

## APPENDIX 1

### PAC Report No. 49 - Recommendations

- "10. It is recommended that the following sub-clause be added to Section 34 of the Public Finance and Audit Act 1983:

34. (2) When conducting an audit under sub-section (1), the Auditor-General may examine, amongst other matters, the economy, efficiency and effectiveness with which any department, authority or other body which the Auditor-General is authorised or required to audit, has individually or in association acquired or used its resources in discharging its functions.

11. It is recommended that the following sub-clause be added to Section 52(3) of the Public Finance and Audit Act 1983:

52. (4) Without limiting the generality of the foregoing, the Auditor-General may report on any cases in which the Auditor-General has observed that resources have been used without due regard to economy, efficiency or effectiveness.

12. It is recommended that the following sub-clauses be added to Section 34 of the Public Finance and Audit Act 1983:

34. (3) Subsection (1) above shall not be construed as entitling the Auditor-General to examine or question the merits of the policy objectives or functions of any body in respect of which an audit is carried out.

34. (4) In Subsection (3), "policy objectives" and "functions" includes any objective of the Government or function of the body in respect of which an audit is carried out as contained in legislation, a record of a decision by Cabinet, a direction

of a Minister, any Budget papers or any other document evidencing a decision of the Cabinet or a Minister.

19. It is recommended that Parliament provide the Audit Office with a special allocation of \$500,000 in each of the next two years to fund the development work required for the Auditor-General to move toward a comprehensive audit approach.
20. It is recommended that the method and level of recurrent funding for performance auditing by the Auditor-General be examined two years after the implementation of Stage 1 of the move to comprehensive auditing. The progress achieved in moving toward comprehensive auditing and also the objectives and results of performance work carried out during that period shall be reviewed. Firm proposals for recurrent funding of performance auditing shall be put forward by the Auditor-General.
21. It is recommended that in establishing a mechanism for recurrent funding for performance auditing by the Auditor-General, serious consideration be given to linking that funding to the size of the public sector. It is important that the method of funding provide the Auditor-General with maximum flexibility to decide on the audit program and that these decisions not be subject to political influence or review either by the Executive or Parliament.
25. It is recommended that the Auditor-General establish a task force to undertake the planning and development of performance auditing within the Auditor-General's Office and that the task force's performance be reviewed after three years."

## **APPENDIX 5**

### **SPECIAL AUDIT: PUBLIC HOUSING CONSTRUCTION - SELECTED MANAGEMENT ISSUES**

#### **Scope of Audit**

This was the first 'special audit' undertaken by the Office. It was first planned in early 1990, with the final report being issued in December 1991.

Because the audit was undertaken prior to the introduction of Section 38B, it was described as a "Project Audit Report".

The audit consisted of a review of the administration of over 40 specific public housing construction projects, with the aim of determining what overall conclusions could be drawn as to the manner in which the Department of Housing administered its housing schemes and managed its construction projects.

The scope of the audit was therefore quite different to that of a "performance audit", having no specific focus on economy, efficiency or effectiveness. The audit did seek to identify deficiencies in administration or management but not by reference to the attainment of objectives or by reference to measurable performance indicators.

#### **Audit Findings and Outcomes**

The audit identified a number of significant deficiencies in the administration of public housing development projects. The Department of Housing responded by way of a letter of 21 July 1992, accompanied by a status report which essentially showed that

implementation of the recommendations contained in the audit report had either been completed or were in process.

The nature of the Department's response can be taken as strong corroborative evidence of the reasonableness of the audit recommendations.

Certain of the issues raised by the audit were also taken up by the Royal Commission into the Building Industry. Further investigation again confirmed the accuracy of audit's conclusions.

The audit can therefore be considered to have resulted in a positive outcome, in the form of significant enhancements to the way in which the Department of Housing administers its public housing schemes.

#### **Auditee Comment**

The following significant issues arose from the public hearing of 24 May 1993:

1. Concern was expressed over the length of time which elapsed from commencement of the audit to delivery of the final report.

There is certainly some validity to this criticism. The audit was initially proposed in March 1990, with preliminary information gathering and investigation taking place through to September 1990.

At that time the audit was suspended due to the need to concentrate on the financial audit of the Department. The audit recommenced in January 1991, with a first draft report being issued in July 1991. Following considerable consultation with the Department, a second draft report was issued in October 1991, and the final report issued in December.

The circumstances necessitating suspension of the audit, which resulted in a gap of four months between planning and commencement of detailed field work, and the very considerable amount of evidence gathering and evaluation necessitated by the large sample size, clearly contributed to the delay. Because this was the first "special audit" the learning curve inevitably was steep.

Nevertheless, we would expect the Office to aim in similar examinations for a significantly shorter elapsed time between the planning of the audit and issuance of the final report.

2. Concern was expressed that some of the construction projects examined commenced as early as 1985. The processes which were examined for these projects had been amended subsequently, and in consequence little benefit would flow from reviewing them.

We agree that where the purpose of an audit is to examine processes with the intention of developing recommendations for enhancement, then it clearly must make sense to concentrate as far as possible on current processes. Given the focus of the audit on projects that had been largely completed, and the long lead time involved, it was to be expected that the planning and evaluation phase of some projects examined would go back for some years. The Office should, however, remain alert to whether the transactions, events or processes being examined are relevant to the objectives of the audit.

In fact only one of the projects selected went back to 1985. That project was not completed until 1989.

3. The audit team failed to articulate clearly to the Department the objectives of the audit. If the objectives had been better understood, the Department could have

worked more effectively with the auditors.

This issue was raised by a number of auditees and is discussed in detail in the review of the Disciplined Services audit which follows later.

4. Whilst audit identified most of the relevant issues, their lack of expertise in property made the validity of some findings questionable. Audit made considerable (and appropriate) use of the Valuer-General in dealing with the technical aspects of the audit. Both the working papers and the report evidence significant disagreement between the Valuer-General and the Department as to the basis of valuing projects for the purpose of determining whether the Department paid an excessive price.

The working papers evidence considerable effort by audit in gaining an understanding of the issues. The Valuer-General's representatives were quite firm in their views; the office accepted the Valuer-General's point of view. It is arguable that there may have been some merit in referring the matter to another expert for "arbitration", but we regard the decision of audit as reasonable in the circumstances.

5. If the Department had seconded a member to the audit team, issues may have been identified and resolved earlier and communication between Audit and the Department enhanced.

We see merit in this suggestion, and believe it should be applied (at the Auditor-General's discretion) in appropriate circumstances.

6. In the final analysis, the Department agreed that the audit did contribute to the improvement of processes and that there was therefore value from the report.

## **SPECIAL AUDIT - TRAINING AND DEVELOPMENT FOR THE STATE'S DISCIPLINED SERVICES: STREAM 1 - TRAINING FACILITIES**

### **Scope of Audit**

The potential for this audit was first identified by the financial audit team's observations as to the apparent low level of utilisation of the Police Service Training Academy at Goulburn. The objective of the audit, as defined the Report, was to

*"assess the extent to which training and development for disciplined services is organised and conducted so as to maximise value-for-money in the use of resources and facilities".*

The audit followed a process which was quite different to that of a "typical" performance audit:

1. It started with a tentative identification of a known problem, being the apparent under-utilisation of Goulburn.
2. Audit then looked at other similar institutions (that is, the training facilities of other disciplined services units) to determine whether the same problem existed elsewhere. This was found to be the case.
3. Existing actions or plans to address the situation were sought out and evaluated.
4. Having formed the opinion that a number of facilities were underutilised and that there were limited proposals to address this, and having come to the conclusion that because each of the disciplined services was in a different administrative unit of the executive, audit therefore had a concern that no-one was looking at the issue

from the broad perspective of the best interests of the public sector as a whole.

Consequently, audit chose to identify a series of options for obtaining better utilisation of the various training facilities. In addition to developing the options, they performed considerable economic cost benefit analysis and identified the option which produced the best cost/benefit result.

This approach is unusual (although in no sense "wrong") in that it started with an identified problem (rather than determining, by survey and benchmarking, whether a problem exists). Selecting known problem areas for audit appears consistent with the preference expressed at para 7.81 of Report No. 49 for a "problem-orientated approach" to special audits. Audit then took a pro-active approach to solving the problem by identifying options, and in effect, "pricing" them.

The latter step is very unusual in performance auditing, and is one which causes us some discomfort. Certainly, the approach adopted was taken for legitimate reasons - a desire to produce an improved result for the State, and a concern that the cross-departmental nature of the issue made it likely that no individual agency would approach it from this broader perspective.

Nevertheless, as a matter of principle we do not think that Audit should be involved in the detailed identification, costing and selection of potential courses of action. It is absolutely fundamental to the audit function that audit examines, evaluates and reports on the processes of the Executive. To be able to do so, Audit must remain outside of those processes.

Certainly it is necessary to perform sufficient evaluation of comments or recommendations to establish their feasibility. To go beyond that into detailed analysis, costing and identification of preferred options is the responsibility of the Executive.

We have discussed this issue with the Office. They remain of the view that the level of detailed work on the various options was necessary to support the feasibility of the possibilities it had identified. Given that these possibilities were bound to be somewhat controversial and difficult, the Office believes that without being able to provide sufficient evidence of feasibility it would have been difficult to make its recommendation for the Executive to make a thorough examination of the whole question.

The actual scope of this audit is a matter of some debate between the Office and the auditees.

A full performance audit seeks to evaluate the effectiveness of the outcomes of a particular programme. A full performance audit of disciplined services training would therefore result in an evaluation as to how effective that training was.

The view of the auditees is that this audit was focused on issues of economy - that is, the obtaining of cost savings and the realisation of property holdings - and ignored entirely any evaluation of the effectiveness of training, or of the impact of the options proposed by audit on the effectiveness of training.

Audit's viewpoint is different. It was decided very early in the planning of the audit that the effectiveness of training would not be considered per se. This decision was made because most of the Services had undergone reviews of their programmes by educational experts in recent times, and the results of those reviews were very positive. It was considered unlikely that audit would add anything of value. This decision appears appropriate.

However, audit is of the view that they undertook a proper evaluation of the likelihood of any of the proposed options having an adverse impact on training effectiveness.

In fairness to audit, it needs to be acknowledged that the arguments which the various

services put forward in claiming a potential negative impact on effectiveness of the various options were, with one exception, difficult to either support or refute. The exception was the claim by the Ambulance Service that a move to Goulburn would result in the loss of access to the specialist medical personnel who are integral to the delivery of Ambulance training. Audit did considerable research on the availability of alternative resources for a Goulburn training base, and came to the conclusion that adequate arrangements could be made. The Ambulance Service may well be of a different view, but it is clearly not the case that audit failed to consider the consequences on effectiveness of training of a move by Ambulance to Goulburn.

The objection which all Services raised can be summarised as being that any form of collocation of training facilities results in a loss of identity to the services involved, and consequently in a reduction in the effectiveness of the training programme. The auditees are of the view that audit ignored the issue; audit consider that they did not ignore it, but rather did not accept the services' point of view.

Appendix 5 to the Stream 1 report contains a detailed discussion of the various options. Included in the discussions of three of the options (Options 4, 5 and 7) is specific consideration of the impact of the options on effectiveness.

The working papers support audit's contention that they did consider the potential for negative consequences to training effectiveness of the options they put forward. Nevertheless, the message conveyed in the report of the extent to which the audit dealt with effectiveness could have been expressed more clearly.

## **Audit Findings and Outcomes**

Audit reached the conclusion that a number of facilities were underutilised. A number of options were identified, which generally involved the collocation of some disciplined services at the same site and disposal of facilities made redundant as a consequence. Those options were costed out, and the option involving collocation of the Police, Ambulance and Corrective Services training facilities at Goulburn was identified as the most cost-effective.

In the "Executive Summary and Recommendations" section of the report, audit quite rightly notes that

"... there are a range of factors in relation to the financial and economic aspects which in practice necessarily come into play in determining specific actions to be taken. Such factors include strategic matters and issues of policy which are beyond the scope of audit to consider. Strategic matters include aspects such as each Service retaining physically separate training institutions for their value as a symbol or "flagship"....".

Consequently, the recommendation made is not that the Goulburn collocation option be taken, but that a task force comprising representatives of all affected agencies be established to examine the issue and make recommendations.

This is clearly the proper recommendation. Unfortunately, because so much of the report is devoted to the cost-benefit analysis of the options, the recommendation tends to be overwhelmed by a sense that audit are in fact clearly recommending that the preferred option be taken. The mixing of messages was not helped by the press release put out by the Office at the time of issuance of the report. The press release referred to the Goulburn option as "the collocation option which [the Auditor-General's] report favoured".

