

Public Accounts Committee



LEGISLATIVE
ASSEMBLY

Quadrennial Review of the Audit Office of New South Wales 2022



Report 10/57 – September 2022

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

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Membership

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Chair's foreword

The Public Accounts Committee is pleased to present the report of the quadrennial review of the Audit Office of New South Wales, conducted by OCM, to the Parliament.

Under s 48A of the *Government Sector Audit Act 1983* (the Act) a review of the Audit Office is required at least once every four years. The Public Accounts Committee is required to appoint an external reviewer to conduct this review, and to receive and table the report upon completion.

In June 2021, the Committee adopted the terms of reference for the review and sought expressions of interest from relevant firms to conduct the review. The Committee identified O'Connor Marsden as a suitable candidate and appointed them to conduct the review. The review examined the current auditing practices and standards of the Auditor-General to determine whether the Audit Office complies with these practices and standards. This involved assessing audit methodologies used by the Audit Office to ensure compliance with current professional standards, legal requirements and statutory responsibilities. Upon completion of the review, their report was forwarded to the Committee which is now presenting it to Parliament.

The Committee is pleased that the review found the Auditor-General is complying with auditing standards and practices in carrying out their functions under the Act. The Committee recognised the finding that the Audit Office is well functioning and staffed by professional and dedicated auditors. This aligns with the Committee's experience of working with the Auditor-General, and their staff.

The Committee notes the review has also made recommendations to improve the efficiency and effectiveness of the Audit Office and to protect the independence of the Auditor-General. One of these recommendations is to give the Auditor-General 'follow-the-dollar' powers. This will allow the Auditor-General to conduct performance audits on third party providers of government services. This is a key recommendation and I urge the Government to act upon it as soon as possible. The NSW Auditor-General is one of the few Auditors-General in Australasia without this power and it is a significant limit on their effectiveness.

The report also recommended that the Auditor-General be given powers to access certain sensitive documents and to have more control over their audit program. It was also recommended that Parliament be involved in assessing the adequacy of the Auditor-General's budget. This Committee supports these recommendations and notes that it would be in a position to support the consideration of the Auditor-General's budget.

Implementing these recommendations will ensure that the independence of the Auditor-General is well guarded, and that they are properly empowered in their work to examine the effectiveness of government policies and spending.

I would like to commend OCM for their work in conducting the review, in particular their ongoing communication with the Committee. I would also like to thank my fellow Committee members for their contributions and work throughout the review process.

Greg Piper MP
Chair

Recommendations

Recommendation 1 _____ 1

The Committee recommends that the Government implement recommendations one and five made in the Statutory Quadrennial Review of the Audit Office of New South Wales Final Report.

Recommendation 2 _____ 7

The Committee recommends that the Treasurer amend section 48A of the *Government Sector Audit Act 1983* to provide that the report of a review of the Audit Office under that section be provided directly to the Public Accounts Committee by the appointed reviewer on completion of the report.

Chapter One – The Public Accounts Committee's comments on the Review

- 1.1 Under s48A of the *Government Sector Audit Act 1983* (the Act), a review of the Audit Office of New South Wales is to be conducted at least once every four years. The review is to examine the auditing practices and standards of the Auditor-General, and to determine whether the Auditor-General is complying with those practices and standards in the carrying out of their functions under the Act.
- 1.2 In November 2021, the Public Accounts Committee (the Committee) resolved to appoint O'Connor, Marsden and Associates (OCM) to conduct the statutory review of the Audit Office.
- 1.3 In June 2022, OCM completed the review and produced their final report. This report is at Appendix 1. The Committee was pleased that, overall OCM concluded that the Auditor-General is complying with relevant auditing standards and practices in carrying out their functions under the Act. OCM also concluded the Audit Office is well functioning and staffed by professional and dedicated auditors.¹
- 1.4 The report made six recommendations to further strengthen and improve the effectiveness and efficiency of the Audit Office. Recommendations one and five were directed to the Committee around engaging with Parliament to better support the powers and independence of the Auditor-General and the Audit Office. The other recommendations were made to the Audit Office of NSW.

Recommendation 1

The Committee recommends that the Government implement recommendations one and five made in the Statutory Quadrennial Review of the Audit Office of New South Wales Final Report.

- 1.5 Using the Australasian Council of Auditors-General's eight core independence principles for effective public sector auditing, OCM performed a comparative analysis of the NSW Audit Office's independence under current NSW legislation to other Audit Offices in Australia, New Zealand and the United Kingdom.
- 1.6 The Committee was concerned that using this approach, the NSW Audit Office was ranked eighth out of ten. This ranking had dropped from fifth in 2009, and seventh in 2013 as legislation has been passed in other jurisdictions to improve the independence of their Auditors-General.²
- 1.7 To improve the situation, OCM recommended that legislative provisions were examined in order to:

¹ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p5.

² OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p25.

- improve the financial autonomy of the Auditor-General by providing for the Parliament to be involved in determining the adequacy of the Auditor-General's budget;
- designate the Auditor-General as an Officer of the Parliament;
- remove the restrictions in the legislation that states that the Auditor-General is not entitled to access certain information, in particular cabinet documents and documents subject to legal professional privilege (section 36(8) and clause 36(6)(b) of the Act);
- allow the Auditor-General to conduct performance audits of third-party providers of government services (follow-the-dollar powers);
- provide for the Auditor-General not to be subject to direction of anyone on 'what to audit'; and
- increase the Auditor-General's mandate to audit entity non-financial performance measures and the NSW Budget.³

1.8 The Committee considers that the report made a compelling argument that there is currently 'insufficient protection of the independence of the Auditor-General'.⁴

1.9 As the Audit Office for Australia's most populous state, the Committee supports these changes to improve the independence of the Auditor-General. The Committee expects the Audit Office of NSW to be ranked highly in any metrics when compared to other jurisdictions. The following sections of this Chapter will examine the different aspects of this recommendation.

Follow the dollar powers

1.10 The Auditor-General of NSW does not have the power to directly examine how funds are spent or the performance outcomes from government services delivered by the private and not for profit sectors. This has a significant impact on the Audit Office's ability to hold government spending to account.

1.11 OCM noted that there has been a growing international trend for Auditors-General to be given powers to audit the use to which public monies, resources, or assets have been allocated in a way that extends well beyond the traditional role of providing assurance about the financial statements issued by entities.

1.12 In particular, many Auditors-General have the ability to examine third-party providers of government services. These so called 'follow-the-dollar' powers recognise that new forms of public sector management, joint ventures and outsourcing have changed the way public sector activities are delivered.⁵

1.13 The Committee considers this to be a key recommendation and strongly supports amending the Act to give the NSW Auditor-General 'follow-the-dollar' powers.

³ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p25.

⁴ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p26.

⁵ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p23.

This will allow for much greater accountability of the government and transparency as to the level of service being provided by various entities. The Committee notes the Audit Office's advice that the growing use of outsourced service delivery and other contracting arrangements, which can't be directly audited in performance audits means the scope of public money that it does have direct oversight over is effectively reduced.⁶

- 1.14 This recommendation has been made in previous reviews of the Audit Office and has previously been supported by this Committee.⁷ Given the growing use of third parties providing government services, it is crucial that the Auditor-General be given these additional powers as soon as possible. This is an area where NSW is falling behind other Australasian jurisdictions and it should be rectified.

Financial autonomy of the Audit Office

- 1.15 While the Audit Office is able to recover costs by charging auditees the cost of conducting their financial audits, funding for performance audits and reports to Parliament is determined by the government. OCM argued that this process 'potentially allows the Executive to restrict the financial resources available to Audit Offices with the risk that the Auditor-General is rendered ineffectual'.⁸
- 1.16 Both the UK and NZ Parliaments decide on the level of funding for their Auditor-General after considering submissions from the government and from the respective Audit Offices. No Australian jurisdictions have adopted this level of separation of the budget from the control of the Executive. However, some recent legislation in other jurisdictions including the Commonwealth, Victoria, Queensland and Western Australia have provided for a Committee of the Parliament to have some input into the budget process.
- 1.17 The funding provided to the Audit Office by the government can also be affected by efficiency dividends. The Audit Office reported that no efficiency dividends had been ascribed to it for the 2020-21 or 2021-22 financial years, and it was exempt from 2016-17 to 2018-19. However, it had contributed to efficiency dividends previously. In the 2019-20 NSW budget, the Department of Premier and Cabinet tried to allocate \$6.2m of efficiency savings to the Audit Office across the forward estimates and planning years. However, the Audit Office disputed the calculation, and the saving was never applied to the Audit Office's 10-year budget estimates.⁹
- 1.18 Nevertheless, as the Auditor-General noted in their report on the effectiveness of the financial arrangements and management practices in four integrity agencies,

⁶ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p23.

⁷ Public Accounts Committee, [Quadrennial Review of the Audit Office 2017](#), Report 6/56, February 2018, p11, and Mr Bruce Notley-Smith, [Legislative Assembly Hansard](#), 8 February 2018.

⁸ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p24.

⁹ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, pp24-25. There are provisions in the Commonwealth that guarantee the full amount of money appropriated to the Audit Office.

the mechanisms for applying efficiency dividends and budget savings to the integrity agencies 'create tensions with their independent status'.¹⁰

- 1.19 While the Audit Office fulfils its obligations within its budgetary allocation and operates an efficient cost recovery model, the Committee recognises the risk to its independence if funding shortfalls occur. As such, the Committee supports Parliament, through this Committee, having more involvement in determining the adequacy of the Audit Office's budget.

The Auditor-General's access to sensitive information

- 1.20 Under section 36(8) of the Act, the Auditor-General and the Audit Office are not entitled to access information that is Cabinet information, as defined under the *Government Information (Public Access) Act 2009* (the GIPA Act).
- 1.21 OCM notes that legislative amendments made to the Act in 1993 established a restriction on access to cabinet information that could previously be accessed by the Audit Office. According to OCM, cabinet information is generally provided to the Audit Office but access to the information is still subject to the discretion of the government.¹¹
- 1.22 OCM argues that the Auditor-General's lack of entitlement to access cabinet information and the very broad definition of cabinet information in the GIPA Act places practical limitations on the effectiveness of the Auditor-General's audit work. There is also the risk that governments in the future may be less inclined to allow the Audit Office to access information. The Audit Office noted that information is increasingly being classified as Cabinet information.¹²
- 1.23 A more recent development highlighted by the Audit Office is the widening practice of auditees refusing access to documents because they were subject to claims of legal professional privilege. This delays the audit process while negotiations for access to the relevant documents take place.¹³
- 1.24 The Committee is concerned to hear that the Audit Office does not have access to all the information it needs to exercise its functions and make well founded conclusions and recommendations. The Committee recognises that there are confidentiality provisions associated with certain documents and information. However, the Committee also considers that the Auditor-General and the Audit Office, as a professional organisation, would treat these documents with the tact and sensitivity they require. The Committee notes that in other jurisdictions where Auditors-General have access to this sort of information, there is a responsibility to treat the documents appropriately.¹⁴ The Committee is confident that a similar situation could occur in New South Wales.

¹⁰ Audit Office of NSW, [The effectiveness of the financial arrangements and management practices in four integrity agencies](#), October 2020, p40.

¹¹ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p24.

¹² OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p24.

¹³ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p24.

¹⁴ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p24.

The Auditor-General's control of their audit program

- 1.25 Under the Act, the Auditor-General is required to 'provide any particular audit or audit-related service to Parliament at the joint request of both Houses of Parliament' or at the request of the Treasurer or another Minister.¹⁵
- 1.26 While the Auditor-General is able to decide how to conduct such audits and their timing, OCM found that the lack of discretion on what to audit has caused delays in the Auditor-General's audit program as staff are redeployed to the request audits. In 2020-21, the Audit Office conducted three request audits, which had a significant impact on the intended performance audit program.¹⁶
- 1.27 The Committee supports OCM's argument that the Auditor-General should not be subject to direction from anyone as to whether an audit is to be conducted, how audits are conducted, or the priority any audit work is given. The Committee supports the Auditor-General being given the power to accept or decline request audits, as is the case in other jurisdictions.¹⁷

Additional areas of audit

- 1.28 OCM highlighted two specific areas where the scope of the Auditor-General should be increased to improve the accountability of government agencies and government spending.
- 1.29 First, they recommended that the Auditor-General should have the mandate to audit entities' non-financial performance measures. Currently, non-financial performance measures can only be examined through the performance audit process. Giving the Auditor-General additional powers to examine agency performance measures outside performance audits would provide independent assurance over the appropriateness and accuracy of these measures and indicators. This, in turn, would help improve confidence in the reliability of the NSW Government's performance data.¹⁸
- 1.30 Second, recommendation five supports the Audit Office to conduct an independent annual review of the NSW Budget. The Audit Office considered that this independent review would give additional assurance to the Parliament. In 2012-13 and 2016-17, the Audit Office was invited by Treasury to conduct such a review.¹⁹
- 1.31 The Committee supports these measures to increase the powers of the Audit Office to improve accountability measures. The Audit Office, and this Committee, play a key role in ensuring that government expenditure is transparent and responsible. The recommendation for the Audit Office to conduct an independent review of the NSW Budget was also made in the previous Quadrennial Review in 2017 and was supported by the Chair of the Public

¹⁵ [Government Sector Audit Act 1983](#), s27B(3)(b) and (c).

¹⁶ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p22.

¹⁷ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p23.

¹⁸ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, p23.

¹⁹ OCM, Statutory Quadrennial Review of the Audit Office of New South Wales Final Report, June 2022, pp50-51.

Accounts Committee at that time.²⁰ The Committee still supports this recommendation.

The Auditor-General as an Officer of Parliament

- 1.32 A number of Australasian Auditors-General are designated as 'Officers of Parliament', including the Commonwealth, New Zealand, Victoria, Western Australia and the Australian Capital Territory. The term Officer of Parliament rarely appears in legislation and has never been subject to judicial interpretation.²¹ However, in Westminster-style Parliaments, the term has come to imply a special relationship of accountability to Parliament and an independence from the Executive, and often applies to integrity and oversight bodies.
- 1.33 For example, in New Zealand, Officers of Parliament are generally independent accountability agencies. They are created to provide a check on the arbitrary use of power by the Executive, and to protect the various rights of the individual. An Officer of Parliament position should operate under conditions implied in its being an arm of the legislative branch of the State, such as being outside the public service and not subject to the Executive's control.
- 1.34 As such, the New Zealand Auditor-General reports directly to Parliament. This demonstrates that Parliament, and not the Executive, controls public expenditure, and that the government is responsible and accountable to Parliament for that expenditure.²²
- 1.35 In New South Wales, the Parliamentary Budget Officer is established as 'an independent officer of Parliament' under the *Parliamentary Budget Officer Act 2010* (the PBO Act). Although the PBO Act also states that:
- The functions of the Parliamentary Budget officer are only those conferred by this or any other Act, and there are no implied rights, obligations or immunities arising from that officer being an independent officer of Parliament.²³
- 1.36 Designating an entity as an Officer of the Parliament, furthers their independence as it establishes further distance between that entity and the Executive. More responsibility is given to the Parliament, usually through its committees, for the funding and work of that entity, while also maintaining accountability mechanisms.²⁴
- 1.37 The Committee recognises that while Officers of Parliament are not commonly established in New South Wales, and that a number of other mechanisms have

²⁰ Public Accounts Committee, [Quadrennial Review of the Audit Office 2017](#), Report 6/56, February 2018, p13, and Mr Bruce Notley-Smith, [Legislative Assembly Hansard](#), 8 February 2018.

²¹ Parliament of Victoria, Public Accounts and Estimates Committee, [Report on a Legislative Framework for Independent Officers of Parliament](#), February 2006, p24.

²² L Ferguson, '[Parliament's Watchdogs – New Zealand's Officers of Parliament](#)', Australasian Parliamentary Review, Vol 25(2), Spring 2010, p133-45.

²³ [Parliamentary Budget Officer Act 2010](#), s5(2)

²⁴ L Ferguson, '[Parliament's Watchdogs – New Zealand's Officers of Parliament](#)', Australasian Parliamentary Review, Vol 25(2), Spring 2010, p133-45.

been recommended to improve the independence of the Auditor-General, this is an option that should be considered by the government.

Treatment of the completed report of the quadrennial review

Recommendation 2

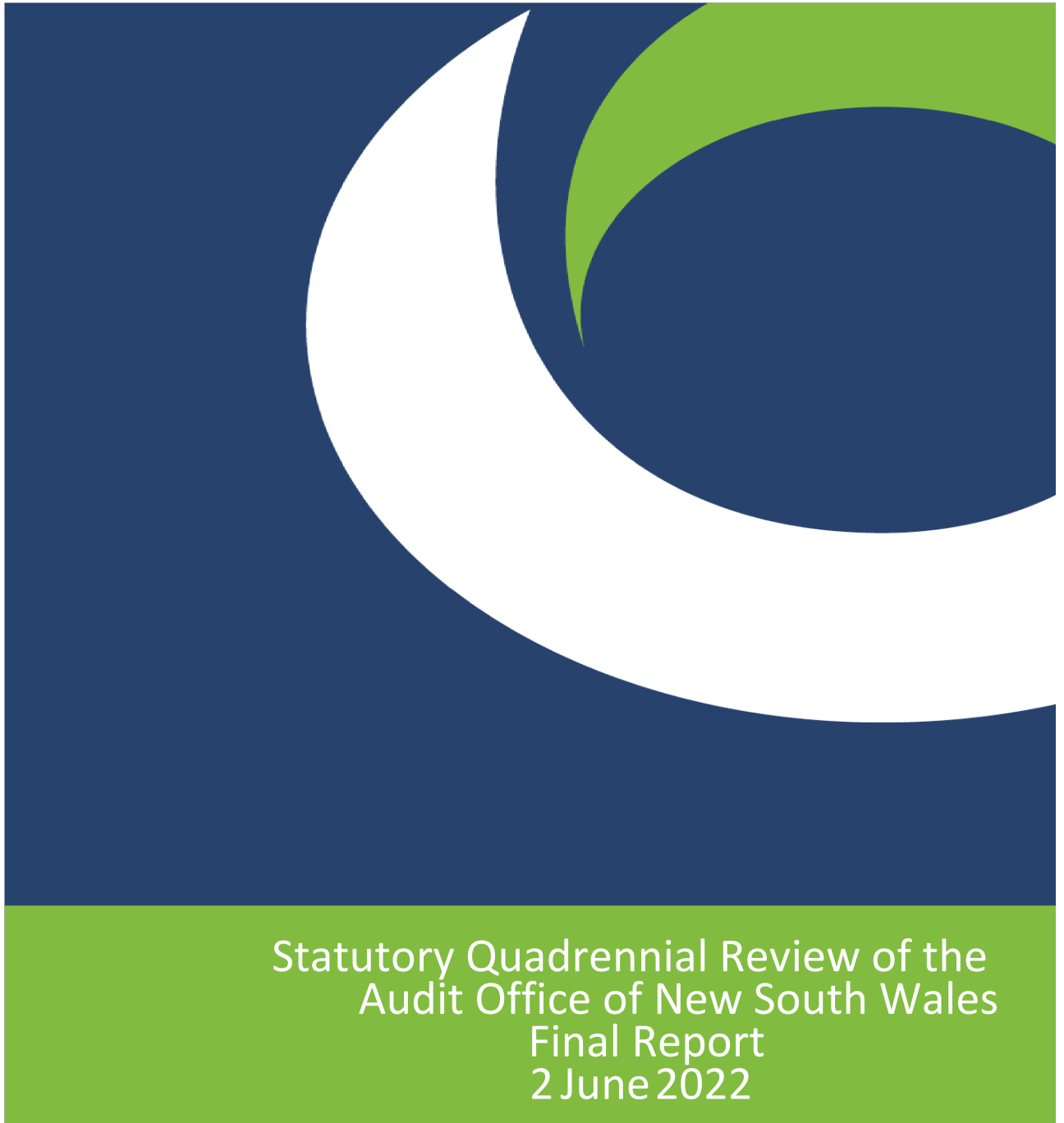
The Committee recommends that the Treasurer amend section 48A of the *Government Sector Audit Act 1983* to provide that the report of a review of the Audit Office under that section be provided directly to the Public Accounts Committee by the appointed reviewer on completion of the report.

