

**Submission
No 6**

EFFICIENCY AND EFFECTIVENESS OF THE AUDIT OFFICE OF NSW

Organisation: NSW Audit Office
Name: Mr Peter Achterstraat
Position: Auditor - General
Date Received: 9/05/2013

PAC Inquiry into the efficiency and effectiveness of the Audit Office of NSW

Background

The following submission is provided to assist the Public Accounts Committee with its inquiry into the efficiency and effectiveness of the Audit Office of NSW.

Summary of Key Insights

The Auditor-General helps parliament hold government accountable for its use of public resources.

The Audit Office has strong strategic foundations built on its values of purpose, people and professionalism. Parliament and agencies regularly seek and act on our recommendations. Our people are highly skilled and dedicated to improving the public sector, and we are known for influencing the accounting and auditing profession in Australia.

Our strategic planning processes underpin a culture of continuous improvement and pursuit of efficiency and effectiveness.

Key insights for each of the terms of reference are summarised as follows:

Whether the Audit Office of NSW Provides Value for Money Financial Audit Services, In Comparison With the Services and Fees of Similar Organisations

- Our external survey and benchmarking results confirm the Audit Office is providing value for money financial audit services.
- Our external survey results show those charged with governance of agencies value our services highly.
- Our financial audit services cost significantly less than the average of the other State and Territory Audit Offices.

Whether the Performance 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

- Parliament's overall satisfaction with the services provided by the Audit Office rose from 90 per cent in 2010 to 97 per cent in 2012.
- We rated above the average of the four other participating Audit Office's in four key performance audit areas, high quality reports and services, valuable information on public sector performance, improving public sector administration, and reporting issues clearly.
- Our Performance Audits add value as demonstrated by feedback from agencies and the extent of implementation of our recommendations.
- Our reports are increasingly providing the opportunity for the PAC to follow up what agencies are doing in response to our recommendations.

Whether the Process of Selecting Topics for Performance and Compliance Audits is based on Robust Methodology

- Our continuous monitoring of risks faced by NSW Government agencies and identification of performance gaps, feeds into our Strategic Audit Planning process.
- Our Strategic Audit Planning identifies an inventory of key issues and potential topics for each portfolio of government agencies.
- Potential topics for the Strategic Audit Planning process are assessed against criteria that target our work to add most value to Parliament.

Whether the Selection of Agencies for Compliance Audit Is Robust and Based On a Consideration of the Particular Risks of That Agency

- Agencies are selected for compliance audits based on:
 - the relevance and materiality of the specific compliance matters to that agency and the State
 - the likelihood and extent of benefits from potential findings and recommendations
 - the engagement scope and budget.

Whether the Audit Office has adequate Resources to Carry out its Functions

- External survey results demonstrate our success in having the right resources to deliver our services and meet our current mandate.
- The NSW Public Service Commission People Matter Survey showed the Audit Office compares very favourably against other NSW Public Sector agencies.
- We have people with specialist skills and expertise to audit specialised industries in the public sector.
- We are investing heavily in key strategic initiatives to meet the need to be smarter and more productive.

The effectiveness of the Audit Office's Communication with Agencies, Particularly in Relation to Establishing a Joint Understanding of Expected Audit Fees, the Scope of Performance and Compliance Programs, and the Provision of Advice.

- Our benchmarking of effective communications against six participating Audit Offices showed we ranked in the top three in all measures.
- Communications between auditors and agencies were assessed as effective by 100 per cent of agency Chief Executive Officers and 94 per cent of Chief Financial Officers.
- Fees for financial audits are communicated to agencies through discussions and briefing meetings and are confirmed in key documents like our Client Service Plan.

Detailed Insights relevant to the Inquiry's Terms of Reference

Whether the Audit Office of NSW Provides Value for Money Financial Audit Services, In Comparison With the Services and Fees of Similar Organisations

The Audit Office is focussed on its financial audit services providing value to Parliament while maximising value to agencies.

Our survey and benchmarking results confirm that the Audit Office is providing value for money financial audit services

We monitor our success at achieving value for money financial audit services primarily by conducting Parliamentary and agency surveys and through our benchmarking activities with other State and Territory Audit Offices. Our survey and benchmarking results confirm that the Audit Office is providing value for money financial audit services. Survey and benchmarking results feed into our strategic planning processes where continuous improvement initiatives are determined and actioned.

The following Parliamentarian survey results confirm their satisfaction with the value of our financial audit services:

Parliamentarian Survey Results	2012 %	2010 %
Overall Satisfaction with Audit Office Reports and Services	97	90
The Financial Reports clearly identified the significant issues and their implications	93	87
The Financial Reports assisted me to monitor financial performance of the NSW Public Sector	92	85

Source: Orima Research, Audit Office of NSW, 2012 Parliamentarian and Client Surveys, Aggregate Report on Survey Findings, August 2012.

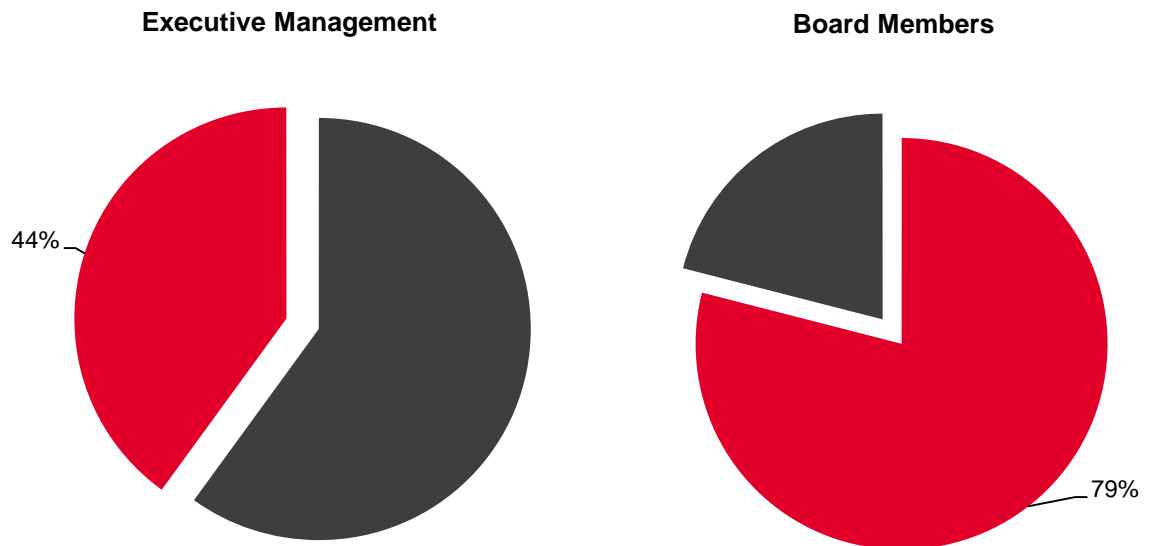
The above Parliamentarian survey results show that our focus on continuous improvement since the 2010 survey has delivered increased value and satisfaction with our services. We attribute this rise in satisfaction to improvements made in our issue identification processes, industry sector overviews, and report readability, design and layouts.

Our survey results show that the perception of value is higher from those charged with governance

In practice our primary focus of delivering value to Parliament has a negative impact on the perception of value to agencies. Our survey results demonstrate this tension and show that the perception of value is higher from those charged with governance. Parliamentarians and Chairs of Audit Committees have a higher perception of value from our services than Chief Executive Officers or Chief Financial Officers.

This is not inconsistent with the recent findings of PWC in their 2013 State of the internal audit profession study of nearly 1,100 Chief Audit Executives and more than 630 stakeholders (Chief Executive Officers, audit committee chairs, other board members, and senior finance and risk managers) from 60 countries. The findings to the following question were:

Considering your investment in internal audit resources and funding, please rate the value you receive from your internal audit function?



■ **Percentage of respondents indicating internal audit contributes significant value**

Source: PricewaterhouseCoopers 2013, *Reaching greater heights: Are you prepared for the journey? – 2013 State of the internal audit profession study*, PricewaterhouseCoopers.

The following agency survey results confirm their satisfaction with the value of our financial audit services:

Agency Survey Results	2012 %	2011 %	2010 %
Audit Committee Chairs			
Financial audit services make a valuable contribution by providing our organisation with a sense of assurance	89	90	n/a
The Audit Office financial audit services provide value for money	80	69	n/a
The Audit Office's observations and recommendations have the potential to improve the financial management of the organisation.	82	73	n/a
Chief Executive Officers			
Financial audit services make a valuable contribution by providing our organisation with a sense of assurance	81	81	n/a
The Audit Office financial audit services provide value for money	41	44	n/a
The Audit Office's observations and recommendations have the potential to improve the financial management of the organisation.	74	75	n/a
Chief Financial Officers			
Financial audit services make a valuable contribution by providing our organisation with a sense of assurance	84	84	77
The Audit Office financial audit services provide value for money	63	58	58
The Audit Office's observations and recommendations have the potential to improve the financial management of the organisation.	76	77	74
The Audit Office's fees are reasonable relative to the level of audit activity undertaken.	65	57	55

Key: n/a – No Audit Committee Chair or CEO surveys were conducted in 2010

Source: Orima Research, Audit Office of NSW, 2012 Parliamentarian and Client Surveys, Aggregate Report on Survey Findings, August 2012.