The audit report was considered by the Office of Public Management of the Premier's

Department, and the various collocation options were examined. None of the collocation options were followed. However, some significant consequences did derive from the report. Expenditure of \$5.5 million on the Corrective Services Academy was re-evaluated and foregone. Both Ambulance and the State Emergency Services have moved some training to Goulburn. Most services have established active marketing campaigns to attract outside use of the facilities, consistent with Option 2, which was identified in the Report as "filling surplus residential capacity with other external users".

There have, therefore, clearly been some significant positive outcomes from the report.

However, it became evident as the audit progressed that all of the affected Services involved were not prepared to give serious consideration to the collocation of training facilities. This meant that in practical terms, it was highly unlikely that any of the options which audit spent so much time researching were ever likely to eventuate.

In fairness to Audit, it should be acknowledged that the Minister for Police and Emergency Services expressed in writing his "support [for] the basic thrust of the report with respect to Corrective Services and Ambulance Service Training", whilst also acknowledging that "the recommendations ... are not supported by either the Commissioner of Police or his senior executives".

This audit raises the question of how far audit should go in pursuing an issue when it has been, or could be, identified it is clear that a positive outcome (in the sense of positive response to the identification of issues and potential solutions) is unlikely to eventuate.

It certainly should never be suggested that audit should fail to take on an issue simply because of resistance or hostility from an auditee. The likely response of the auditee is, however, a relevant factor to the decision as to how far an issue should be investigated and how it should be reported.

In this instance, and putting to one side our concern in principle with the approach that audit took to investigating the options identified, audit may well have made the decision that, having identified the issue of under-utilisation, having identified in broad terms some possible solutions, and having recommended further consideration by the relevant services, there was little point in undertaking a time-consuming and expensive detailed investigation of options which were unlikely to ever eventuate.

We do not regard the consideration of such matters as being contrary to the proper functioning of the Auditor-General. Rather, we regard it as a pragmatic approach to the need for the Auditor-General to maximise outcomes (in the sense of benefit to the State) relative to effort.

#### **Auditee Comment**

Auditee concerns with the scope of the audit (short-term financial outcomes against effectiveness) have been discussed earlier. Other concerns raised in written communications and at the 24 May 1993 hearing included:

1. Concerns over the lack of clear communications of the objectives of the audit.

Audit have responded to this pervasive concern in an innovative and pro-active manner in their planning and conduct of Stream 2 of this audit. In undertaking Stream 2 the following process was applied:

- i) The audit team developed a detailed draft statement of the objectives, scope and methodology of the audit.
- ii) Detailed schedules were provided to all affected auditees, providing draft details of the proposed scope of the audit, the performance measures to be used and the audit criteria to be applied.

- iii) The draft was discussed with the auditees, and an agreed final audit plan completed.
- iv) Having completed the preliminary research and evaluation, the most involved of the relevant Services were then (or will be) invited to a workshop at which the issues were to be explored and a strategy for forward progress was to be developed on an agreed basis.
- v) The end product will be an agreed action plan which, it is hoped, will contain a discussion of issues and set out the steps taken or in process to address them. This contrasts with the usual audit report format of audit recommendations and auditee response.

We discussed the approach taken to Stream 2 with one of the main services which has participated in it (the Ambulance Service). They were very positive about the co-operative approach taken. They expressed the view that they felt much more involved in Stream 2 than in Stream 1 and had a far better understanding of the objectives of the audit.

Audit is to be commended for having, at its own initiative, taken an innovative approach to the challenge of enhancing auditee involvement in and contribution to the audit process. This approach will not be applicable in all circumstances, but should be made use of where appropriate.

2. Some challenges were made to Audit's costings of the various options. However, the only issue which appeared to remain unresolved was in respect of transport costs to Goulburn for Corrective Services personnel. On this issue, audit and the Department have simply taken different (but bona fide) approaches to the basis of calculation of these costs.

3. Auditees were generally supportive of the professionalism of the audit team's approach to the engagement.

## **SPECIAL AUDIT - RENTAL AND MANAGEMENT ASPECTS OF PUBLIC SERVANT HOUSING**

### **Scope of Audit**

This audit was triggered by a letter to the Auditor-General from the Department of Industrial Relations, Employment and Training in March 1991 and had also been identified by the financial audit staff as a suitable topic for audit. The letter noted that the Government's requirement that employee housing provided by public bodies be made at market rentals, and suggested that it was "highly desirable for your officers to be alerted so that they can have regard to this in the auditing process".

The audit was planned in August 1991. Its initial objective was to check on compliance with the market rental policy, but the scope was later broadened somewhat to include a consideration of some aspects of rental property management.

The audit was therefore primarily a compliance audit, rather than an audit of economy, efficiency or effectiveness. Information was gathered initially by questionnaire and interview. This process (undertaken at selected government units representing a majority of all public sector rental housing) indicated compliance with policy. A tentative conclusion was reached in December 1991 to terminate the audit, given that there appeared to be no problems. Prior to a final decision to terminate, there was to be some verification undertaken of the representations of the auditees.

The verification work was not commenced until March 1992, due to extended leave of the relevant auditor. This work identified a number of instances of technical non-compliance with Government policy. A draft report was circulated to auditees in July 1992, with the report being finalised in September 1992.

The way in which this audit developed emphasises the importance of performing sufficient audit work to verify the accuracy of representations made by auditees, particularly when those representations will form the basis of decisions by the Office on the future scope or conduct of an audit.

#### **Audit Findings and Outcomes**

The instances of non-compliance identified by audit were not cases of wilfull or flagrant non-compliance with policy. Rather, they were decisions to depart from the strict letter of policy which were made for good reasons but without having the departure approved through the required channels.

Because of the limited nature of the review and the somewhat technical nature of the breaches identified, there was little in the way of significant recommendations made or major positive outcomes by way of auditee response.

#### **Auditee Comments**

1. The elapsed time taken to perform a relatively mechanical audit was excessive.

Total elapsed time from the planning of the audit in August 1991 to the final report in September 1992 is longer than would normally be expected for an examination of this sort. The delay is largely attributable to the passing of four months between the initial gathering and evaluation of information to the commencement of verification work in March 1992. Whilst largely explicable by the unavailability of the auditor, there appears to have been a lack of communication to the auditees of the status of the audit.

2. Lack of communication of the objectives of the audit was again raised.

3. The audit was a clinical, compliance review which did not attempt to come to terms with the complex circumstances of the individual auditees which resulted in them choosing to apply a particular policy.

This is valid as an observation, but simply reflects the scope of the review. Audit was not attempting to form a view on whether agencies' policies were reasonable or appropriate, but rather on whether they complied with Government policy.

## **SPECIAL AUDIT - NSW POLICE FORCE - AIR TRAVEL ARRANGEMENTS**

### **Scope of Audit**

This was a limited engagement undertaken in response to some concerns being raised in a Police Department internal audit review that air travel arrangements being provided by the sole authorised travel agent serving the public sector were not cost competitive.

The audit comprised a comparison of fares actually charged by the authorised travel agent to those available in the market at the time. The work was carried out co-operatively between Audit Office and police personnel.

### **Audit Findings and Outcomes**

The conclusion reached was that savings were being foregone as a result of failures of the designated travel agency and that the savings, whilst not quantified, were considered to be significant.

The contract with the travel agency was not renewed when it reached renewal date. This is presumed to be, at least in part, a consequence of the audit.

### **Auditee Comment**

The feedback from the Police Department was very positive. The audit was seen as a co-operative exercise aimed at resolving an identified problem in an effective manner.

## APPENDIX 1

### Relevant recommendations from Report 49: Report on the New South Wales Auditor-General's Office

19. It is recommended that Parliament provide the Audit Office with a special allocation of \$500,000 in each of the next two years to fund the development work required for the Auditor-General to move toward a comprehensive audit approach.
20. It is recommended that the method and level of recurrent funding for performance auditing by the Auditor-General be examined two years after the implementation of Stage 1 of the move to comprehensive auditing. The progress achieved in moving toward comprehensive auditing and also the objectives and results of performance work carried out during that period shall be reviewed. Firm proposals for recurrent funding of performance auditing shall be put forward by the Auditor-General.

## APPENDIX 2

## **Public Finance and Audit Act 1993**

### **Division 2A - Special Audits of activities**

#### **Definitions**

38A. In this section

"audit" includes examination and inspection'

"authority" means an authority, or other body, whose accounts are subject to audit by the Auditor-General under this Act or any other Act;

"responsible Minister" means:

- (a) in the case of a Department - the Minister responsible for the Department; or
- (b) in any other case - the Minister having the administration of the Act by or under which the authority concerned is appointed, constituted or regulated;

"special audit" means an audit under this Division.

#### **Special audit by Auditor-General**

38B. (1) The Auditor-General may, when the Auditor-General considers it appropriate to do so, conduct an audit of all or any particular activities of an authority to determine whether the authority is carrying out those activities effectively and doing so economically and efficiently and in compliance with all relevant laws.

(2) A special audit is separate from, and does not affect, any other audit required or authorised by or under this Act or any other Act.

#### **Report of special audit**

38C. (1) The Auditor-General is to report to the Head of the authority, the responsible Minister and the Treasurer as to the result of any special audit and as to such other matters as in the judgment of the Auditor-General call for special notice.

(2) The Auditor-General must not make a report of a special audit under this section unless, at least 28 days before making the report, the Auditor-General has given the Head of the authority and the responsible Minister a summary of findings and proposed recommendations in relation to the audit.

(3) The Auditor-General is to include in the report of a special audit under this section any submissions or comments made by the Head of the authority or a summary, in an agreed form, of any such submissions or comments.

- (4) The Auditor-General, in a report of a special audit under this section:
- (a) may include such information as he or she thinks desirable in relation to the activities that are the subject of the audit; and
  - (b) is to set out the reasons for opinions expressed in the report; and
  - (c) may include such recommendations arising out of the audit as the Auditor-General thinks fit to make.
- (5) The Auditor-General may include the report in any other report of the Auditor-General.

#### Special audit not to question policy

38D. Nothing in this Division entitles the Auditor-General to question the merits of policy objectives of the Government including:

- (a) any policy objective of the Government contained in a report of a policy decision of Cabinet; and
- (b) a policy direction of a Minister; and
- (c) a policy statement in any Budget Paper or any other document evidencing a policy decision of the Cabinet or a Minister.

#### Tabling etc. of reports under s. 38C

38E. (1) The Auditor-General is, as soon as practicable after making a report under section 38C, to present the report to the Legislative Assembly, if the Legislative Assembly is then sitting.

(2) If at the time at which the Auditor-General seeks, in accordance with this section, to present the report to the Legislative Assembly is not sitting, the Auditor-General is to present the report to the Clerk of the Legislative Assembly to be dealt with in accordance with section 63C.

(3) The Auditor-General may include the report in any other report of the Auditor-General to the Legislative Assembly.

**APPENDIX 3**

24. Source & Application of Funds for Special Audits & Special Reviews

	YE 30/11/91	YE 30/11/92	YE 30/11/93	Total
<b>IAI AUDITS</b>				
all management & administration of special audit & review function (including research and development of methodologies)	108,710	132,493	121,259	362,470
costs	103,934	126,663	115,924	346,521
staff costs for the performance of special audits*	301,515	190,843	93,091	585,449
costs	288,248	182,446	88,995	559,689
net general transfers between years	(51,165)	11,165	0	0
cost for casual expert assistance	0	7,200	0	7,200
cost of separate special audit reports	0	9,100	0	9,100
lease of equipment & facilities	0	0	13,700	13,700
<b>TOTAL A ('special audits')</b>	<b>721,251</b>	<b>729,910</b>	<b>432,969</b>	<b>1,884,130</b>
<b>IAI REVIEWS &amp; OTHER DISCRETIONARY WORK ON ATTEST AUDITS</b>				
staff costs for the performance of special reviews*	118,724	133,167	24,446	276,337
costs	113,500	127,308	23,370	264,178
staff costs for other 'type D' work performed on attest audits	59,940	24,426	0	84,366
costs	57,322	23,351	0	80,673
<b>TOTAL B ('special reviews' &amp; other 'type D')</b>	<b>349,506</b>	<b>308,252</b>	<b>47,816</b>	<b>705,574</b>
<b>NET COSTS TO THE OFFICE</b>				
of total	<b>1,070,757</b>	<b>1,038,162</b>	<b>480,785</b>	<b>2,589,704</b>
<b>NET OF FUNDS</b>				
total funding received	208,333	300,000	291,667	1,000,000
net contributions	862,424	538,162	189,118	1,589,704
of total	<b>1,070,757</b>	<b>1,038,162</b>	<b>480,785</b>	<b>2,589,704</b>

**\*SPECIAL AUDIT REGISTER\***

Management Report - as at the week ended: 05-May-93

(based on current ACORN system data)

	DIRECT ACORN SALARY		CHARGES 1993 \$	TOTAL \$	FULL-COST 'CHARGE - OUT'		TOTAL \$	
	1991 \$	1992 \$			1991 \$	1992 \$		
Special Audits	301,515	190,843	93,091	585,450	589,764	373,289	182,086	1,145,139
Special Reviews	118,724	133,167	24,446	276,337	232,224	260,475	47,816	540,515
Other Type 'D' for attest audits	59,960	24,426	n. avail	84,386	117,282	47,777	n. avail	165,059
S. audit management, admin, research	100,710	132,493	121,259	362,470	212,652	259,156	237,183	708,991
<b>Summary Totals</b>	<b>580,917</b>	<b>480,929</b>	<b>238,796</b>	<b>1,308,642</b>	<b>1,151,922</b>	<b>940,697</b>	<b>467,085</b>	<b>2,559,704</b>

(nb. Figures exclude any unposted journal transfers between years, and other miscellaneous expenditures. Refer to separate "Ponds" report for detailed expenditure reconciliation.)