- 1.38 Section 48A of the Act sets out the process for conducting a review of the Audit Office by a suitable reviewer appointed by the Committee. The Act states that the reviewer reports to the Auditor-General the results of any review. The Auditor-General is then required to forward such a report to the Committee within two months of receiving it. Upon receipt of the report, the Chair of the Committee must present it to the Legislative Assembly.²⁵
- 1.39 The Committee finds this process to be unusual, with the final report being provided to the Auditor-General before the Committee who have commissioned the review. The Committee recommends that, once completed, the appointed reviewer provides the report directly to the Committee.
- 1.40 The Committee reiterates the value of this peer review process and the important work done in this Quadrennial Review by OCM. This is reflected in the Committee's support for the recommendations made in the report. The Committee also recognises the importance of the Auditor-General having an opportunity to review a summary of findings and proposed recommendations in relation to the review as outlined in the Act. This ensures that there is procedural fairness in the review and allows the Auditor-General to provide additional commentary relying on their expertise. The Committee also notes that any submissions or comments made by the Auditor-General must be included in the report.
- 1.41 However, once this stage of the review is completed and the report is finalised, the Committee considers it more appropriate for the report to be sent directly to it. This would avoid any potential delay in the Committee receiving the report and subsequently providing it to the Parliament. It is likely that the Committee would discuss the final report with the Audit Office prior to finalising its own deliberations. The Committee has included the further comments made by the Audit Office when forwarding the report to it, at Appendix 2. The Committee notes that in other Australian jurisdictions which conduct similar reviews of their Audit Office, none require the final report be provided to the Auditor-General before other relevant parties.²⁶

²⁵ [Government Sector Audit Act 1983](#), s48A(7),(11) and (12)

²⁶ [Audit Act 1994](#) (Vic) ss 82 and 83, [Audit Act 2008](#) (Tas) s 44, [Auditor-General Act 2009](#) (Qld) Pt 4, [Audit Act 1995](#) (NT) s 26, [Auditor-General Act 1996](#) (ACT) Pt 5

Appendix One – Statutory Quadrennial Review of the Audit Office of New South Wales



OFFICIAL: Sensitive NSW Government

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Glossary

ARC	Audit and Risk Committee
ASAE 3000	Standard on Assurance Engagement ASAE 3000 <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>
ASAE 3500	Standard on Assurance Engagement ASAE 3500 <i>Performance Engagements</i>
ASA 220	ASA 220 <i>Quality Control for an audit of a financial Report and Other Historical Financial information</i>
ASQC 1	Auditing Standard ASQC1 <i>Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Service Engagements</i>
AUASB	Auditing and Assurance Standards Board
Auditor-General	The Auditor-General for NSW
Audit Office	Audit Office of NSW
ACAG	Australasian Council of Auditors General
FAB	Financial Audit Branch
INTOSAI	International Organisation of Supreme Audit Institutions
KPI	Key Performance Indicator
PAB	Performance Audit Branch
PAC	Public Accounts Committee of the Parliament of NSW
SOORT	Statutory and other Offices Remuneration Tribunal
ToR	Terms of Reference of the Review set by the Public Accounts Committee

Executive Summary

Introduction

The Public Accounts Committee (PAC) of the NSW Parliament is required under section 48(A) of the *Government Sector Audit Act 1983* (the Act) to conduct a review of the NSW Auditor-General and her Office at least every four years. The review is to examine the auditing practices and standards of the Auditor-General and to determine whether there is compliance with those practices and standards.

This report outlines the findings of our review of the Audit Office of New South Wales (the Audit Office) undertaken in accordance with the Terms of Reference (ToR) issued by the Public Accounts Committee of the NSW Parliament.

The report addresses each of the ToRs.

Scope of the Review

In accordance with the ToRs, the review covered consideration of the Audit Office's:

- Compliance with auditing requirements,
- Adequacy of resourcing,
- Effectiveness of communication,
- Adequacy of management's strategies for the future directions in auditing,
- Value for money, and
- Follow-up from recommendations made in the previous review in 2017.

In conducting the review we also identified a strategic issue about whether the Auditor-General's independence was adequately protected. This matter in our judgement calls for special notice to be reported on.

Overall conclusion

After reviewing the auditing practices and standards of the Auditor-General of NSW, we have concluded that the Auditor-General is complying with those practices and standards in the carrying out of the Auditor-General's functions under the Act. The Audit Office is a well-functioning office that is staffed by professional and dedicated auditors.

Key findings for each of the ToR and the independence of the Auditor-General are presented below. Without affecting our conclusion, we have made three recommendations for the PAC and three recommendations for the Audit Office to assist in further strengthening and improving the effectiveness and efficiency of the Office. The recommendations are listed at the end of the Executive Summary.

Key findings by Chapter

The protection of the Auditor-General's Independence (Chapter 2)

We found there is a risk that there is insufficient protection of the independence of the Auditor-General in terms of:

- Financial autonomy as the process for establishing the budget for the Auditor-General from the Executive is left under the control of the Executive rather than with the advice of Parliament.
- The Auditor-General is not entitled to access certain information, in particular cabinet documents and documents subject to legal professional privilege.
- The inability to expand the scope of a performance audit to third party providers of government services to examine the use to which public monies, resources, or assets have been put.
- The Auditor-General not having complete discretion 'what to audit'. Auditors-General in other jurisdictions have the discretion to accept or decline request audits, that is those audits that are requested by Ministers of Government¹.
- The lack of a mandate to audit non-financial performance measures. By not having such a mandate, the Audit Office cannot provide the independent assurance over the appropriateness and accuracy of agency key performance measures that would help improve confidence in the reliability of the NSW Government's performance data.
- The position of Auditor-General not being designated as an Officer of the Parliament which would signify a more direct relationship with the Parliament in independently assisting the Parliament in holding the Executive to account, and the importance of the role.

The 2017 quadrennial statutory review identified similar findings about the value of the Audit Office examining performance outcomes from government services delivered by private and non-government organisations as occurs with all other Australian audit offices, and having a mandate to provide assurance over performance measures. The 2017 Review also recommended that the Audit Office conduct a review of the NSW Budget annually as a formal requirement to provide assurance to the Parliament. This had occurred between 2012-13 and 2016-17 (this is discussed in Chapter 8).

Audit Methodologies (Chapter 3)

We found in the examination of our sample of audits the Audit Office is conducting audits in compliance with current professional standards and under the *Public Finance and Audit Act 1983* and the *Government Sector Audit Act 1983*.

Adequate Resourcing (Chapter 4)

We found that the Audit Office has adequate resources for its current program of financial and performance audits of Government reporting entities and the day-to day management of the Office. However, the cost recovery model has constrained the Audit Office in investing in improved internal capability and capacity to deliver on emerging issues and innovation.

¹ See Table 1. In cases of request audits the Auditor-General has no option but to undertake the audit.

Communication (Chapter 5)

Overall, the Audit Office's communication with its external stakeholders is effective with results of its annual surveys of Parliamentarians, CFOs and Chairs of Audit Committees showing consistently high results on various communication indicators such as clarity, timeliness, understandability and scope.

We found that auditees agreed that there was a joint understanding of audits and that in the absence of a mandate to proactively conduct a program of compliance audits, the Auditor-General undertakes compliance audits, under the provisions of the performance audit legislation or within financial audits.

Notwithstanding the comments from auditees seeking additional information from the Audit Office, on balance we considered that the approach taken by the Auditor-General to not provide advice is appropriate given the auditing standards, mandate and stated functions provided for within the Act and the Local Government Act. However, given the comments in the surveys about performing additional services for auditees from CFOs and Chairs of Audit and Risk Committees, we consider that the Audit Office should improve communications with its auditees and explain why it does not provide advice or additional non-audit related services to auditees.

Although the Audit Office publishes resources on its website, we found that these publications were not accessed often, and auditees tended to seek other avenues, such as the private sector, to seek advice on financial issues which should be shared with the Audit Office. The Audit Office advised that this is what auditees are required to do if they do not have the expertise within the organisation, as the Audit Office is prevented under auditing and ethical standards from providing technical advice.

Future state (Chapter 6)

The maturity of the Audit Office's risk management approach, systems and processes position it well to adequately assess risks associated with future directions in auditing. While the Audit Office has developed a program of data analytic and technology related initiatives and projects to drive innovation in line with its strategic objectives and future auditing requirements, the ambitious nature and inter-dependencies of this work, together with insufficient resources, puts at risk the successful implementation of this work and achievement of strategic objectives.

Value for money (Chapter 7)

The Audit Office provides value through the execution of its mandate. There is still tension about the assessment of value for money – the Audit Office has focussed on quality, auditees have focused more on cost and what they receive and the PAC, see value, but also have received feedback on cost. A balance can be reached by all groups coming to a joint understanding of what is valued and the cost of that.

Follow up of recommendations from 2017 review (Chapter 8)

While the Audit Office progressed the 2017 PAC review recommendations within its mandate, overall, its implementation of these was not as adequate or as timely as it could have been. Improvement would be supported through strengthening the robustness of governance arrangements related to planning for implementation of recommendations (especially setting of realistic completion timeframes), closer monitoring by recommendation owners against key activity milestones and consistent decision making on recommendation closure. This would help the Office ensure it realises the intended benefits resulting from recommendation implementation.

2022 Review Recommendations

Rec no	Recommendation
1 (Chapter 2)	<p>In order to ensure that the legislation pertaining to independence of the Auditor-General is up-to date, meets the needs of the changing auditing environment, recognises the evolution in how government delivers services to citizens, and is in keeping with that of other Australasian Audit Offices, it is recommended that the PAC engages with the Parliament and relevant stakeholders to examine the current legislative provisions in order to:</p> <ul style="list-style-type: none"> • improve the financial autonomy of the Auditor-General by providing for the Parliament to be involved in determining the adequacy of the Auditor-General's budget, • designate the Auditor-General as an Officer of the Parliament, • remove the restriction in legislation that states that the Auditor-General is not entitled to access certain information, in particular cabinet documents and documents subject to legal professional privilege (section 36(8) and clause 36(6)(b) of the <i>Government Sector Audit Act 1983</i>). • allow the Auditor-General to conduct performance audits of third party providers of government services (follow the dollar powers). • provide for the Auditor-General not to be subject to direction of anyone on 'what to audit', and • increase the Auditor-General's mandate to audit entity non-financial performance measures and the NSW budget.
2 (Chapter 4)	<p>The Audit Office, work with Government to ensure appropriate funding for:</p> <ul style="list-style-type: none"> • activities required to deliver on the emerging issues and innovation required to maintain a contemporary audit practice, and • incidental costs, not recovered by audit fees, across all audit sectors. <p>This is related to Recommendation 3.</p>
3 (Chapter 6)	<p>In implementing the Data Analytics Strategy, the Audit Office should ensure there is adequate resources allocated to reduce the risk of the</p>

Rec no	Recommendation
	<p>initiatives and strategic objectives of the Strategy not being achieved.</p> <p>This is related to Recommendation 2.</p>
<p>4 (Chapter 7)</p>	<p>The Audit Office, as part of its long-term stakeholder engagement plan, should:</p> <ul style="list-style-type: none"> • continue to engage with stakeholders on how they view value including but not limited to audit fees, and • provide further detail to financial statement auditees, including where there are significant changes, as to why the quantum of audit hours/fees and that level of auditing is required.
<p>5 (Chapter 8)</p>	<p>In order to provide assurance to the Parliament, it is recommended that the the PAC engages with the Parliament and relevant stakeholders to provide for the Audit Office to conduct an independent annual review of the NSW Budget.</p>
<p>6 (Chapter 8)</p>	<p>The Audit Office should provide clearer guidance to support greater consistency in decision making on the closure of recommendations, including sufficient documentation to close a recommendation.</p>

Chapter 1: Introduction

This chapter provides the context of the Statutory Quadrennial Review; it explains the role of the New South Wales Government's Public Accounts Committee (PAC) in relation to the Audit Office Review; the requirements of the Review as stipulated in the *Government Sector Audit Act 1983* and the review criteria terms of reference, objective, scope and methodology. It also provides a brief snapshot of the Audit Office.

Review background

The Public Accounts Committee (PAC) is required under section 48(A) of the *Government Sector Audit Act 1983* (the Act) to conduct a review of the Audit Office at least once every four years. The review is to examine the auditing practices and standards of the Auditor-General and to determine whether there is compliance with those practices and standards.

On 23 June 2021, the NSW Governor issued a proclamation appointing 1 July 2021 as the date when the *Public Finance and Audit Act 1983*, the Act under which the Audit Office of New South Wales (Audit Office) functions, was to be repealed and renamed the *Government Sector Audit Act 1983*.

Requirements of the Act

The Act provides for the Audit Office to be reviewed by an independent reviewer at least once every four years. The PAC is responsible for the selection and appointment of the reviewer, for determining the terms and conditions of the selection and appointment of the reviewer, and for determining the terms and conditions of appointment and remuneration. When conducting the review process, the reviewer must comply with any directions given by the PAC.

The reporting requirements for the review are detailed in section 48(A) of the Act and summarised as:

- The reviewer is to report to the Auditor-General on the results of the review and may include such other matters 'as in the judgement of the reviewer call for special notices.
- Before making the report, the reviewer must give the Auditor-General a summary of the findings and proposed recommendations at least 28 days before the reviewer proposes to complete the report on the review.
- The reviewer must include in the report any written submission or comments or an agreed summary of any submissions and comments by the Auditor-General.
- The reviewer's report:
 - may include such information as the reviewer thinks desirable in relation to the subject of the review,
 - must set out reasons for opinions expressed in the report, and
 - may include such recommendations arising out of the review as the reviewer thinks fit to make.

Terms of Reference

The PAC required the Review to assess matters found in the Terms of Reference (ToR):

- the audit methodologies used by the Audit Office, having regard to:
 - compliance with current professional standards and legal requirements, and
 - compliance with statutory responsibilities under the Act,
- whether the Audit Office has adequate resources to carry out its functions, with particular reference to the auditing of the local government sector,
- the effectiveness of the Audit Office's communication with Parliamentarians, particularly in relation to establishing a joint understanding of audits, the scope of compliance programs, and the provision of advice,
- the adequacy of risk-based assessments of future directions in auditing and management strategies to guide such changes,
- whether the audits conducted by the Audit Office provide value for money by meeting their objectives and contributing to improved accountability by government agencies within New South Wales,
- the Audit Office's response to the previous statutory review undertaken in 2017; and
- any other matters that may be referred to the Review by the PAC during the course of the review.

Review Objective, Scope, Approach and Methodology

Review Objective

The objective of the Review was to assess the performance of the Auditor-General for NSW and her Office, as required by the Act and against the provisions of the PAC's ToRs.

Review Scope

The Review examined the performance of the Audit Office since the last Review was conducted in 2017 to the date of this review (December 2021). However, to provide a contemporary perspective on the Audit Office performance, the Review primarily focused on current Audit Office practices and products.

Audit and key non-audit enabling functions were examined during the review. These included the functions, methodology and tools used in the delivery of financial, performance, and compliance audits, as well as staff training frameworks, parliamentary and external relations.

The Review Team pursued matters raised during the review process which related to the Terms of Reference. The Review Team also examined whether the Auditor-General's independence was adequately protected.

Not in scope

The Review scope did not include examination of corporate systems and processes such as the Audit Office's financial statement preparation, recruitment or payroll processes, as these are subject to separate internal and external audit scrutiny. However, the Review did consider internal and external audit reports where those oversight mechanisms identified control or other weaknesses or strengths in recent years.

Review Approach and Methodology

The Review, a performance audit engagement providing reasonable assurance, was conducted in accordance with AUASB assurance standard ASAE 3500 (*Performance Engagements*) and associated requirements including ASAE 3000 (*Assurance Engagements Other than Audits or Reviews of Historical Financial Information*) and ASQC 1 (*Quality Control*).

The Review used the PAC’s specifications outlined in its Terms of Reference as the review criteria.

To assess the matters raised by the PAC in its Terms of Reference, the Review Team undertook procedures including documentation reviews, consultation with stakeholders, qualitative analysis of the impact of the audit process, quantitative analysis of audit data, and examinations of the relevant issues arising from reports to the Parliament. The procedures selected depended on the Review leader’s judgement, including the assessment of the risks of material non-performance of the matters being audited and the sufficiency and appropriateness of audit evidence.

The Review Team also examined the results of the benchmarking studies and stakeholder surveys sponsored by the Audit Office and the Australasian Council of Auditors General (ACAG). These studies and surveys compared the Audit Office’s performance with other Australasian public sector audit offices and determined the level of stakeholder satisfaction with their work.

About the Auditor-General and the Audit Office New South Wales

The Audit Office is a statutory authority established under the Act conducts audits for the Auditor-General.

In broad terms, the Auditor-General is primarily responsible for conducting and reporting on financial and performance audits, but also for a number of other types of examinations and investigations, as seen in Table 1.

Table 1: Audits and related services

Type of audit / audit related service	Coverage
Financial Statement audits	The Auditor-General conducts financial statement audits under Division 2 and section 49 of the Act and under Chapter 13, Part 3, Division 2 and section 422 of the <i>Local Government Act 1993</i> . Financial audits provide an independent opinion on NSW government entities', universities' and councils' financial statements. The independent opinion provides reasonable assurance that their financial statements have been prepared in accordance with accounting standards and the financial reporting provisions of the aforementioned acts. The entities audited cover a diverse range of services and vary in size from large government departments, universities, state superannuation entities and utilities, and local and county councils, to small boards and trusts. Consolidated results from the state sector are tabled in the Total State Sector Accounts. The Auditor-General tables a Report on State Finances which reports on the results of the consolidated General Government Sector and Total State Sector financial statement audits.

Type of audit / audit related service	Coverage
	<p>The Audit Office also produces an Internal Controls and Governance Report which brings together the findings and recommendations from financial audits that relate to the internal controls and governance of the general government sector agencies that account for at least 95 per cent of government expenditure. Nine other reports focused on the outcomes of the financial audits of NSW state government agencies and covered Premier and Cabinet, Treasury, Customer Service, Education, Health, Planning, Industry and Environment, Regional NSW, Stronger Communities and Transport, report on Local Government and Universities.</p> <p>The Auditor-General can use Audit Service Providers to undertake audits. In 2020-21, 30 per cent of Audit Office audits were delivered by private sector firms under contract. The Audit Office supervises contracted firms and retains responsibility for the audit opinions. 85% of the Total State Sector Audit is done with inhouse resources.</p>
Performance audits	<p>Performance audits are conducted under Division 2A of the Act and Division 2A of the Local Government Act. The audits provide information to the NSW Parliament and public about how well government programs and services are delivered. Ultimately, they aim to improve public administration.</p> <p>Performance audits aim to improve public administration through in-depth assessments of whether government entities are effective, efficient and economical in the programs and services they deliver, and that they are delivered in accordance with the law. A performance audit may cover the whole of an entity's operations, one particular activity of an entity, or an activity across a number of entities. Under the Government Advertising Act 2011, the Audit Office is also required to conduct a performance audit of at least one government advertising campaign each year.</p>
Other assurance audits and reviews	<p>The Audit Office provides certain assurance services over Commonwealth grants and payments to the NSW government and local government under Commonwealth legislation. In 2020-21 there were 585² of these audits conducted, mainly of acquittals and attestations of compliance.</p> <p>The Audit Office also annually reviews whether members of NSW Parliament complied with certain requirements outlined in the Parliamentary Remuneration Tribunal's Determination.</p>
Request audits	<p>Request audits are provided for by section 27B(3)(b) and (c) of the Act which provide that in accordance with a request from the Treasurer, a Minister or both Houses of Parliament, the Auditor-General is to provide any audit or audit-related service. The Auditor-General has no option but to undertake an audit or audit related service requested under these provisions.</p> <p>Request audits can include financial or performance audits as well as audits of agencies' compliance with specific legislation, directions and regulations.</p>

² This number includes request audits.

Type of audit / audit related service	Coverage
	<p>Requests for performance audits under s27B(3)(b) and (c) differ from other aspects of the work of the Audit Office, where the Auditor-General is unfettered in the choice of performance audit topics.</p> <p>Request audits are also provided for by section 421E of the Local Government Act. Under this section the Auditor-General may provide any audit-related service to a council at the request of the council or at the request of the Minister or the Secretary of the Departmental of Planning and Environment.</p>
Prescribed audits	<p>Section 45 of the Act requires the Auditor-General to audit the financial report of a prescribed entity and other books and records relating to the entity. Under section 44 of the Act, a prescribed entity includes an entity or entity that controls or manages a fund prescribed in the Government Sector Audit Regulation 2021 (GSA Regulation). These entities are prescribed in the Government Sector Audit Regulation at the request of the Treasurer, a Minister or a prescribed requestor.</p>

Source: Audit Office of New South Wales Annual Report 2020-21

In carrying out her functions, the Auditor-General is required to comply with a range of legislation, including the Act, the *Government Sector Finance Act 1983* and the *Local Government Act 1993* and must have regard to laws affecting agencies and activities subject to audit by the Auditor-General³.