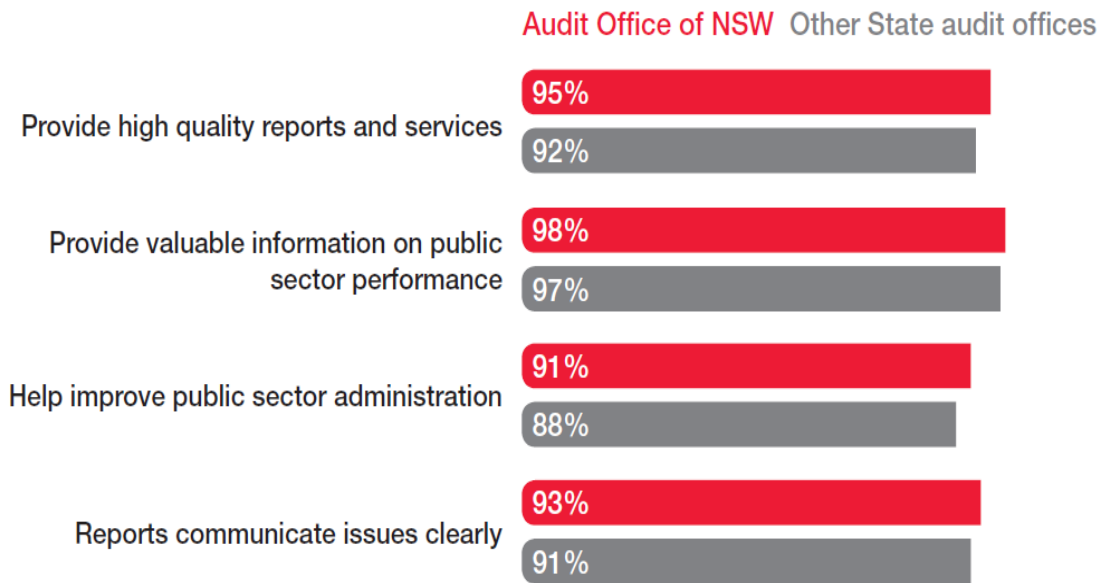
In recent years, the Audit Office has focussed on improved engagement and communications with Audit Committee Chairs, Chief Executive Officers and Chief Financial Officers. The above results reflect that this initiative has improved agency satisfaction with the value of financial audit services.

The Audit Office also benchmarks the satisfaction with our services and the cost of our audits with similar organisations. The most comparable organisations to benchmark our services against are other Australian State and Territory Audit Offices.

NSW Parliamentarian satisfaction of 97 per cent with Audit Office of NSW reports and services was the highest of the five benchmark participating Audit Offices who received satisfaction results between 86 and 96 from their Parliamentarians. Some other specific benchmark comparisons with the average of other State and Territory Audit Offices are as follows:

NSW
Parliamentarian
satisfaction with
Audit Office of
NSW reports
and services
was the highest
of the five
benchmark
participating
Audit Offices

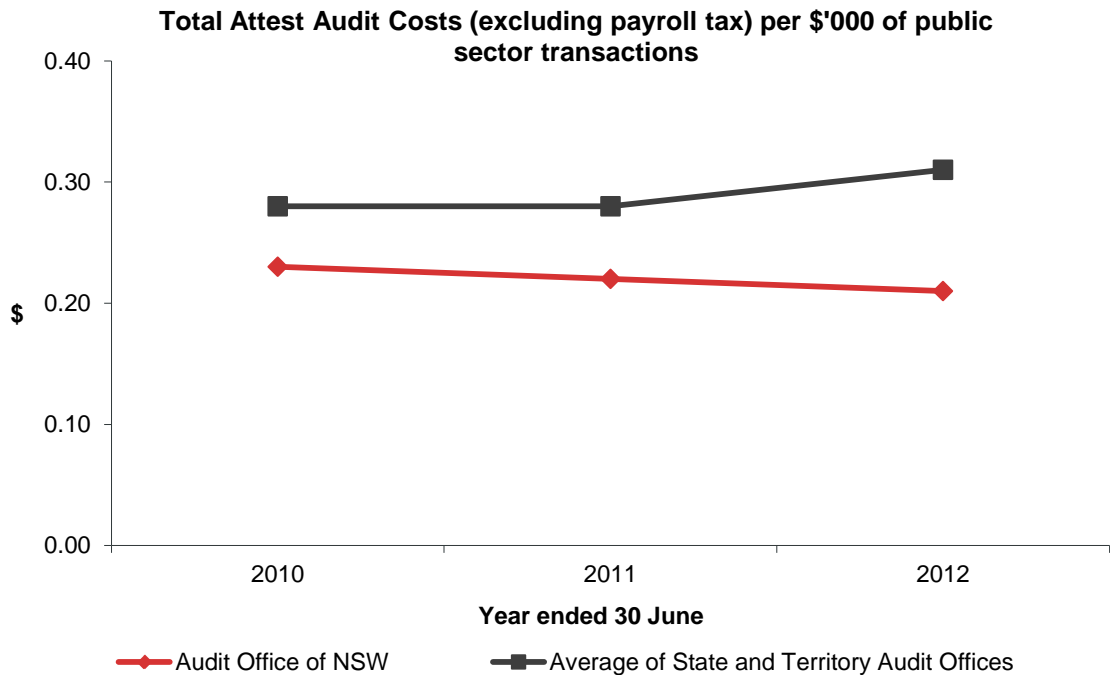
Satisfaction compared with other participating State audit offices



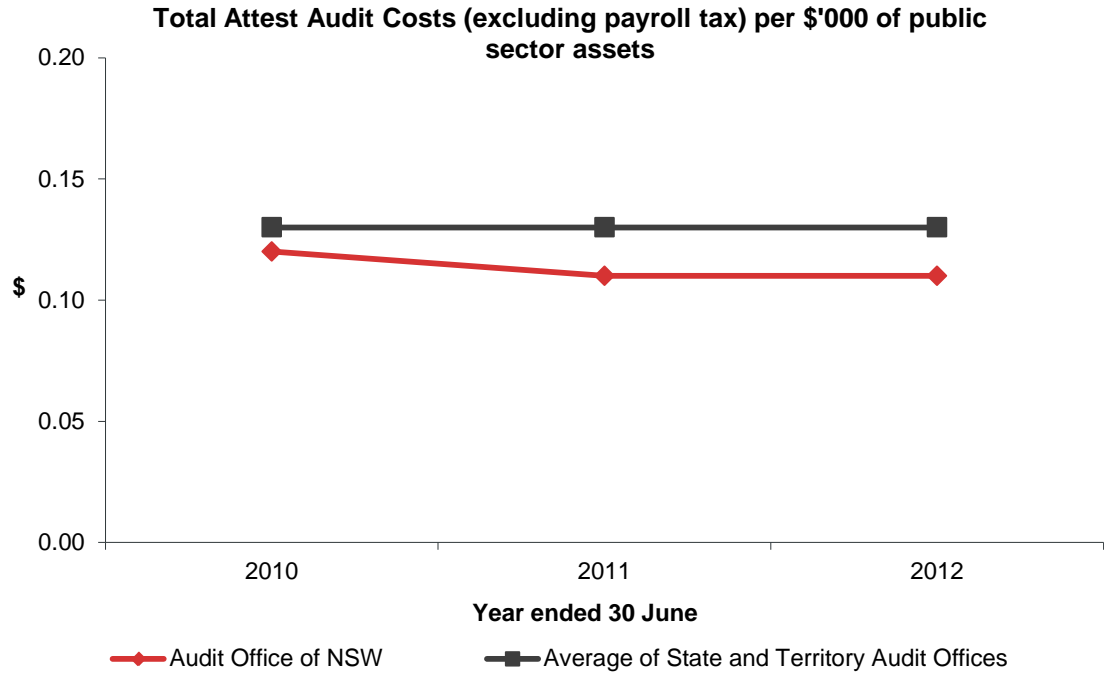
Source: Audit Office of NSW, 2012 Annual Report.
Orima Research, Australasian Council of Auditors-General Macro Benchmarking Survey for 2011-2012, 22 October 2012.

Our benchmarking includes comparing the cost of audits. Our financial audit services cost significantly less than the average of State and Territory Audit Offices.

Our financial audit services cost significantly less than the average of State and Territory Audit Offices



Source: Orima Research, Australasian Council of Auditors-General Macro Benchmarking Survey for 2011-2012, 22 October 2012.



Source: Orima Research, Australasian Council of Auditors-General Macro Benchmarking Survey for 2011-2012, 22 October 2012.

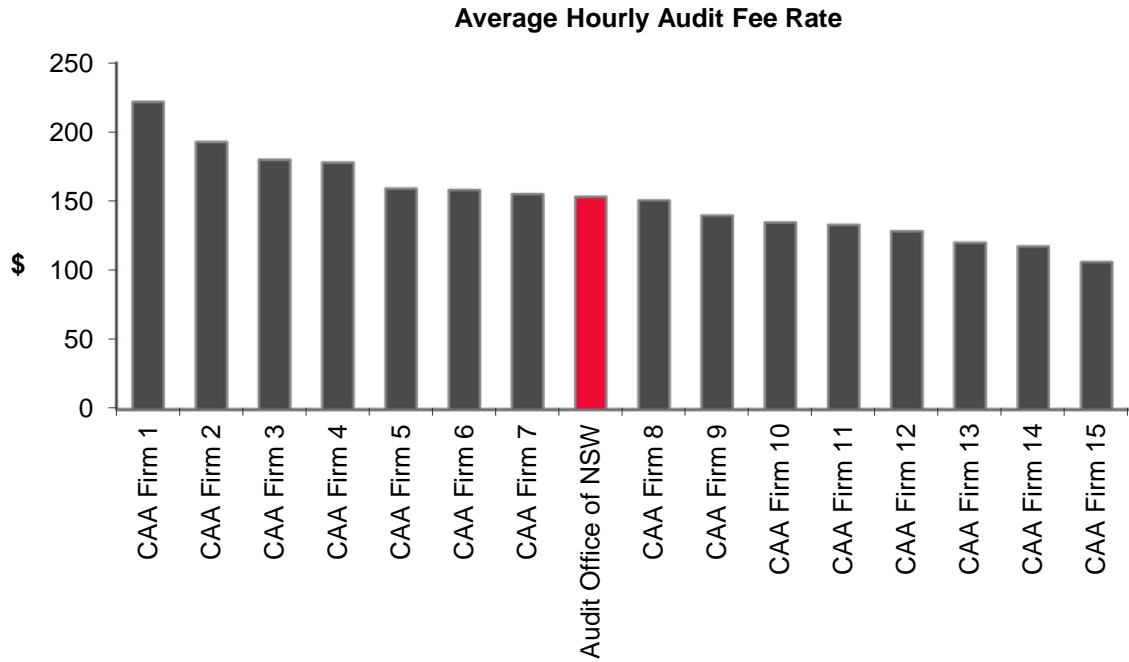
We also benchmark our audit fees against private sector firms that we use as our contract audit agents (CAAs). We currently contract out 9 per cent of our total work by number and 11 per cent by value. The extent of contracting out is appropriate for us to achieve our contracting objectives being to:

- facilitate the benchmarking of our work against the private sector to ensure we provide comparatively cost-effective and efficient audit services
- improve our processes through knowledge transfer and the adoption of innovative ideas
- benefit from the access of a broader range of skills and specialist knowledge.