ACORN CODE	SHORT TITLE	PROJECT STATUS	DIRECT 1991 \$	ACORN SALARY 1992 \$	CHARGES 1993 \$
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SPECIAL AUDITS					
2001	HOUSING CONSTRUCTION	COMPLETED	181,088	5,600	0
2002	TRAINING FACILITIES	COMPLETED	91,613	96,243	4,207
2003	PUBLIC SECTOR STAFF HOUSING	COMPLETED	27,411	31,948	0
014/297	PUBLIC SECTOR STAFF HOUSING	COMPLETED	1,404	0	0
2017	ABORIGINAL ENTERPRISES	CURRENT	0	12,172	8,341
2024	TRAVELAND	COMPLETED	0	35,719	1,260
2028	FRAUD CONTROL STRATEGIES	CURRENT	0	9,161	16,682
2033	TRAINING PROGRAMMES	CURRENT	0	0	54,147
2038	RAIL PARES AT THE SRA	CURRENT	0	0	2,905
2039	EFFECTIVENESS OF TRAINING PROGRAMS	CURRENT	0	0	2,447
2042	SCHOOL EDUCATION - STUDENT/TEACHER	CURRENT	0	0	20
2043	LOCAL COURTS & POLICE- WAITING TIME	CURRENT	0	0	30
2044	SES - SALARY OPTIONS	CURRENT	0	0	210
2045	HOSPITAL MANAGEMENT	CURRENT	0	0	0
2046	HEALTH MONITORING EFFECTIVENESS OF	CURRENT	0	0	20
014/078	REDUNDANCY PAYMENTS	CURRENT	0	0	2,824
Sub Total (Special Audits)			301,515	190,843	93,091

ACORN CODE	SHORT TITLE	FULL-COST 1991 \$	'CHARGE' 1992 \$	'OUT' 1993 \$	TOTAL \$
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SPECIAL AUDITS					
2001	HOUSING CONSTRUCTION	354,208	10,954	0	365,162
2002	TRAINING FACILITIES	179,194	188,251	8,229	375,673
2003	PUBLIC SECTOR STAFF HOUSING	53,613	62,490	0	116,103
014/297	PUBLIC SECTOR STAFF HOUSING	2,746	0	0	2,746
2017	ABORIGINAL ENTERPRISES	0	23,809	16,315	40,124
2024	TRAVELAND	0	69,866	2,465	72,331
2028	FRAUD CONTROL STRATEGIES	0	17,920	32,629	50,549
2033	TRAINING PROGRAMMES	0	0	105,911	105,911
2038	RAIL PARES AT THE SRA	0	0	5,683	5,683
2039	EFFECTIVENESS OF TRAINING PROGRAMS	0	0	4,785	4,785
2042	SCHOOL EDUCATION - STUDENT/TEACHER	0	0	39	39
2043	LOCAL COURTS & POLICE- WAITING TIME	0	0	58	58
2044	SES - SALARY OPTIONS	0	0	410	410
2045	HOSPITAL MANAGEMENT	0	0	0	0
2046	HEALTH MONITORING EFFECTIVENESS OF	0	0	39	39
014/078	REDUNDANCY PAYMENTS	0	0	5,524	5,524
Sub Total (Special Audits)		589,764	373,289	182,086	1,145,139

ACORN (CODE)	SHORT TITLE	PLANNING (HRS)	TIME DISSECTION (HOURS)		REPORT & REVIEW		TOTAL TIME	
			%	PERFORMANCE (HRS)	%	(HRS)		
<b>SPECIAL AUDITS</b>								
2001	EXCISING CONSTRUCTION	80	2%	2,271	64%	1,225	34%	3,576
2002	TRAINING FACILITIES	931	31%	885	29%	1,235	40%	3,051
2003	PUBLIC SECTOR STAFF HOUSING	469	43%	496	45%	126	12%	1,091
014/297	PUBLIC SECTOR STAFF HOUSING	0	0%	0	0%	20	100%	20
2017	ABORIGINAL ENTERPRISES	283	79%	73	21%	0	0%	356
2024	TRAVELAND	97	22%	131	30%	208	48%	436
2028	FRAUD CONTROL STRATEGIES	297	52%	86	15%	191	33%	574
2033	TRAINING PROGRAMMES	426	41%	614	59%	10	1%	1,050
2038	RAIL PARES AT THE SRA	19	58%	14	42%	0	0%	33
2039	EFFECTIVENESS OF TRAINING PROGRAMS	55	78%	16	22%	0	0%	71
2042	SCHOOL EDUCATION - STUDENT/TEACHER	0	0%	0	0%	0	0%	0
2043	LOCAL COURTS & POLICE- WAITING TIME	0	100%	0	0%	0	0%	0
2044	SES - SALARY OPTIONS	3	100%	0	0%	0	0%	3
2045	HOSPITAL MANAGEMENT	0	0%	0	0%	0	0%	0
2046	HEALTH MONITORING EFFECTIVENESS OF	0	0%	0	0%	0	0%	0
014/078	REDUNDANCY PAYMENTS	0	0%	61	100%	0	0%	61
Sub Total (Special Audits)		2,660	26%	4,646	45%	3,015	29%	10,320

ACORN CODE	SHORT TITLE	PROJECT STATUS	DIRECT	ACORN SALARY CHARGES		TOTAL
			1991 \$	1992 \$	1993 \$	
SPECIAL REVIEWS						
2001	MICRO-COMPUTERS	COMPLETED	28,668	0	1,609	30,277
2004	TRAVELLING CLAIMS	COMPLETED	31,942	7,480	0	39,421
2005	SES PACKAGES	DEFERRED	1,092	0	0	1,092
2006	USAGE OF TELEPHONE WITH 0055	COMPLETED	1,819	3,909	0	5,729
2007	OFFICE OF STATE REVENUE-PAYROLL TAX	COMPLETED	1,111	1,593	0	2,704
2008	CROSS-SUBSIDISATION OF UNIVERSITY	COMPLETED	0	11,637	0	11,637
2010	EASTERN CREEK	COMPLETED	0	43,826	0	43,826
2011	CULTURE SUBSIDIES	COMPLETED	0	5,076	0	5,076
2012	REFUNDS OF TAXES	CANCELLED	0	3,738	0	3,738
2013	SUPERANNUATION DEFICIENCY	CANCELLED	0	1,091	1,485	2,576
2014	UNIVERSITY SPECIAL PURPOSES FUNDS	CANCELLED	0	0	0	0
2015	STATE DEVELOPMENT AND CSO	CURRENT	0	15,449	486	15,935
2016	SCHOOL MAINTENANCE	CURRENT	0	16,469	743	17,213
2018	SALE OF STA HEAD OFFICE	CURRENT	0	4,563	30	4,592
2019	FEATURES/OPTIONS TREASURY CORP	CANCELLED	0	220	198	418
2020	UNIVERSITY TAX FILE NUMBERS	COMPLETED	0	4,420	86	4,507
2021	FIRE BRIGADES MAINTENANCE	CANCELLED	0	0	0	0
2022	WERRINGTON TAPE ADDITION	CURRENT	0	1,505	668	2,173
2026	ROYAL COMMISSION	COMPLETED	0	3,726	0	3,726
2027	SCHOOL FUNDING	CANCELLED	0	450	0	450
2029	EXTERNAL CONFERENCE FACILITIES	CANCELLED	0	1,767	198	1,965
2030	SYDNEY OLYMPIC BID	CURRENT	0	5,761	243	6,004
2032	THIRD RUNWAY	COMPLETED	0	0	13,768	13,768
2037	DISASTER RECOVERY PLANNING	CURRENT	0	0	3,551	3,551
2041	LANDS RIGHTS - CLAIMS	CURRENT	0	0	1,196	1,196
2047	RTA - M4/M5/HARBOUR TUNNEL	CURRENT	0	0	30	30
034/262	FINANCIAL VIABILITY	COMPLETED	7,348	0	0	7,348
034/278	EASTERN CREEK	COMPLETED	24,912	0	0	24,912
034/292	MINISTERIAL EXPENSES	COMPLETED	490	486	125	1,101
034/426	CLAIMS	COMPLETED	8,067	0	0	8,067
034/705	REVIEW OF CONSULTING	COMPLETED	2,247	0	0	2,247
034/735	PLANT AND EQUIPMENT	COMPLETED	4,879	0	0	4,879
034/841	EDUCATION OF STAFF	COMPLETED	1,643	0	0	1,643
034/296	OTHER	COMPLETED	4,506	0	30	4,536
Sub Total (Special Reviews)			118,724	133,167	24,446	276,337

ACORN CODE	SHORT TITLE	FULL-COST *CHARGE		- (XRT) 1991	TOTAL	TOTAL TIME (HOURS)
		1991	1992			
		\$	\$	\$	\$	
-----						
SPECIAL REVIEWS						
2001	MICRO COMPUTERS	56,075	0	3,148	59,222	503
2004	TRAVELLING CLAIMS	62,478	14,630	0	77,108	1,213
2005	SES PACKAGES	2,136	0	0	2,136	37
2006	USAGE OF TELEPHONE WITH 0055	3,559	7,646	0	11,205	123
2007	OFFICE OF STATE REVENUE-PAYROLL TAX	2,173	3,116	0	5,289	60
2008	CROSS-SUBSIDISATION OF UNIVERSITY	0	22,763	0	22,763	195
2010	EASTERN CREEK	0	85,724	0	85,724	724
2011	CULTURE SUBSIDIES	0	9,928	0	9,928	65
2012	REFUNDS OF TAXES	0	7,312	0	7,312	74
2013	SUPERANNUATION DEFICIENCY	0	2,134	2,005	5,039	27
2014	UNIVERSITY SPECIAL PURPOSES FUNDS	0	0	0	0	0
2015	STATE DEVELOPMENT AND CSG	0	30,219	951	31,170	196
2016	SCHOOL MAINTENANCE	0	32,214	1,454	33,668	212
2018	SALE OF STA HEAD OFFICE	0	8,925	58	8,983	70
2019	FEATURES/OPTIONS TREASURY CORP	0	430	387	817	11
2020	UNIVERSITY TAX FILE NUMBERS	0	8,646	169	8,815	94
2021	FIRE BRIGADES MAINTENANCE	0	0	0	0	0
2022	WERRINGTON TAFE ADDITION	0	2,943	1,306	4,250	30
2026	ROYAL COMMISSION	0	7,288	0	7,288	46
2027	SCHOOL FUNDING	0	880	0	880	6
2029	EXTERNAL CONFERENCE FACILITIES	0	3,457	387	3,844	39
2030	SYDNEY OLYMPIC BID	0	11,269	475	11,744	96
2032	THIRD RUNWAY	0	0	26,931	26,931	223
2037	DISASTER RECOVERY PLANNING	0	0	6,945	6,945	63
2041	LANDS RIGHTS - CLAIMS	0	0	2,339	2,339	47
2047	RTA - M4/M5/HARBOUR TUNNEL	0	0	58	58	0
014/262	FINANCIAL VIABILITY	14,373	0	0	14,373	114
014/278	EASTERN CREEK	48,728	0	0	48,728	403
014/292	MINISTERIAL EXPENSES	958	951	245	2,154	11
014/426	CLAIMS	15,779	0	0	15,779	161
014/705	REVIEW OF CONSULTING	4,395	0	0	4,395	21
014/735	PLANT AND EQUIPMENT	9,543	0	0	9,543	46
014/841	EDUCATION OF STAFF	3,214	0	0	3,214	17
014/296	OTHER	8,814	0	58	8,872	64
-----						
Sub-Total (Special Reviews)		232,224	260,475	47,816	540,515	4,991
-----						