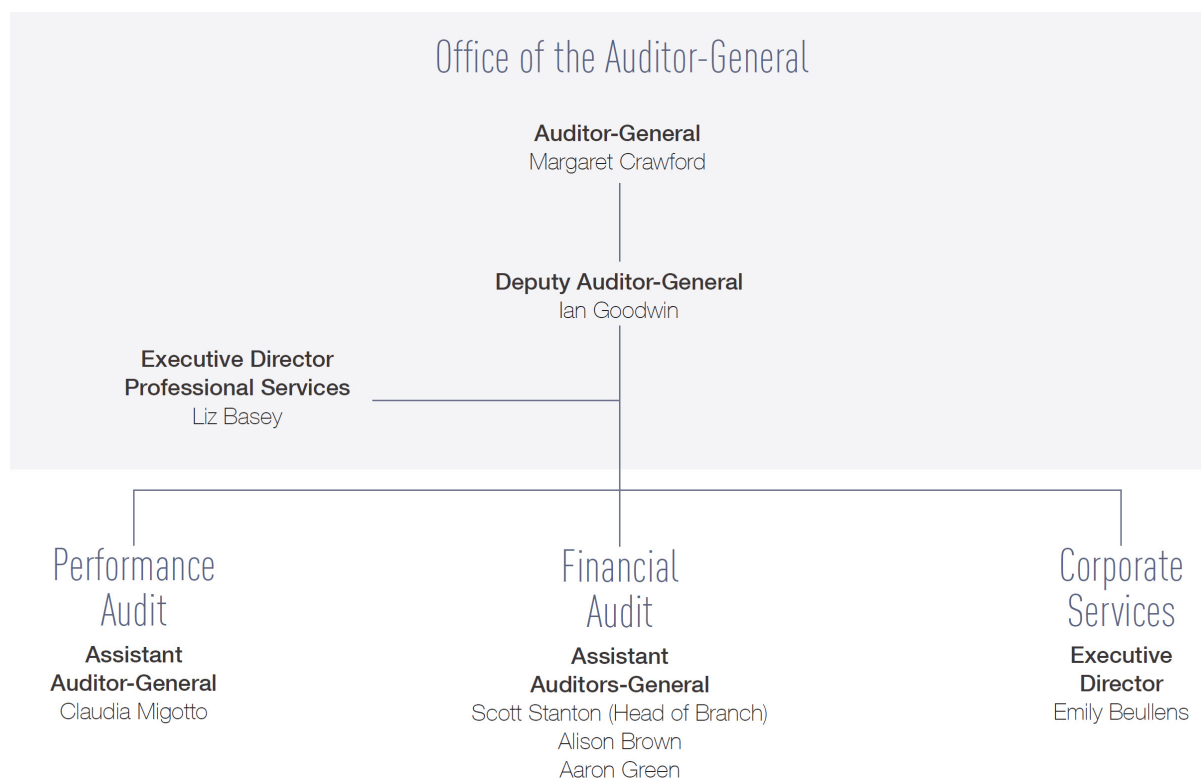
Audit Office Workforce and Budget

Workforce

As at June 2021, the Audit Office had approximately 284 full time equivalent staff and was structured into four business units with the largest being the Financial Audit Branch (FAB), as shown in Figure 1 below. Staffing levels have remained stable over the review period.

³ On 23 June 2021, the NSW Governor issued a proclamation appointing 1 July 2021 as the date when the *Public Finance and Audit Act 1983*, the Act under which the Audit Office of New South Wales functions, was to be repealed and renamed the *Government Sector Audit Act 1983*.

Figure 1: Audit Office Organisational Structure at end of 2021



Source: Annual Report 2020-21, Audit Office of New South Wales

Financial resourcing

The total cost of Audit Office services since 2017-18 is show in Figure 2 below. The total cost of Audit Office services since 2017-18 have increased over this period by 12% with expenses increasing by 7%⁴. The Audit Office operates on a cost recovery basis. The difference between the movement in revenue and expenses over the period is due in part to fluctuations in the year-end actuarial adjustment related to defined superannuation liabilities. It is also due to 2020-21 being an unusual year, whereby budgeted spend on strategic initiatives was deferred to 2021-22. This activity was deferred because of the impact of COVID-19. The Audit Office has budgeted for a loss of \$1.6 million in 2021-22.

Figure 3 below, shows how much each audit type has contributed to total revenue over the review period. The increase in revenue over the period primarily reflects the increase in workload associated with the Audit Office becoming responsible for conducting audits of the local government sector audits being conducted. Figure 4 below shows the composition of audit types in 2020-21 revenues as reported in the Audit Office’s Annual Reports.

⁴ This is outside the control of the Audit Office and can vary substantially from year to year.

Figure 2: Audit Office Financial Results 2017-18 to 2020-21

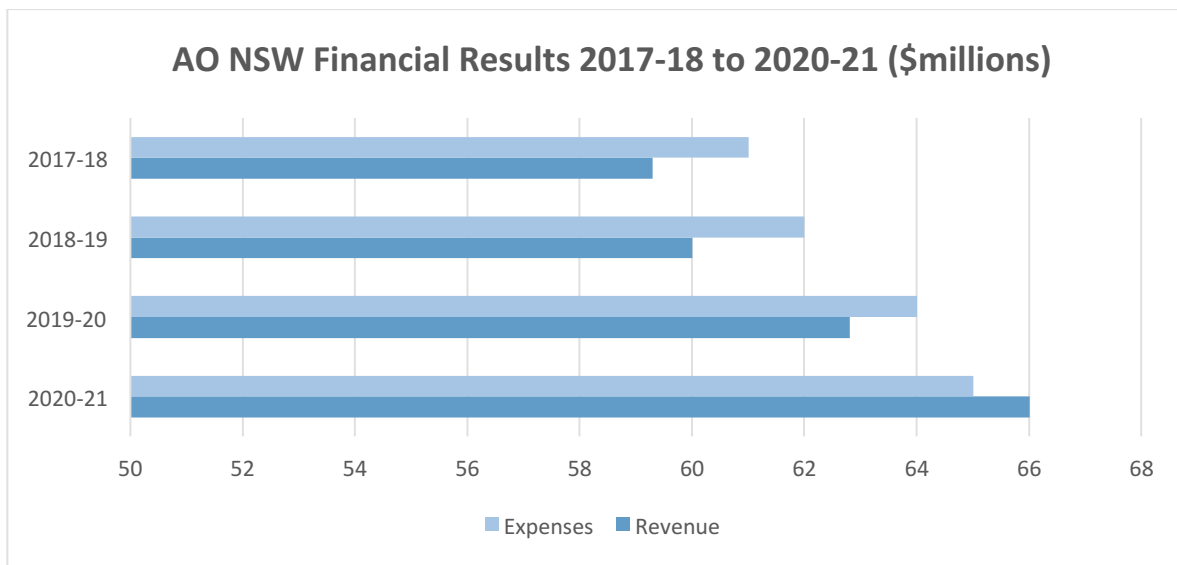
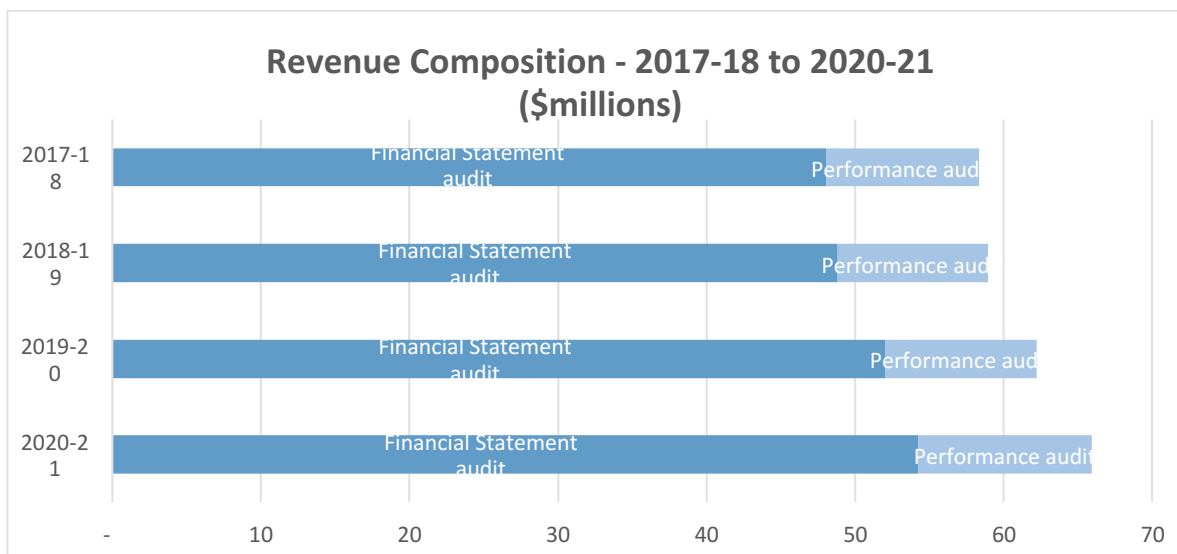
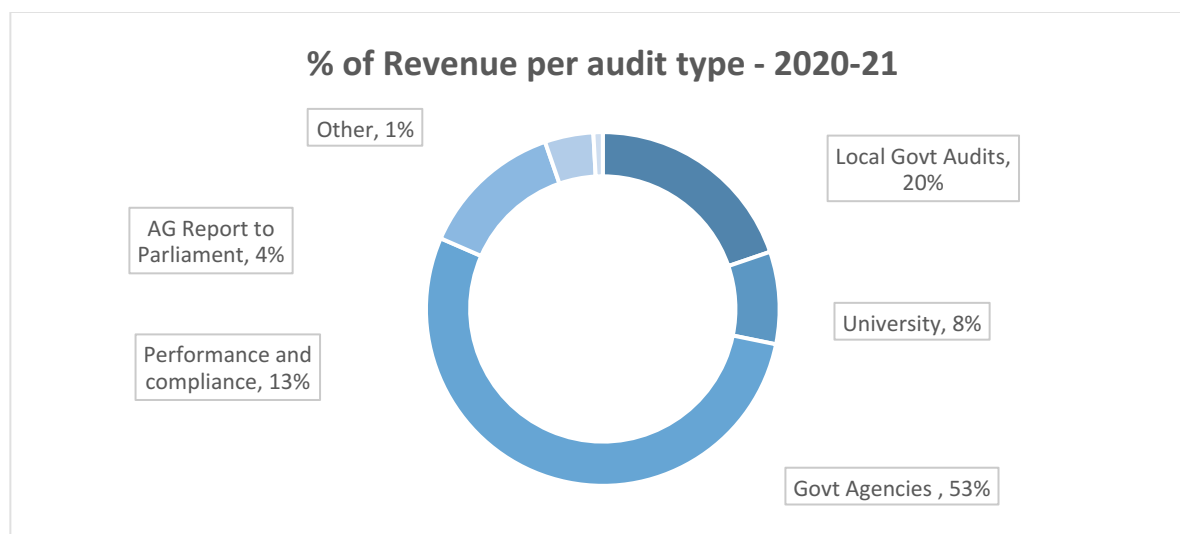


Figure 3 - Revenue sources since 2017-18



Source: Audit Office of New South Wales Annual Reports 2017-18 to 2020-21

Figure 4: Revenue sources 2020-21



Source: Audit Office of New South Wales Annual Report 2020-21

The increased revenue reflects the increase in staffing and audit service providers over this period due to the expanded mandate to audit Local Government in 2017 (refer below for detail of this expanded mandate). Recent minor operating surpluses reflect the impact of the COVID-19 pandemic on progressing strategic initiatives.

Funding model

The Audit Office has a hybrid funding model – financial statement audits are paid for by auditees whilst performance audits and preparing the Reports to Parliament is funded through a government contribution.

Financial statement audits are charged under a cost recovery model, i.e. the cost of the audit equals the fee charged to the auditee. The audit fee reflects the mix of the charge-out rate and the effort required to complete the audit.

The cost recovery charge out rates include funding future capital investments, such as office accommodation, required by the Audit Office.

As such, corporate costs are also funded by a mix of these financial statement audit fees (via an overhead component included in the cost recovery charges) and government contribution.

Impact of Local Government Audits

The Audit Office became responsible for Local Government audits in 2016 with 2016-17 being the first full year of these audits. There has been a significant increase in the number of financial and other assurance audits since this change. Performance audits also increased with the inclusion of local government, however, as these reports are not annual ones, trends are more difficult to determine.

Financially, the increase in financial audits caused a 24% increase in costs and revenue from 2016-17 to 2017-18 which is fully attributable to the increase in activity from local government audits. The increase in financial statement audit workload was absorbed without significantly increasing the Audit Office's staffing levels by adjusting its staffing resource mix and entering into new partnering arrangements with Audit Service Providers. This is reflected in the increase of Audit Service Provider usage from 2016-17 of 10% of audits to 33% from 2017-18 through to 2020-21.

Parliament and auditees

The Audit Office distinguishes clients between the Parliament and its auditees. This reflects that the Auditor-General has a mandate to undertake these audits rather than being requested by the agency.

This distinction is used throughout this report.

Report structure

This report is structured in accordance with the PAC's ToRs as described in Table 2 below with one additional chapter (Chapter 2) on the Auditor-General's independence. This is not a ToR but is an issue which the Review Team felt should be reported to the Committee.

Table 2: Report structure

Structure of the Review report	
Chapter 1:	Introduction
Chapter 2:	<p>The protection of the Auditor-General's Independence</p> <p>Assess the Auditor-General's legislative safeguards for independence against established principles and in comparison, with other Australasian Audit Offices, and consider how the Auditor-General's legislative safeguards for independence have operated in practice.</p>
Chapter 3:	<p>ToR 1 – Audit Methodologies</p> <p>Assess the audit methodologies used by the Audit Office, having regard to:</p> <ul style="list-style-type: none"> • compliance with current professional standards and legal requirements, and • compliance with statutory responsibilities under the <i>Public Finance and Audit Act 1983</i>.
Chapter 4:	<p>ToR 2 – Resourcing</p> <p>Assess the adequacy of the Audit Office's resources to carry out its functions, with particular reference to the auditing of the local government sector.</p>
Chapter 5:	<p>ToR 3 – Communication</p> <p>Assess the effectiveness of Audit Office's communication with Parliament and auditees, particularly in relation to establishing a joint understanding of audits, the scope of compliance programs, and the provision of advice.</p>

Structure of the Review report	
Chapter 6:	<p>ToR 4 – Future state</p> <p>Assess the adequacy of risk-based assessments of future directions in auditing and management strategies to guide such changes.</p>
Chapter 7:	<p>ToR 5 – Value for Money</p> <p>Assess whether the audits conducted by the Audit Office provide value for money by meeting their objectives and contributing to improved accountability by government agencies within New South Wales.</p>
Chapter 8:	<p>ToR 6 – Response to 2017 Statutory Quadrennial Review recommendations</p> <p>Assess the Audit Office's response to the previous statutory review undertaken in 2017.</p>
Appendices:	
Appendix A:	Stakeholders consulted during the Audit Office Review
Appendix B:	2017 PAC Review recommendations implemented
Appendix C:	2017 PAC Review recommendations outside the control of the Audit Office

Acknowledgement

The Review Team thanks the PAC for the opportunity to undertake the Review, and Committee staff for their support and advice. We have appreciated the dedicated assistance of the Audit Office throughout the Review and valued the time and insights of all stakeholders consulted.

Chapter 2: The protection of the Auditor-General's independence

This chapter provides information on a matter that the Reviewer considers desirable to report on, namely whether the Auditor-General's independence is protected adequately. Whilst this is not expressly included in the ToRs, the Act provides for the Reviewer's report to include such information as the reviewer thinks desirable in relation to the subject of the review.

We considered:

- the Auditor-General's legislative safeguards for independence against established principles and in comparison, with other Australasian Audit Offices, and
- how the Auditor-General's legislative safeguards for independence have operated in practice.⁵

Essential principles for effective public sector auditing

Fundamental to the effective functioning of the Auditor-General is the capacity to execute the role independently and free from influence. ACAG has accepted, based on the International Organisation of Supreme Audit Institutions (INTOSAI)⁶, that there are eight core independence principles that are essential requirements for effective public sector auditing as shown in Table 3 below.

Table 3: Independence principles essential for effective public sector auditing

Principles	
1.	An appropriate and effective legal framework.
2.	The independence of Auditors-General, including security of tenure and legal immunity in the normal discharge of their duties.
3.	A sufficiently broad mandate and full discretion, in the discharge of functions.
4.	Unrestricted access to information.
5.	Reporting rights and obligations.
6.	Freedom to decide the content and timing of audit reports and to publish and disseminate them.
7.	Existence of effective follow-up mechanisms on Auditor-General recommendations.
8.	Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.

Source: International Organisation of Supreme Audit Institutions (INTOSAI, see www.intosai.org).

⁵ Most of this chapter has been sourced from the ACAG report on the Independence of Auditors General A 2020 update of a survey of Australian and New Zealand legislation. Authored by Dr Gordon Robertson March 2020

⁶ The International Organization of Supreme Audit Institutions (INTOSAI) operates as an umbrella organization for the external government audit community. It is a non-governmental organization with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations.

In 2009, the legislative frameworks that then existed in New Zealand, the Commonwealth of Australia and in each Australian State and Territory were surveyed for key factors that contributed to each INTOSAI principle. The results are shown in Table 4 below. The extent to which each factor was subject to the control of Executive government was given a score ranging from zero, where legislation was silent or where the factor was directly controlled by Executive, to ten, where the factor was embedded within the jurisdiction's Constitution. The scores were aggregated to give an overall indication of the extent to which each jurisdiction's legislative framework enhanced independence and reduced the opportunity for Executive government to influence the Auditor-General. In 2009, the NSW Audit Office was ranked equal fifth out of ten Audit Offices.

The survey was updated in 2013 to assess the effect legislative amendments in the intervening years had had on the extent of protection from Executive influence in each jurisdiction. In 2013, the Audit Office was ranked seventh.

Since the 2013 survey, the legislation governing Auditors-General has been amended in several jurisdictions to help improve the independence of Auditors-General. The survey was repeated in 2020 to assess the extent the changes to legislation had made to the protection from Executive influence, the results of which are shown in Table 4 below. The survey report considered that Auditor-General independence safeguards continue to be less well developed in New South Wales than in the majority of the other Audit Offices in Australia and New Zealand. The Audit Office was ranked equal fifth with the Commonwealth in 2009 and slipped to seventh in 2013 and eighth in 2020 largely because other jurisdictions' legislation had been amended which improved their independence ranking.

Table 4: Comparative ranking of legislative safeguards to independence among Australasian Audit Offices

	Total score	Ranking	Total score	Ranking	Total score	Ranking
	2009		2013		2020	
NT	199	10	199	10	203	10
SA	240	9	240	9	262	9
QLD	246	8	329	3=	327	6
Commonwealth	275	5	287	6	287	7
NSW	275	5	275	7	283	8
ACT	274	7	274	8	342	1
VIC	313	4	313	5	337	3
TAS	327	3	329	3=	329	5
WA	334	2	334	2	334	4
NZ	338	1	338	1	338	2

Source: Independence of Auditors General. A 2020 update of a survey of Australian and New Zealand legislation. A report commissioned by the Australasian Council of Auditors General. March 2020

In examining why the audit office of Australia's most populous state was now ranked the third lowest, we examined the principles that impact on the independence of Auditors-General and compared four of the principles (refer Table 3) with the legislation that governs the activities and independence of the NSW Auditor-General and compared them with other audit offices.

Principle 1 An appropriate and effective legal framework

The role of the Auditor-General relative to other parts of the government or public sector is of considerable importance in determining his or her authority, and the extent to which the role is acknowledged, accepted and supported by all of the parties involved. Fundamental to the effective functioning of an Auditor-General is the capacity to execute the role independently and free from influence. Legislation that explicitly mandates the independence of the office is therefore an essential component of an effective legislative framework. There are some legal framework factors that need to be considered.