We don't believe private sector firms are as comparable as our benchmarking with other State and Territory Audit Offices. Private Sector firms provide other services and target particular sectors or clients to maximise profitability whereas Audit Offices must audit all agencies within the public sector irrespective of size, complexity, risk or location. However, our benchmarking with private sector firms confirms our fees are not excessive.

The following graph shows our average charge out rates are comparable to our contract audit agents.

Our benchmarking with private sector firms confirms our fees are not excessive



As our contract audit agents are tendering for the audits of a specific group of agencies, the average audit fee hourly rate will be impacted by the relative complexity and risks of the agencies in that group. As such, the average hourly audit fee rate for CAA Firm 15 above, may have been higher than CAA Firm 1 had they been tendering for the agencies within the group that CAA Firm 1 was successful in winning. The above graph demonstrates that the average audit fee hourly rate for the Audit Office of NSW would closely align to the average of all the CAA's average audit fee hourly rates.

Where we can readily compare our total audit fee for a particular audit versus our CAA's fee, we found our audit fees were comparable.

It is our practice to charge agencies the cost of their audit. If the actual cost of an audit is less than the estimated fee, we reduce the final invoice to reflect the cost of service delivered.

Whether the Performance 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

For every performance audit, we set an objective and conclude against it. We have quality control procedures in place to ensure that our audit work evidence is sufficient for us to conclude against the objective.

On rare occasions, we find it necessary or appropriate to change the objective during the course of the audit. Generally, any change to the objective arises from discussions with agencies and in all cases we advise agencies of this change.

Our primary client is Parliament. Members of Parliament are best placed to assess our performance audit contributions to improved accountability. In 2012, Parliament's satisfaction with the Office as a whole rose to 97 per cent, from 90 per cent in 2010. Their increased satisfaction with performance audit was a major part of that.

Parliament's satisfaction with the Office as a whole rose to 97 per cent

Parliament's Improved Assessment of Performance Audits

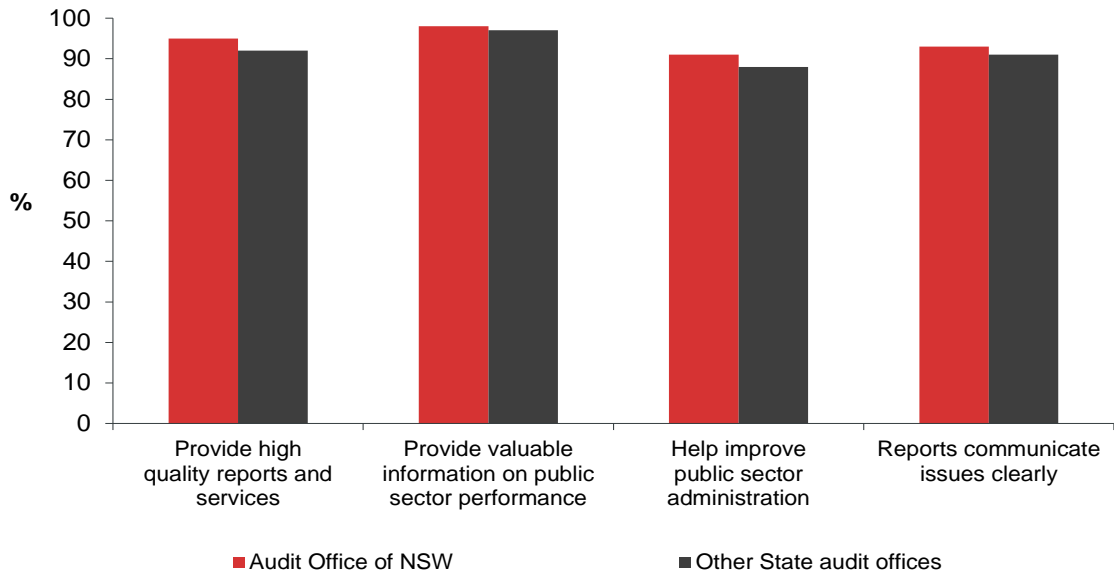
	% Parliamentarians who agree	
	2012	2010
Reports and services are high quality	95%	85%
Responsive to requests	100%	91%
Advice which meets their needs	100%	86%
Reports provide valuable information	98%	91%
Reports communicate issues clearly	93%	87%

Source: Orima Research, Audit Office of NSW, 2012 Parliamentarian and Client Surveys, Aggregate Report on Survey Findings, August 2012.

The Audit Office has achieved this by tailoring our reports more closely to the needs of Parliament and by taking every opportunity to consult on potential topics and Members of Parliament's concerns.

Parliament's satisfaction in New South Wales compares favourably with the average of the other four Australian State audit offices that do Performance Audits.

**Performance Audit in NSW
Parliament's Satisfaction Compared with other Participating Audit Offices**



Source: Orima Research, Australasian Council of Auditors-General Macro Benchmarking Survey for 2011-2012, 22 October 2012.

We rated above the average of the other audit offices for the four key areas measured (see graph above). Ninety-one per cent of Parliamentarians believed our reports and services help improve public sector administration, compared to the 88 per cent average of the four offices. Ninety-five per cent of our Parliamentarians believed the Audit Office of New South Wales provides high quality reports and services, above the combined average of 92 per cent.

Parliamentarians continue to rate the Auditor-General's performance audit reports highly. They said that our reports:

- were easy to understand, with 91 per cent in agreement
- clearly identified the significant issues and their implications, with 87 per cent of respondents in agreement.

The Audit Office welcomes the close interest of the PAC in our work and the reinforcement it provides to government accountability and improvements in agency operations

Value for Money

The Public Accounts Committee (PAC) follow-up hearings provide further indication of our value for money. The PAC has strongly supported the recommendations made in performance audits and reinforced the value that comes from agencies implementing our recommendations.

Since 2007–08, the PAC has followed up on all recommendations made in performance audit reports 12 months after publication, seeking advice from the agencies concerned and from the Audit Office on agency progress on those recommendations. In 2011–12, a new Public Accounts Committee was elected, and followed up recommendations in 16 audits, noting:

'The committee examination has proven to be a very effective means of comprehensively testing action taken on all performance audits and maintaining a high level of scrutiny of the agencies under review. It adds weight to the audit process and gives further impetus to the overall scrutiny of public expenditure. The tangible outcomes of this process have demonstrated the value of following up the Auditor-General's report recommendations.'

'With some noted exceptions, the committee is generally satisfied that the responsible agencies are now meeting their obligations and implementing the auditor's recommendations.'

The Audit Office welcomes the close interest of the PAC in our work and the reinforcement it provides to government accountability and improvements in agency operations.

In recent times, we have witnessed an increase in statutory and request audits. This is indicative of the Parliament and Government valuing the independence and quality of our work. New laws since 2009 have required the Audit Office to report on the Solar Bonus scheme, Government advertising and the impact of changes to the Police Death and Disability scheme.

Requests from Ministers, which we consider carefully but do not always agree to, have resulted in the 2012 fraud survey, the 2011 review of the effectiveness of speed cameras and the 2008 audit of the Department of Public Prosecutions.

Improving Road Safety: Speed Cameras

This audit assessed whether fixed, mobile and safety cameras were located in black spots and reduced speeding and crashes. We found that, in general, speed cameras changed driver behaviour and improved road safety. Total crashes and injuries each fell 26 per cent and fatalities fell by more than two-thirds in the three years after the installation of fixed speed cameras.

However, we also found 40 per cent of fixed speed cameras had yet to achieve a significant impact on serious accident rates. We made recommendations to review these more closely, along with other measures, as part of a clearer strategy for all types of cameras.

The RTA accepted all our recommendations. The Minister for Roads went further and immediately turned off a number of cameras. A year later, in its first annual review of speed camera locations (one of the specific recommendations of the audit), the minister announced: 'The results from the review are very encouraging with 88 of the 97 fixed speed camera locations recording a reduction in crashes and/or casualties.'