ACORN CODE	SHORT TITLE	DIRECT ACORN SALARY CHARGES			TOTAL
		1991 \$	1992 \$	1993 \$	
-----					
OTHER "TYPE D" WORK ON ATTEST AUDITS					
53	AGRICULTURE	114	0	0	114
61	ART GALLERY	0	116	0	116
63	ATTORNEY GENERAL	21,343	407	0	21,750
112	CORRECTIVE SERVICES	25,164	0	0	25,164
116	CONSUMER AFFAIRS	3,661	0	0	3,661
154	PACIFIC POWER	658	0	0	658
200	COMMERCIAL SERVICES	0	1,943	0	1,943
205	HOME CARE SERVICE	4,087	0	0	4,087
286	LEGAL AID	32	0	0	32
312	TRANSPORT	0	1,155	0	1,155
342	WATER BOARD	0	0	0	0
361	POLICE	1,165	0	0	1,165
370	STATE RAIL	0	2,788	0	2,788
399	SUPER BOARD	0	6,177	0	6,177
419	SPORT & RECREATION	0	198	0	198
531	MINERALS & ENERGY	0	612	0	612
-----					
Sub Total (other "type D")		59,960	24,426	0	84,386

ACORN CODE	SHORT TITLE	FULL COST "CHARGE-OUT"			TOTAL
		1991 \$	1992 \$	1993 \$	
-----					
OTHER "TYPE D" WORK ON ATTEST AUDITS					
53	AGRICULTURE	223	0	0	223
61	ART GALLERY	0	227	0	227
63	ATTORNEY GENERAL	41,747	796	0	42,543
112	CORRECTIVE SERVICES	49,221	0	0	49,221
116	CONSUMER AFFAIRS	7,161	0	0	7,161
154	PACIFIC POWER	1,287	0	0	1,287
200	COMMERCIAL SERVICES	0	3,801	0	3,801
205	HOME CARE SERVICE	7,994	0	0	7,994
286	LEGAL AID	63	0	0	63
312	TRANSPORT	0	23,834	0	23,834
342	WATER BOARD	6,869	0	0	6,869
361	POLICE	2,717	0	0	2,717
370	STATE RAIL	0	5,453	0	5,453
399	SUPER BOARD	0	12,082	0	12,082
419	SPORT & RECREATION	0	387	0	387
531	MINERALS & ENERGY	0	1,197	0	1,197
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Sub Total (other "type D")		117,282	47,777	0	165,059

## APPENDIX 4

# Performance Auditing

Prepared by the **Auditing Standards Board** of the  
**Australian Accounting Research Foundation**



Issued by the  
**Australian Accounting Research Foundation**  
on behalf of the **Australian Society of Certified  
Practising Accountants** and **The Institute  
of Chartered Accountants in Australia**

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**STATEMENT OF AUDITING PRACTICE**

**AUP 33 "PERFORMANCE AUDITING"**

**Citation**

- 1 This Statement may be cited as Statement of Auditing Practice AUP 33 "Performance Auditing".

**Application and Operative Date**

- 2 This Statement applies to all performance audits and is operative in relation to reports issued on or after 1 January 1993, although earlier application is encouraged.

**Introduction**

- 3 The purpose of this Statement is to provide guidance on the application to performance audits of the basic principles contained in Statement of Auditing Standards AUS 1. These principles underlie sound auditing practice and are therefore common to all audits.
- 4 This Statement should be read in conjunction with the Auditing Statement "Explanatory Framework for Guidance on Audit and Audit Related Services". Performance auditing, financial report auditing and compliance auditing are identified as the three most common forms of auditing to be dealt with in Statements produced by the Auditing Standards Board when applying the framework.
- 5 For the purpose of this Statement a performance audit is defined as an independent systematic examination of all or a part of an entity's programmes, operations or activities to assess economy and/or efficiency and/or effectiveness. This Statement applies to all audits carried out for the purpose of examining and reporting on matters related to any or all of the following:
  - (a) the adequacy of management systems, controls and practices, including those intended to control and safeguard assets, to ensure due regard to economy, efficiency and effectiveness;
  - (b) the extent to which resources have been managed with due regard to economy and efficiency; and
  - (c) the extent to which programmes, operations or activities of an entity have been effective.
- 6 For the purpose of this Statement:
  - (a) "economy" means the acquisition of the appropriate quality and quantity of financial, human and physical resources at the appropriate times and at the lowest cost;

- (b) "efficiency" means the use of financial, human and physical resources such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output; and
- (c) "effectiveness" means the achievement of the objectives or other intended effects of programmes, operations or activities.

#### **The Audit Mandate**

- 7 The terms of the audit mandate, whether embodied in legislation or established by contract, usually specify the audit and reporting requirements of the performance audit. The audit mandate may require or enable auditors to conduct either an attest or direct reporting audit. Under the Auditing Statement "Explanatory Framework for Guidance on Audit and Audit Related Services" these audits are:
  - (a) attest audit – an examination resulting in a written report by the auditor which expresses an opinion that enhances the credibility of a written assertion or set of assertions made by a party on matters which are the responsibility of that party; and
  - (b) direct reporting audit – an examination resulting in a written report by the auditor which provides relevant and reliable information and the expression of an opinion about a matter or matters where the party responsible for the matter or matters has not made written assertions. In the context of a performance audit, this would result in a report which provides relevant and reliable information in the form of facts, findings, a conclusion or conclusions, and preferably the expression of an overall opinion.
- 8 Performance audit mandates usually permit the auditor to exercise audit judgment regarding the scope of the examination, for example it may cover a portion of an entity, a management control system, or an organisational unit. Some auditors may examine, assess and report on the existence and adequacy of procedures to measure and report on the effectiveness of programmes but may not report on the extent to which the programmes are themselves effective.
- 9 While the basic principles governing the conduct of an audit apply equally to attest audits and to direct reporting audits, the reporting requirements for these audits will vary. In direct reporting audits, some auditors may report only on deficiencies observed and make recommendations, whilst other auditors may provide a conclusion and/or an overall opinion, such as whether there is reasonable assurance, based on agreed criteria, that the systems and practices examined are economic and/or efficient and/or effective.
- 10 In attest audits, auditors attest to assertions prepared by management to demonstrate management's due regard for economy and/or efficiency

and/or effectiveness in discharging their responsibilities. It is important to note that the responsibility for an entity's operations and procedures rests with management, who are accountable for the economy, efficiency and effectiveness of operations.

- 11 It is important that the mandate is understood by all parties involved prior to the commencement of the audit. When a performance audit is undertaken under contract, it is in the interests of both client and auditor that auditors send an engagement letter before the commencement of the engagement. Further guidance is contained in Statement of Auditing Practice AUP 9 "Audit Engagement Letters", which should be adapted to meet the circumstances of a performance audit.

### **Basic Principles Governing Performance Audits**

#### *Integrity, Objectivity and Independence<sup>1</sup>*

- 12 Auditors shall be straightforward, honest and sincere in their approach to their professional work. They must be fair and must not allow prejudice or bias to override their objectivity. They shall maintain an impartial attitude and both be, and appear to be, free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.
- 13 Performance audits often include a great deal of discussion and consultation with management. Auditors should ensure that at all times their professional integrity, objectivity and independence, as well as that of all others involved in performing the audit, are maintained. Auditors will need to exercise particular care when making recommendations to address identified deficiencies. Auditors should consider the effect that offering such advice may have on audit objectivity in subsequent audits of the same entity. The auditors' recommendations may point to the direction in which positive changes can be made and to issues to be addressed in the process of change. Developing detailed plans, however, and the implementation of changes are the responsibility of management.

#### *Confidentiality<sup>2</sup>*

- 14 Auditors shall respect the confidentiality of information acquired in the course of their work and shall not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose.

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1 See the Rules of Ethical Conduct of The Institute of Chartered Accountants in Australia and the Code of Professional Conduct of the Australian Society of Certified Practising Accountants.

2 See the Rules of Ethical Conduct of The Institute of Chartered Accountants in Australia and the Code of Professional Conduct of the Australian Society of Certified Practising Accountants.

*Skills and Competence*

- 15 The audit shall be performed and the report prepared with due professional care by persons who have adequate training, experience and competence to perform the audit effectively.
- 16 Skills and competence can be obtained through a combination of training and experience. The nature and extent of the training and experience required by the individuals on an audit team will vary according to the objectives and scope of the particular audit, and the work responsibilities and functions allocated to each individual. Nevertheless, all audit team members require an understanding of the basic objectives of auditing and the audit process sufficient to understand and apply these performance auditing guidelines.
- 17 Knowledge in many disciplines may be required to carry out specific performance audits. The audit may focus on any of the entity's management systems, controls and practices or its operating performance or programme effectiveness. Depending on the matters subject to audit, knowledge and competence in such disciplines as information technology, engineering, statistical analysis, human resource management and economics, amongst others, may be required to make appropriate analyses and competent assessments. Auditors should have expertise in auditing and are not expected to possess the experience of an expert in these areas. The auditor should have a level of knowledge sufficient to define the objectives and terms of reference governing the work assigned to them and be able to manage the engagement.
- 18 It may be appropriate to include specialists as part of the audit team on audits where knowledge of a specialised area is essential, for example the appointment of a heating engineer to take part in an audit of an entity's fuel consumption. When using specialists on the audit team, auditors should obtain reasonable assurance concerning the specialists' competence in their disciplines.

*Work Performed by Assistants*

- 19 When, as audit team leader, the auditor assigns work to members of the audit team, that work shall be carefully supervised and reviewed.
- 20 Supervision is designed to ensure that the planned procedures are properly carried out. When multi-disciplinary audit teams are used, adequate supervision is particularly important so that the team members' different perspectives, experience and specialties are appropriately used in the audit. It is important that all team members understand the objectives of the particular audit and terms of reference of work assigned to them. Adequate supervision is important so that the work of all team members is executed properly and is in compliance with auditing standards. Auditors need to have an adequate appreciation of the

methods, assumptions and source data used by all team members, particularly specialists, to be able to assess the reasonableness and significance of their findings.

*Work Performed by Other Auditors and Experts*

- 21 When auditors use the work performed by others, they continue to be responsible for obtaining sufficient appropriate audit evidence to support the conclusions in the performance audit report. Auditors shall obtain reasonable assurance that work performed by others is adequate for their purposes.

*Documentation*

- 22 Auditors shall document matters which are important in providing evidence that the audit was carried out in accordance with the Auditing Standards, and also with Statements of Auditing Practice where these are applicable.

*Planning*

- 23 Auditors shall plan their work to enable them to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the entity being audited and its environment and shall be further developed and revised as necessary during the course of an audit.
- 24 Planning consists of developing an overall strategy and a detailed approach for the expected nature, timing and extent of the audit. In a performance audit, planning includes establishing the objectives and scope of the audit, assessing the suitability of identified criteria and determining the specific procedures required to achieve the objectives. Decisions made during the initial planning stage with respect to these matters may need to be modified as information is acquired in the course of performing the audit.
- 25 To plan and carry out the audit, all members of the audit team need to possess or obtain sufficient appropriate knowledge of the entity (or the portion of the entity which is to be audited) to enable them to fulfil their assigned responsibilities. Such knowledge would include an understanding of the entity's relevant objectives, constraints, resources, management processes, accountability relationships and the external environment in which the entity operates.

*Criteria*

- 26 The provision of an audit as part of an accountability process requires that matters subject to audit are capable of evaluation against reasonable criteria. Criteria are reasonable and attainable standards of performance and control against which the adequacy of systems and practices and the extent of economy, efficiency and effectiveness of operations, programmes, or activities can be assessed. There is no body of generally

accepted criteria for all aspects of performance auditing. Criteria may be developed from various sources including:

- (a) legislation or policy statements;
- (b) standards of good practice developed by professions or associations;
- (c) statistics or practices developed within the entity or among similar entities; and
- (d) criteria identified in similar performance audits.

Criteria from these sources may require interpretation and modification to ensure their relevance to the entity being audited.

- 27 Auditors have a responsibility to determine whether the identified criteria are suitable. Suitable criteria are those which are relevant to the matters being audited and appropriate to the circumstances. An auditor should not perform the audit and report on the basis of criteria that the auditor believes to be unsuitable.
- 28 Auditors may use criteria developed by management for assessing systems, practices, programmes, operations or activities if in the auditors' opinion they are suitable. Management may have developed a system of performance assessment and monitoring incorporating the use of internally developed criteria. In attest audits, this system of performance assessment may form the basis of management's written assertions regarding the economy and/or efficiency and/or effectiveness of programmes, operations or activities. If auditors believe that criteria proposed by management are not suitable in the circumstances, they should attempt to resolve the difference in opinion. If differences cannot be resolved, auditors should consider the alternative courses of action available, which may depend upon the audit mandate. Some audit mandates, particularly some of those in the public sector, oblige auditors to carry out an examination. Therefore, in the event that differences cannot be resolved, they would select suitable criteria and proceed. Other auditors may limit the scope of the examination to those areas in which agreement on criteria can be reached or, depending on the extent and significance of the disagreement, they may have to consider resigning from the engagement.
- 29 If suitable criteria cannot be identified for some of the matters subject to audit, the scope of the audit would be correspondingly reduced and the limitation in scope addressed in the report.