- **Role and Responsibility.** A number of Auditors-General⁷ are designated as Independent Officers of the Parliament through the Constitution. This designation signifies a more direct relationship with the Parliament in independently assisting the Parliament in holding the Executive to account. The Executive cannot abolish the position without a large Parliamentary majority and a referendum. The Audit Office is mandated by legislation so it requires an amendment to the legislation to abolish it. However the Auditor-General is not recognised as an independent officer of Parliament.
- **Independence of the Office is mandated in enabling legislation.** Enabling legislation that provides for the Office not being subject to direction of anyone on 'what to audit, how to audit and when to audit' is a strong indicator of independence. Some jurisdictions allow the Executive to direct these matters (for example in NSW the Auditor-General has no discretion on whether to conduct audits requested by both Houses of Parliament, the Treasurer or any other Minister thereby potentially tying up resources that could have been directed to other matters).

Principle 3 A sufficiently broad mandate and full discretion, in the discharge of functions

Lack of discretion on the selection and timing of audits

To be fully independent, an Auditor General requires complete discretion in exercising his or her powers and in the way his or her functions are carried out. Importantly, an Auditor General should not be subject to direction from anyone as to whether an audit is to be conducted, how audits are conducted, or the priority any audit work is given.

The NSW Auditor-General does not have complete discretion on 'what to audit' as the Act requires the Auditor-General to 'provide any particular audit or audit-related service to Parliament at the joint request of both Houses of Parliament and to provide any particular audit or audit-related service to the Treasurer at the request of the Treasurer or to any other Minister at the request of that other Minister'. Although the Auditor-General has the discretion on how to conduct such audits and their timing, the lack of discretion on what to audit has caused delays in the Auditor-General's program of audits as staff are redeployed to the request audits.⁸

⁷ Victoria, New Zealand, the Commonwealth, Western Australia and the Australian Capital Territory

⁸ In 2020-21 there were three request audits (Acquisition of 4-6 Grand Avenue Camellia, The effectiveness of the financial arrangement and management practices in four integrity agencies, and Service NSW's handling of personal information). The Audit Office stated these had a significant impact on the intended performance audit program.

Auditors-General in other jurisdictions have the discretion to accept or decline such request audits.

Follow the dollar powers

The independence of an Auditor-General is significantly influenced by the type of audit work enabled by legislation. In terms of mandate coverage, the Auditor-General should be empowered to extend the scope of performance audit to third party providers of government services. This recognises that new forms of public sector management, joint ventures and outsourcing have changed the way the public sector activities are delivered.

There has been a strong international trend to broaden the powers of Auditors-General so that they can audit the use to which public monies, resources, or assets have been put in a way that extends well beyond the traditional role of providing assurance about the financial statements issued by entities.

In Western Australia and Tasmania, legislation includes a provision that enables the Auditor-General to examine or investigate any matter relating to public resources of any kind⁹. This is often known as 'follow the dollar' powers. The legislation allows the Auditor-General to follow the money wherever it has gone regardless of the legal nature of any recipient or beneficiary. If an agency performs any of its functions in partnership or jointly with another person or body; through the instrumentality of another person or body; or by means of a trust, the person, body or trust becomes a "related entity". The Commonwealth, South Australian, Australian Capital Territory and the Victorian Auditors General all have a mechanism that they can conduct an audit of a non-public body.

The Auditor-General of NSW does not have such powers and as such continues with entity-focussed performance audits of government departments, statutory authorities and other predetermined types of public sector entities. Although the Audit Office, through its performance audits, can scrutinise the arrangements State government agencies put in place to deliver outcomes through other agents, the Act does not provide the Auditor-General with the capacity to directly examine how the funds are actually applied or the performance outcomes from government services delivered by the private and not for profit sectors.

The Audit Office advised, given the growing use of outsourced service delivery and other contracting arrangements that can't be directly audited in performance audits, the scope of public money that it does have direct oversight over is effectively reduced.

Performance Information

The Auditor-General does not have the mandate to perform audits of non-financial performance measures other than by conducting such examinations as part of the performance audit mandate. By not having specific legislative provisions, the Audit Office cannot provide the independent assurance over the appropriateness and accuracy of agency key performance measures and indicators that would help improve confidence in the reliability of the NSW Government's performance data.

⁹ It is important to note that these investigative provisions do not depend on the Auditor-General becoming the 'auditor of the entity' in the traditional sense. Instead, they take account of the changes in the way significant quantities of public resources are being deployed by governments and address some of the more recently developed service delivery mechanisms and structures to which governments either commit public resources or forego other public benefits. Source: Independence of Auditors General. A 2020 update of a survey of Australian and New Zealand legislation. A report commissioned by the Australasian Council of Auditors General, March 2020, page 30.

While recognising that NSW has a lesser requirement with regards to performance information which can be audited in performance audits, the Review notes other Auditors-General, such as the Commonwealth, Western Australia and New Zealand do have such a mandate.

Principle 4 Unrestricted access to information

One of the principles for the independence of Auditors-General is unrestricted access to information in a timely and unfettered, way. Access to sensitive information may be required by auditors to understand fully the context of the matter being audited.

Cabinet Information

The Auditor-General advised that according to section 36(8) of the Act, the Auditor-General and the Audit Office are not entitled to access information that is Cabinet information, as defined under the *Government Information (Public Access) Act 2009*.

The Audit Office advised changes were made to the Act in 1993 that established a legislative restriction on access to cabinet information that could previously be accessed. Although cabinet information is generally provided to the Audit Office, access is subject to the discretion of the government. The Auditor-General's lack of entitlement to access cabinet information and the very broad definition of cabinet information in the *Government Information (Public Access) Act 2009* places practical limitations on the effectiveness of the Auditor-General's audit work. As the current access conventions are at the discretion of the government of the day, the lack of legislative power to access Cabinet material creates a risk that a future government may deny access to this material altogether. The Audit Office advised that current practices and recent developments are for more information being claimed to be Cabinet information.

The Commonwealth Auditor-General and the Victorian Auditor-General can access Cabinet documents in an efficient process as it is provided for in their legislation. The onus is on both Offices to ensure they treat the information sensitively.

Legal professional privilege

The Audit Office advised that a recent development in its access to documents is the practice of auditees refusing access to documents because the documents were subject to legal professional privilege. The Act provides that the Auditor-General is not entitled to access documents that are subject to legal professional privilege. The Audit Office advised that this was becoming a widening practice with the impact being that the audit process was delayed while the negotiations for access to the relevant documents continued.

Principle 8 Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources

Financial autonomy, that is the independence of the process for establishing the budget for the Auditor-General from the Executive, and the guarantee that the full amount of parliamentary appropriations to the Audit Office are available are essential principles for preserving the independence of the Auditor-General.

While the normal funding process requires the Government to be held accountable for the budget's overall make-up and composition, this process potentially allows the Executive to restrict the amount of financial resources available to Audit Offices with the risk that the Auditor-General is rendered ineffectual.

Both the United Kingdom and New Zealand Parliaments decide on the level of funding for the Auditor-General after considering submissions from the Government and from the respective Audit Offices.

None of the Australian jurisdictions have adopted this level of separation of the budget from the control of the Executive although some recent legislation in other jurisdictions (Commonwealth, Victoria, Queensland and Western Australia) have provided for a Committee of the Parliament to have some input into the budget process.

In NSW, funding that is available to the Auditor-General and the Audit Office for performance and compliance audits, and Reports to Parliament, is entirely controlled by the Executive. As detailed in Chapter 4: Adequate Resourcing, the application of efficiency dividends on the Audit Office's funding can be applied, even if it is subsequently determined not to apply them. As the Auditor-General stated in her report on the effectiveness of the financial arrangements and management practices of the four integrity agencies¹⁰ of which the Audit Office was not included, the mechanisms for applying efficiency dividends and budget savings to the integrity agencies 'create tensions with their independent status'. In our view, this statement applies equally to the Audit Office as it does to the other NSW integrity agencies.

In comparison, the Commonwealth Auditor-General is guaranteed availability of the full amount of the parliamentary appropriations to the Audit Office. This means that the provisions of the Appropriation Act that allows the Commonwealth Finance Minister to determine that a departmental item or an administered item is to be reduced, does not apply to the Commonwealth Audit Office.

Recommendation 1

In order to ensure that the legislation pertaining to independence of the Auditor-General is up-to date, meets the needs of the changing auditing environment, recognises the evolution in how government delivers services to citizens, and is in keeping with that of other Australasian Audit Offices, it is recommended that the PAC engages with the Parliament and relevant stakeholders to examine the current legislative provisions in order to:

- improve the financial autonomy of the Auditor-General by providing for the Parliament to be involved in determining the adequacy of the Auditor-General's budget,
- designate the Auditor-General as an Officer of the Parliament,
- remove the restriction in legislation that states that the Auditor-General is not entitled to access certain information, in particular cabinet documents and documents subject to legal professional privilege (section 36(8) and clause 36(6)(b) of the *Government Sector Audit Act 1983*).
- allow the Auditor-General to conduct performance audits of third party providers of government services (follow-the-dollar powers).
- provide for the Auditor-General not to be subject to direction of anyone on 'what to audit', and
- increase the Auditor-General's mandate to audit entity non-financial performance measures and the NSW Budget.

¹⁰ Audit Office of New South Wales, The effectiveness of the financial arrangements and management practices in four integrity agencies, 20 October 2020.

Conclusion

We found there is a risk that there is insufficient protection of the independence of the Auditor-General in terms of:

- Financial autonomy as the process for establishing the budget for the Auditor-General from the Executive is left under the control of the Executive rather than with the advice of Parliament.
- The Auditor-General is not entitled to access certain information, in particular cabinet documents and documents subject to legal professional privilege.
- The inability to expand the scope of a performance audit to third party providers of government services to examine the use to which public monies, resources, or assets have been put.
- The Auditor-General not having complete discretion 'what to audit'. Auditors-General in other jurisdictions have the discretion to accept or decline request audits, that is those audits that are requested by Ministers of Government¹¹.
- The lack of a mandate to audit non-financial performance measures. By not having such a mandate, the Audit Office cannot provide the independent assurance over the appropriateness and accuracy of agency key performance measures that would help improve confidence in the reliability of the NSW Government's performance data.
- The position of Auditor-General not being designated as an Officer of the Parliament which would signify a more direct relationship with the Parliament in independently assisting the Parliament in holding the Executive to account, and the importance of the role.

The 2017 quadrennial statutory review identified similar findings about the value of the Audit Office examining performance outcomes from government services delivered by private and non-government organisations as occurs with all other Australian audit offices, and having a mandate to provide assurance over performance measures. The 2017 Review also recommended that the Audit Office conduct a review of the NSW Budget annually as a formal requirement to provide assurance to the Parliament. This had occurred between 2012-13 and 2016-17 (this is discussed in Chapter 8).

¹¹ See Table 1. In cases of request audits the Auditor-General has no option but to undertake the audit.

Chapter 3: Term of Reference 1 – Audit Methodologies

This chapter examines Review Term of Reference 1.

Assess the audit methodologies used by the Audit Office, having regard to:

- compliance with current professional standards and legal requirements, and
- compliance with statutory responsibilities under the *Public Finance and Audit Act 1983* (before 1 July 2021) and the *Government Sector Audit Act 1983* (after 1 July 2021)

Auditors and assurance practitioners, including the Audit Office, are required to conduct audits in compliance with the Australian Auditing Standards issued by the Auditing and Assurance Standards Board. The Audit Office must also comply with statutory responsibilities with the *Public Finance and Audit Act 1983* (before 1 July 2021) and the *Government Sector Audit Act 1983* (after 1 July 2021).

Financial Audit

We selected a sample of 2020-21 completed audit files covering councils, a principal department, and a statutory authority to assess whether the methodologies used by the Audit Office were in accordance with current professional standards and statutory responsibilities. We examined compliance against the Australian Auditing Standards from planning to reporting. We interviewed Audit Office staff and confirmed they understood the changes to the Australian Audit Standards since 2017 and were trained and supported to remain up to date.

Based on the samples we reviewed we found:

- the Auditor-General's audit methodology complies with the Australian auditing standards and all legal and statutory responsibilities,
- the Auditor-General delivers audit opinions and reports within the required legislative timeframe,
- changes to Australian Auditing Standards since 2017 had been incorporated into the audit program and communicated to staff and to affected audited entities,
- conclusions expressed in the audit opinions are supported by reliable and adequate audit evidence and documentation.

Additionally, data analytics is used across audits for testing journals. While not a requirement of the Australian Auditing Standards the Audit Office could benefit from greater use of data analytics. It may help improve audit planning since analytics can identify problem areas, uncover anomalies and potentially provide for higher quality audits as more data can be sampled.

Performance Audit

We reviewed a sample of performance audits completed in 2021 to assess whether they were conducted in compliance with the Australian Auditing Standards, ASAE 3500, Performance Engagements.

The sample included a spread of agencies and types of audits and included a request audit under s27B(3)(c) of the Act¹² or under 421E of the *Local Government Act 1993*¹³. We examined compliance against the standard from planning to reporting.

Based on the samples reviewed we found:

- the Audit Office has sound processes for generating, refining and approving performance audit topics,
- audit plans included consistent objectives, criteria and scope and were clearly communicated to auditees,
- the Performance Audit Guide was closely linked to the audit standard, facilitating compliance,
- performance audits were conducted in compliance with the requirements of the auditing standard and legislative requirements, and
- conclusions expressed in the audit opinions were supported by reliable and adequate audit evidence and documentation.

Quality Control

We examined the Audit Office system of quality control and found the Audit Office maintains an adequate system in both financial and performance audit in compliance with ASQC '1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and other Financial Information, other Assurance Engagements and Related Services Engagements' and, if applicable, ASA 220 'Quality Control for an audit of a financial Report and Other Historical Financial information'.

The Audit Office Quality Audit Review Committee (QARC) monitors the quality of products and provides the Audit Office with reasonable assurance that it complies with the requirements of ASQC1 and ASA 220. The QARC's role is also to review the effectiveness and efficiency of Audit Office quality control processes. The QARC comprises of an external member Chair, with appropriate experience and qualifications and the Deputy Auditor-General. The QARC is directly responsible and accountable to the Auditor-General.

It is the Office Executives role to receive QARC reports, confirm policies and procedures, monitor learning and development, monitor resourcing and strategic risks relating to quality.

An Engagement Quality Control Reviewer (EQCR) is applied in both performance and financial audit. Their primary role is to check compliance with Audit Standards and assess that the audit followed Audit Office methodology. Policies and procedures are designed to ensure that the EQCR provides an objective evaluation of the significant judgements made by the audit team. Audit Office policy requires an EQCR to be appointed to all audits classified as 'greater than normal' engagement risk.

¹² Request audits are provided for by section 27B(3)(b) and (c) of the Act which provide that in accordance with a request from the Treasurer, a Minister or both Houses of Parliament, the Auditor-General is to provide any audit or audit-related service.

¹³ Request audits are also provided for by section 421E of the Local Government Act. Under this section the Auditor-General may provide any audit-related service to a council at the request of the council or at the request of the Minister or the Secretary of the Department of Planning and Environment.

A Technical Issues Committee, provides a mechanism for financial audit staff to consult on difficult or contentious matters and where necessary, deal with and resolve differences of opinion. For performance audit contentious or difficult issues are raised to a sufficiently high management level for resolution.

Peer reviews by other audit offices (for performance audit and corporate governance) and external reviews (for example by ASIC for financial audit) are commissioned and the review outcomes are reviewed by the QARC and the Office Executive. The QARC's role is to ensure the quality review process, conclusions and actions are communicated to the Auditor-General.

There are policies and guidelines for quality control review such as: Quality Assessment and Remediation Guidelines, Policy on Monitoring Activities (separate for financial statements and performance audit). There is a charter for QARC that sets out the composition, the role and the responsibilities of the QARC.

The Audit Office has procedures to provide reasonable assurance that it deals with complaints and allegations that, amongst other things, the assurance work performed does not comply with professional standards. Complaints and allegations may originate from within or outside the Audit Office, they may be made by Audit Office staff or contractors or third parties.

Conclusion

We found in the examination of our sample of audits the Audit Office is conducting audits in compliance with current professional standards and under the *Public Finance and Audit Act 1983* and the *Government Sector Audit Act 1983*.

Chapter 4: Term of Reference 2 – Adequate Resourcing

This chapter examines Review Term of Reference 2.

Assess the adequacy of the Audit Office's resources to carry out its functions, with particular reference to the auditing of the local government sector.

Audit Office's Budget History

The Audit Office has a hybrid resourcing framework where financial statements audit costs are recovered from auditees and performance audit and Report to Parliament costs are funded through a government contribution. Corporate costs are funded from both audit streams.

The Audit Office was exempted from government's efficiency dividends from 2016-17 to 2018-19. The Audit Office reported that it had contributed to efficiency dividends prior to this from 2011 and that no efficiency dividends have been ascribed to the Audit Office for the 2020-21 or 2021-22 financial years. As part of the 2019-20 State budget, the Department of Premier and Cabinet did attempt to allocate \$6.2m of efficiency savings to the Audit Office across the forward estimates and planning years, however the Audit Office disputed the calculation and the saving was never applied to the Audit Office's 10 year budget estimates.

The Audit Office's mandate was extended in October 2016 to include the financial and performance auditing of local government. For financial statement audits this represented an approximate increase in audit activity of 30% as well as two to three performance audits a year. The Audit Office received an increase in the contribution from Government for the additional performance audits, however, the cost of establishing the capability to undertake local government financial statement audits was funded by the Audit Office's existing resources, which the Audit Office costed at approximately between \$1.2m and \$1.5m.

The Audit Office also received ongoing budget supplementation for performance audit activity in the last two financial years to rebase the contribution from Government for performance audit. However, other than this the Audit Office has not received additional funding.

Audit Office's Budgeting Process

We found that the Audit Office has a robust budgeting framework and process. All resource allocations are linked to corporate strategic objectives and risks. The process combines:

- bottom-up and top-down approaches considering available audit hours and charge out rates,
- cashflows and capital budgeting are forecast with a 10 year horizon, and
- review by a sub-committee of the Office Executive prior to its final approval.

The Office Executive has a strong focus on responsible financial management providing oversight of financial results on a regular basis. Internal financial reporting is comprehensive including reviewing staffing levels and required recruitment activity.

The Audit Office has developed workforce strategies and plans to position itself to offer its staff a rewarding employment experience and to provide the Audit Office a competitive advantage in continuing to attract quality staff.

Strategic resourcing issues

Most of the Audit Office's costs are for human resources, in particular – experienced audit professionals and contracted audit services from Audit Service Providers, most of which are funded through cost recovery mechanisms. Staffing levels have remained constant over the review period, as the increase in direct audit activity related to local government has mostly been addressed by an increase in the usage of Audit Service Providers and, as advised by the Audit Office, an increase in productivity. The Audit Office advised that it competes for its staff with other government organisations as well as the private sector due to their calibre and other external drivers in the labour market.

The Audit Office must balance competing price increases, potential external efficiencies and maintaining the level of financial statement audit fees. It has largely broken even over the review period. This is to the Audit Office's credit as over the review period the Audit Office, as previously stated, stood up the capability for local government audits as well as maintaining its operations and staff welfare during the COVID-19 pandemic.

We note that the financial result did come at the expense of other, often strategic priorities such as driving data analysis innovations. We noted from two annual budget briefings that budgets would be balanced by leaving two empty corporate positions unfilled for a period of time and harvesting the financial benefit of the time lag that occurs in recruitment activities. Additionally, when strategic projects were progressed they were resourced internally with staff taking on roles in addition to their primary role.

In our view, the Audit Office is not assisted in this situation by the cost recovery funding model. The cost recovery model does not allow revenue to be created and as such does limit funding for investing in improved capability or dealing with emerging issues, for example data analytics or cyber security. The Audit Office, like all other organisations, requires ongoing investment to maintain capability and capacity to deal with emerging issues but has limitations as it is only able to recover direct audit costs and some directly apportioned corporate costs.

The cost recovery model¹⁴ makes it hard to recoup the incidental costs of managing the local government mandate or increasing costs and complexities in the other audit sectors. These include contract management, stakeholder engagement, and the corporate servicing of the upswell in operations. We found that the Audit Office has absorbed these costs internally which increases the pressure on addressing strategic priorities and in turn, the ability of the Audit Office to discharge its mandate.

The Audit Office acknowledged the risk and is concerned that it does not have sufficient funds to progress some key strategic priorities, such as data analytics.

The 2013 and 2017 quadrennial statutory reviews identified similar findings.

¹⁴ A cost recovery model only charges for costs incurred to provide the service being charged for.

Recommendation 2

The Audit Office, work with Government to ensure appropriate funding for:

- activities required to deliver on the emerging issues and innovation required to maintain a contemporary audit practice, and
- incidental costs, not recovered by audit fees, across all audit sectors.

This is related to Recommendation 3.