Our standing with stakeholders is also illustrated by the recent recommendation of the Independent Local Government Review Panel to expand our mandate to cover local government. The Panel's 2012 paper, 'Better, Stronger Local Government' said:

Key organisations such as ... the Auditor-General need to play stronger advisory and oversight roles. (p18)

Strengthening of external audit may well necessitate the involvement of the Auditor-General, as in Queensland and Victoria, in order to set appropriate standards, oversight the work of consultant auditors and ensure a consistent approach. (p33)

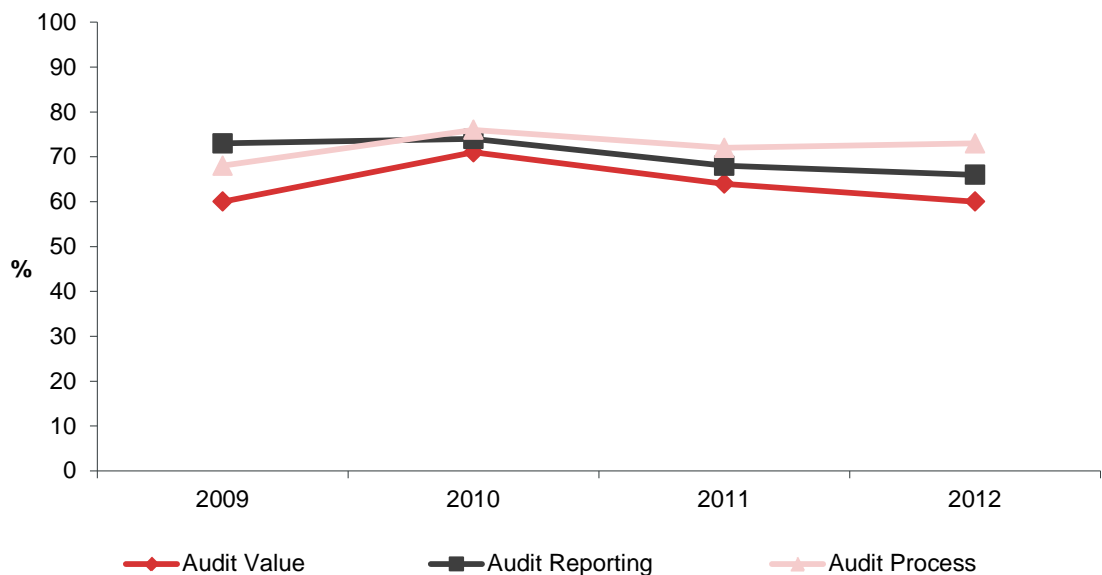
Understanding the needs of Parliament is, however, an ongoing challenge. We currently have a corporate project underway to improve how we engage with Parliament, and we are happy to take improvement suggestions from the Inquiry.

We also seek advice from others to improve the way we conduct our business. We have made changes to our performance audit methodology over time in response to recommendations from external reviewers (Public Accounts Committee, peer reviewers, agencies) and from internal suggestions. We survey each of the agencies at the end of the performance audit for feedback on the processes we adopt, the report we issue, the value we add, and how we may improve. We share latest thinking on methodology in planning the annual national training workshop for performance auditors from across Australia and New Zealand.

While Parliamentarians' assessment of our performance has improved in recent years, our agencies' assessment has declined, according to the survey returns on indicators of audit process, value and quality of the report.

We share latest thinking on methodology at national training workshops

Satisfaction of the Agencies we Audit with Performance Audits



Source: Orima Research, Audit Office of NSW, 2012 Parliamentarian and Client Surveys, Aggregate Report on Survey Findings, August 2012.

The fall in the report indicator has coincided with a concerted Office push to present reports to Parliament which are shorter and written in plain English and to distil the main findings further in press releases for the general public. It is perhaps unsurprising that agencies would prefer longer explanations of the often complex context, and constraints, that inhibit performance.

The process assessment is one indicator of whether we are conducting ourselves professionally and with due regard for fairness and natural justice. In some ways it is likely that agencies will query our reporting and value add when our reports are public records of agency shortcomings.

In terms of process, 86 per cent of agencies believed our auditors used their organisation's staff members' time efficiently, up significantly from 67 per cent in 2011. Fifty-seven per cent, up from 47 per cent in 2011, believed our auditors demonstrated an adequate understanding of their organisation and operating environment, and in 2012, 100 per cent believed their organisation was provided with an adequate opportunity to comment on the audit findings and issues before the finalisation of the report, up from 87 per cent in 2011.

The agency survey responses need to be interpreted in the context of their high level of recommendation acceptance and the generally positive response we get from the PAC and from agencies queried by the PAC about the audit process at the follow-up. The recommendations accepted are a reasonable proxy for whether we understood the business, particularly now that agencies have to account for their response to the PAC. The proportion of recommendations accepted remained above 90 per cent over the period under review and was 98 per cent in 2010-11 and 2011-12.

**% Recommendations Accepted by Audited Agencies
for Performance Audits**



Our audits result in recommendations for improving public sector accountability and performance, and are developed in consultation with agencies in response to our audit findings.

Examples of Performance Audit Value

Managing Gifts and Benefits

Positive feedback was received from agencies on this March 2013 report aimed at highlighting the risks associated with public sector employees receiving undisclosed gifts and benefits. Feedback from agencies demonstrate how our reports positively impact on governance within public sector agencies.

Working with Children Check

This report was tabled in February 2010. All recommendations were accepted, and amendments to the legislation were put in place. A new Working With Children Check was introduced in 2012, which will last for five years and be valid for paid or volunteer child-related work. Workers will need a valid clearance in order to start in a child-related role. From June 2013, a new working with Children check will commence with four agencies' operations streamlined into one regulatory unit.

Managing Forensic Analysis: Fingerprints and DNA

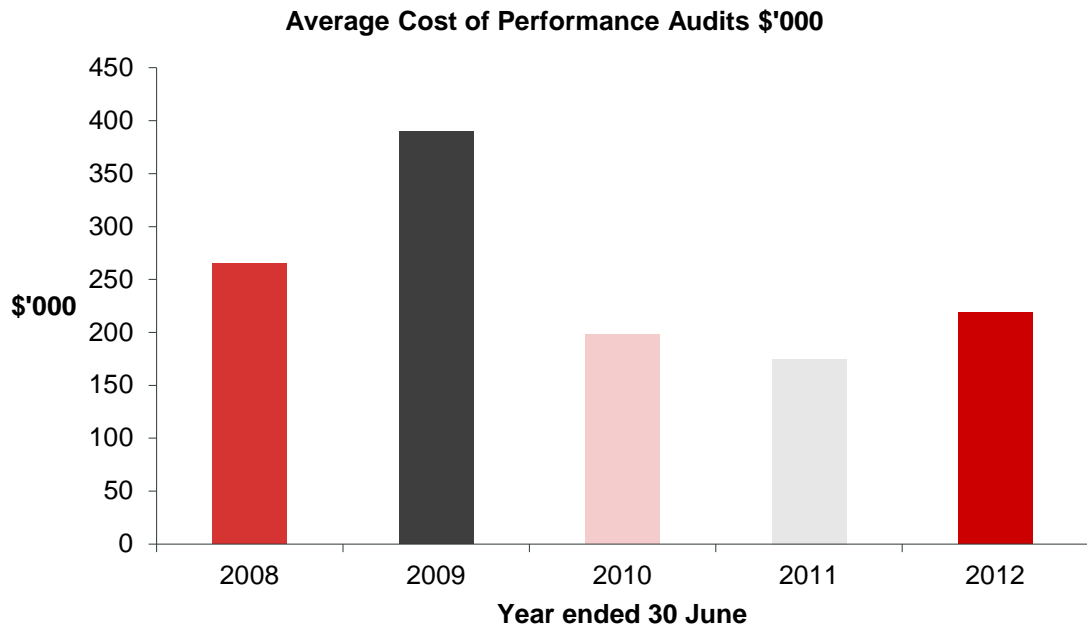
This report was tabled in February 2010. The complexity of DNA analysis and its growing use had led to delays in analysis and a backlog of 6,400 DNA evidence cases waiting to be analysed. The NSW Police Force accepted all of our recommendations to address backlogs and delays. In 2012, the NSW Police Force reported that the backlog of DNA evidence had been cleared. DNA analysis for less serious property crimes are now processed within 48 hours rather than waiting in a queue for six to 12 months.

Managing Injured Police Officers

This 2008 report found the NSW Police Force will struggle to reduce its total cost of injury. This was mainly due to the cost of the 2005 Death and Disability Insurance Scheme which covered nearly 80 per cent of police. The estimated future liabilities had grown from \$29 million to over \$115 million from June 2006 to June 2008. We recommended an urgent review of the benefits and officers' contribution under the scheme with a view to either reducing benefits, increasing officers' contribution or ceasing the scheme. Four years after the report, the Government rescinded the 2005 Death and Disability Award. In March 2012, the Police Amendment (Death and Disability) Act 2011 commenced, leading to fundamental reforms of the scheme and all relevant law and industrial instruments. In the Act, Parliament has asked the Audit Office to evaluate the impact of the amendments and this work has just started as a performance audit.

Average Cost of Performance Audit

An element of value for money is the cost of our audits. Our average audit cost is lower than four years ago.



This reduction has been part of a deliberate strategy to spend more time on selecting topics, adopting a tighter audit scope and producing shorter, sharper reports.

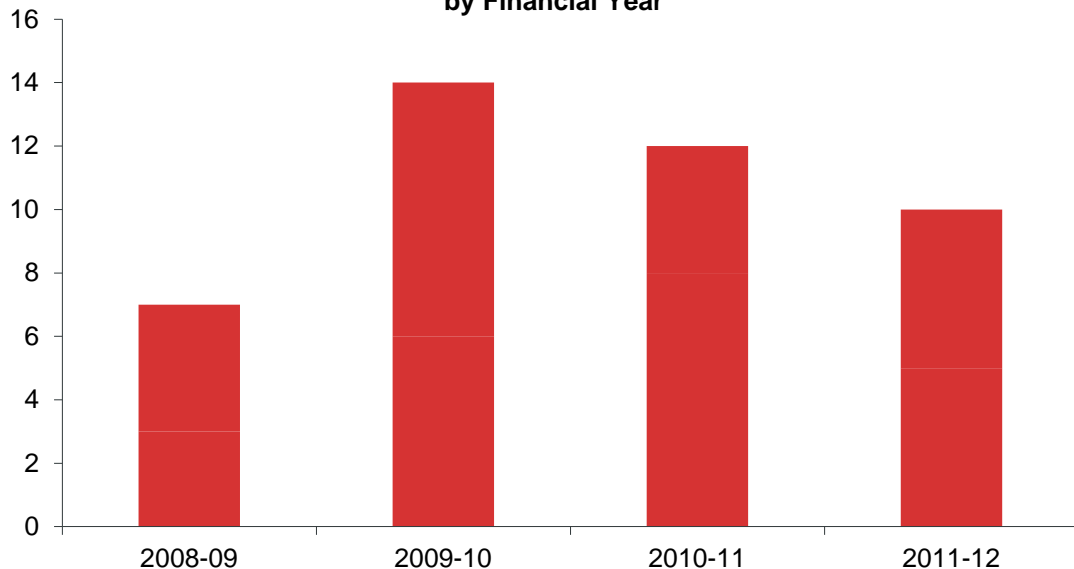
The average cost of the performance audits we published in 2011–12 was \$219,000, compared to the average of all Australian Audit Offices of \$305,000. The increase from 2010-11 reflects the changing scope of the subject matter. In recent times, we have been undertaking more complex and, arguably, contentious audits on matters of high public interest. Complexity relates to the topics themselves and to the number of agencies involved. Examples include Responding to Domestic and Family Violence, Two Ways Together- NSW Aboriginal Affairs Plan, Government Expenditure and Transport Planning in Relation to Implementing Barangaroo, Government Investment in V8 Supercar Racing at Sydney Olympic Park, and Managing Gifts and Benefits.