*Audit Evidence*

- 30 Auditors shall obtain sufficient appropriate audit evidence through the performance of audit procedures to enable them to draw reasonable conclusions therefrom on which to base their audit report.

- 31 The sufficiency and appropriateness of evidence are interrelated concepts and refer to the quantity and quality of evidence. The decision as to whether a sufficient quantity of evidence has been obtained will be influenced by its quality.
- 32 When undertaking a performance audit, auditors may find it necessary to rely on evidence that is persuasive rather than conclusive. Thus auditors normally seek corroborating evidence from different sources or of a different nature in making assessments and forming conclusions.

*Systems and Controls*

- 33 Auditors shall gain an understanding of the systems and related controls relevant to the audit and, if reliance is to be placed on the controls, shall study and evaluate the operation of those controls in determining the nature, timing and extent of other audit procedures.

*Audit Conclusions and Reporting*

- 34 Auditors shall review and assess the conclusions drawn from the audit evidence obtained as the basis for preparing their audit report. Performance audit reports vary between jurisdictions and audits depending on differences in audit mandates, and in the scope and complexity of the particular audit and its findings.

*Direct Reporting Audits*

- 35 A direct reporting audit report includes reliable and relevant information in the form of facts, findings, a conclusion or conclusions, and preferably an overall opinion. Direct reporting audit reports should include the basic elements of an audit report appropriate to the engagement circumstances, and also should include:
  - (a) a description of the objectives and scope of the audit, including any limitations therein;
  - (b) an identification of the criteria used and a description of the findings which form the basis for the auditor's conclusions;
  - (c) a statement that the audit has been performed in accordance with Australian Auditing Standards and accordingly included such tests and other procedures as the auditor considered necessary in the circumstances; and
  - (d) a statement of the auditor's conclusions, and preferably the auditor's overall opinion about the matter subject to audit.
- 36 It is important that the report describe the objectives and scope of the audit so that readers can understand and properly interpret the results. The audit objectives are based on the audit mandate and should set out clearly the purposes of the particular audit. The scope of the audit is described by identifying the entity or portion thereof subject to audit, identifying the matters examined and describing the time period covered by the audit.

- 37 Any limitations in scope and the reasons therefor should be described in the audit report. A scope limitation occurs, for example, when auditors are unable to audit key organisational units or systems or to perform necessary audit procedures due to factors beyond their control. The scope of the audit can also be limited by the inability to identify or agree on suitable criteria. Auditors should consider whether it is appropriate to comment in the report on the implications of the lack of suitable criteria for the entity being audited.
- 38 The report should identify the criteria and describe the findings sufficiently to allow readers to understand the basis upon which the auditors formed their conclusions and any opinion. Audit findings arise from an examination of the underlying facts, comparisons with suitable criteria and the auditors' analysis of differences between what is observed and the audit criteria, including where applicable the causes and effects of the differences.
- 39 The report should clearly state the auditor's conclusions and where appropriate an overall opinion. The conclusions and opinion should be related to the objectives and scope of the audit and should follow logically from the description of the criteria and findings.

*Attest Audits*

- 40 If an opinion is provided regarding a written assertion or assertions, the audit report should include the following:
- (a) the title;
  - (b) the addressee;
  - (c) a description of the objectives and scope of the audit;
  - (d) an identification of the criteria used and/or a description of the framework within which the auditor's opinion has been formulated;
  - (e) a statement that the audit has been performed in accordance with Australian Auditing Standards and accordingly included such tests and other procedures as the auditor considered necessary in the circumstances;
  - (f) an expression of the auditor's opinion on the written assertion or assertions;
  - (g) the auditor's signature;
  - (h) the auditor's address; and
  - (i) the date of the audit report.
- 41 The opinion should be clearly expressed in the report. The audit opinion should be related to the criteria upon which it is based. A qualified opinion would be expressed if there is a limitation in scope, unless the limitation is so fundamental or pervasive that an opinion is unable to be

expressed. In the latter case auditors should disclaim an opinion. Similarly there may be matters, such as deficiencies reported, which qualify the audit opinion but are not so significant as to necessitate an adverse opinion. Qualifications should be clearly described in the report.

*Recommendations*

- 42 Performance audit reports for both attest and direct reporting audits may also incorporate audit recommendations as well as management's responses with respect to the matters reported. Auditors should ensure that when making recommendations the responsibility for the implementation of those recommendations does not, and is not seen to, rest with the auditor.

## APPENDIX 5

**PUBLIC ACCOUNTS COMMITTEE  
PARLIAMENT OF NEW SOUTH WALES**

**Review of Special Auditing Function  
of NSW Auditor-General's Office**

**Submission by Auditor-General on Terms of Reference (TR)**

## TR1. The Method and Level of Recurrent Funding

For some time the Auditor-General's Office (AGO) has operated "off budget" with its revenue being generally derived from fees and charges. However, the "special audits" legislation did not provide for the charging of audit fees for this type of work.

The Public Accounts Committee (PAC) Report No. 19 "Report on the New South Wales Auditor-General's Office", July 1990, contained a recommendation that:

... Parliament provide the Audit Office with a special allocation of \$500,000 in each of the next two years to fund the development work required for the Auditor-General to move toward a comprehensive audit approach. ♦

The recommendation was adopted by the Government. Two appropriations of \$500,000 each were received in the Treasury fiscal years 1991-92 and 1992-93.

The PAC said that it saw the funds being used:

1. to support the high degree of corporate and strategic planning required;
2. to publish standards for comprehensive auditing;
3. to re-orient existing audit staff to the "culture" of comprehensive auditing;
4. to recruit the specialist staff required to expand the capacity of the Audit Office to undertake comprehensive auditing; and
5. to provide additional computer and technical resources.

The funds provided to date have been expended on the conduct of Special Audits/Reviews\*, the development of a methodology, specialised training, purchase of computer equipment and software, corporate and strategic planning, development of standards and education of staff generally.

In more detail, an outline of achievements to date in the areas nominated by the PAC appears at pages 2 to 6 and appendices A and C of the Auditor-General's Report of 3 February 1993 to the Committee titled "Special Audits Under Section 38(B) of the Public Finance and Audit Act - Conduct to date of Special Audits and Future Financing Options".

Details of the special audits and special reviews carried out since the Auditor-General received a specific mandate to do performance work appear at pages 7 and 8 and appendix B of the beforementioned report.

Work is also in progress on twelve other projects (four special audits and eight special reviews).

Further comments on performance work carried out and the preparation of an audit manual appear later in this report.

♦When an auditor carries out a performance audit in conjunction with a financial report audit and a compliance audit, the auditor is said to have adopted a comprehensive audit approach.

\*Special Reviews are not as comprehensive as Special Audits. They are examinations rather than audits. They are concerned with establishing facts, determining whether criticism is justified, examining causes and recommending remedial action where necessary.

## **TR2. Progress achieved in moving towards special auditing**

- *setting of budgets for individual projects*

As expected, the setting of budgets for individual special audit projects was initially very difficult, because such projects were in many ways an unknown quantity and no local precedent was available as a guide. In addition, the Office was (and will continue with) experimenting with various review methodologies and approaches to data collection and research.

As a result, it was determined that setting specific budgets for our initial special audit projects would serve no useful purpose. However, as a substitute for a budget, a project management framework was set up for the major "Disciplined Services" project utilising milestones and deadlines. This project was monitored and controlled within that framework on an ongoing basis.

In addition, all resources used on projects were captured and reported through the time recording system for the Office (ACORN). This system produces detailed reports for each project on a weekly basis, showing time spent and the associated cost. The system allows for projects to be divided into multiple cost items if desired for tighter control. This facility is used for larger, complex projects (refer copy of ACORN report (for special audit 2033) attached as Appendix 19).

ACORN reports for all special audits are examined by both the relevant nominated Special Audit Controller and project leader, as well as by the Assistant Auditor-General. Direct access to the ACORN system may also be made at any time to obtain up to date information and to interrogate the database so as to be able to produce reports on any desired aspect.

As well as providing a valuable active project management capability, the ACORN system enables us to record a history of times and costs on special audit projects, which, over time, can usefully serve as a guide to determining appropriate budgets for future projects.

ACORN reports for all current projects are collected on a weekly basis to update the "special audit register". The register is a spreadsheet detailing costs for all special audit projects over their duration. It also separates total costs into the three primary phases for each project : namely planning, performance and reporting. The register is printed in hardcopy at the end of the week and referred to the Assistant Auditor-General for information (copy attached as Appendix 20).

As our experience in conducting and managing special audits has increased it has become possible to set realistic budgets and goals. Whilst this is still somewhat difficult for large performance audit type projects (due to their often unusual and unique nature), all special audits now have budgets (both in terms of audit hours and overall costs) and expected completion dates right from the initial concept stage (refer 1993 schedule of projects attached as Appendix 21).

Once the detailed plan for an audit is approved, each project would then also have specific milestones and project control points set to facilitate effective project management (refer extract of project plan (from file D272 part 3) attached as Appendix 22).

Detailed workpapers and project files are available for all special audits.

- *level, cost and quality of resources for special audits*

Recognising that the effective establishment of a new and diverse auditing function within the Office would require a concentrated effort, if progress was to be made in the short term, the then Auditor-General created a high powered specialist cell to effect implementation of the Special Auditing function.

To give this cell, named Special Branch, the necessary status and impetus three new Senior Executive Service positions were created:

- Assistant Auditor-General (Special Branch);
- Director (Special Branch), and
- Principal Auditor (Special Branch).

The top two positions within Special Branch were filled by senior staff from within the Office already at these levels. Their broad and significant experience and overall credentials made them eminently suitable for these positions.

The position of Principal Auditor was filled through a rigorous open selection process, by a senior officer from the Management Review Division of the Office of Public Management in the NSW Premier's Department.

Two further senior positions were created within Special Branch at the level of Senior Audit Manager and Audit Manager. These positions were filled by staff from within the Office already at those levels who possessed relevant experience and the general qualities and aptitude required for the tasks at hand.

Special Branch existed in this form, that is with an establishment of five officers, from May 1991. Brief profiles for each of these officers are attached as Appendix 18. These profiles highlight the level of staff quality within Special Branch. All officers have extensive public sector auditing and review experience, impressive and directly relevant credentials and are highly regarded within their relevant fields of expertise. A broad base of experience and expertise is available within the Branch, including relevant high-level experience in other than the accounting field.

Recently (February 1993), Special Branch's establishment was increased by the addition of two junior positions of Trainee Auditor. These positions were filled by two graduate-level recruits into the Office, with both of the officers possessing economics degrees from Sydney University.

A further additional position for the Branch at the level of Audit Manager has been approved and will be activated shortly as part of an exchange of staff between our Office and the Audit Commission for Local Authorities and the National Health Service in England and Wales. (An Audit Manager will shortly be leaving for a two year placement with the Commission, specifically to gain experience in their performance auditing work. On his return the officer will become a member of Special Branch.)

In exchange, a senior officer from the Commission will be joining our Office for two years. He is expected to arrive in late May 1993 and will work exclusively with Special Branch to give our staff real first hand exposure to different methodologies and to transfer skills.

Arrangements are also well advanced for another officer from the Commission (a Senior Audit Manager) to be seconded to our Office for an 18 month period commencing June 1994. At the same time, AGO staff are to be canvassed later this month to determine their interest in being involved in the Office's special audit effort.

**The overall personnel cost for Special Branch in this present configuration of eight staff is some \$938,000 per annum, including overheads.**

On several occasions Special Branch has also obtained other staff from elsewhere in the Office and attached them to specific special audit projects on an assignment basis to supplement its resources. Other Senior Executive Service staff within the Office have also undertaken special reviews and one special audit.

Depending on the nature of special audit and special review projects selected, "one-off" project-teams may also be established within any of the Office's operational audit Branches. This has been done on several occasions to utilise effectively the latent potential of specialist expertise and experience which exists across the Office. Similar approaches are planned for special audit work during 1993.