Conclusion

We found that the Audit Office has adequate resources for its current program of financial and performance audits of Government reporting entities and the day-to-day management of the Office. However, the cost recovery model has constrained the Audit Office in investing in improved internal capability and capacity to deliver on emerging issues and innovation.

Chapter 5: Term of Reference 3 – Communication

This chapter examines Review Term of Reference 3.

Assess the effectiveness of Audit Office's communication with Parliament and auditees, particularly in relation to establishing a joint understanding of audits, the scope of compliance programs, and the provision of advice.

The Review Team considered: communication strategy, assessment of communication with Parliament and auditees, joint understanding of audits, compliance program and provision of advice.

External Stakeholder Engagement Strategy

The Audit Office has an External Stakeholder Engagement Strategy dated December 2020 which was designed to guide the voice and approach to stakeholder engagement and deliver a Roadmap of priorities over the next three years.

The key external stakeholders are parliamentarians, the PAC and other parliamentary committees, the auditees (State Government entities, Local Government, and Universities), the Community and the media. The Strategy reflects what stakeholder groups value, which includes the Audit Office's independent voice and technical expertise; an Audit Office that is responsive to their needs, alerts notifying of upcoming publication dates of audit reports and a general public that is well informed about the Audit Office's mandate and its valuable contribution to government administration.

The Audit Office advised that although not shown in the Roadmap, there are a series of project plans managed internally for deliverables under the Roadmap and a reporting framework on progress, which includes a steering committee effective from November 2021 and quarterly reporting to the Office Executive. The Audit Office considered that the strategy works well and is fit for purpose.

Communication with Parliament

The Audit Office's primary method of communication with the Parliament (representing the people of NSW) is through the PAC by the annual reporting of the outcomes of financial statements of all reporting entities and a series of performance audits (examining efficiency, economy, effectiveness and compliance with the law), of NSW state and local Government and University sectors.

Other communication channels include attendance at seven parliamentary committee hearings and supported nine committee hearings in 2020-21, and individual contact with parliamentarians and committees. Citizens are encouraged to contribute to the work of the Audit Office by suggesting a new performance audit topic, contributing to a performance audit planned or in progress, and reporting financial waste or mismanagement.

One of the ways that the Audit Office identifies whether its level of communication with Parliamentarians is effective in meeting their needs is through the independently conducted annual parliamentary survey. Specifically in terms of communication, the survey assessed the parliamentarians' views on the clarity of communication and presentation of both financial and performance audit reports. Table 5 below summarises the results. Of particular note is that most - over 80 percent - of those who had referred to financial and/or performance audit reports agreed or strongly agreed that the Audit Office's reports were easy to understand, clearly communicated significant issues and implications, and were effectively presented in terms of layout and design. Parliamentarians also rated their most direct dealings with the Audit Office highly with 100% considering Audit Office to be responsive and that the advice/information provided addressed their needs. This result is consistent for the last five years.

Our interviews with Parliamentarians confirmed these results.

Table 5: 2020-21 Audit Office Client Survey Results – Communication

2020-21 AO NSW Parliamentarian Survey Results - Communication
<ul style="list-style-type: none"> 86% considered reports generally communicated issues clearly
Financial Audits
<ul style="list-style-type: none"> 92% considered reports were effectively presented in terms of their layout and design 89% considered reports clearly communicated the significant issues and their implications 85% considered audit reports were easy to understand
Performance audit
<ul style="list-style-type: none"> 95% considered reports clearly communicated the significant issues and their implications 95% considered reports easy to understand 87% considered reports effectively presented in terms of their layout and design

Source: Audit Office of New South Wales, Presentation of 2020-21 Client Survey Results, Key Findings November 2021, Orima Research

Communication with auditees

Financial audits

In assessing the communication and timeliness of financial audits from an auditee perspective, we used the independently conducted annual survey of Chief Financial Officers (CFO), General Managers, Chairs of Audit Committees and equivalent auditee contacts. Table 6 shows auditee perceptions across several communication questions about the audit process of planning, conducting and reporting. These results are consistent over the last four years.

Table 6: 2020-21 Audit Office Auditee Survey Results - Communication

2020-21 Audit Office Auditee Survey Results - Communication	
Audit Chairs	CFOs
<ul style="list-style-type: none"> 97% considered Annual Engagement Plan adequately informed about the audit strategy, key milestones and audit costs 90% considered the organisation was promptly informed of significant issues identified during the audit 96% considered the Engagement Closing Report communicated the audit findings and issues clearly 96% consider management letters communicated the audit findings and issues clearly 94% considered the Engagement Closing Report was issued in a timely manner 	<ul style="list-style-type: none"> 91% considered Annual Engagement Plan adequately informed about the audit strategy, key milestones and audit costs 74% considered the organisation was promptly informed of significant issues identified during the audit 94% considered the Engagement Closing Report communicated the audit findings and issues clearly 93% consider management letters communicated the audit findings and issues clearly 90% considered the Engagement Closing Report was issued in a timely manner

Source: Audit Office of New South Wales, 2021 Financial Audit Client Surveys Key Findings August 2021, Orima Research

We interviewed auditees – both CFOs and Chairs of Audit Committees – and their comments mirrored these results.

Performance audits

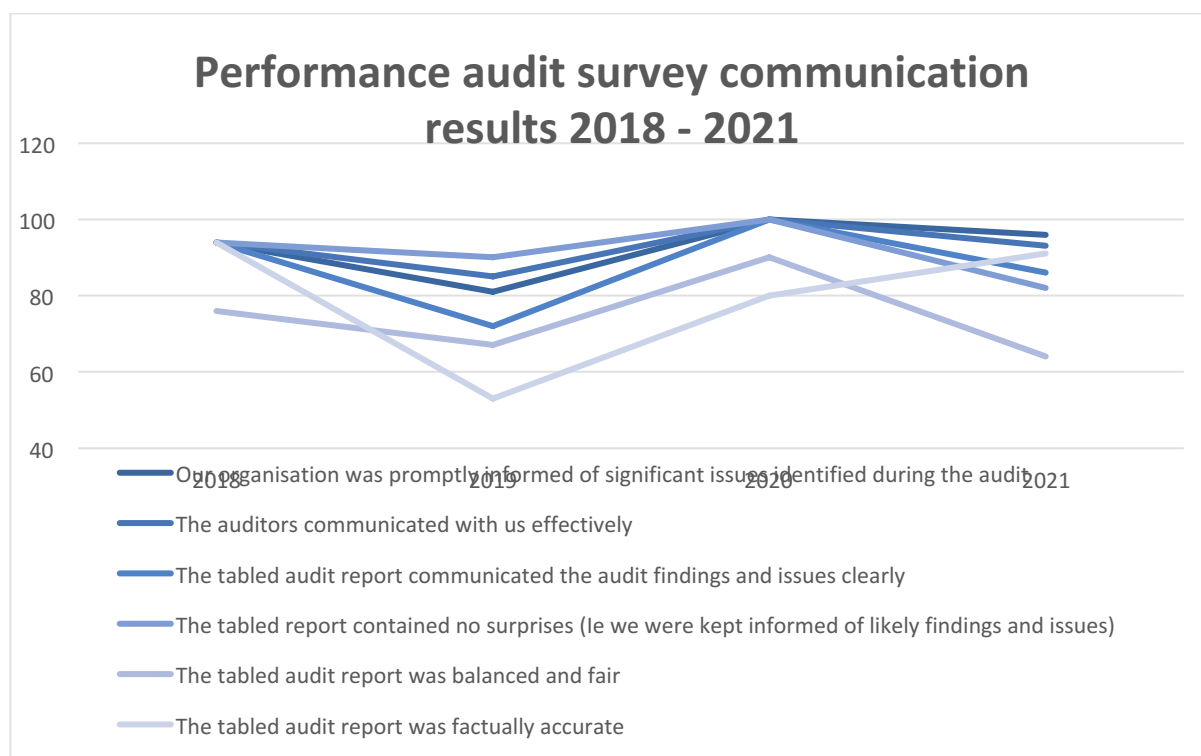
The Audit Office assesses auditee sentiment about the audit experience in conducting its performance audits through an annual survey of performance audit auditees. In 2021 the survey covered fifteen tabled performance audits over four rounds on a rolling basis with an overall response rate of 68% (twenty-eight out of forty respondents).

Whilst still rated highly in most aspects, the survey respondents were less positive in 2021 than in 2020 and 2019 about the effectiveness and clarity of communication (refer Figure 5), the tabled report containing no surprises and the balance and fairness of the tabled report.

The Audit Office advised that that while these surveys provide a valuable source of input, their objectivity is sometimes limited by the fact that auditees who have received a negative audit report are likely to provide lower scores in the survey – particularly with regard to perceived fairness. While this assumption seems reasonable, we have not tested this assumption but note that there have been a number of high profile critical reports of agencies and government in 2020-2021 that may have resulted in less favorable survey results. Small numbers also prevent any real commentary about trends or deviations on specific years and a longer term view is required.

In considering the performance audit survey results in September 2021, the Office Executive concluded that overall the results were good but there were some key areas to take away for further review. It also noted that with outlying high and low responses, the Audit Office was broadly tracking without major deviations, and that themes for further consideration in the survey included the balance and fairness of audits. The Office Executive also observed while all responses should be carefully considered, it was important to take note of who was responding and what they were saying. In some cases, the Office Executive observed that auditees used the survey as an opportunity to re-raise issues with audit findings that had previously been raised, and that the AO and auditee had agreed to disagree on.

Figure 5: Performance audit survey results 2018-21



Source: Audit Office of New South Wales, 2020-21 Performance Audit Client Survey. Key findings, August 2021, Orima Research

Joint understanding of audits, scope of compliance programs and provision of advice

Joint understanding of the audit program and individual performance audits

The terms of reference sought our views on the effectiveness of communication, particularly in relation to establishing a joint understanding of audits, the scope of compliance programs, and the provision of advice.

Joint Understanding of the Audit Program

In terms of the audited entities being aware of the proposed audit work program and an understanding on why performance audits are proposed, we found that the Audit Office has a no surprise approach to the development of the audit work program. The Auditor-General publishes a three year audit work program, which has within it the plan for the upcoming year, that provides a summary of all audits that are to be conducted within the proposed time period and detailed information on the areas of focus based on each of the NSW government clusters.

In 2021, the Audit Office launched its annual work program for the period 2021-2024 and conducted a series of briefings across five parliamentary committees, met with the Secretaries Board and individual Secretaries to discuss the annual program and received feedback on the selection of audit topics.

Joint understanding of performance audits

The Performance Audit Guide provides audited entities with information about the Audit Office's performance audit process. The Guide outlines the legislative framework and the Auditor-General's authority, the Audit Office and the auditee's roles and responsibilities, the performance audit stages and consultation with audited entities and what to expect of the Audit Office during a performance audit. It also notes that the Audit Office maintains the confidentiality of all information obtained whilst undertaking the performance audit.

In accordance with the no surprises approach to the audit program, the Auditor-General publishes the three-year performance audit program on the Audit Office website. The program identifies performance audit topics and entities to be audited over the period.

The three performance audit stages cover:

- planning the audit- this includes gaining an understanding of the auditee and activities relevant to the audit topic, developing the audit scope and discussing it with the auditee,
- conducting the audit - collecting evidence against the audit criteria, and discussing preliminary findings with the auditee, and
- reporting - a draft audit report that is discussed with the entity to obtain feedback and provide the auditee with the opportunity to identify errors of fact or interpretation.

In terms of the joint understanding of what is to be audited, all auditees interviewed felt that there was a good understanding of the audit objective and process. Auditees told us they considered they were given plenty of notice that the audit was on the program (except where it was a request audit) and when it would commence.

Joint understanding of financial audits

The Audit Office communicates the terms of engagement of a financial audit in an Annual Engagement Plan (AEP) issued before the commencement of the audit. The Terms of Engagement document referred to in the AEP is designed to inform those charged with governance of an auditee entity of the legislative requirements and other matters relevant to Audit Office engagements. The auditees we interviewed considered that the AEP clearly communicated the important issues of audit timing and how the auditor intends to address the audit risk and matters, composition of the audit team, the timeframe and audit deliverables.

The auditee CFOs, Chairs of Audit Committee and other management personnel we contacted considered that the AEP was clear, provided good advice and a good understanding of the audit process, timing and focus.

The Engagement Closing Report (ECR) summarises the audit outcomes. The ECR is addressed to the Accountable Authority/General Manager and/or Chair of the Audit Committee and/or others, depending on the audit team's assessment of who is charged with governance. On the whole, we found that auditee CFOs, Chairs of Audit Committee and other management contacts considered that the ECR communicated audit findings clearly, and provided a good understanding of the audit process.

Scope of Compliance programs

The Audit Office advised that the Auditor-General does not have the specific mandate under the Act to conduct compliance audits. However, through financial audits, the Auditor-General considers auditee compliance with certain laws, regulations and government directions and through performance audits whether an auditee is carrying out its activities effectively, economically and efficiently and in compliance with all relevant laws. In the local government sector, a Report on the Conduct of the Audit is issued to the Mayor/Chair for county councils/Administrator at the conclusion of each council audit.

The Audit Office undertakes compliance audits under the provisions of the performance audit legislation or within financial audits. As such, the Audit Office issues a variety of reports to entities and reports periodically to parliament on:

- auditee's compliance with certain laws, regulations and government directives in the conduct of financial audits, and
- whether an auditee is carrying out its activities effectively, economically and efficiently and in compliance with all relevant laws in performance audits.

The Audit Office annual work program shows that each year, the Audit Office may select a performance audit topic focussing on auditee compliance with a specific area of legislation or policy. The latest audit was on Cyber Security in December 2021. This was presented to the Parliament under the performance audit legislation and in accordance with section 38E of the Act that refers to the tabling of performance audits.

Provision of advice

In considering whether the Audit Office's communication and the provision of advice to auditees is effective, we noted that the report on the 2020-21 survey findings showed that there were several comments and suggestions about the Audit Office's provision of additional information. For example, CFOs commonly indicated that they wished to be informed of likely areas of focus in the audit and receive more regular and detailed information in relation to the audit approach and audit findings.

Chairs of Audit Committees most commonly indicated that they would like additional information about best practice/sector insights/learnings from other agencies, details of audit office standards/staff qualifications and updates to relevant policy/industry standards as they relate to their organisation.

The Audit Office advised that it has interpreted professional standards as not allowing the provision of advice to auditees.

In examining the Audit Office's interpretation of the professional standards¹⁵¹⁶, we noted that the Code of Ethics for professional accountants (the Code) provides safeguards for audit firms to determine whether performance of non-assurance services might create a threat to independence.

¹⁵ APES 110 Code of Ethics for Professional Accountants

¹⁶ 'The Auditor is subject to relevant ethical requirement, including those pertaining to independence, relating to audit engagements as defined in ASA 102'. Audit Standard ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit In Accordance with Australian Auditing Standards*; and ASA 102 *Compliance with Ethical requirements when performing Audits, Review and Other Assurance Engagements*

However, the Audit Office advised the Auditor-General is prevented from performing non-assurance services as these services are outside the scope of the Auditor-General's mandate. The Act and the Local Government Act 1993 (LG Act) limit the Auditor-General's functions to the provision of audit and audit related functions as specified in the Act¹⁷. As audit and audit-related services are not defined in the Act, the Audit Office has interpreted audit related services to include all audit and audit related services performed under the Standards set by the Australian Auditing and Assurance Standards Board.

The Audit Office has published policies and guidance for the Audit Office audit teams and ASPs to perform additional services for auditees as follows:

- The policy on the Audit Office performing additional services for auditees requires the audit teams to seek the Auditor-General's approval to perform additional services, such as audit and audit-related engagements other than the audit of general purpose financial statements.
- The policy on ASPs performing additional services for auditees notes that as ASPs engaged by the Audit Office are not constrained by its mandate, they may undertake additional services which can be *other audit related services, (that is engagements other than the audit of the general purpose financial statements, and non-audit related services, such as advisory or consultancy services.*' However, the ASPs must obtain the Auditor-General's approval to provide any such services to an Audit Office auditee so as not to compromise the Auditor-General through non-compliance with the ethical standards including independence

Notwithstanding the comments from auditees seeking additional information from the Audit Office, on balance we considered that the approach taken by the Auditor-General to not provide advice is appropriate given the mandate, the auditing standards and stated functions provided for within the Act and the LG Act. However, given the comments in the surveys about performing additional services for auditees from CFOs and Chairs of Audit and Risk Committees, we consider that the Audit Office should improve its communication with its auditees and explain why it does not provide advice or additional non-audit related services to auditees.

We also noted that the Audit Offices of Queensland, Victoria and Western Australia publish better practice guidance. In the case of the WA Audit Office, the guidance is provided to help the public sector perform more efficiently and effectively and includes the application of standards; case studies; checklists to assess existing frameworks and processes; and information to help entities to better understand how to comply with legislation and standards.

¹⁷ The Auditor-General's functions include the following:(a) to audit the Consolidated State Financial Statements, the General Government Sector Financial Statements and any other financial reports that the Auditor-General is required or authorised to audit by law; (b) to provide any particular audit or audit-related service to Parliament at the joint request of both Houses of Parliament; (c) to provide any particular audit or audit-related service to the Treasurer at the request of the Treasurer or to any other Minister at the request of that other Minister; (c1) to provide any other auditing, audit-related or reporting services that the Auditor-General is required or authorised to provide by law;(d) to report to Parliament as required or authorised by law; (e) to do anything that is incidental to the exercise of the Auditor-General's functions. *Government Sector Audit Act 1983* (section 27B)

Although the Audit Office does not provide better practice guidance, it does share findings and insights from its audits with Parliament and auditees through cluster and theme based reports to parliament as well as technical resources such as professional updates and Treasury and local government financial reporting issues and development on its website.

The Audit Office maintains mailing lists for its Reports to Parliament and monitors readership. Its mailing list for general reports grew by 15% in 2021 and the Audit Office expects this to grow in 2022 following the release of its Digital Content Strategy¹⁸.

Despite this we heard in interviews with auditees that they did not access this information, rather they looked to other resources for guidance and advice. The Audit Office advised that this is what auditees are required to do if they do not have the expertise within the organisation. The Audit Office does not consider its role is to provide advice on financial issues as the auditing standards require the auditor remain independent of processes related to the preparation of the financial statements.

This matter is further discussed in Chapter 7.

Conclusion

Overall, the Audit Office's communication with its external stakeholders is effective with results of its annual surveys of Parliamentarians, CFOs and Chairs of Audit Committees showing consistently high results on various communication indicators such as clarity, timeliness, understandability and scope.

We found that auditees agreed that there was a joint understanding of audits and that in the absence of a mandate to proactively conduct a program of compliance audits, the Auditor-General undertakes compliance audits, under the provisions of the performance audit legislation or within financial audits.

¹⁸ Part of its External Stakeholder Engagement Strategy roadmap activities in 2021-2022, includes developing a digital content plan to support greater social and digital media engagement with our stakeholders. Audit Office Annual Report 2020-2021

Notwithstanding the comments from auditees seeking additional information from the Audit Office, on balance we considered that the approach taken by the Auditor-General to not provide advice is appropriate given the mandate and stated functions provided for within the Act and the LG Act. However, given the comments in the surveys about performing additional services for auditees from CFOs and Chairs of Audit and Risk Committees, we consider that the Audit Office should communicate more with its auditees and explain why it does not provide advice or additional non-audit related services to auditees.

Although the Audit Office publishes resources on its website, we found that these publications were not accessed often, and auditees tended to seek other avenues, such as the private sector, to seek advice on financial issues which should be shared with the Audit Office. The Audit Office advised that this is what auditees are required to do if they do not have the expertise within the organisation, as the Audit Office is prevented under auditing and ethical standards from providing technical advice.

Chapter 6: Term of Reference 4 – Future State

This chapter examines Review Term of Reference 4.

Assess the adequacy of risk-based assessments of future directions in auditing and management strategies to guide such changes.

The Review Team considered: the Audit Office's application of its risk management approach and its fostering of innovation.

Management of operational and strategic risk

Over the last 5 years, the Audit Office has undertaken significant work to strengthen its risk management approach, systems and processes. A recent self-assessment of its risk maturity, using the NSW Treasury Risk Maturity Assessment Tool¹⁹, reflects the results of this work with an overall risk maturity level of 'embedded'²⁰ being assessed. The self-assessment also identified a need for improvement in maturity levels for some key elements of risk management (e.g. capability and training, and data and information). In response, the Audit Office has identified and implemented actions to reach the target maturity levels. It will be important that the Audit Office continues to monitor the progress of this work.