Our performance auditors draw upon support from our financial audit and corporate services colleagues for industry knowledge, agency liaison, data analysis and report production. We also engage private sector contractors and consultants to help us where we believe this represents good value for money or where we do not have the expertise available in house. Recent examples include: a survey of school principals; statistical expertise on road accident analysis and penetration testing for our audit of Electronic Information Security. In 2011-12, we used specialist advisers on one-third of our performance audits.

Number of Performance Audits

We have been producing less audits in recent times than in the past.

**Number of Performance Audits and Performance Reviews
by Financial Year**



The number of Performance audit products has varied from year to year around an average of 12.

During this period, we have continued our practice, started towards the end of the last review period, of early termination of reviews if, after the initial detailed planning processes, the lines of inquiry are not yielding a significant return against the audit objective. The previous PAC reviewer commented that this 'should enhance the overall effectiveness of the performance audit program by enabling resources which have been freed up to be used on other performance audits.' We believe it has.

Our average performance audit cost of \$219,000 is less than the average of all Australian Audit Offices

Examples of Audits Stopped After Commencement

Psychiatric Emergency Care Centres – agency advised a review covering similar scope was under way

School counsellors: agency advised that a review covering similar ground was about to commence

Coal seam gas complaint handling – a parliamentary committee extended its terms of reference to examine the issue

Graffiti vandalism - new legislation was under consideration

Out of home care – postponed to allow time for new policy directions and approaches to bed down and for a Parliamentary Inquiry to complete

Commercial fishing licenses – major agency restructure and announcement of legislative changes to address many of the “over-fishing” issues we planned to address.

As mentioned previously, the PAC follow-up process has bedded down during the review period and is enhancing transparency, accountability and the likelihood of performance improvement. In supporting the PAC follow-ups, the Performance Audit Branch undertakes a significant amount of work which in the past would have been devoted to audits. Such work includes:

- reviewing and analysing auditee submissions and providing written comments to the PAC
- briefing the Auditor-General for hearing attendance, attending hearings, and dealing with matters arising from hearings.

The Audit Office has also been working on using performance audit branch skills and knowledge to increase the capacity of financial audit to identify and report upon performance issues in its Volumes to Parliament. Over the period, we have increased the number of financial audit volumes, and increased the amount and quality of performance information in them. This capacity building and assistance has taken a number of forms, including assistance with identifying potential issues, performance analysis, and preparation of comments in these Volumes.

Fraud Control Survey 2012

One significant example of a joint Financial Audit/Performance Audit project was the Fraud Control Survey conducted and reported on in 2012. This followed a request from the Treasurer, and provided a stocktake of the current situation with fraud perpetration and control in the NSW public sector.

Whether the Process of Selecting Topics for Performance and Compliance Audits is based on Robust Methodology

The Audit Office identifies potential performance and compliance audit topics through continuous monitoring by auditors of the risks faced by NSW Government agencies and of performance gaps in delivering their objectives. Financial auditors do this through regular engagement with agency staff and attendance at agency Audit and Risk Committee meetings. Performance audit staff have watching briefs to monitor themes or programs with performance audit potential. Each topic proposed must satisfy 11 criteria for it to be considered by the Auditor-General for inclusion in the audit program.

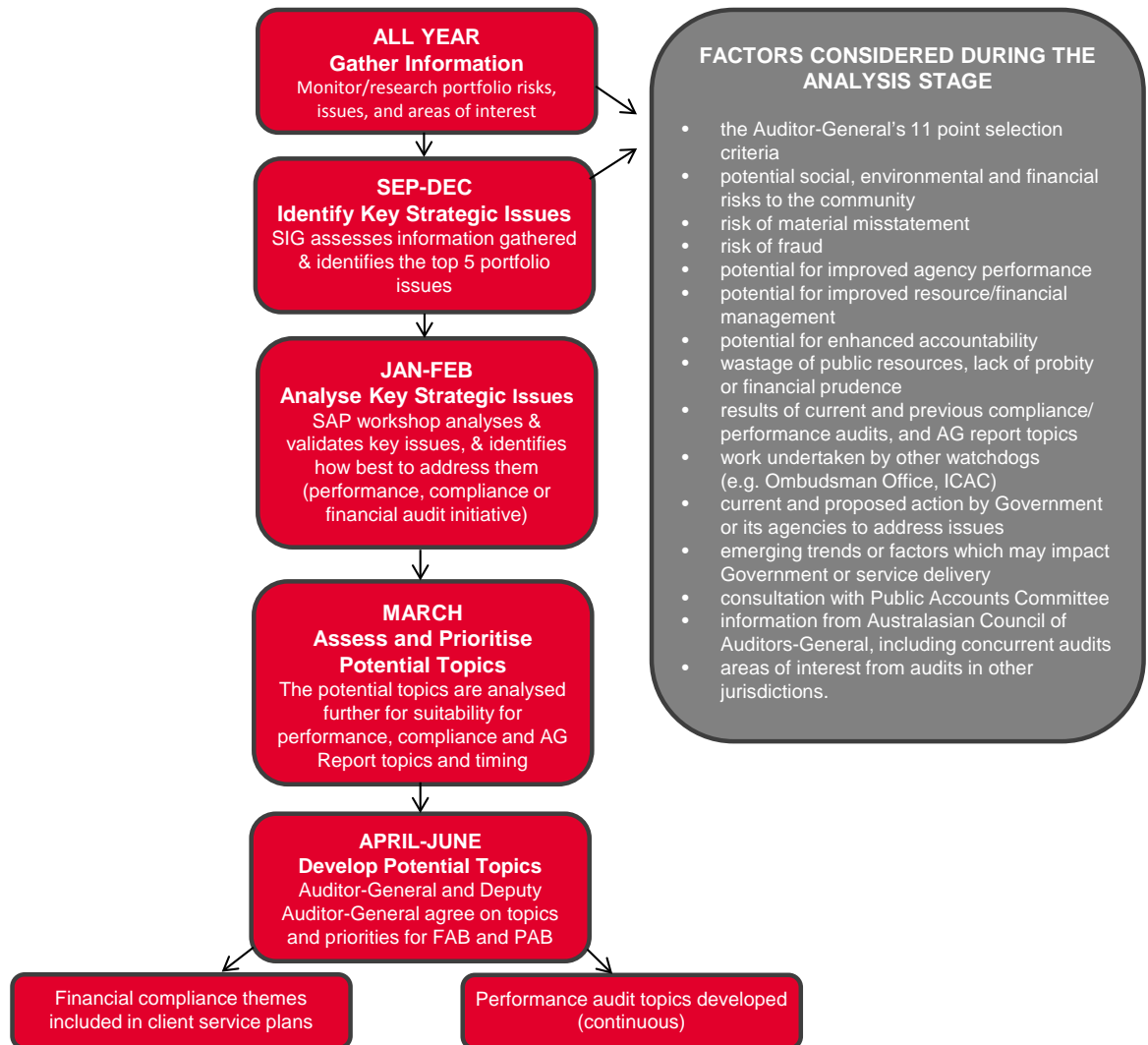
The Auditor-General's 11 Point Selection Criteria

1. the topic is of interest to Parliament and the person in the street
2. the activity to be audited is clearly defined and key questions can be established
3. the audit does not duplicate the work of other subject experts
4. suitable audit criteria exist, which:
 - have the potential to identify significant performance gaps
 - are based on objective standards, such as regulations, procedures, output or outcome targets, better practice in other jurisdictions etc
5. the audit focuses on how the State's money is used, expresses issues in dollar terms, and wherever possible, identifies areas where better value for money might be obtained
6. use of statistics, such as:
 - comparisons with other jurisdictions
 - trends over time
 - regional NSW and inter jurisdictional comparisons
7. the audit is likely to provide specific answers to key questions and, if possible, identifies three major issues and three recommendations that impact the person in the street
8. the results of the audit can be expressed in a clear, concise, simple report of around 10-15 pages that addresses the Auditor-General's concerns
9. the report is likely to include recommendations that are:
 - practical and relate to the person in the street
 - clear and concise
 - outcomes based
 - tangible, where benefits clearly exceed costs
10. it is likely our recommendations will be implemented and others will use our work
11. there are opportunities to engage the public or key external stakeholders to inform the audit are exploited, through:
 - any other audits/reviews done or planned on the issue
 - audits done on the topic in other jurisdictions
 - potential performance gaps, recommendations and risks
 - auditability and suitability

Auditors bring together potential audit topics at regular meetings of our Special Interest Groups (SIGs) and annually through the Strategic Audit Planning (SAP) process.

Performance and Compliance Audit Topic Development Overview

The following diagram provides an overview of the key activities underpinning the process used for selecting performance and compliance audit topics, and other Auditor-General report topics.



Strategic Audit Planning

Each December the Audit Office conducts a workshop which involves the Office leadership team comprising the Auditor-General, the Deputy Auditor-General, the Assistant Auditors-General, audit directors, audit managers and Corporate Services executive managers. The Office leadership team, as a whole, reviews key issues raised by the SIGs, suggestions raised by the Auditor-General and other stakeholders (including CEOs, Parliamentarians and the public) and suggests priorities for the next year's audit activities.

The outcome of the SAP workshop is an inventory of key issues and potential topics for each portfolio of Government agencies. While the SAP process is the primary selection process for issues and topics, the Auditor-General has discretion to include topics that respond to issues that emerge subsequently.