External specialist or technical expertise has also been utilised as necessary on particular projects. In some cases these resources have been purchased on a fee for service basis (e.g. for asset valuations, construction advice and cost estimates), whilst on others various "experts" have been consulted on a free-advice basis as part of an audit's process of information collection and research (e.g. academics, senior officials in relevant public and private sector organisations, both here and interstate/overseas). Costs incurred on these services have totalled some \$7,200 to date.

Other resources acquired by the Branch to date have included four portable computers, one desktop computer (fitted with a CD ROM reader) and sundry additional office furniture required to accommodate Special Branch personnel. Costs incurred on these resources have totalled some \$13,700.

Resources (finance) are also required to meet printing costs where separate Special Audit reports are presented to Parliament. Costs incurred to date in this area have totalled some \$9,100.

Since the establishment of the Special Branch it has been possible to increase the audit effort in the performance area from 3.5 per cent of total expenditure in 1989-90 to 7.3 per cent in 1990-91 and 6.8 per cent in 1991-92.

- *appropriateness of method of investigation and report preparation*

*Method of Investigation*

The methodology adopted by the AGO in the conduct of special audits mirrors accepted international and local practice. That practice involves:

- an understanding of the authority, function or activity to be audited;
- the setting of clear objectives that are specific to the nature of the audit report;
- the determination of appropriate and accepted criteria that focus the audit and provide a basis for conclusions;
- an organised collection of evidence, necessary and sufficient to support conclusions that satisfy the objectives;
- an objective evaluation of the evidence against criteria to develop rigorous conclusions;
- a report on conclusions about matters that are relevant to the objectives and important to the client.

Following the introduction of Statement of Auditing Practice AUP 33, Performance Auditing, (effective from 1 January 1993) special audits will be undertaken in accordance with that practice statement.

In developing the AGO methodology and approach, assistance was received from the Office of the Auditor-General of Canada, the Australian National Audit Office, the United States General Accounting Office, and the Audit Commission for Local Authorities and the National Health Service in England and Wales.

During 1992 the Assistant Auditor-General Special Branch undertook an overseas study tour to examine at first hand the methodology of the Audit Commission and to attend an international conference on performance auditing. The Director Special Branch attended a conference in New Zealand on performance auditing and reviewed the methodology of the New Zealand Audit Office. The Director also attended a performance audit training seminar at the Office of the Auditor-General of Victoria in 1992 aimed at evaluating that Office's methodology and approach to training.

The AGO hosted the conference of Australasian Audit Executives in performance auditing between 15 - 17 June 1992 at Jamberoo which furthered its knowledge of latest practices.

The AGO approach to performance auditing is based on a choice of the following:

- A Management Framework Approach: this is designed to determine if the authority has put in place a management framework to provide reasonable assurance that value for money has been obtained.
- A Results Oriented Approach: this examines the outputs of an activity or process. It is considered that it is unnecessary to examine a myriad of systems of internal control if the end result is satisfactory, and if the end is satisfactory, the risk of serious flaws in the design of the system is minimal.
- A Transaction Testing Approach: the auditor examines actual transactions, records or documents.

- **Best Practice Approach:** this involves using criteria representing best practice within a particular industry and applying that criteria to other like organisations as a vehicle for achieving improvements in that other organisation's performance.

The AGO investigative policies and procedures have been incorporated into a manual titled Performance Auditing. Accreditation of that manual is currently being sought from a recognised expert in the field of performance auditing.

To assist in the undertaking of performance audits requiring specialist skills, the AGO where necessary obtains expert advice. For example, in the case of the audit on the Public Housing Construction, Department of Housing, the Valuer General was engaged to undertake valuations on behalf of audit. For the Training and Development audit of the State's Disciplined Services, the opinions of medical officers and an architect were sought during the course of the audit.

### *Reporting*

The Auditor-General reports to the Head of the Authority, the responsible Minister, the Treasurer and Parliament as to the result of a special audit and as to such other matters as in the judgement of the Auditor-General call for special notice.

The primary aim of the Auditor-General in special audit reports is to provide Parliament, Ministers and Chief Executives with independent opinions, information and advice about economy, efficiency and effectiveness in major fields of revenue, expenditure and management of resources in the public sector. The Auditor-General seeks to improve public sector performance by producing a report that specifies where and how improvements can be made and the expected benefits from those suggested improvements.

Special audit reports focus on matters of significance and, in respect to performance audits, identify:

- unrealised opportunities for improvement in increased revenue or reduced costs;
- the scope for potential improvements to effectiveness;
- suspected poor or wasteful practices, misuse of resources or serious shortcomings in internal control;
- new insights into major aspects of public sector operations for the benefit of both senior management and Parliament.

Each matter reported to Parliament is to be presented concisely, completely, fairly, objectively and in a timely manner. The style of reporting is constructive and does not concentrate solely on negative aspects. Further, the demands of busy readers require the information to be readily accessible and digestible.

The AGO reporting strategy is directed towards improving public sector performance and to reporting all significant matters without fear or favour. Audit findings and conclusions are however, discussed progressively and on a regular basis throughout the audit with appropriate levels of management in the Authority, including the Head. The viewpoint of management is given due consideration before finalising a summary of conclusions and recommendations. The summary of conclusions and recommendations is referred to the Head of the Authority and the responsible Minister at least twenty eight days before a report is tabled in Parliament. The response by the Head of the Authority, where provided, or a summary in an agreed form, is included in the report of a special audit.

Audit reports do however avoid revealing information about an authority's competitive position or advantage unless, on balance, it is considered to be in the public's interest to do so.

In keeping with legislation special audits do not question the merits of Government policy.

However it is considered the Auditor-General may:

- examine whether or not there are policy objectives which the program seeks to effect;
- review whether or not any decisions taken by agencies were properly authorised;
- examine the quality of information available to agencies on a program's actual or proposed outputs and outcomes;
- advise on whether the actual costs are efficient costs;
- advise on the congruity between the objectives set down by Government and the program's outcomes;
- advise on any unintended impacts flowing from the implementation of the policy objectives.

- *Training in Special Audits*

Training in this paper means formal structured training in the more significant aspects of performance auditing, being examinations of effectiveness, economy and efficiency and compliance audits as identified and explained in the Performance Audit Manual of the AGO.

The objective of training for special audits is to develop AGO personnel to a point where they are proficient in the undertaking of performance audits including the ability to identify potential special audit topics.

The goal for 1993 is to provide sixty operational and special audit personnel (from auditor to Assistant Auditor-General and graduates) with basic training in the concepts and practices of performance audits. This should occur late in 1993 at a time when personnel are not seriously constrained with attest audit work.

The Canadian Comprehensive Auditing Foundation (CCAF) course Fundamentals of Comprehensive Auditing has been identified as neatly fitting our situation in that it provides an excellent overview of the performance audit concepts and its characteristics with particular emphasis on economy, efficiency and effectiveness. The course examines value for money elements, provides an overview of the audit process and guides participants on the planning, examination and reporting phases of performance auditing. The CCAF describe it as their core program on auditing. The course also sits very well with the content of our manual. Preliminary discussions have taken place with Mr Peter Willey, an accredited CCAF trainer, to present this course. The course occupies two and one half days.

We are also negotiating with Coopers and Lybrand to provide the AGO with training in the attribute audit approach. This approach provides a criteria framework for evaluating the effectiveness of the management of the authority. Examples of criteria are management direction, relevance, achievement of intended results etc. This could be a very useful approach for the AGO and compliments and builds on the CCAF course which covers fundamentals. The course will be targeted at a limited number of personnel, say twenty, who, it is anticipated, will undertake management effectiveness reviews of selected organisations.

The fundamentals course should be supported, thereafter, with specialised training in investigative techniques and analytical tools, affecting performance auditing generally. For example, the gathering of evidence in performance audits, especially the nature of evidence, the methods of obtaining it and of assessing its quality and quantity. This type of training is considered critical if audit findings, conclusions and recommendations are to withstand scrutiny by our clients. The CCAF has such a course. The AGO plans to engage an accredited CCAF trainer to present the course to personnel engaged in the larger, more complex performance audits.

Additional training could take the form of specific courses targeting a specialised area of performance auditing and be conducted on a needs basis.

**TR3. The objectives and results of performance work already carried out:**

- *criteria for selection of special audit projects*
- *formal responses by relevant Ministers*
- *promised and actual action by departments*

During the Audit Office's financial years of 1990-91 and 1991-92, a total of 19 special audits and special reviews were undertaken. (A reference to their detail appeared earlier in TR.1.) A further 18 special audits and special reviews are anticipated to be completed during 1992-93.

Copies of all special audit/review reports issued in 1991 and 1992 are attached for use by the Committee in both hard copy and disk format. In terms of those projects specifically characterising special audits, the Auditor-General has to date presented four reports to Parliament, viz:

- Public Housing Construction - Selected Management Matters - Department of Housing. A separate report was issued to the Legislative Assembly on 5 December 1991. This audit was completed prior to proclamation of the legislation establishing special audits.
- Training and Development for the State's Disciplined Services - Stream 1: Training Facilities. A separate report was issued to the Legislative Assembly on 24 September 1992.
- Rental and Management Aspects of Public Servant Housing. This report was included as part of the New South Wales Auditor-General's Report For 1992 - Volume Two which was tabled before the Legislative Assembly on 28 September 1992.
- The NSW Police Service - Air Travel Arrangements. This report was included as part of the New South Wales Auditor-General's Report For 1992 - Volume Three which was tabled before the Legislative Assembly on 8 December 1992.

Details follow on each of these four special audits:

**1. Public Housing Construction**

*Objective:*

The scope of the review was to determine whether:

- \* government and departmental policies in relation to construction activities have been complied with;
- \* contracts awarded are the result of fair competition and sound analysis;
- \* the terms of the contracts in use are adequate to protect the interests of the Department;
- \* capital works projects are being administered effectively and efficiently;

- \* adequate accounting systems and records exist to ensure the accuracy of expenditure on construction;
- \* existing management information systems are adequate for:
  - reporting the progress and completion of construction projects;
  - identifying inefficiencies and problems associated with construction activities; and
  - reporting the extent of achievement of organisational goals and targets;
- \* appropriate performance indicators have been developed and are being used internally and published accurately in Annual Reports of the Department.

***Results:***

The Report showed the major construction area, including site acquisitions, to be not cost effective. It also highlighted major instances of mismanagement and potential for abuse in many areas of the Department's capital works programme. The audit's "Key Findings" and "Summary of Recommendations" are located at pages 8 to 15 (inclusive) of the outgoing report.

***Criteria for Selection:***

This special audit was conducted prior to the amendments to the Public Finance and Audit Act 1983 covering special audits being proclaimed. In anticipation of the Auditor-General being given a specific mandate to carry out performance audits, operational Assistant Auditors-General had requested field audit managers to review operations of their auditees with a view to identifying areas where a more comprehensive review may be warranted.

Following some preliminary investigations within the Department (as well as results of a similar investigation undertaken at the Department of Public Works in 1988-89) the Audit Manager for the Department of Housing submitted a detailed plan for a review into construction contracts within the Department.

Approval to proceed with the construction project was given by an Assistant Auditor-General on 21 May 1990.

However the project was discontinued in mid 1990 due to commitments on the Department's financial report audit. On 30 January 1991 a more detailed audit plan was requested from the Audit Manager. This plan was subsequently submitted and the audit recommenced in March 1991.

***Ministerial Responses:***

As mentioned earlier this special audit was conducted prior to the amendments to the Public Finance and Audit Act being proclaimed. Therefore there was no requirement for the report to be referred to the Minister prior to tabling before Parliament.

In this instance the final report was not referred to the Minister. All discussions on the content of the report were confined to senior officers of the Department.

An initial draft report was issued to the Director of the Department of Housing on 29 July 1991 requesting a response within one month of receipt of the report. Subsequent to the issue of this report a number of meetings were held with senior representatives of the Department regarding the content of the initial draft report. Based on representations made by the Department and further information uncovered by audit the initial draft report was extensively rewritten.

The final draft report was issued to the Director of the Department of Housing on 29 October 1991 requesting a response to the amended report by 12 November 1991.

A detailed response was received from the Department on 11 November 1991. This response was then summarised and appropriate extracts were included in the report.

*Departmental Action:*

Action has been progressively taken by the Department to address shortcomings identified in the report. Copies of this correspondence have been attached as Appendices 1 - 6 for reference purposes. The ongoing monitoring of action being implemented by the Department has been delegated to the audit team responsible for the financial report audit of the Department.

In addition to the action taken by the Department there were other well documented Government initiatives happening within the Building Industry which warrant some comment.

Firstly there was the Royal Commission into Productivity in the Building Industry. After having delivered the audit report to the Speaker of the Legislative Assembly, and in keeping with an undertaking to the Commission on 16 August 1991, the Auditor-General forwarded a copy of the audit report to the Commission.