All Audit Office staff receive risk management training at induction, with provision of additional targeted one-on-one training where required, to ensure they have a clear understanding of their role and responsibilities in applying the Audit Office's risk management approach. The Audit Office advised that it is currently working on the development of post-induction broad and targeted online training, with implementation planned for 2022. This will help provide it with ongoing assurance of staff awareness, understanding and application of its risk management approach. The Audit Office should monitor and evaluate the effectiveness of this training.

The Audit Office recognises the importance of building a sustainable and positive risk culture, where risk management is seen as a positive part of decision making, rather than a corrective measure. To enable this, it has identified and implemented a range of activities, with staff and management responsibility. For example, in relation to fostering open and upward communication, management responsibility includes having an open-door policy and providing constructive feedback, while for staff this includes being confident to escalate risk, issue or mistakes. Ongoing monitoring and evaluation of the impact of this work will be an important part of the Office's efforts to foster a positive risk culture.

¹⁹ NSW Treasury Risk Maturity Assessment Tool (TPP 20-06), NSW Government, September 2020

²⁰ Embedded refers to risk management that is integrated across the whole Audit Office with its planning, management and reporting systems and processes, with risks used to inform key business decisions and development of its corporate plan.

In 2021, the Audit Office invested in strengthening its project management capability through the development of a project management framework and project risk assessment tool. The Project Management Framework provides guidance to staff on how to manage projects (as distinct from 'business as usual' work) across all phases from start up through to closure. Complementing the project management framework and tool, the Audit Office has established a projects benefits register to document and provide assurance about project success, and a central projects lessons register which helps to drive continuous improvement.

Fostering of innovation by the Audit Office

In recent years, the Audit Office has increased its focus and commitment to promoting innovation across its business areas. This is reflected in its corporate plan, with innovation initiatives contributing to two strategic objectives – 'Securing our Future' and 'Building Capability For the Future', and an investment in 2020-21 of 1.2% of its operating expenditure on innovation. The Audit Office's investment in innovation recognises three key components - its people, processes and technology.

Workforce strategy

In 2019 the Audit Office developed its Workforce Strategy aimed at ensuring it has a workforce that is diverse, flexible, resourced and with the capability required to support both its current and future needs. This is especially important given the nature of its rapidly changing operational environment. Among the key focus areas are automation of its processes to improve efficiencies to enable a greater focus on analysis and insights and empowering its staff and fostering innovation. Some of the key achievements under the Workforce Strategy during 2020-21 included appointing a full-time Innovation Lead, refining its Data Capability Framework foundational modules, and adapting a 5-module data literacy program to improve staff data literacy levels across the Office.

Data analytics

The ability to harness the power of data and information is a recognised key component of the modern audit practice. The incorporation of analytics driven audit techniques can enable more efficient work, creation of more value in the capture, manipulation, extraction, analysis and presentation of large data sets, identification of key areas of risk, and generation of improved insights.

Since 2018, to help shape its own data analytics approach and inform the development of its Data Analytics Strategy and Roadmap the Audit Office advised that it has:

- investigated and piloted a range of data analytic tools and products to determine their potential use and value in both performance and financial audits
- Used NUIX and unstructured data techniques in performance audits
- rolled out the TeamMate analytics tool following testing and training
- engaged with various suppliers on their data products and services
- consulted with a number of private firms to review their audit and data software
- consulted with a number of Australian Audit Offices to discuss their approaches to use of data analytics.

While the Audit Office has undertaken work to identify and implement data analytic products and tools in its performance and financial audit approaches/methodology, this work has progressed in the absence of a Data Analytic Strategy to guide this work (a recommendation in the 2017 PAC review). This makes it difficult to determine the extent to which this work

both represents an optimal investment of time and available resources and maximises likely improvements to the effectiveness and efficiency of its audits. Additionally, documentation we reviewed shows that progress with data analytic initiatives has lacked momentum and prominence due to competing priorities and, until July 2021, a lack of dedicated resources to support a data analytics lead. We note that in October 2021, a data analytic team was established, which now comprises three staff. The Audit Office advised that it is also able to leverage a network of data analytics staff across the Office, and that it supports staff to undertake relevant data related courses as part of its learning and development program. As discussed in Chapter 4: Adequate Resourcing, cost recovery funding model does not enable the creation of revenue to fund innovations and maintenance of contemporaneous audit practices.

Importantly, the Audit Office has taken action to help build capacity for data analytics use into the future. This has included identifying the capabilities required to deliver this work through the development of a Data Analytics Capability Framework and the progressive roll out of a program aimed at improving staff data literacy skills across the Audit Office, with a target of at least 90% of its staff having core data literacy skills. It has also identified data analytics champions in its performance and financial audit business groups to help support this work.

At the end of March 2022, the Office Executive approved a Data Analytics Strategy. The Strategy focuses on four areas (governance, people and capability, technology and tools, and analytics) and sets out its operating model and a detailed Roadmap for the delivery of 26 initiatives across the next three years. It will be important that the Audit Office ensures that the Strategy is adequately resourced to support and maintain implementation momentum and achievement of the Strategy objectives.

Recommendation 3

In implementing the Data Analytics Strategy, the Audit Office should ensure there is adequate resources allocated to reduce the risk of the initiatives and strategic objectives of the Strategy not being achieved.

This is related to Recommendation 2.

Leveraging new and emerging technologies

The Audit Office's Technology Strategic Plan helps guide its prioritisation of technology related initiatives, identify the skills and capabilities required to deliver these initiatives, and serves as an enabler to delivery of key corporate strategies. Additionally, in November 2020, the Audit Office launched its Innovation Roadmap. This sets out its forward plan of innovation initiatives aimed at leveraging technology to enable improved efficiencies. Key initiatives are focused on:

- improved communication, through development of new staff intranet and an external collaboration portal to communicate and exchange information with external stakeholders (auditees and audit service providers),
- streamlining and automation of systems and processes for capturing, tracking and reporting on the key audit functions of risk, compliance and governance,

- enabling seamless document collaboration for Audit Office staff and auditees and puts in place records management to support compliance with record keeping requirements, and
- investment in office equipment and technology which enabled a smooth transition to full remote working during the COVID-19 pandemic.

In March 2021, the Audit Office developed its Digital Workplace Strategy to drive the use of technology to help simplify and modernise the complex digital environment in which its staff work to ensure its current and future business needs are met.

Based on our discussions with Audit Office staff and review of documentation, compared with the Audit Office's data analytic initiatives, its technology related initiatives have shown better progress, having been supported by robust governance arrangements, adoption of project management methodology and allocation of dedicated resources. It will be important that the Audit Office ensures its staff are adequately supported to build the skills required to embrace new ways of working (e.g. records management, collaboration with others) as a result of its innovation initiatives.

We note that the Audit Office's program of innovation initiatives (data analytic and technology related) is ambitious and complex, with project interdependencies and competing delivery timelines, and is being implemented with limited resources. As noted above and in Chapter 4: Adequate Resourcing, without specific funding to advance and expand this important work presents a risk to the achievement of the Audit Office's strategic objectives.

Conclusion

The maturity of the Audit Office's risk management approach, systems and processes position it well to adequately assess risks associated with future directions in auditing. While the Audit Office has developed a program of data analytic and technology related initiatives and projects to drive innovation in line with its strategic objectives and future auditing requirements, the ambitious nature and inter-dependencies of this work, together with insufficient resources, puts at risk the successful implementation of this work and achievement of strategic objectives.

Chapter 7: Term of Reference 5 – Value for Money

This chapter examines Review Term of Reference 5.

Assess whether the audits conducted by the Audit Office provide value for money by meeting their objectives and contributing to improved accountability by government agencies within New South Wales.

Value comparison across other Audit Offices

The Australasian Council of Auditors-General benchmarks Australian Audit Offices across a range of activities. The Audit Office compared to other Audit Offices, is consistent over the review period when compared to its peer organisations. It completes the third largest number of audits requiring an opinion to be issued such as for financial statement audits and conducts the largest number of local government audits. The Audit Office produces the third highest number of performance audits compared to other state Audit Offices and at a lower average cost compared with the larger interstate audit offices.

Total cost of the audit office as percentage of public sector transactions has been relatively consistent over the review period at 0.29%. It is equal third lowest of all state audit offices. As a percentage of Total Public Sector Assets, the Audit Office has remained constant at 0.09% over the review period, which is equal second lowest.

Providing value

The Audit Office reports measurement of value indicators in its Annual Report. In 2020-21 these indicators showed increases to consistently strong results from stakeholders for both financial statements and performance audits services.

The Annual Report also includes 'impact of our work' indicators. This focuses strongly on audit recommendations being accepted and relationships with auditees. The rate of audit recommendation acceptance is consistently high over the review period and we were advised by local government auditees that relationships had grown and developed over time.

The measurement of these indicators is possible through the Audit Office actively seeking the views of the Parliament and auditees of their perceptions of value and value for money, mostly by conducting annual client and auditee satisfaction and post audit surveys. The surveys ask a series of questions covering the audit process, products and services, communications and value.

These surveys provide further evidence that stakeholders, overall, consider the Audit Office services provide value. Results are summarised in

Table 7 below.

We also interviewed representatives of the PAC whose comments mirrored these results. The PAC is a strong supporter of the Audit Office and considered that it provided value to the NSW Parliament through its services and reports.

These sentiments were reiterated by other stakeholders that we interviewed including auditees, the Public Accountability Committee in the NSW Legislative Council, Chairs of Audit Committees and other stakeholders.

Table 7: 2020-21 Audit Office Client and Auditee Survey Results - Value

2020-21 Audit Office's Client and Auditee Survey Results	
Parliamentarians	Auditees
<ul style="list-style-type: none"> 86% satisfied with reports and services 96% consider the reports and services to be of high quality 96% consider Audit Office provide valuable information 	<p><i>CFOs</i></p> <ul style="list-style-type: none"> 90% value the assurance and 85% value the recommendations <p><i>Audit Chairs</i></p> <ul style="list-style-type: none"> 98% value assurance and the recommendations

Source: Audit Office of New South Wales, 2021 Financial Audit Client Surveys Key Findings August 2021, Orima Research

The survey referenced in

Table 7 also reported comments by respondents wanting more information about audits of local government and insights on how recent issues within the sector could be avoided, which were not attributed to specific sectors. However, they mirror comments made to us when we interviewed auditees in all sectors.

The comments also reflect specific feedback the PAC provided on whether it considered that the Audit Office had improved accountability in the local government sector which was part of the reason the Audit Office mandate was expanded. The PAC considered amongst other things that ‘Often, audits conducted by private firms included follow up advice to councillors and officers on understanding trends and risks associated with their budgets and assets. This was seen as particularly valuable for elected members who otherwise are receiving their information almost exclusively from internal sources. Feedback from councils indicates that this no longer occurs, and councils do not feel as well supported in the process.’

Whist the PAC feedback was focussed on Local Government, auditees we interviewed in the state and university sectors had the same view. Most of these auditees acknowledged that there were sector reports on the Audit Office’s website but they did not address their concerns or issues. The Audit Office explained that it considers it inappropriate for the Audit Office to provide advice and guidance of a general nature that may be interpreted as influencing agency decision-making – as it risks auditing their own advice in the future.

Auditees, across sectors, considered that further communication could be had between themselves and the Audit Office including an understanding of the audit process and its challenges.

Audit Fees

With the expansion of the Audit Office's mandate to include local government in 2016, auditees noted that there was an increase in the quality of financial statement audits, often being an increase in the amount of audit work which resulted in a corresponding increase in the audit fees. The Audit Office made representations to us that it considers audit quality to be of paramount importance in its work. In addition, the Audit Office, as part of standing up the capability to fulfil this mandate, did undertake engagement work across the sector. This engagement focused on the transparency of the pricing structure, explanation of fees and reporting the insights and recommended improvements that have come from those audit activities.

Although auditees interviewed acknowledged the increase in quality of the audits since 2017, surveys of CFO and Chairs of Audit Committees in 2021 show that there is still a view that fees do not represent value for money, 60% and 25% respectively. The 2021 CFO and Audit Chair Surveys did show an improvement in Local Government responses but showed a deterioration in the views of State and University auditees.

The feedback we received from auditees was consistent across all sectors. Auditees were concerned that their own revenues were constrained but audit fees kept growing. Auditees considered that they had not received sufficient explanation as to why the level of audit activity was required and therefore the fee that needed to be paid.

The Audit Office does monitor audit fees as part of its budget management process, including approval of variations to audit fees which if or when they occur are discussed specifically with the auditee. Additionally, the Audit Office does identify in AEPs that new accounting standards, and auditee's internal issues are amongst the reasons that audit fees can escalate. However, the auditees interviewed did not consider this sufficient to explain why either so many audit hours were required or how the fee (and hours) reflected the risk that their entity posed.

As outlined in previous sections of this report, the Audit Office operates on a cost recovery model. It sets hourly charge rates for its audit staff which are reviewed annually as part of the budget process. During the review period, the charge rates increased by an average of 2% per annum. While the charge rates have generally increased in-line with the consumer price index, the annual increase in the audit fee of some audits has increased by more than this because of additional effort required to form an opinion on the financial statements.

We analysed audit fee data from the review period where over 2400 audits were conducted. Additionally, individually there was volatility. We found between in individual years there was:

- 306 (12.8% of all audits) instances of increases between 10% and 50%,
- 35 (1.5% of all audits) instances where the increase was over 50% but less than 100%, and
- 20 instances where the increase was over 100%.

These increases reflect a change in effort rather than charge out rates, as charge out rates have risen in line with pay increases as per the required awards and SOORT determinations. Some of the variables that can lead to additional audit effort include: the implementation of new accounting standards; changes in the size and operations of an auditee; engagement risks; significant transactions (like asset valuations); significant internal control/governance deficiencies; and machinery of government changes.

The 20 instances where the increase was over 100% were impacted by one or more of the following factors:

- an increase in operational activity from the previous year, resulting in the need to perform additional audit procedures
- the adoption of the new accounting standards AASB16 Leases and AASB 18 Revenue, 1058 Income of Not for Profit Entities and AASB 1059 Service Concession Arrangements: Grantors, which have all to differing extents, impacted most entities and required substantial effort by both management and the audit teams to assess the impact and ensure the entities materially complied with the new requirements
- machinery of government changes, which are outside the control of the Audit Office
- deficiencies in agency internal controls which required audit teams to do more work to respond to the heightened risk of a material misstatement.

However, as an auditee managing a constrained budget, audit fee movements are yet another budget pressure it must manage, which does lead auditees to question the value for money.

The Audit Office's Office Executive acknowledged at its October 2021 meeting '... that any complaints or poor responses should be taken as an opportunity to engage and discuss. At this time, focus is warranted for the local government sector. The Audit Office focus is on better audits, not cheaper audits.'

Independent Pricing Review 2017

The Audit Office engaged an independent consultant to undertake a Pricing Review of Local Government Portfolio in 2017. In July 2020, the Office Executive were briefed on the status of implementation of recommendations made in that review. Of note, one recommendation was for the Audit Office to consider the level of audit risk that it is prepared to take in areas where the risk averse stance may lead to more audit work and cost than is strictly required. The briefing noted that work had been undertaken but that further work could be undertaken in the future. The Audit Office's response shows, appropriately, that the achievement of efficiencies is a continuous objective.

Recommendation 4

The Audit Office, as part of its long-term stakeholder engagement plan, should:

- continue to engage with stakeholders on how they view value including but not limited to audit fees, and
- provide further detail to financial statement auditees, including where there are significant changes, as to why the quantum of audit hours/fees and that level of auditing is required.

Conclusion

The Audit Office provides value through the execution of its mandate. There is still tension about the assessment of value for money – the Audit Office has focussed on quality, auditees have focused more on cost and what they receive and the PAC, see value but also have received feedback on cost. A balance can be reached by all groups coming to a joint understanding of what is valued and the cost of that.

Chapter 8: Term of Reference 6 – Response to 2017 Statutory Quadrennial Review recommendations

This chapter examines Review Term of Reference 6.

Assess the Audit Office's response to the previous statutory review undertaken in 2017.

The aim of recommendations is to identify risks and opportunities for improvement. The timely and adequate implementation of agreed recommendations is an important part of realising the full benefit of those recommendations. In responding to recommendations, it is important to have processes and governance arrangements in place to support implementation including planning, setting timelines, monitoring, recording and reporting on progress, and assurance of full implementation.

Audit Office's response to the 2017 PAC recommendations

While the Audit Office accepted all 28 recommendations from the 2017 PAC review, it implemented twenty-four recommendations that were within its control (refer Appendix B and C), fifteen of which related to performance audits and nine to financial audits, with the scope including aspects of audit methodology, adequacy of resourcing, effectiveness of client communication, value for money and adequacy of management's strategies for the future directions in auditing.

The Audit Office used its internal recommendations register to document its intended actions, timelines (including extensions and reasons for delay), implementation responsibilities, progress of implementation, and priority rating of recommendations from the 2017 PAC review.

Recommendations outside the control of the Audit Office

While the Audit Office agreed with the four strategic recommendations from the 2017 review, these were directed at the Parliament and the NSW Government and despite the PAC's support for all four recommendations²¹ they have not been implemented by the NSW Government (refer Appendix C). The Audit Office's ability to implement three of these recommendations - a mandate to follow-the-dollar and provide assurance over government agencies' performance statements, and an ability to undertake an annual independent review of the NSW budget, would require legislative change or intervention by another agency, such as could be done by NSW Treasury, which also has not occurred. Two of these recommendations relate to matters raised in this report Chapter 2: the protection of the Auditor-General's independence.

²¹ Legislative Assembly Hansard 8 February 2018

In terms of the third recommendation, the Audit Office raised the issue of the Audit Office being formally required to conduct an annual independent review of the NSW Budget rather than being invited to do so by NSW Treasury as had occurred between 2012-13 and 2016-17. The Audit Office considered such a Budget review may help to provide assurance to the Parliament. This was supported by the PAC in 2018.²²

Recommendation 5

In order to provide assurance to the Parliament, it is recommended that the PAC engages with the Parliament and relevant stakeholders to provide for the Audit Office to conduct an independent annual review of the NSW Budget.

The fourth strategic recommendation related to the adequacy of funding to support the three to five year transition period required for the Audit Office to implement its local government mandate, extended one year prior to the 2017 PAC review. The Audit Office advised that it did not receive any additional funding to support this transition and this was funded from the Office's own resources. Audits of local government are now part of the Audit Office's 'business as usual' state.

Timeliness and adequacy of recommendation implementation

The Audit Office has governance arrangements in place to support implementation of recommendations including quarterly monitoring and reporting of implementation progress and status including to its Audit and Risk Committee and Office Executive (with priority attention given to recommendations rated as medium or high risk). Despite these arrangements, our review of the Audit Office's recommendation register shows that overall, implementation of the 24 recommendations was not as timely as it could have been. Eleven of the 24 recommendations were not implemented by the original set timeframe, requiring extensions to approved implementation timeframes of between one and five times which led to delays in implementation of up to 34 months. Six of these recommendations were rated as 'medium' risk.

The reported reasons for delayed implementation included the need for additional time for development/piloting of work and procurement of resources, complexity of proposed work, and reliance on the finalisation of other initiatives because of inter-dependencies.

²² On speaking on the 2017 report on the Quadrennial Review of the Audit Office of New South Wales, the Chair of the PAC supported the recommendation that the Audit Office conduct an annual review of the New South Wales budget. Refer Hansard Legislative Assembly 8 February 2018

The lack of timely closure of recommendations from both internal and external reviews, including the PAC 2017 review, has been an ongoing issue and challenge for the the Audit Office. This is evident from our discussions with Audit Office staff and review of documentation related to recommendations from the 2017 PAC review as well as other external and internal reviews. This includes briefings to the Office Executive and Audit and Risk Committee on the progress and status of recommendation implementation, Office Executive meeting minutes over the period 2018-2021 and annual Internal Audit Follow Up reviews (2019-2021). The 2019 Internal Audit Follow Up review, for example, reported that 70% of the 20 'medium' risk rated recommendations were extended beyond their original due date. In response, it was recommended that Audit Office management set realistic expectations on the completion of recommendations by setting realistic milestones for key activities, with recommendation owners monitoring against these targets monthly and ensuring the recommendation is fully implemented prior to or by the deadline set. Where time extensions are required, it was recommended that management request a realistic revised date. The setting of unrealistic completion timeframes and continual revision of deadlines was acknowledged as presenting a risk of creating a culture where the importance of timely monitoring and implementation of recommendations is lessened, resulting in possible exposure of the Audit Office to not realising the intended benefits from recommendation implementation.