A strategic audit planning (SAP) workshop identifies an inventory of key issues and potential topics for each portfolio of government agencies

As well as the output from the SAP process, the Auditor-General draws on several sources when determining audit priorities and final programs for financial, compliance and performance audits, including:

- meeting with the Public Accounts Committee during the SAP process to seek its input on potential key issues and audit topics
- writing to all members of Parliament and major agency CEOs seeking their views
- the Performance Audit Branch Executive and staff identifying at least two new emerging issues each month for the Auditor-General to consider as part of a continuous process of topic identification
- writing to relevant agencies seeking their feedback on potential performance audits
- considering requests for information or reviews of concerns or complaints from stakeholders, such as lobby groups, Government agency employees, the public, and Audit Office staff.

Special Industry Groups

Special Interest Groups provide valuable input to the SAP process. They help the Audit Office focus its work on areas to enable it to make recommendations to improve the State's performance.

The SIGs provide a forum to:

- co-ordinate, identify and discuss key strategic issues and risks across the NSW public sector
- improve industry knowledge and knowledge sharing across the Audit Office
- improve the Audit Office's expertise in selected areas
- help with internal and external queries about respective SIGs areas of interest
- prepare comments on papers from external bodies, including industry groups, professional bodies, NSW Treasury and other audit offices.

The SIGs meet up to four times per year and may invite other Audit Office staff or external parties to attend meetings.

Determining the Method of Audit Delivery

Potential topics are examined to determine the most efficient and effective means of delivery.

- Performance audits look at efficiency and effectiveness, and are delivered by the Performance Audit Branch
- If compliance criteria are identified, the topic is delivered as a compliance engagement by the Financial Audit Branch
- The results of data collection and analysis exercises are compiled by the Financial Audit Branch and reported in Auditor-General's Report overviews.

Compliance Audit Delivery:

If a compliance audit is determined to be the most effective delivery method for a topic, the audit team:

- identifies suitable criteria within the meaning of [ASAE 3100 Compliance Engagements](#) (generally a criteria established in legislation, or through Ministerial Memoranda, Treasury Circular or Policy Paper)
- analyses the likely impact and value of the audit, likely issues, findings and recommendations, and their potential value to the NSW public sector
- confirms Treasury's willingness to request and provide the funds for the audit (compliance audits are conducted under s 27B(3)(c) of the *Public Finance and Audit Act 1983*)
- proposes the scope of the engagement, determined in terms of:
 - the identified criteria (if the compliance criteria are extensive, fewer agencies are usually selected)
 - whether the engagement will be a limited assurance review or a reasonable assurance audit, which is determined by the nature and extent of the proposed procedures and the level of assurance Treasury seeks
 - the budget proposed by the Treasurer or Minister (the scope may be limited by the funds the requesting agency will provide for its performance)
 - the agencies required to comply with the criteria, which may have a material impact on the effectiveness of the criteria overall.

Delivery by Financial Audit Branch via the AG's Volumes (Reports to Parliament)

Some topics identified in the SAP process are not suited to delivery by either a performance or compliance audit. Each year, the Office Executive considers the number of volumes and their contents. Generally, each volume represents a specific theme or cluster of Government agencies. Each volume has an audit director as 'owner' and an Assistant Auditor-General as sponsor. The 2012 volumes were:

Volume	Release Date	Focus
One	February	Final audits - financial year end 30 June, and special reviews
Two	May	Universities and other audits - financial year end 30 September to 31 December
Three	October	State Finances (Total State Sector Accounts)
Four	November	Electricity audits - financial year end 30 June
Five	November	Superannuation, Compensation & Housing audits - financial year end 30 June
Six	November	Environment, Water & Regional Infrastructure audits - financial year end 30 June
Seven	November	Law, Order and Emergency Services audits - financial year end 30 June
Eight	November	Transport and Ports audits - financial year end 30 June
Nine	December	Education and Communities audits – focussing on Families, Education & Arts audits - financial year end 30 June
Ten	December	Health audits - financial year end 30 June

Audit directors decide when to include a comment in a volume. Comments are developed for all Group 1 or 2 agencies listed in the annual Treasury Circular and other agencies if there are quantitative and qualitative reasons for doing so, e.g. where:

- the agency is financially significant, but not listed in the above categories
- a significant issue has been identified or one was reported last year (updates are required for prior year significant issues)
- a recommendation has been identified or was reported last year (updates are required for prior year recommendations)
- issues of public interest were identified by the SIGs , the SAP process or by the audit team.

Planning for the Report to Parliament starts early in the audit cycle. Issues are identified, communicated and followed up to ensure the final product contains significant findings and value added recommendations. Findings are considered to be of sufficient importance/risk, if they are of interest to the public, Parliament, and those charged with governance (e.g. CEO, Audit and Risk Committee, etc). Issues, findings, and recommendations must be specific, simple and understandable. Specific performance information is normally included in the comment.

Developing the Comment

Financial Audit Branch team members develop an outline of the proposed comment and document important new issues and repeat issues that may be reported with a new focus. This occurs during the planning/interim phase of an audit.

Inputs to the development session include:

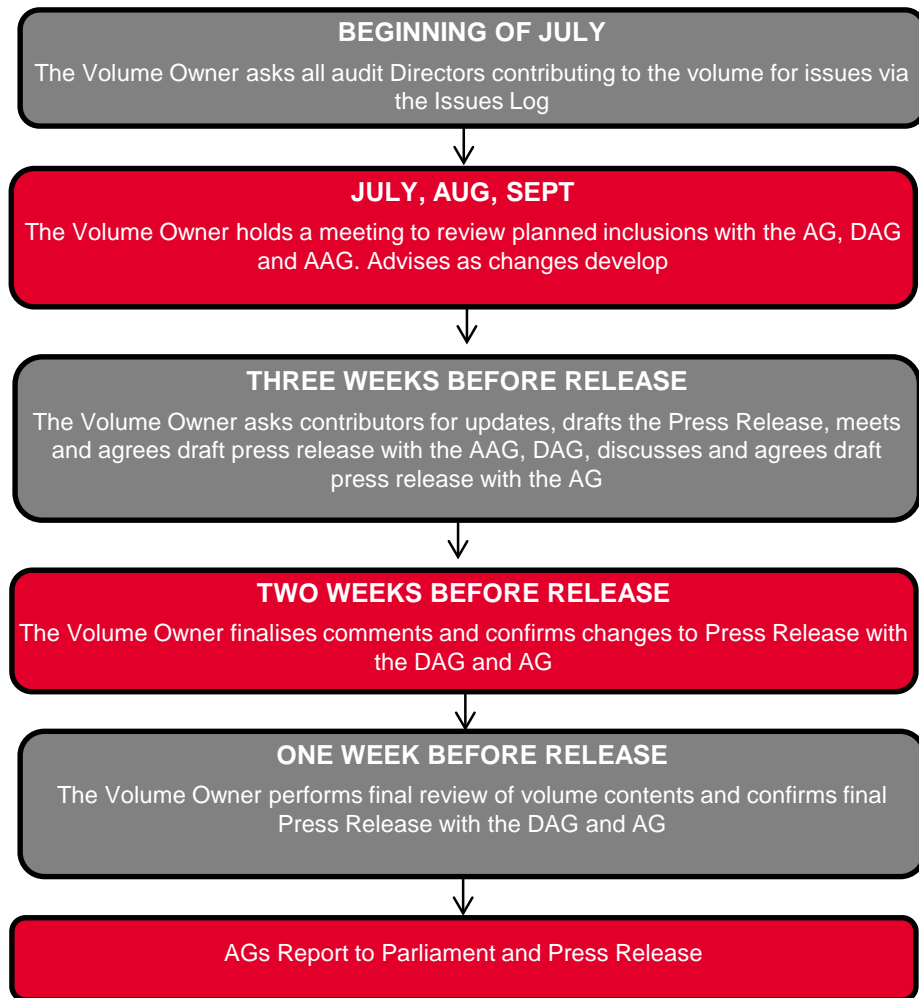
- ideas from the related SIGs
- ideas from the SAP process
- agency/other feedback on last year's comment and suggestions for this year
- review of last year's comment
- consideration of matters arising during audit planning
- recent media coverage of issues relating to the agency.

Outputs from the development session include:

- the previous year's rolled over comment showing issues which are no longer relevant, repeat issues and new or changed issues, providing a roadmap for staff charged with drafting the comment
- an issues log summarising issues carried forward from the previous year as well as new and revised issues that are likely to result in Significant Items or Recommendations.

Each team updates issues for their comments, which flow automatically into a master list for each volume. This helps the volume owner brief the sponsor Assistant Auditor-General and the Auditor-General on issues to be reported on a timely basis.

Financial Audit Branch Comment Development Overview



Whether the Selection of Agencies for Compliance Audit Is Robust and Based On a Consideration of the Particular Risks of That Agency

If a compliance audit is determined to be the most effective method of handling a topic, the audit team identifies the agencies to be included in the audit or review having regard to:

- whether the agency is subject to the identified compliance criteria, which are generally established in legislation or through Ministerial Memoranda, Treasury Circulars or Policy Papers
- whether the agency, the sector, the Government or the public will benefit from the potential findings and recommendations flowing from the audit or review
- the proposed scope of the engagement, which is determined by reference to whether the engagement is to be a review or audit, the number of agencies subject to the criteria and the budget
- whether the agency's compliance or non-compliance with requirements may materially impact the State.

Compliance engagements conducted since the last PAC review include:

2009 - Total Asset Management:

A limited assurance review engagement of agencies' compliance with the requirements of Treasury's total asset management policies was agreed with Treasury. The compliance criteria were extensive and the extent of procedures performed at each selected agency was accordingly large. The review assessed relevant agencies' compliance with:

- Total Asset Management (TAM) requirements for updating the NSW State Infrastructure Strategy (SIS) (TPP08-2)
- Total Asset Management (TAM) Requirements for Updating the State Infrastructure Strategy (NSWTC 08/06)
- Revised Project Size/Risk Thresholds for the Submission of Business Cases and Gateway Reports (NSWTC 08/07).