Section 7 of the Commission's report (starting at page 86) deals specifically with the Department of Housing and refers to the Auditor-General's report on Public Housing Construction. A more detailed reference to the Auditor-General's report and its findings was made at Appendix 15.5 of the Commission's Report. In commenting on the Department's response to a point raised in the audit report, the Commission's Policy and Research staff concluded:

...The Departmental response is inept, inappropriate and suggests that the responsible manager lacks commonsense.

The Department's reported practice/policy is a negation of the basic requirement of public sector management to utilise public resources effectively and efficiently.

It is reasonable to conclude that senior management of this Department is unable to recognise and meet the obligations imposed upon them in terms of their public sector employment and for certain members of the Senior Executive Service, and Chief Executive Officer to satisfy the terms of their management performance contracts.

Based on these comments the Commission recommended:

...that there be an external inquiry into the administration of the Department, conducted either by a Parliamentary Committee or by a Commissioner...

The Premier announced on 8 July 1992 details of the inquiry to be held into aspects of the operations of the Department of Housing. The inquiry was to focus on the future management and structure for delivering public housing in NSW. Mr John Mant was appointed as Commissioner to head the inquiry.

Numerous references were made to the Auditor-General's report in the report issued by the Commissioner on 20 November 1992. On all related points of the inquiry the Commissioner agreed with the comments made by the Auditor-General.

On 27 November 1992 the Premier announced that he had established a Task Force to thoroughly assess the Commissioner's recommendations and to develop a strategic plan for reform.

## **2. Training and Development for the State's Disciplined Services – Stream 1.**

### ***Objective:***

The overall objective established for this Special Audit was to assess the extent to which training and development for the disciplined services is organised and conducted so as to maximise value-for-money in the use of resources and facilities.

To simplify the conduct, reporting and consideration of the findings of this audit it was divided into two separate segments (or streams). The audit of Stream 2 is in progress.

The specific objective for Stream 1 of this Special Audit was to examine training facilities for the "disciplined services", and to determine options relating to the overall economy of arrangements in this area.

### ***Results:***

The report highlighted significant under-utilisation of residential facilities. Usage varied from only 40 to 58 per cent of capacity. At the same time audit reported that further capital expenditure was proposed at the Corrective Services Academy. The audit identified potential for ongoing improvements of \$2 million annually, as well as a "one off" capital benefit in the order of \$20 million. Audit concluded that the present arrangements for the training facilities do not provide adequate value for money and that change was required.

The "Executive Summary" and "Recommendations" are located at pages 4 to 7 (inclusive) of the outgoing report.

### ***Criteria for Selection:***

The primary impetus for this audit was the identification by both the Engagement Controller for the audit of the Police Service and the Auditor-General of a decline in utilisation rates at the Goulburn Police Academy. Preliminary enquiries were commenced to assess the factors involved.

These enquiries revealed that the Minister for Police and Emergency Services was also aware of the situation at Goulburn and had in fact directed that recruit training for the NSW Fire Brigades be immediately transferred to the Police Academy. This action brought in to question the future of the primary training facility for the Fire Brigades – the Fire Training College at Alexandria.

It was also ascertained that the site at Rozelle jointly occupied by the primary training facility for the NSW Ambulance Service, the Service's Head Office Directorate and the Sydney Regional Office had been earmarked for sale as part of the Government's asset sales program. While sale had been suspended due to the depressed state of the economy, sale was still a possibility and the NSW Health Department had been considering the feasibility of relocating Ambulance Service Training to the Goulburn Police Academy.

Having included facilities for the Police Service, The NSW Fire Brigades and the Ambulance Service within the scope of the project, it was decided to also embrace the remaining major facility within the general field of "disciplined services" – the Corrective Services Academy at Eastwood. It had been ascertained that the Service was planning further expansion of facilities at Eastwood, which was subsequently revealed to be in the amount of some \$5.5m of capital funds.

To ensure that the audit's scope was sufficiently comprehensive to address all relevant issues and opportunities, training for other similarly related Services were also included – the Department of Bush Fire Services, the State Rescue and Emergency Services Board and the State Emergency Service.

***Ministerial Responses:***

Prior to the issue of special audit reports under Section 38C(1) of the Public Finance and Audit Act 1983, copies of the draft report were exposed to the relevant Chief Executive Officers and their Ministers. Section 38C(3) of the Act only requires comments (or a summary in an agreed form) made by the "Head of the Authority" to be included in the report. However in this instance it was considered appropriate that reference be made to responses submitted by relevant Ministers. Comments of the Chief Executives and Ministers are located at appropriate places throughout the report.

Chief Executive Officers were not in favour of the general thrust of the report, and provided arguments against any thoughts of changing the current situation. The then Minister for Corrective Services formally endorsed and supported his Department's views and arguments. The then Minister for Police and Emergency Services acknowledged the views and concerns of the Police Service, and supported their right to provide a response to audit in those terms. However, the Minister stated that he did not share the Service's concerns and that he in fact supported the overall thrust of the report. The Minister for Health Services Management did not provide a response to the report.

***Departmental Action:***

Given the adverse reaction to the report the Auditor-General considered it necessary to recommend that a task force be established to examine the merits of this report and its findings (refer Recommendations at page 7 of the report).

The Government responded by setting up a Ministerial Committee to examine the situation. Departmental committees were also established.

Subsequent to the report, the Ambulance Service has committed to use 5,000 bed nights per year at the Goulburn Academy, the Police Service is urgently engaged in planning changes to training to increase both overall use of the Academy and revenue earned from such use, as are Corrective Services for their Eastwood Academy. Corrective Services have also undertaken not to proceed with the planned \$5.5 million expansion of facilities at their Eastwood site.

**3. Rental and Management Aspects of Public Servant Housing**

***Objective:***

The basic audit objectives were to confirm:

- \* compliance by agencies with government policy in regard to the charging of market value rents for government housing tenanted by public servants; and
- \* the qualitative aspects of certain management functions in regard to public housing.

***Results:***

The main findings of this audit were that:

- \* of the seven government agencies reviewed, only three agencies had fully implemented government policy of charging full market value rent for public sector staff housing;
- \* certain agencies expressed concern that the requirement to obtain market valuations annually (by a registered real estate valuer) was proving costly. Also the policy of annual valuations was seen as costly.

The report also contained several recommendations for the better management of public servant housing including the development of a maintenance policy, the funding of maintenance and the introduction of a regulatory mechanism requiring government agencies to disclose whether or not they had complied with government policy. Comments in relation to individual organisations reviewed and organisational responses were included as appendices to the final report issued.

The "Key Findings" and "Recommendations" are located at pages 35 to 37 (inclusive) in the Auditor-General's Report for 1992 - Volume Two.

*Criteria for Selection:*

On 25 March 1991 the Director-General of the Department of Industrial Relations, Employment, Training and Further Education wrote to the Auditor-General advising him of recent changes to government policy requiring agencies to charge market rents to public servants occupying government-owned residences.

As field audit staff had previously recommended a review of management practices and procedures of the Teacher Housing Authority and the Public Servants Housing Authority, the Auditor-General requested that a preliminary review of a selected number of relevant agencies be conducted in order to assess whether a Special Audit was warranted.

After due deliberation, the Auditor-General on 8 August 1991 advised the following Chief Executive Officers that a special audit was to be conducted in their respective organisations, and that it would focus in broad terms on the management issues of public sector housing and compliance with government policy:

- Department of Courts Administration
- Department of Health
- Electricity Commission of New South Wales
- Roads and Traffic Authority
- State Rail Authority
- Department of Water Resources
- Teacher Housing Authority

*Ministerial Responses:*

As stated above the audit covered seven public sector organisations spanning an equivalent number of ministerial portfolios.

Prior to the issue of special audit reports under Section 38C(1) of the Public Finance and Audit Act 1983, copies of the draft report were exposed to the relevant Chief Executive Officers and their Ministers. As previously stated, Section 38C(3) of the Act only requires comments (or a summary in an agreed form) made by the "Head of the Authority" to be included in the report. However, it should be noted that submissions were also received from the relevant Ministers. On review, these were found to be consistent with the comments conveyed by Chief Executive Officers. As such, separate disclosure in the audit report was considered not to be warranted. Summaries of comments submitted by Chief Executive Officers were included as appendices to the final report at pages 43 to 51 (inclusive). Submissions from Ministers have been included as Appendices 7 - 11 for reference purposes.

*Departmental Action:*

The report's recommendations fall into two categories - those targeted for action by the Government (recommended changes to the Annual Reporting legislation, method of handling rental revenue and the requirement to have annual valuations performed for rental purposes) and those to be actioned by the individual organisations involved in the audit (development of a maintenance policy, development of staff housing manuals and improvements to management reporting systems).

Recent contact with Treasury officers indicates that a summary of the recommendations of the audit report was sent to each Minister for information and action and because certain of the recommendations were deemed to relate to matters of management a summary of the recommendations was also forwarded to the Office of Public Management for information and action. At the time contact was made (6 April 1993) no action had been taken by the Government in respect to the reports findings.

In accordance with normal Office policy the detailed findings in respect to the individual organisations reviewed were conveyed to the relevant Chief Executives by way of a management letter. Responses have been received outlining action taken by the relevant organisations. These have been included as Appendices 12 - 16 for reference purposes. Operational field audit staff have been advised of the issue of the management letters and their content.

#### **4. The NSW Police Service - Air Travel Arrangements**

##### ***Objective:***

The purpose of the review was to determine whether the NSW Police Service had obtained the most economical fares in the existing competitive environment.

##### ***Results:***

The audit found that the Service had not always been able to obtain - as it would have wished - the most economical domestic air fares available in the current competitive environment. Also, it was said to be likely, from anecdotal and other evidence, that the additional costs thus incurred were not unique to the Police Service. The savings foregone were thought to be substantial.

A copy of the "Key Finding" and "Recommendations" appears at pages 15 to 20 of Volume Three of the Auditor-General's Report to Parliament for 1992.

##### ***Criteria for Selection:***

In December 1991 the Auditor-General requested his officers in the Senior Executive Service to examine the operations of organisations under their control with a view to identifying possible special audits to be conducted by them as part of their performance agreement. Prior to this, dissatisfaction with existing travel arrangements had been brought to the attention of audit officers as part of the normal review mechanisms in place with the Police Service.

The issue of air travel arrangements for the Police Service was brought to the attention of the Auditor-General who gave approval for the special audit to be conducted.

##### ***Ministerial Responses:***

Prior to the issue of special audit reports under Section 38C(1) of the Public Finance and Audit Act 1983, a draft copy of the report was conveyed on 25 August 1992 to the Minister for Transport and Minister for Tourism and the General Manager of the Tourism Commission of New South Wales.

While the draft report made no specific recommendations concerning the Police Service the Service did feature prominently. As such a copy of the draft report was referred to the Minister for Police and Emergency Services and the Commissioner of Police for their information on 1 September 1992.

A copy of the draft report was also exposed to the government contractor to provide an opportunity to respond to its contents.

Following representations from the Tourism Commission, the government travel contractor and the Police Service, amendments were made to the draft report and copies of an amended report were circulated on 20 November 1992. Copies together with covering letters were sent to the Minister for Transport and Minister for Tourism, the Minister for Police, the General Manager of the Tourism Commission of New South Wales, the Commissioner of Police and the Chief Executive Officer of the government travel contractor.

Formal responses were received from the Tourism Commission and the Police Service on 24 November 1992 and 25 November 1992 respectively. Summaries of these responses were included in the final report. In general terms both organisations agreed with the findings of the audit as stated in the final report.

There were no responses forthcoming from the relevant Ministers warranting inclusion in the final report. However, there was a letter dated 14 September 1992 from the Minister for Transport and Minister for Tourism to the Auditor-General indicating that a copy of the draft report had been received and that he had requested the Commission to advise him of options for more effectively managing public service air travel in future. A copy of this letter has been included at Appendix 21 for reference purposes.

***Departmental Action:***

The audit report required no specific action by either the Tourism Commission of New South Wales nor the Police Service. Instead the report was directed to the Government recommending a change in policy relating to travel arrangements for the Police Service and other public sector agencies.

An advice from the Director-General of the Premier's Department dated 5 January 1993 stated that the Government intends to withdraw from its current arrangements and that appropriate notice had been given to the travel contractor. Individual departments and authorities would be allowed to negotiate arrangements (by inviting expressions of interest and/or calling tenders) which best suit their particular demands. In the interim period the Government had also been able to negotiate improved discounts and agreement to obtain the best available price with the existing contractor.

**Other General Comments**

To enable an informed opinion to be reached on the matters specifically referred to by the Public Accounts Committee in relation to Terms of Reference Item 3 it is considered necessary that some further comment be provided.