We consider that the Audit Office has not yet adequately addressed the issue of lack of timely closure of recommendations. One of the likely reasons is insufficient consideration being given by recommendation owners during implementation planning to set realistic and achievable time frames for completion of the intended work, including consideration of available resources and inter-dependencies with other initiatives. While the Audit Office developed a guide in mid-2020 on setting time frames for implementation of recommendations, following approval of the guide by the Office Executive, we have not seen evidence that the Audit Office has monitored and evaluated the extent to which the guide has been systematically and routinely used by staff with responsibility for implementation of recommendations. The Office also advised that its recently implemented Governance, Risk and Compliance system is expected to improve the follow up and closure of recommendations, as well as assisting staff to more easily manage and track their progress with the implementation of recommendations. We note however that this system does not address the issue of the initial setting of realistic and achievable time frames for implementation of recommendations.

Other likely contributing factors include:

- **Lack of guidance to guide decision-making on recommendation closure** - this is likely to have contributed to inconsistent decision making about whether sufficient work has been completed to address the intent of a recommendation to support its full implementation, and therefore its closure. Our review of the Audit Office's recommendation register showed, for example, approval for closure of a recommendation that had only been implemented in a limited capacity, not across the entire Audit Office as was the intent of the recommendation. We also note a briefing to the Office Executive on the findings of an internal audit review²³ in mid-2020 which included assessment of the Audit Office's progress in implementing the 2017 PAC review recommendations. Following review of the relevance and reliability

²³ Internal Audit report, Public Accounts Committee (PAC) Readiness Review, Audit Office of NSW, July 2020

of evidence by the Audit Office management to confirm the status of closed recommendations, the Audit Office's Internal Audit service provider was recorded as stating that it was subjective as to whether the 16 closed recommendations at the time met the intent of the original recommendations. Further, the Chair of the Audit Office's Audit and Risk Committee advised that while closure of recommendations should be in line with the intent of the recommendation, acknowledged that closure of recommendations can be subjective.

- The Audit Office also advised that, in very few instances, recommendations have been removed from the recommendation register before being fully implemented if it is certain and agreed that it would be addressed and tracked in the scope of a key office strategic initiative. This was the case for recommendations related to data analytics and stakeholder engagement in the 2017 PAC review (refer Chapter 5: Communication and Chapter 6: Future State).

Recommendation 6

The Audit Office should provide clearer guidance to support greater consistency in decision making on the closure of recommendations, including sufficient documentation to close a recommendation.

Conclusion

While the Audit Office progressed the 2017 PAC review recommendations within its mandate, overall, its implementation of these was not as adequate or as timely as it could have been. Improvement would be supported through strengthening the robustness of governance arrangements related to planning for implementation of recommendations (especially setting of realistic completion timeframes), closer monitoring by recommendation owners against key activity milestones and consistent decision making on recommendation closure. This would help the Office ensure it realises the intended benefits resulting from recommendation implementation.

APPENDIX A: STAKEHOLDERS GIVEN THE OPPORTUNITY TO BE CONSULTED DURING THE REVIEW

The following organisations were provided an opportunity to engage with the Review Team and provide feedback. We have not identified which did or did not take up this opportunity as all that did were assured of anonymity.

Public Accounts Committee
Public Accountability Committee
Department of Community Services
Department of Justice Health and Corrective Services NSW.
Department of Planning, Industry and Environment
Department of Premier and Cabinet
Department of Treasury
Office of Local Government
State Archives and Records Authority
Department of Transport
NSW Ministry of Health
Cumberland City Council
Lockhart Shire Council
Lane Cove Council
Penrith City Council
Tweed Shire Council
Wollongong City Council
Charles Sturt University
University of NSW

APPENDIX B: 2017 PAC REVIEW RECOMMENDATIONS IMPLEMENTED

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
<p>#1 Compliance through execution.</p> <p>The current coaching programs should be tailored to focus on improving staff's understanding of documentation expectations relating to internally generated documents provided by auditee agencies and evaluating the adequacy of the SAP's.</p>	<p>In preparation for delivery of its Annual Methodology Training in late 2018, the Audit Office incorporated a focus on themes identified from quality reviews related to documentation quality and committed to reinforcing the level of documentation required under Auditing Standards to all staff.</p>	✓	
<p>#2 Small audits</p> <p>The outcomes of the 'small audit' program should be collated and further communicated to staff. Coaching should be provided to all engagement management leaders to help ensure that the small audit program is adopted, where appropriate, by all teams so that learnings and efficiencies become pervasive across the audit portfolio over time.</p>	<p>During late 2017/early 2018, the Audit Office completed a number of micro audit reviews and disseminated the results to Financial Audit Branch through the quality review debrief process and used them to inform piloting of some Innovation Roadmap initiatives. The Audit Office also standardized some of the risk and response templates for financial statement line items. To help drive efficiencies on small audits, in late 2019, the Audit Office piloted PWC's small audit pack (Smartlite) on some University subsidiaries and financial audits to inform its roll out to financial audit branch and integration into its financial audit methodology.</p>		18months ¹
<p>#3 Granularity of Risk Assessment</p>	<p>The Audit Office addressed this recommendation during its 2017</p>		

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
Greater focus should be placed on increasing the granularity and focus on specific risks and assertions at the planning stage of the audit. The audit procedures designed should be more focused on those higher risk account balances (such as those subject to significant judgement or fraud as an example) and assertions related to an account balance that are of a higher risk due to other considerations relevant to the agency.	(end of year) annual methodology update.	✓	
<p>#4 Use of data analytics</p> <p>A clear strategy should be developed and implemented to ensure the use of data analytics in audits becomes firmly embedded in the NSW AO audit methodology and approach. This may involve development of an in-house data analytics support team, third party assistance in providing data analytics expertise or a combination of both.</p>	Initial actions by the Audit Office included investigating, piloting and training financial audit staff in use of data analytics tools as well as consideration of establishing a data analytics team as the primary means to address this recommendation. In mid-2018, the Audit Office combined this original recommendation with a similar finding from an ACAG review. Efforts focused on recruiting a chief data officer to lead this work and develop a data analytic strategy were delayed due to resource issues and the impact of COVID19. Work continued on a broader roll out of data analytics tools for use by financial audit staff. The Audit Office also consulted with private firms and other audit offices about their experiences with data analytics to inform its own approach and established data analytic champions in audit groups. This work was used by the Audit Office to establish a data analytics direction and inform future activities. In		27 mths ²

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
	September 2020, the progress was tracked outside of the Recommendation Register as an ongoing development within the data analytics team.		
<p>#5 Filing of audit documentation</p> <p>The signed audit opinion should be appropriately filed prior to archive. This will ensure that even without the final management letter on the archive file all relevant matters are dealt with, and audit evidence retained.</p>	The Audit Office reported this to be an existing policy requirement, with all files selected for a monitoring review assessed for compliance.	✓	
<p>#6 Independence</p> <p>A global independence declaration should be performed annually and update by staff if circumstances change during the year, with reference to the complete list of state agencies, local councils and universities audited. An appropriate framework to identify and communicate any independence conflicts should be implemented to ensure the resourcing team appropriately allocates staff to engagements</p>	Work was undertaken by the Audit Office to incorporate a 'global' declaration as part of the annual sign off process. This work culminated in a global annual Conflict of Interest (COI) declaration being rolled out in July 2018 including reference to a complete list of agencies, councils and universities, together with development of a new COI Policy, Procedure and central register.	✓	
#7 File archive policy	The Audit Office reviewed the existing file archive policy, including consideration of the costs/benefits associated with		

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
The AONSW should consider amending its internal guidance on archiving deadlines to help encourage teams to archive audit files more promptly. A tiered approach based on size and complexity of audits with different archive date targets should be taken. This will provide more realistic short-term targets for teams and allow teams to adapt and put in place strategies to reduce the archive time.	shortening the archive deadlines and published a revised policy in August 2018.		2 mths ³
#8 Greater than normal risk assessment (GTNR) There should be greater consideration and challenge of where engagements are GTNR based on the individual circumstances of each audit. Audits should not be classified as GTNR solely to ensure an EQCR reviewer is allocated to the engagement.	The Audit Office addressed this during its 2017 annual methodology update. Due to Auditor-General reporting priorities, provision of a close out report was delayed until late 2018 when all GTNR audits were completed. This is re-assessed each year (business as usual). Greater consultation with the Office of the Auditor-General is undertaken to confirm ratings and appointments of EQCR's. At December 2018, approximately 4% of audits were GTNR, compared with over 10% in prior years.		6 mths ⁴
#9 Aggregate risk assessment The AONSW has recently updated its methodology to	The Audit Office reported this to be an existing policy requirement with all files selected for a monitoring review		

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
include the Aggregate risk assessment that needs to be applied where appropriate. It is recommended that awareness across the audit team's needs to be raised through its training programs ensure the team comply with the Aggregated Risk Assessment requirement going forward.	assessed for compliance.	✓	
<p>#10 Opportunity to Streamline Documentation</p> <p>Due to the recent changes in the ASAE 3500 issued on 5 October 2017, the Performance Audit Branch (PAB) will be updating its Performance Audit Guide and implementing the corresponding changes into IRIS for adoption by 1 January 2018 (when the change comes into effect). This update provides the AONSW an opportunity to harmonise IRIS with updated practices. The AONSW may wish to consider the following when undertaking this update:</p> <ul style="list-style-type: none"> • Removal of duplicate requirements in checklists located throughout the file (a legacy of the previous manual process) • Update of templates to remove the requirement for sign off where already recorded in IRIS • Examine the business rules around the IRIS file review process with a focus toward streamlining this and ensuring that senior staff time is maximised on 	The Audit Office commenced work in early 2018 to remove duplicate requirements for in-document sign-off were recorded in Teammate. While there was no current requirement that Principal Analysts sign off every work paper, following discussions with the Performance Audit Executive, it was agreed that Principal Analysts will sign off formal products, such as audit plans, draft/final reports, while Senior Analysts will sign off other work papers and prepare checklists as standard practice.	✓	

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
what is important (e.g. remove Principal Analyst requirement to review and sign off every work paper.			
<p>#11 SAP Framework</p> <p>The AONSW should maintain its process of continuous improvement around performance audit topic selection and prioritisation. This could include considering publishing more information around this on its website.</p>	In June 2018, the Audit Office combined this original recommendation with a similar recommendation from an ACAG review. Work to address this recommendation included incorporation of numerous mechanisms for staff and the public to contribute the Audit Office's audit program in the design of its new website, making it clearer how the Office's stakeholders can contribute to its audit program. The Audit Office's intent is to capture this information via one source, the website, rather than replicating it on the intranet. This functionality was promoted to all staff and external stakeholders at the launch of the new website.	✓	
<p>#12 Tracking of Time</p> <p>The AONSW should expand on the current program to review Elite's tracking of time such as pre-scoping sessions, to ensure it captures key codes that will count as billable time such as program development, strategic initiatives, relationship or stakeholder development</p>	From March 2018, the Audit Office included pre-scoping billing items in productive time capture. It considered that the inclusion of strategic initiatives, relationship development and stakeholder development activities in its tracking of time would be inconsistent with ACAG benchmarking time capture specifications.	✓	

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
activities. In addition, the AONSW should set role specific time targets to monitor productivity in the context of the above activities.			
<p>#13 Future performance audit funding requirements</p> <p>In addition to the 3-year rolling roadmap currently in place, as part of its performance audit program development, the AONSW should consider developing a 'demand' driven 'roadmap'. The purpose of this roadmap is to help identify high-risk performance audit topics or topics that may require broader than normal scope, that currently are not in the program, due to a lack of available resources. Any gap due to budgetary constraints that may not be tolerable can be the basis for mounting a case for additional funding to pursue its objectives.</p>	In late 2018 the Audit Office agreed to progress work on this recommendation as part of its submission to NSW Treasury for increased funding for performance audits. Progression of this work was subsequently delayed due to a need to first complete its audit of integrity agencies to avoid any conflict of interest. The Audit Office's submission in 2020 of its demand driven funding roadmap, as part of a budget request to Treasury, was successful. The Audit Office will continue to update this as a basis to pursue a workable base operating budget in future years.		21 mths ⁵
<p>#14 Manual project management</p> <p>To minimise disruption and avoid surprises in the process, the AONSW should implement an automated project management tool with real time updates via Mobile Applications.</p>	In early 2018, the Audit Office investigated appropriate and cost-effective project management tools. In early 2019, the Office identified a preferred project management tool (JIRA), which enables automated project management planning, tracking and reporting, and is both cloud based and mobile device accessible. In mid-2019, the Office implemented JIRA initially in several teams with the intention of rolling out its use more widely across the Office, coupled with training support.	✓	

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
<p>#15 Innovation in technical writing</p> <p>There is continued opportunity for the AONSW to consult with experts in the field of innovative technical writing to keep pace with contemporary trends.</p>	<p>Having already worked with external writing and editing experts on its reports during 2017, the Audit Office focused on how to best utilise external expertise as part of its reporting process planning. In addition, the Audit Office investigated potential suppliers to deliver editing training to report writing teams and broader writing skills training to more junior staff, as well as a specialist writer to work with executive on its Report budget. In mid-2018, the Office launched Lynda.Com, an online learning platform, to support online plain English training for report writing team members. In late 2018 an external supplier was engaged to deliver writing skills training to all new report senior team members, with targeted training offered to report team in 2019.</p>		3 mths ⁶
<p>#16 Documentation of management letters</p> <p>Management letter points need to be resolved before the client service report (CSR) is issued. The criteria for assessing the importance of the management letter point must be considered and finalised in such a manner that this can be included in the CSR. Client Service Reports should include relevant details pertaining to operational and financial processes and</p>	<p>In 2018, the Audit Office made changes to its Management Letter template including setting expectations on timing. Progressive improvements were subsequently found in resolution of Management Letter points in advance of, and inclusion into closure reports (Client service report) between September 2018 and December 2019. While COVID19 caused some delays in progressing this work, analysis of key state, university and local government audits in 2020, satisfied the</p>		23 mths ⁷

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
controls, which are considered a weakness or deficiency.	Audit Office that there were clear expectations and processes in place to ensure the timely resolution of Management Letter points and communication to auditees.		
<p>#17 Redesign of client reporting templates</p> <p>Consideration should be given to re-designing the client service plan and report templates. These should be updated to reflect greater use of graphics and tables as a means of presenting key issues and observations. Other presentation ideas should be considered as part of the redesigned template to help provide greater insights to the users of such reports.</p>	In 2018, the Audit Office undertook consultation with stakeholders on its current suite of reporting templates. As a result, across 2018, the Office refreshed its Management Letter and Early Close Reporting Letters. The Office also redesigned its Client Service Plan (now referred to as Annual Engagement Plan), publishing this in October 2018 for agencies and Universities.	✓	
<p>#18 Key Audit Matters (KAM)</p> <p>The AONSW should consider whether to adopt a similar form of reporting to KAMs for some of its own audits, particularly those, which are considered having a high public interest. The time and cost associated with the wording of such key audit matters would require investment by the AONSW. A policy will need to be developed to establish which engagements will</p>	In mid-2018, the Audit Office undertook an initial scoping exercise that considered other jurisdictions/private sector reporting and options for the Audit Office. A key audit matter opinion was drafted and included in the Total State Sector Accounts (TSSA) Engagement Closing Report for stakeholder feedback prior to publishing KAM opinion in 2019. The Audit Office developed a Strategy in 2019 to support roll-out of KAM opinions to other state agencies and Universities. A Roadmap for KAM reporting was developed up to the end of the 2020 audit	✓	

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
follow such reporting and the level of internal consultation required to ensure a considered approach.	cycle, with a review of KAM outcomes to inform consideration of any further engagements where a KAM opinion would be relevant.		
<p>#19 Stakeholder Engagement (sector-based staffing approach)</p> <p>The AONSW should consider implementing a sector-based staffing approach to improve auditee engagement results. This could entail Principal Analysts taking responsibility for establishing relationships with key performance audit stakeholders in their allocated sector; developing better knowledge of that sector; working more closely with financial audit Directors in the sector; and overseeing most of the audits in that sector. To support this approach, AONSW should develop sector-based Stakeholder Engagement plans, which may include specific actions to prioritise and address difficult relationships.</p>	<p>Work to address this recommendation was agreed in mid 2018 to be progressed as part of development of the Audit Office's Stakeholder Engagement Strategy. Competing priorities and the impact of COVID19 resulted in delays to completion of this work. In mid-2019 the Audit Office established a new performance audit staffing structure to support a sector-based staffing approach.</p> <p>The Audit Office completed its Stakeholder Engagement strategy in November 2020 and communicated it to staff in December 2020 [Note: From mid-2021, the progress was tracked outside the Recommendation Register as part of development of the Stakeholder engagement strategy roadmap].</p>		34 mths ⁸
<p>#20 Stakeholder Engagement Opportunity</p> <p>The AONSW should consider engagement with parliamentarians via correspondence throughout the year to obtain their feedback on the major issues impacting their constituents. This would be in addition</p>	In early 2018, the Audit Office acknowledged that stakeholder engagement does not include engaging with Parliamentarians via correspondence throughout the year to obtain their feedback on the major issues impacting their constituents. Instead, the Audit Office invites ongoing feedback from Parliamentarians as part of its annual audit planning process.	✓	

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
to sending the forward program to the Public Accounts Committee for feedback on an annual basis.			
<p>#21 Social Media Strategy</p> <p>The AONSW should develop a social media plan that incorporates a means of communicating directly with the community and gauging the impact of its performance audit reports and messaging.</p>	<p>In mid-2019, the Audit Office agreed that a social media strategy would form part of its External Stakeholder Engagement Strategy. Development of a Social Media strategy was not completed as planned because of delays in completion of the Office's Stakeholder Engagement Strategy, partly attributable to the impact of COVID19.</p> <p>In November 2020, the Audit Office finalised its Stakeholder Engagement Strategy. As part of this, a roadmap of planned activity over three years was developed. One key element was the development of a Digital Content Strategy (also referred to as a Social Media Strategy). This was finalised and approved in December 2021 and became operational in January 2022. A register of all digital content is actively managed, and key metrics captured for bi-yearly review</p>		27mths ⁹
<p>#22 Feedback and surveys</p> <p>The AONSW should consider extending its dynamic face to face feedback sessions with its stakeholders (both Parliamentarians and auditees). This would enable the AONSW to explore and understand more</p>	<p>In 2018, the Audit Office agreed to progress this work as part of the development of its Stakeholder Engagement Strategy, Priority was given in 2018 to finalisation of a new Office website, with its implementation in 2019 providing stakeholders with an opportunity to provide feedback on reports, as well as input into</p>		

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
<p>deeply the issues. This should be undertaken by staff or contractors independent from the review. The AONSW should also investigate a way of tracking reader responses on the value of the report through its website. It may wish to consider asking users who download the report to provide details (such as an email address) to enable a survey to be undertaken. Once established, these may be considered as a KPI to use to balance against auditee survey results.</p>	<p>audits in progress. Delays in engaging an external provider to develop its Stakeholder Engagement Strategy, together with the impact of COVID19, in turn led to delays in progressing work to address this recommendation. The Audit Office's development of its Stakeholder Engagement Strategy Roadmap provides for greater face to face sessions with key stakeholders into the future, with planned implementation of face to face close out meetings with auditees by the Performance Audit Branch.</p>		21months ¹⁰
<p>#23 Stakeholder Feedback Compliance Audits</p> <p>The AONSW should consider enhancing collaboration between Financial Audit Branch (FAB) and Performance Audit Branch (PAB) to improve the planning and topic selection process for compliance audits. In addition, the AONSW should update the FAB satisfaction surveys to include specific questions on the value of compliance audit as seen by the responsible agencies and auditees.</p>	<p>In addressing this recommendation, the Audit Office identified 2 components - 23 A (Stakeholder Feedback Compliance Audits) and 23B (Financial Audit Branch satisfaction surveys). To address Recommendation 23A, in early 2018, the Audit Office developed its compliance audit program as a joint Performance Audit Branch/Financial Audit Branch initiative. To address Recommendation 23B, the Audit Office created a new survey to be used for future compliance assurance engagements</p>	✓	
<p>#24 Products</p> <p>To further enhance delivery and service offering to state and local council auditees, we recommend the AONSW</p>	<p>The Audit Office agreed to consider the original Recommendation 24 as 2 parts: Recommendation 24A (Products) and Recommendation 24B (people). In June 2018,</p>		