Agencies selected for the review were those with substantial asset management responsibilities whose non-compliance with the requirements of the Treasury Policy Paper and Treasury Circulars shown above could materially impact the State Plan.

These agencies were:

- Rail Corporation
- Roads and Traffic Authority of New South Wales
- Attorney General's Department
- Department of the Arts, Sport and Recreation
- Department of Environment and Climate Change
- Department of Education and Training
- New South Wales Fire Brigades
- New South Wales Police Force
- Department of Health
- Taronga Conservation Society Australia
- Housing NSW
- Aboriginal Housing Office.

2010 - Electronic Procurement

A limited assurance review engagement of agencies' compliance with the requirements of 'NSW Procurement Reforms' in Premier's Memorandum M2006-11 was agreed with Treasury. The compliance criteria were relatively modest and the agencies selected, after discussion with the Office of Procurement, were all subject to the requirements (procurement >\$400 million). They included:

- Community Services, Department of Human Services
- NSW Land and Housing Corporation
- Land and Property Management Authority
- Rail Corporation
- Department of Education and Training
- Department of Premier and Cabinet
- Department of Planning
- South East Sydney Illawarra Area Health Service
- Department of Industry and Investment - Department of Primary industries
- Road and Traffic Authority of New South Wales
- Northern Sydney and Central Coast Area Health Service
- Department of Justice and Attorney General - Attorney General's Department
- Department of State and Regional Development
- Department of Services, Technology and Communication
- New South Wales Fire Brigades
- Department of Environment, Climate Change and Water
- Department of Justice and Attorney General - Corrective Services
- NSW Police Force
- Communities NSW.

2011 - Survey TPP 09-05 Internal Audit and Risk Management

To raise awareness of *TPP 09-05 Internal Audit and Risk Management*, the Auditor-General surveyed 139 agencies' assessment of their preparedness to implement and comply with the requirements of:

- [TC 09/08 Internal Audit and Risk Management](#)
- [TPP 09-05 Internal Audit and Risk Management for the NSW Public Sector](#)

The survey was aimed at raising awareness of the requirements and flagged the topic would be subject to a future compliance review. The results of the survey were reported to Parliament.

2011 - Survey of University Internal Audit and Risk Management arrangements

Although universities in NSW are not required to comply with Treasury policies, most consider the policies represent best practice and choose to comply with them. The Auditor-General determined the University sector would benefit from a self-assessment survey of their compliance with the requirements of the Treasury policy. Eight of the 10 NSW universities chose to participate in the self-assessment and responded to the survey. The results were reported to the universities so they could benchmark their governance processes against the Treasury policy requirements.

2012 - Internal Audit and Risk Management Compliance Review

A selection of 24 agencies were subjected to a review of their compliance with core requirements one to four and requirement six of [TPP 09-05 Internal Audit and Risk Management for the NSW Public Sector](#). The agencies selected included all nine principal Departments (at the request of Treasury) and 15 other agencies. These agencies were selected by audit directors and approved by the Financial Audit Branch Executive, which includes the Deputy Auditor-General and three Assistant Auditors-General.

Agencies selected were:

- New South Wales Crime Commission
- The Art Gallery of NSW Trust
- Department of Trade and Investment Regional Infrastructure and Services
- Compensation Authority Staff Division
- Long Service Corporation
- Fire and Rescue NSW
- Department of Attorney General and Justice
- Department of Family and Community Services
- New South Wales Aboriginal Land Council
- Department of Health
- Department of Finance and Services
- Sydney Catchment Authority
- NSW Trustee and Guardian
- The Treasury
- Department of Planning and Infrastructure
- Department of Transport
- Barangaroo Delivery Authority
- Department of Education and Communities
- Community Relations Commission for a Multicultural New South Wales
- State Transit Authority of NSW
- Roads and Traffic Authority of NSW
- NSW Police Force
- Department of Premier and Cabinet
- Rail Corporation.

Whether the Audit Office has adequate resources to carry out its functions

Overview

The Audit Office is required by legislation to undertake around 450 financial audits for a diverse range of agencies, including:

- commercial entities which operate similarly to private sector entities e.g. Sydney Water, Macquarie Generation
- semi commercial entities e.g. Sydney Olympic Park Authority, Sydney Harbour Foreshore Authority
- non-profit entities such as Government departments e.g. Department of Education and Communities, Ministry of Health
- politically sensitive entities e.g. The Legislature
- specialist entities e.g. Crown transactions, superannuation funds, NSW Treasury Corporation, universities

The agencies we audit range in size and complexity of operations. They range from the very small to agencies with annual expenditure of \$17 billion and assets of \$70 billion. They are mostly located across NSW. Some are located overseas.

Many of the agencies we audit have significant infrastructure assets which are valued at fair value. We are required to audit these values which can vary from year to year. The audit requirements are significant. In the private sector assets are valued at cost which results in a significantly less audit process. Examples of agencies with significant infrastructure audits are, Roads and Maritime Services has roads and bridges valued at \$55 billion; Rail Corporation of NSW has trackwork and infrastructure valued at \$13 billion.

The Audit Office also undertakes performance and compliance audits.

Legal and Professional Obligations

There are legal requirements that bind us to deliver our work at standards that cannot be compromised.

We are required by legislation and professional standards to avoid close business relationships with agencies. We have to be independent in our agency audits and to be seen as independent by stakeholders and the broader community. To ensure we meet our business needs we require qualified and skilled people. Our people are committed to supplying all the functions required to deliver quality services to the agencies we audit and the people of NSW.

The Audit Office has its own award and conditions of employment – the Crown Employees (Audit Office) Award 2009. The *Public Finance and Audit Act, 1983* allows the Auditor-General to determine conditions and benefits of employment of the members of staff of the Audit Office and their salary, wages and other remuneration. The Auditor-General uses this authority within the boundaries of the NSW Government Wages Policy.

There are legal requirements that bind us to deliver our work at standards that cannot be compromised

We recruit up to 12 graduate accountants per annum and fully train and educate them to post qualification, mainly as Chartered Accountants or CPAs

Our salary offering is now between 5 per cent and 9 per cent lower than market benchmarks due to the NSW Government Wages Policy restrictions

Ninety five per cent of our people are willing to put in extra effort for a professional result

Resource Challenges

Like many organisations the Audit Office faces constant resource challenges. Those outlined below are touched on in more detail later:

- We recruit up to 12 graduate accountants per annum and fully train and educate them to post qualification, mainly as Chartered Accountants or CPAs. This makes these home grown staff highly marketable in the public and private sectors not only as auditors but in financial accounting roles
- Performance Audit is a specialised discipline and we recruit from a range of professions to provide the range of experience needed to understand management and to deliver across the Government sector. Retaining lawyers and engineers (for example) in these roles is highly dependent on providing an employment proposition that engages their interest and provides remuneration consistent with their opportunities elsewhere
- Our support staff bring a wide range of specialisation to the Audit Office and have needs very similar to the Performance Audit team. Opportunities for advancement are limited by our size
- Our remuneration offering is meant to be pitched at the 25 per cent percentile of the Finance and Accounting grouping (Mercer CED rated). This is significantly lower than most professional services firms. Our remuneration offering is now between 5 per cent and 9 per cent lower than the Mercer benchmarks due to the NSW Government Wages Policy restrictions

This remuneration drift is becoming very evident in 2013. At the end of the third quarter of the current year annualised employee initiated terminations were 10.6 per cent (3.9 per cent higher than the same period last year). Of those, 54 per cent were recently qualified auditors. Many left to more highly paid roles within the NSW public sector

- We are implementing major new systems to enhance our service delivery. We need to resource these initiatives while maintaining business as usual
- We invest heavily in the development of all our people to ensure the quality of delivery of service to NSW Government is never compromised by poorly informed staff. This is considered a strategic priority
- Our level of sophistication in workforce planning is improving year on year. Our strategic plans include several key initiatives to continually improve and mature our understanding and information about our workforce needs and constraints
- In addition to our most critical resource, our people, we also require very specialised technology, a physical location as centrally positioned relative to the agencies as possible, and all the other resources common to most professional service providers.

The Audit Office is resourced at the end of March 2013 by 285 FTEs of whom 85 per cent work at the 'front line'.

Our People are Committed and Engaged

In March 2012, our staff survey results had the following highlights:

Measure	Result %
Willing to put in the extra effort to achieve a professional result	95
Engagement	81
Loyalty – willing to recommend the Audit Office as a great place to work	91
Satisfaction – fairly well to extremely satisfied	93
Morale – good to very high	87

Our people also reported that despite these high levels of loyalty and commitment to purpose they continue to feel under significant pressure from workload. The 2013 survey explores this issue further and will focus attention on managing this consequence of the deadline driven environment in which we work.

The NSW Public Service Commission People Matter Survey reported that the Audit Office compares very favourably with the NSW public sector as a whole:

Measure	Audit Office of NSW %	NSW public sector %
Engagement	76	63
My organisation provides frank, impartial and timely advice to the Government	96	73
My organisation has procedures and systems that ensure objectivity in decision making	93	70
My organisation strives to earn and sustain a high level of public trust	99	85
My organisation provides high quality services to the community	97	85
My organisation always tries to improve its performance	96	80
My organisation is making the necessary improvements to meet our future challenges	92	58
My organisation is committed to developing its employees	94	59

However, our people also reported that despite being satisfied with their jobs, feeling that they are secure and being fairly paid at a response rate equivalent to the rest of the NSW public sector, only 60 believe their overall benefits package is satisfactory compared to 65 per cent of the NSW public sector.

Determining People Resources for Financial Audits

We use a two to five year horizon in recruiting resources and fine tune each year's needs based on:

- Total hours estimated to complete audits. To do this we take into account:
 - last year's actual hours
 - audits no longer required
 - new audits
 - impact of agency restructures
 - efficiency gains.

This information comes from our management information system, discussions with agencies, changes in legislation, NSW Treasury requirements and changes in accounting and auditing professional standards.