***Criteria for Selection of Special Audits:***

Comment on this topic has already been provided for special audits completed to date. In selecting topics for audit, two key matters to be resolved are the definition of audit scope and the development of appropriate audit objectives. These effectively focus the audit on matters of greatest significance and potential benefit. During this process, many possible issues and aspects will be identified and considered in finally reaching a position where the audit is tightly focused. Therefore, whilst it could appear to some that special audits may at times take a somewhat narrow approach this is generally quite deliberate. It is simply a matter of conserving scarce audit resources and employing them to best effect. To consider all possible matters on all audits could lead to very poor value and benefit.

The issue of criteria for selection of special audits has been evolving over time in the Office. Early topics were selected based on observations by the Auditor-General or other staff or information conveyed by audit field staff to the Special Branch.

This latter method has recently been refined with the development of a Project Assessment Form. This form was designed by Special Audit Branch to provide a structured mechanism for project identification and assessment by operational personnel. The form content should provide a basis to make a decision whether to proceed with projects to, at least, the preliminary planning stage.

A further evolution in the selection process occurred on 1 February 1993 when the Auditor-General wrote to the Public Accounts Committee, the Treasury and the Office of Public Management advising them of his schedule of planned special audits and special reviews for 1993. It is important that the Office attempt to ensure that there is little or no overlap between the work of the Office and that of other agencies. While the list was considered reasonably firm the Auditor-General advised that he was open to any suggestions to add to or delete from those audits identified in the schedule because of possible duplication with other reviews or perceived relative importance. In 1994 it is also proposed to seek suggested topics from the CEOs of agencies.

When selecting topics for special audits the Office is conscious that the performance audit should be cost effective. Audit also is conscious that where a matter is of public concern, or where a basic principle of sound administration is in question, there may be benefits in the potential for conduct of a performance review which cannot immediately be measured in monetary terms. These benefits include engendering public confidence in accountability processes and establishing conclusions which have beneficial precedential effects.

It is not the intention to select topics for performance audits where it is known or reasonably believed that a program is effective or efficient. At the same time, it is not intended to merely audit known bad areas as such an approach would not disclose unknown poor performance. Nonetheless, there will be an emphasis on areas where there is known to be good scope for improvement and maybe large savings.

The issue of criteria for selection of matters to audit is given considerable emphasis in the draft Special Audit Manual. Section 7.2 refers to "The Rationale for Selecting Matters to Audit" and Section 7.2.1 provides examples of "Criteria for Evaluating Potential Topics for a Performance Audit". The draft manual also provides several "Checklists" to assist in project identification.

#### *Responses from Ministers*

Section 38C(3) of the Public Finance and Audit Act 1983, as it currently reads, only requires the Auditor-General to include in a special audit report any submissions or comments made by the Head of the Authority or a summary, in an agreed form, of any such submissions or comments. There is no provision or requirement to include submissions or comments from the relevant Minister or Ministers.

Submissions to date have either been in one of three forms or a combination thereof. Submissions have been made directly by the Head of the Authority; or submitted through the respective Minister; or a separate response has been forthcoming from the Minister as well as the submission from the organisation.

To date no problems have arisen. It is of interest though that, in respect of the "Disciplined Services" special audit report, a commentator noted that "... it seems inappropriate for an Auditor-General's report to include material from a minister which, in effect, argues the merits of government policy". Others could well argue that the more widely canvassed the issues are, the better.

#### TR4. The Auditor-General's Proposals for Future Funding

As indicated in the Auditor-General's Report to the PAC dated 3 February 1993, trends within Australia and overseas have been for performance audits to represent up to fifty per cent of total audit effort. However, in establishing the Special Audit function within the Office a realistic and sensible expansion is planned in the short to medium term. The beforementioned proposed level of twenty per cent would be attained gradually over a seven year period ended 30 June 1997. The level of activity will be reviewed later in the light of experience. However, significant additional resourcing will be required if the target of twenty per cent is to be achieved.

Audit Office Year End 30 November	Proposed Special Audit Costs as a Percentage of Total Expenditure
1993	7.5
1994	12.5
1995	17.5
1996	20.0

Special funding, either directly by Parliament or through the Government of the day, is the norm for performance audit work throughout the world. It is believed that there are only two countries or States where entities are charged for this type of work, viz, Victoria and the United Kingdom (for entities audited by the Audit Commission for Local Authorities and the National Health Service for England and Wales).

Based on a budgeted total Office expenditure of \$15.31 million in audit year 1992-93, a strategy of applying 20 per cent of resources to the conduct of Special Audits would require funding over the next four years (and thereafter) as follows:

Treasury Financial Year	Special Audit Funding Required (AGO estimate at 1993 values) \$m
1993/94	\$1.60
1994/95	\$2.36
1995/96	\$2.90
1996/97 (and thereafter)	\$3.06

There appears to be a number of options available for determining the level of assistance. Discussion follows on five of them.

In considering the issue of the level of funding, PAC Report No. 19 referred to a suggestion that funding be tied to *basic audit fees*. But the Committee considered that such a method may not be seen to provide the appropriate incentive for charges for attest and compliance work to be held down.

Nonetheless, the present checks and balances have some influence in keeping basic audit fees at a proper level. Clients may and do challenge fees which they consider to be excessive. And audit has been increasingly open with auditee clients in recent years as to the background to audit fee assessments. This option has the advantages of being simple and providing a reasonably certain sum of money. It would also provide a natural cap on the provision of Special Audit funds. Moreover, once a percentage has been determined, the Government need not (but may) make detailed annual reviews as to the quantum of Special Audit funding. Any economic inflationary or deflationary movement would be automatically taken into account through the base financial report audit fees. By way of example, if current audit fees totalled \$16 million and equated with outgoings, and if it was determined that twenty per cent of audit effort should be applied to performance audit work, then an appropriation of \$4 million would need to be made to the Auditor General. (Alternatively, fees could be gradually increased, in real terms, by a quarter so that a fifth of the total would be available for Special Audits.) A potential problem is that clients might press for performance audit work to be done to a value of income received by the Auditor-General from their component of the total audit fees.

When the Victorian Audit Office made its application for performance audit funds, it did so on the basis of:

- a detailed listing of the total office workload covering both financial report and performance audits; and
- identification of the resources required to meet the workload.

The assessment was done on the basis of a *cyclical approach* which for the most part varied from four to ten years.

The Commonwealth Joint Committee of Public Accounts (JCPA) recommended that the Australian National Audit Office also adopt a cyclical approach to audits as is the situation in Canada too. However the New South Wales Committee in 1990 considered that performance auditing is at its best when auditors select actual or suspected problems to examine. The Committee favoured a more problem oriented approach where the Auditor-General is not committed to a fixed cyclical program.

The PAC's view has much to commend it. It can be argued that maximum value is obtained for the audit dollar when there is known or suspected scope for improvement in the matters examined. However a reason for broadening the scope to cover more than known problem areas is that it is possible for things to be bad without audit or for that matter Government or management knowing. These will only get picked up on a cyclical approach. Accordingly audit has developed a Special Audit Project Assessment Form to take account of not only information coming to light in the course of audit from examinations or "tip-offs" or "Hansard" reports etc, but also materiality considerations, potential for improvement, risk factors, political sensitivity, previous history, etc. In the light of experience and the views of management there may be scope to increase the weight given to materiality and reduce that given to problems which, while suspected, have a lesser dollar value.

There is also the option of the Auditor-General being funded on the basis of a *Government approved programme*. Under such an option the Auditor-General might be required to submit details of proposed work to be done during the year and its estimated cost. Such a system might be thought to impact on the independence of the Auditor-General from Government. By way of example, the Government could be tempted to be selective in what it approved funds for. The proposed agenda might even be added to with the risk that the Office could be asked to look at areas which would not be cost effective to audit.

Another option is to determine a base *annual untied sum*, subject to CPI, for Special Audit work. Under this option the Auditor-General would be free to determine projects to be done to discharge the Special Audit mandate. Adoption of such an option would facilitate strategic planning, recognise the independence of the Auditor-General and result in the regular conduct of performance auditing. However there would need to be assurances given as to relative certainty of future funding. Without guaranteed funding it would not be readily possible to recruit staff for what will be a core activity of the Office. Rather it would be necessary to rely heavily on consultants on a project by project basis. As much as consultants can provide value for money on non core activities it is generally acknowledged that they are more expensive on core activities.

In PAC Report No.49 it was recommended that:

in establishing a mechanism for recurrent funding for performance auditing by the Auditor-General, serious consideration be given to linking that funding to the size of the public sector. It is important that the method of funding provide the Auditor-General with maximum flexibility to decide on the audit program and that these decisions not be subject to political influence or review either by the Executive or Parliament.

In assessing the *size of the public sector* the PAC report referred to the total income and expenditure of entities audited by the Auditor-General. The magnitude of such a sum can be roughly gauged from the Treasurer's Consolidated Financial Statements. These show a combined income and expenditure figure of \$70 billion for both departments and statutory authorities. But such a method ignores public sector assets and liabilities audited by the Auditor-General totalling around \$198 billion. If a figure of say \$3.5 million is taken as being the approximate amount payable as an annual Special Audit fee, then one is looking at the need to apply minute or even trivial percentages such as 0.0043 per cent to total income and expenditure or 0.0013 per cent to total income, expenditure, assets and liabilities.

Regardless of what funding option is adopted it is envisaged that, as part of the decision making process, the Auditor-General will seek the views of the PAC, Central Agencies and CEOs as to what they think needs auditing. As a first step in this regard the views of the PAC, the Office of Public Management (OPM, Premier's Department) and Treasury were sought earlier this year on the proposed list of topics to be covered in 1993.

## APPENDIX 6

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# Auditor-General's Office

New South Wales



Mr A. Tink MLA  
Chairman of the Public Accounts Committee  
C/- Legislative Assembly  
Parliament House  
Macquarie Street  
SYDNEY NSW 2000

Telephone: (02) 285 0155  
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Contact Name:

Our Reference:

Your Reference:

4 February 1993

Dear Mr Tink

Preliminary "start-up" funding of a total of \$1 million was provided by the Treasury for the two years ended 30 June 1993 to enable a performance audit function to be set up within the Auditor-General's Office. I understand that the Treasury is considering options for the 1993-94 financial year, now that the final tranche, of \$500,000, has been appropriated for 1992-93.

The provision of these funds followed the issue in 1990 of the Public Accounts Committee's Report No. 49 on the New South Wales Auditor-General's Office.

Two key recommendations in the Report were:

- |        |   |
|--------|---|
| No. 19 | It is recommended that Parliament provide the Audit Office with a special allocation of \$500,000 in each of the next two years to fund the development work required for the Auditor-General to move toward a comprehensive audit approach.  |
| No. 20 | It is recommended that the method and level of recurrent funding for performance auditing by the Auditor-General be examined two years after the implementation of Stage 1 of the move to comprehensive auditing. The progress achieved in moving toward comprehensive auditing and also the objectives and results of performance work carried out during that period shall be reviewed. Firm proposals for recurrent funding of performance auditing shall be put forward by the Auditor-General. |

As you would be aware, resulting amendments to the Public Finance and Audit Act gave the Auditor-General specific power to carry out performance audits from 1 March 1992. (Under the legislation, the generic term of performance auditing falls within the definition of a Special Audit.)

In anticipation of the legislation, action was commenced by my predecessor early in 1991 to develop a methodology and generally to establish the function in the Auditor-General's Office. The Office carried out a performance audit at the Department of Housing. This was followed by three Special Audits in terms of the Act and a number of fact finding examinations which have been called Special Reviews.

The reports which were issued on the audits have demonstrated the Office's increasing ability to conduct Special Audits. Moreover they have pointed out worthwhile potential savings and/or added value to the administration of the State.

- 2 -

A manual has been prepared for the guidance of staff. Arrangements are currently being made for its review by an independent person before it is forwarded to your Committee for its consideration.

Accordingly the attached report is submitted in response to the beforementioned Recommendation No. 20.

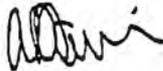
To facilitate your consideration, the report sets out:

- Progress achieved to date in establishing the function in the Office;
- Options for future funding.

Please feel free to contact me or Mr Wal Baker, Assistant Auditor-General (tel. 285-0103), should you wish to discuss this matter.

I would like to send a copy of this letter and the submission to the Government, when your Committee agrees that it would be appropriate to do so.

Yours sincerely



A.C. HARRIS  
AUDITOR-GENERAL

Encl

**SPECIAL AUDITS  
UNDER S38(B) OF THE PUBLIC FINANCE AND  
AUDIT ACT**

**Conduct to Date of Special Audits and Reviews  
and  
Future Financing Options**



3 February 1993