Original recommendations (as per 2017 PAC review)	Action taken by Audit Office to implement recommendation (as per status updates recorded in Audit Office Recommendations Register)	Implemented by initial due date	
		Yes	No. (delay in months)
<p>consider the following in its Future Ready Roadmap – Consideration of a secure, online collaboration site that facilitates a two-way dialogue between the audit team and the auditee agency to effectively manage engagement coordination. This will provide a seamless audit experience. Benefits are likely to include greater transparency, streamlined request process, improved monitoring and enhanced interactions. This will be critical to save time and costs and generate efficiencies.</p> <p>People and Culture</p> <p>In order to keep pace with the changing needs of auditees and how the AONSW deliver the service going forward, we recommend the Audit Office consider obtaining external data or market feedback to assess the current skill requirements against the skills required of the graduate of the future.</p>	<p>the Audit Office combined this recommendation with a similar recommendation from an ACAG review. In actioning Recommendation 24A, the Audit Office affirmed its commitment to using ShareFile as it's secure document storage and exchange system. It also undertook investigations with vendors in recognition of the need to transition to a more robust platform and acknowledged the benefits of a more holistic and contemporary solution to managing document exchange with auditees and Audit Service Providers. This work was progressed as part of a strategic initiative, development of an External Collaboration Portal. In actioning Recommendation 24B, the Audit Office engaged external consultants in mid-2018 to develop a Workforce Strategy. This was launched in November 2019.</p>		<p>24A 19 mths¹¹</p> <p>24B 13 mths¹¹</p>

APPENDIX C: 2017 PAC REVIEW RECOMMENDATIONS OUTSIDE THE CONTROL OF THE AUDIT OFFICE

Original recommendation (as per the 2017 PAC review)	Comment
<p>A. Follow the Dollar</p> <p>A 'follow-the-dollar' mandate is required in order to restore the oversight that the Auditor-General has traditionally had over public spending. An update to the Act would be a practical response to the contemporary concept of 'commissioning' where government services are increasingly provided by not-for-profit and private providers on behalf of government.</p>	<p>The NSW Audit Office is the only state audit office in Australia that does not have 'follow the dollar' powers. This limits the scope and completeness of its performance audits. It also means that its legislative mandate does not reflect the reality of how government services are delivered, with an increasing involvement of third parties. As a result, the NSW community and Parliament lack assurance about the effectiveness, efficiency and outcomes of government services delivered by these third parties.</p>
<p>B. Assurance over performance-based outcomes</p> <p>The independent assurance if performance-based outcome statement by the AONSW of government organisations is likely to provide value for money but more importantly, enhance the effectiveness of government. The objective of the AONSW is to help Parliament in holding government accountable for its use of public resources. A mandate to provide assurance over performance measures, if implemented in a measured and gradual way, would also benefit agencies who have historically struggled with performance measurement. In the event such assurance arrangements were mandated for the AONSW, they should be implemented in a staged approach over a number of years.</p>	<p>In contrast to other Auditors General, such as the Commonwealth, Western Australia and New Zealand, the Auditor-General does not have an explicit mandate to perform audits of performance measures contained within annual reports other than by conducting such examinations as part of the performance audit mandate. This means that the Audit Office cannot provide the independent assurance over the appropriateness and accuracy of agency key performance measures and indicators that would help improve confidence in the reliability of the NSW Government's performance data.</p>

Original recommendation (as per the 2017 PAC review)	Comment
<p>C. Review of the NSW Budget</p> <p>The NSW Budget has a major impact on the planning and allocation of public resources. An independent review by the AONSW plays an important role in providing assurance to Parliament and the broader public that the processes & assumptions underlying the NSW Budget are reasonable. An independent review of the NSW Budget performed annually as a formal requirement, rather than an invitation from the NSW Treasury, may help to identify potential improvements in the budget process.</p>	<p>Despite the key role that the NSW budget plays in resource planning and allocation, it is not subject to independent review. We note that between 2012-13 and 2016-17, the Audit Office reviewed the NSW budget at the invitation of the NSW Treasury. Since the implementation of a new budgetary system, no further review of the NSW budget has been conducted by the Audit Office.</p>
<p>D. Local Council Mandate</p> <p>A key driver of extending the mandate of local council audits to the AONSW was to increase the standards of local council reporting and drive greater consistency in the presentation of local council results. In this transition phase, it is critical that the AONSW is able to allocate sufficient resources to support these audits. At present, the audit fees from local councils do not adequately cover the time and resources likely to be incurred by the AONSW to meet the objectives as set out above. Without additional funding, there is greater risk that the mandate's objective's will not be met and will also result in the AONSW having to reallocate resources from other critical initiatives being pursued. An adequate level of funding is considered necessary during this transition period to maintain the level of operations and quality by way of a temporary transition grant. This will be key to the long-term strategy of the AONSW as a whole and success with implementing this mandate. It is considered likely that the transition period will be approximately 3 to 5 years until such time as the local councils have reached an adequate measure of maturity in its reporting. The stakeholder engagement costs are estimated by the AONSW to be approximately \$800k per annum.</p>	<p>In October 2016, the Auditor-General's mandate was extended to include financial and performance auditing of local government. The Audit Office did not receive any additional funding for the resultant immediate 30% increase in business, or to support management of the transition, establishment of the required processes and systems and communication with the local government sector. The PAC review was undertaken around one year after extension of the Audit Office's mandate. The Audit Office advised that auditing of local government is now integrated into its 'business as usual state'.</p>

Appendix Two – Audit Office of NSW comments on the Review



Mr Greg Piper
Chair
Public Accounts Committee
Parliament House
Macquarie Street
SYDNEY NSW 2000

16 June 2022

Dear ~~Mr~~ ^{Greg} Piper

Statutory Review of the Audit Office of New South Wales

I am pleased to forward the report of the “Statutory Quadrennial Review of the Audit Office of New South Wales” (the Review) dated 2 June 2022, as required by section 48A of the *Government Sector Audit Act 1983* (the Act).

The Audit Office and I welcome these reviews. They provide an independent perspective on our performance and make an important contribution to the continuous improvement culture embedded in the Audit Office’s 2020-2024 Corporate Plan. It is also appropriate that the Audit Office is held to a similar level of accountability as the agencies we audit.

I am pleased the Review concluded that the Audit Office complies with relevant practices and standards in the carrying out of the Auditor-General’s functions under the Act. I am proud of the Review’s conclusion that the Audit Office is a well-functioning office that is staffed by professional and dedicated auditors.

The Review makes a number of recommendations to help the Audit Office maintain and improve performance in a changing public sector and auditing environment. I accept all the recommendations and will implement those directed to the Audit Office by 30 June 2023. They will assist us achieve our vision to inform and challenge government to improve outcomes for citizens.

The Review includes two strategic recommendations (numbered 1 and 5) to ensure the Audit Office continues to meet its objectives and to ensure the independence of the Auditor-General is maintained, whilst having the ability to provide assurance to the Parliament and citizens of New South Wales. I support these strategic recommendations but note that implementation rests with the Parliament of NSW. I trust the Parliament will consider and implement these strategic recommendations to ensure the Audit Office continues to meet the needs of the changing auditing environment and keeps pace with other Australasian Audit Offices.

I would like to thank O'Connor Marsden for their professional and collaborative approach in conducting a thorough review of the Office's activities. And I also thank the staff of the Audit Office whose hard work and commitment are the foundation of this good result.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Margaret Crawford', with a decorative flourish at the end.

Margaret Crawford
Auditor-General of New South Wales

Appendix Three – Terms of Reference

Pursuant to section 48A of the *Public Finance and Audit Act 1983* (NSW), a review of the Audit Office must be conducted at least every four years. The Review will examine the current auditing practices and standards and compliance with those practices and standards in the carrying out of the Auditor-General's functions under the Act.

The Review should address the following terms of reference and report on:

- (a) The audit methodologies used by the Audit Office of NSW, having regard to:
 - i compliance with current professional standards and legal requirements and
 - ii compliance with statutory responsibilities under the *Public Finance and Audit Act 1983*
- (b) Whether the Audit Office has adequate resources to carry out its functions, with particular reference to the auditing of the local government sector;
- (c) The effectiveness of the Audit Office's communication with clients, particularly in relation to establishing a joint understanding of audits, the scope of compliance programs, and the provision of advice;
- (d) The management of external audit service providers including selection, performance monitoring and reporting;
- (e) The adequacy of internal review processes for quality control purposes, including the application of risk ratings to audit findings;
- (f) The adequacy of risk based assessments of future directions in auditing and management strategies to guide such changes;
- (g) Whether the Audits conducted by the Audit Office provide value for money by meeting their objectives and contributing to improved accountability by government agencies within New South Wales;
- (h) The Audit Office's response to the previous statutory review undertaken in 2017;
- (i) Any other matters that may be referred to the Review by the Committee during the course of the review.

Appendix Four – Extracts from minutes

MINUTES OF MEETING No. 26

10.05am, 30 June 2021

via Webex

Members Present:

Mr Greg Piper (Chair), Mrs Tanya Davies (Deputy Chair), Mr Justin Clancy, Mr Lee Evans, Mr Ryan Park, Mr Gurmesh Singh

Officers in attendance:

Bjarne Nordin, Cheryl Samuels, Candy Lee, Ze Nan Ma, Derya Sekmen

1. Membership

The Chair welcomed Mr Gurmesh Singh to the Committee, in place of Ms Felicity Wilson who has resigned to take up a position as a Parliamentary Secretary.

2. Minutes of Meeting No 25

Resolved, on the motion of Mr Clancy, seconded by Mr Evans:

That the draft minutes of meeting No. 25 of 21 June 2021 be agreed to.

3. ***

4. ***

5. Quadrennial Review of the Audit Office 2021

Resolved, on the motion of Mrs Davies, seconded by Mr Clancy:

That the Committee adopts the terms of reference for the quadrennial review of the Audit Office of NSW and writes to prequalified firms on the NSW Government eQuote portal, enclosing the terms of reference and requesting expressions of interest to conduct such a review.

6. ***

7. ***

8. Next meeting

The Committee adjourned at 11.10 am until 9.45 am on Thursday 12 August 2021 in the Macquarie Room.

MINUTES OF MEETING No. 27

12 August 2021

9.46 am, via Webex

Members Present:

Mr Greg Piper (Chair), Mr Justin Clancy, Mr Lee Evans, Mr Ryan Park, Mr Gurmesh Singh

Officers in attendance:

Bjarne Nordin, Candy Lee, Ze Nan Ma, Nicolle Gill, Cheryl Samuels, Derya Sekmen

Apologies

Mrs Tanya Davies (Deputy Chair)

1. Minutes of Meeting No. 26

Resolved, on the motion of Mr Clancy, seconded by Mr Evans:

That the draft minutes of deliberative meeting No. 26 of 30 June 2021 be agreed to.

2. ***

3. ***

4. ***

5. Quadrennial Review of the Audit Office 2021

The Committee discussed the progress of the review.

6. ***

7. ***

8. Next meeting

The Committee adjourned at 10.40 am until 9.45 am on Thursday 16 September 2021, in the Macquarie Room.

MINUTES OF MEETING No. 28

16 September 2021

9.47 am, via Webex

Members Present:

Mr Greg Piper (Chair), Mrs Tanya Davies (Deputy Chair), Mr Justin Clancy, Mr Ryan Park

Officers in attendance:

Bjarne Nordin, Nicolle Gill, Leon Last, Candy Lee, Ze Nan Ma, Cheryl Samuels

1. Apologies

Mr Lee Evans, Mr Gurmesh Singh

2. Minutes of Meeting No. 27

Resolved, on the motion of Mr Clancy, seconded by Mrs Davies, That the draft minutes of deliberative meeting No. 27 of 12 August 2021 be agreed to.

3. ***

4. ***

5. ***

6. Quadrennial Review of the Audit Office 2020/2021

The Chair provided an update on progress.

7. ***

8. ***

9. Next meeting

The Committee adjourned at 10.17 am until 9.30 am on Friday 17 September 2021, via video conference.

MINUTES OF MEETING No. 31

18 November 2021

9.30 am, Macquarie Room and via Webex videoconference

Members Present:

Mr Greg Piper (Chair), Mrs Tanya Davies (Deputy Chair), Mr Lee Evans, Mr Gurmeh Singh, Mr Ryan Park (by videoconference)

Officers in attendance:

Bjarne Nordin, Candy Lee, Cheryl Samuels, Anna Tran, Ze Nan Ma, Nicole Gill

AGENDA

1. Apologies

Mr Justin Clancy

2. Minutes of Meeting No. 30

Resolved, on the motion of Mrs Davies, seconded by Mr Evans: That the draft minutes of deliberative meeting No. 30 on 21 October 2021 be agreed to.

3. ***

4. ***

5. ***

6. Quadrennial Review of the Audit Office 2020/2021

Resolved, on the motion of Mrs Davies, seconded by Mr Singh: That O'Connor Marsden and Associates Pty Limited be appointed to conduct the Statutory Review of the Audit Office of NSW ***.

7. ***

8. ***

9. Next meeting

The Committee adjourned at 10.14 am until the Public Hearing at 9.00 am on Monday 22 November in the Jubilee Room and via Webex videoconference.

MINUTES OF MEETING No. 33

31 March 2022

9.35 am, Meeting Room 1254 + WebEx

Members Present:

Mr Greg Piper (Chair), Mr Lee Evans, Ms Melanie Gibbons (via teleconference), Mr Dave Layzell, Mr Ryan Park (via Webex), Mr Ray Williams

Officers in attendance:

Clara Hawker, Bjarne Nordin, Anna Tran, Amy Pond, Nicolle Gill

AGENDA

1. Apologies

Nil

2. Committee Membership

The Chair announced the appointment of Melanie Gibbons, Dave Layzell and Ray Williams as members of the Committee, in place of Justin Clancy, Tanya Davies, and Gurmeh Singh.

The Committee recorded its appreciation to Mr Clancy, Mrs Davies and Mr Singh for their service on the Committee.

3. Election of Deputy Chair

The Chair called for nominations for Deputy Chair of the Committee.

Resolved, on the motion of Mr Williams, seconded by Ms Gibbons:
That Mr Layzell be elected Deputy Chair of the Committee.

4. ***

5. Minutes of Meeting No. 32

Resolved, on the motion of Mr Evans, seconded by Mr Park: That the draft minutes of deliberative meeting No. 32 on 18 November 2021 be agreed to.

6. ***

7. ***

8. Quadrennial Review of the Audit Office

The Chair provided an update to the Committee about the progress of the Quadrennial Review.

9. ***

10. ***

11. Next meeting

The Committee adjourned at 10.45 am until the Deliberative Meeting at 9.30 am on Thursday, 19 May 2022.

Meeting no 34

TIME & DATE	09.35AM, 17 MAY 2022	LOCATION	JUBILEE ROOM
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MEMBERS PRESENT

Greg Piper (**Chair**), Dave Layzell (**Deputy Chair**), Melanie Gibbons, Nichole Overall, Ryan Park, Ray Williams.

OFFICERS PRESENT

Leon Last, Alison Buskens, Amy Pond, Anna Tran and Nicolle Gill.

APOLOGIES

Nil.

AGENDA ITEM

1. **Confirmation of minutes - Minutes of Meeting No. 33**

Resolved, on the motion of Mr Layzell, seconded by Ms Gibbons: That the draft minutes of deliberative meeting No. 33 on 31 March 2022 be agreed to.

2. **Committee Membership**

The Chair informed the Committee of the appointment of Stephen Bromhead, in place of Lee Evans, as recorded in item 17(2) of the Legislative Assembly Votes and Proceedings of 31 March 2022.

The Chair informed the Committee of the appointment of Nichole Overall, in place of Stephen Bromhead, as recorded in item 13(2) of the Legislative Assembly Votes and Proceedings of 18 May 2022.

3. **Correspondence received**

Quadrennial Review

- Correspondence received from Rebecca Smyth, Partner, OCM, providing update on recommendation concerning the independence of the NSW Audit Office and providing a draft of the relevant chapter, received 9 May.

4. ***

5. ***

6. **Quadrennial Review of the Audit Office**
The Committee noted the progress report provided by OCM on the Quadrennial Review of the Audit Office.

7. ***

8. ***

9. **Next meeting**
The meeting adjourned at 10.35am until 9.30am on Thursday 23 June 2022.

Meeting no 36

TIME & DATE	09.40AM, 23 JUNE 2022	LOCATION	MEETING ROOM 1254
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MEMBERS PRESENT

Greg Piper (**Chair**), Dave Layzell (**Deputy Chair**), Melanie Gibbons, Nichole Overall, Ray Williams.

OFFICERS PRESENT

Leon Last, Alison Buskens and Anna Tran.

APOLOGIES

Ryan Park.

AGENDA ITEM

1. **Confirmation of minutes - Minutes of Meeting No. 35**

Resolved, on the motion of Mr Williams, seconded by Ms Gibbons: That the draft minutes of the deliberative meeting and public hearing held on 6 June 2022 be confirmed.

2. ***

3. ***

4. ***

5. **Quadrennial Review of the Audit Office**

The Committee considered the final report and proposed recommendations of the statutory quadrennial review of the Audit Office, conducted by OCM, along with a covering letter forwarded from the Auditor-General.

The Committee discussed the conduct of the quadrennial review as prescribed under section 48A of the *Government Sector Audit Act 2018* and agreed to

consider proposed commentary on the provisions at the next committee meeting.

6. ***

7. ***

8. **Next meeting**

The meeting adjourned at 10:47am until a date and time to be determined.

Meeting no 37

TIME & DATE	09.30AM, 17 AUGUST 2022	LOCATION	MEETING ROOM 1254 AND VIA WEBEX
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MEMBERS PRESENT

Greg Piper (**Chair**), Melanie Gibbons (by Webex), Nichole Overall (by Webex), Ryan Park (by Webex) and Ray Williams.

OFFICERS PRESENT

Clara Hawker, Leon Last, Alison Buskens, Amy Pond (by Webex), Anna Tran, Nicolle Gill and Gerard Rajakariar.

APOLOGIES

An apology was received from Dave Layzell.

AGENDA ITEM

1. **Confirmation of minutes - Minutes of Meeting No. 36**
Resolved, on the motion of Mr Williams, seconded by Ms Gibbons: That the draft minutes of the deliberative meeting on 23 June 2022 be confirmed.
2. ***
3. ***
4. **Quadrennial Review of the Audit Office**
The Committee discussed the recommendations in the statutory quadrennial review report of the Audit Office and its presentation to the House.
5. ***
6. **Next meeting**
The meeting adjourned at 10.06 am until Monday, 19 September 2022 in the Jubilee Room.

Meeting no 38

TIME & DATE	08.38AM, 21 SEPTEMBER 2022	LOCATION	MACQUARIE ROOM AND VIA WEBEX
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MEMBERS PRESENT

Greg Piper (**Chair**), Melanie Gibbons (by Webex), Nichole Overall, Ryan Park and Ray Williams (by telephone).

OFFICERS PRESENT

Clara Hawker, Leon Last, Alison Buskens, Anna Tran and Gerard Rajakariar.

APOLOGIES

An apology was received from Mr Layzell.

AGENDA ITEM

1. **Confirmation of minutes - Minutes of Meeting No. 37**

Resolved, on the motion of Mrs Overall, seconded by Mr Park: That the draft minutes of the deliberative meeting on 17 August 2022 be confirmed.

2. ***

3. ***

4. ***

5. **Quadrennial Review of the Audit Office**

The Committee considered the Chair's draft report to present OCM's report on the statutory quadrennial review of the Audit Office of NSW, as previously circulated.

Resolved, on the motion of Mr Williams, seconded by Mr Park, *in globo*:

- That the Committee adopts Chapter 1 of the Chair's Draft Report.
- That the Committee adopt the recommendations of the Chair's Draft Report.

-
- That the Committee tables the report prepared by OCM as an Appendix to the report.
 - That the Committee tables the correspondence from the Audit Office of NSW as an Appendix to the report.
 - That the Committee adopts the draft report and that it be signed by the Chair and presented to the House, and authorises Committee staff to make appropriate final editing and stylistic changes as required.
 - That, once tabled, the report be published on the Committee's webpage.

6. **Next meeting**

The meeting adjourned at 8.51 am until the public hearing at 9am on Thursday, 29 September 2022.

Appendix Five – Glossary

The Act	<i>Government Sector Audit Act 1983</i>
ACT	Australian Capital Territory
The Committee	Public Accounts Committee
GIPA Act	<i>Government Information (Public Access) Act 2009</i>
NT	Northern Territory
OCM	O'Connor Marsden and Associates
PBO Act	<i>Parliamentary Budget Officer Act 2010</i>
Qld	Queensland
Tas	Tasmania
Vic	Victoria