained evidence (audit trail) of preparation, review and sign-offs</li> <li>• Security of working papers</li> <li>• Automated reporting functionality.</li> </ul>	<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>	<p>Closed.</p> <p>TeamMate has been rolled out and is currently being utilised by PAB.</p>
22	<p><b>Final Report Delivery</b></p> <p>Section 38C of Division 2A of the Public Finance and Audit Act 1983 requires the AONSW to send out the final report to the Auditee(s), Minister and Treasurer at least 28 days prior to tabling the report. The AONSW, 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 AONSW 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>	<p>Closed.</p> <p>The process has been streamlined and these letters have been eliminated.</p>



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## SUMMARY OF 2017 FINDINGS



# Appendix – A

## Findings

	Finding	Number	Page Number
STRATEGIC RECOMMENDATIONS	Follow the Dollar	A	11
	Assurance over Performance Based Outcomes	B	12
	Review of the NSW Budget	C	13
	Local Council Mandates	D	14

	Finding	Number	Page Number
AUDIT METHODOLOGY	Compliance through execution	1	16
	Small audits	2	17
	Granularity of risk assessment	3	18
	Use of data analytics	4	19
	Filing of audit documentation in IRIS	5	19
	Independence	6	20
	File archive policy	7	20
	Greater than normal risk assessment	8	21
	Aggregative risk assessment on IT control findings	9	21
	Opportunity to Streamline Documentation	10	22
	SAP framework	11	23
ADEQUACY OF RESOURCES	Tracking of time	12	26
	Future performance audit funding requirements	13	27
EFFECTIVENESS OF CLIENT COMMUNICATION	Manual project management	14	29
	Innovation in technical writing	15	29
	Documentation of management letters	16	30
	Re-design of client reporting templates	17	31
	Key Audit Matters	18	31
	Stakeholder engagement	19	32
	Stakeholder engagement opportunity	20	34
Social media strategy	21	34	
ASSESSMENT OF VALUE FOR MONEY	Feedback and surveys	22	37
	Stakeholder feedback Compliance Audit	23	38
RISK BASED ASSESSMENT OF FUTURE AUDITING	Recommendation – The future direction of audit	24	41



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# Appendix One – Extracts from Minutes

## MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 22)

Thursday, 25 May 2017  
9.15am  
Room 1254, Parliament House

### Members Present

Mr Bruce Notley-Smith (Chair), Mr Mark Taylor (Deputy Chair), Mr Stephen Bromhead, Mr Lee Evans, Mr Greg Piper, Mr Michael Daley

*Staff in attendance:* Bjarne Nordin, Madeleine Dowd, Christopher Herbert, Derya Sekmen.

### 1. Confirmation of minutes of meetings of 28 November

Resolved, on the motion of Mr Bromhead, that the minutes of the meeting No. 24 held on 22 May 2017, be confirmed.

\*\*\*\*\*

### 4. Quadrennial Review of the Audit Office 2017

The Committee deliberated on the list of proposed auditing firms and discussed the likely timeline of the review.

Resolved, on the motion of Mr Taylor, that the Chair writes to the nominated firms enclosing the terms of reference for the quadrennial review of the Audit Office of NSW, requesting expressions of interests to conduct such a view.

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## MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 26)

Thursday 22 June 2017  
9.15am  
Room 1254, Parliament House

### Members Present

Mr Bruce Notley-Smith (Chair), Mr Stephen Bromhead, Mr Lee Evans, Mr Greg Piper.

*Staff in attendance:* Bjarne Nordin, Madeleine Dowd, Christopher Herbert, Ze Nan Ma, Derya Sekmen.

### 1. Apologies

Apologies were received from Mr Mark Taylor (Deputy Chair), Mr Michael Daley.

**2. Confirmation of Minutes**

Resolved, on the motion of Mr Bromhead, that the minutes of meeting No. 25, held on 25 May 2017, to be confirmed.

\*\*\*\*\*

**6. Quadrennial Review of the Audit Office 2017**

The Committee was joined by Ms Catherine Watson, Clerk-Assistant, Committees and Corporate, to give a briefing of the functions of NSW ProcurePoint that will be used for the tendering process.

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**MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 27)**

10 August 2017

9:15am

Room 1254, Parliament House

**Members Present**

Mr Bruce Notley-Smith (Chair), Mr Mark Taylor (Deputy Chair), Mr Stephen Bromhead, Mr Lee Evans.

*Staff in attendance:* Simon Johnston, Bjarne Nordin, Madeleine Dowd, Christopher Herbert, Ze Nan Ma, Derya Sekmen.

**1. Apologies**

Apologies were received from Mr Greg Piper and Mr Michael Daley

**2. Confirmation of Minutes**

Resolved, on the motion of Mr Bromhead, that the minutes of meeting No.26, held on 22 June 2017, be confirmed

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**7. Quadrennial Review of the Audit Office 2017**

- The Committee was updated on the progress of the review.
- Resolved, on the motion of Mr Bromhead, that the Committee adopts the revised list of agencies to be approached for tender.
- Resolved, on the motion of Mr Bromhead, that the Committee agrees to the revised timeline for the review.

\*\*\*\*\*



## MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 28)

21 September 2017  
9:15am  
Room 1254, Parliament House

### **Members Present**

Mr Bruce Notley-Smith (Chair), Mr Mark Taylor (Deputy Chair), Mr Stephen Bromhead, Mr Lee Evans, Mr Greg Piper.

*Staff in attendance:* Simon Johnston, Bjarne Nordin, Madeleine Dowd, Ze Nan Ma, Christopher Herbert.

### **1. Apologies**

Apologies were received from Mr Ryan Park.

### **2. Membership**

The Committee noted the appointment of the Committee of Mr Ryan Park in place of Mr Michael Daley. (V&P 10 August 2017, p1348)

### **3. Confirmation of Minutes**

Resolved, on the motion of Mr Bromhead, that the minutes of meeting No. 27, held on 10 August 2017, to be confirmed.

\*\*\*\*\*

### **7. Quadrennial Review of the Audit Office 2017**

Resolved, on the motion of Mr Piper, that Deloitte be appointed to conduct the Statutory Review of the Audit Office of NSW, at a cost of \$165,000.

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## MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE (NO. 34)

23 November 2017  
9:15am  
Room 1254, Parliament House

### **Members Present**

Mr Bruce Notley-Smith (Chair), Mr Mark Taylor (Deputy Chair), Mr Lee Evans, Mr Stephen Bromhead, Mr Ryan Park, Mr Greg Piper.

*Staff in attendance:* Bjarne Nordin, Madeleine Dowd, Chris Herbert, Derya Sekmen, Ze Nan Ma.

**1. Minutes of Meetings Nos. 32 and 33**

Resolved, on the motion of Mr Bromhead, that the draft minutes of Public Hearing Minutes Nos. 32 and 33, conducted on 30 and 31 October 2017 be confirmed.

\*\*\*\*\*

**6. Briefing from representatives of the Audit Office**

The Committee was joined by Mr Tom Kim, Partner, Risk Advisory, who provided an update on the progress of the Statutory Review.

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