- Staff categories and hours required for each category to undertake our audits. This involves considering for each audit:
 - The adequacy of last year's staff mix
 - changes in audit requirements
 - changes in our assessment of the audit risks of each agency and the impact on audit skills required
 - legal requirements to rotate staff across agencies.

A two to five year horizon is used for planning our people needs

- Existing staff categories and their available hours. We take into account:
 - flexible work arrangements
 - short and long term leave
 - staff departures
 - progressions between staff categories
 - work peaks requiring temporary staff
 - extent of the use of agents to undertake our audits.

With this information the current composition of staff allocated to audits is adjusted to meet next year's requirements. Overall shortfalls are addressed through external recruitment of permanent or temporary staff. Instances of excess staff are addressed through staff turnover and a reduction in external recruitment.

Resourcing Specialised Industries Financial Audits

For specialised industries audits, people with relevant specialist skills are needed. We develop our people or recruit people with those skills. Development is through a combination of actions:

- Specialist industry audits are grouped and people with the appropriate skills are allocated to those groups. Grouping allows a build-up of team knowledge and experience. Examples of grouping are superannuation funds and insurance entities.
- Undertaking specialist technical training, research and attending industry seminars. On average two people a year undertake financial services post graduate studies. Some of our people are members of the Association of Superannuation Funds of Australia which enables attendance at superannuation seminars and training courses. People undertaking specialist training are allocated to audits where this specialist knowledge is required.

Resources from our Contract Audit Agents

We engage private sector audit firms to undertake a selection of our audits. This is done for benchmarking, resourcing and specialist expertise purposes.

Determining People Resources for Performance Audits

Performance audits are funded through a budget allocation to Treasury. We bill the Treasury for the costs of performance audits, unlike financial audits which are funded by agencies. The amount of resources to be applied to the task of performance auditing is therefore a matter for the Parliament.

Our aim is to produce 12 performance audits per year with the current level of funding provided by Parliament.

We undertake audits with teams varying in size from one to four depending on scope, urgency and complexity. We also co-opt our colleagues from financial audit and data analytics experts from the information systems team when necessary.

Our team structures recognise that staff must have sufficient knowledge, skills and experience to:

- quickly understand the business of the agency
- liaise and negotiate with very senior agency staff in potentially adversarial situation
- identify performance gaps and their significance
- write a report that is clear and concise, communicates effectively to the Parliament and will be in the public domain.

Senior staff, including audit leaders, must possess objectivity, analytical ability, listening and negotiation skills, plain English writing skills and political savvy.

We have people with specialist skills for specialised industries audits

Performance audit resources reflect the Parliament's needs

We deliver an average of 12 performance audits per year

We also engage private sector contractors and consultants to assist us where we consider this to represent good value for money or where we do not have the expertise available in house when we need it.

We also recognise the need to continuously develop and improve the skills of our people. All have training and development programs, which are mentioned later. We also provide specific training and development activities for performance audit including:

- industry-specific information sessions
- post-audit reviews of audits to share lessons for the future.

We are keen to retain at least our current capacity to undertake audits selected by the Auditor-General. There are some challenges on this front.

In recent times, Parliament has legislated for the Audit Office to undertake reviews and audits on particular subjects. This included a review of the Solar Bonus scheme, an annual audit of Government advertising, and an audit of the Police Death and Disability scheme.

While we believe this signals Parliament's confidence in the Audit Office, these are currently funded from the Performance Audit budget allocation to Treasury, which diminishes the resources available to apply to audits and other work chosen by the Auditor-General.

There have also been discussions within Government and elsewhere about possible changes to our mandate such as the audit of local government, the ability to follow Government money into NGOs, and a specific mandate to undertake compliance audits.

Unless these are accompanied by additional resources, they would lead to a further reduction in the discretionary resources available to the Auditor-General for performance auditing.

Specialist Support Services for Financial and Performance Audit

The technical complexities involved in our audits requires specialist support for our financial and performance audit teams. This support is provided by our:

- Information Systems Audit team comprising 14 full time equivalent staff
- Technical Support team comprising 10 full time equivalent staff.

The Information Systems Audit team provides computer systems audits and data interrogation services. These services continue to expand in line with the increasing use of information technology by agencies. Our new audit methodology is resulting in our Information Systems Audit team becoming more closely integrated with our financial audit teams resulting in a more value adding outcome for the agencies we audit.

Our Technical Support team provides guidance to our teams in applying accounting and auditing standards on the more complex accounting transactions and particularly those with public sector wide implications. They are a central point for liaison with NSW Treasury and other Audit Offices on technical issues. Due to their level of expertise, the team is a key player in helping resolve the many accounting and auditing issues that arise across the public sector. They work with NSW central and major agencies to resolve specific and public sector wide issues.

Our Technical Support team provides valuable assistance and contributions to Australian accounting and auditing standards setters, accounting professional bodies and the Australian Council of Auditors-General. The focus of contributions is for the betterment of the NSW public sector. Their expert contributions have been recognised and are highly valued.

Our technical expertise benefits the NSW public sector

We have strong corporate and administrative support for our people

Resourcing of both our Information Systems Audit team and our Technical Support team is a combination of external recruitment and internal secondments. We second people from our financial audit teams for two year periods who then return to financial audit. The secondment program assists in broadening the skills of our people.

Determining People Resources in Corporate and Administrative Support Services

Our corporate and administrative support team provides the following services to financial and performance audit teams:

- financial and management reporting
- financial transactions processing including expense claim management for front line staff
- a full service information technology team including staff responsible for in-house management and support of key technology for audit delivery
- a full service technology help desk
- the full suite of services associated with facilities management
- provision of vehicles, travel bookings, and catering for in house functions
- a team responsible for the Audit Office intranet and internet - both key tools in the provision of technical information for our on the road staff
- a full service human resources function including recruitment, policy development and management, work health and safety management, learning and development and the provision of key human resources statistics
- staff responsible for the delivery of the Auditor-General's reports to Parliament, Annual reports and other publications, and recruitment marketing
- staff responsible for governance, strategic planning management and development, and support services to the Auditor-General and Deputy Auditor-General

We determine our need for staff in these roles by evaluating organisation risk including the risk of underutilising our professional audit staff for billable work by allocating administrative tasks best dealt with by specialists.

We conduct annual surveys of staff satisfaction with these services. The most recent survey results in 2012 returned an 85 per cent level of satisfaction. We use the results of these surveys to build business plans consistent with the Audit Office strategic direction and the needs of internal customers and specifically aim to continually contribute to increased productivity and professional service delivery.

The 2012 Australasian Council of Auditors-General Macro Benchmarking Report showed the Audit Office percentage of FTE staff employed in corporate support areas compares favourably at 21 per cent with the range for other audit offices of 13 per cent to 25 per cent.

We aim to recruit and develop staff to these services who have the professional expertise and calibre to work at a highly productive and innovative level.

Additional Resources for Strategic Initiatives

We are currently in the process of implementing a number of major initiatives. As a result we have additional resources committed to ensure successful project delivery. Each initiative is underpinned by a business case that incorporates a commitment to achieving major quantitative and qualitative benefits within appropriate payback periods.

The key initiatives are:

- The replacement of the software used to conduct financial audits due to the withdrawal from the market of our existing system by the vendor
- The replacement of our related audit methodology for the same reasons as the software replacement
- The replacement of our practice management system and general ledger to significantly improve our business model and allow better decisions around pricing, resourcing audits and client billing processes
- A major upgrade to the TRIM records management system to ensure adherence to NSW State archive responsibilities
- The expansion of our current technology service desk to incorporate a one stop help facility for staff on the road that will manage most service delivery requirements.

We spent in 2011-12 \$800,000 on training and delivered an average 10.5 days training per FTE

We Support and Develop our Peoples' Skills

Our work requires people who have or are attaining tertiary qualifications, membership of one of the major accounting professional bodies and commitment to continuing professional development.

In addition to professional training for front line staff the Audit Office also has policies and budget in place to allow us to provide support for tertiary qualifications to corporate and administrative support staff as part of the commitment to 'home grow' our talent.

Our People Development team co-ordinates internal and external training and provides a variety of support that enables our people to attain and enhance the skills required to do their role. We have a tailored structured training and development program for all our people which includes:

- leadership development
- technical training, including performance audit methodology, statistical analysis, etc
- use of new technology e.g. Word, Excel, TRIM
- plain English writing skills
- effective communication and negotiation skills, including dealing with difficult agencies and constructive conversations.

Developing our people enables a build-up of public sector knowledge and experience which benefits audit outcomes.

During the last financial year 2011-2012 the Audit Office spent \$800,000 on training and delivered an average 10.5 days training per FTE.

Measures of Success

The above outlines how the Audit Office ensures it has adequate resources for its functions. Our success in having the right resources at the right time to deliver our services is measured from benchmarking and surveys. The following are extracts from benchmarking and surveys that reflect we have adequate resources to undertake our audit function:

External surveys demonstrate our success in having the right resources to deliver our services

Benchmarking

The NSW Audit Office undertakes benchmarking with the Australian, Queensland, Victorian, Tasmanian and Western Australian audit offices. Results from our latest benchmarking for 2011-12 that reflect having adequate resources were:

	NSW Audit Office %	Range for Other Audit Offices %
Overall Office Level – based on a survey of Parliamentarians		
Parliamentarians were satisfied with the Auditor-General's reports and services	97	86 to 96
In general, the Audit Office provides high quality reports and services.	95	88 to 93
Extent to which the advice/information provided by the Auditor-General or his Office addressed your needs.	100	87 to 94
Financial Audit Specific – based on a survey of agencies		
The auditors demonstrated they had the professional skills and knowledge required to conduct the audit	93	86 to 96
The auditor's interaction with our organisation's staff during the audit was conducted in a professional manner.	93	89 to 98
Audit staff were responsive to our needs.	87	81 to 94

Source: Orima Research, Audit Office of NSW, 2012 Parliamentarian and Client Surveys, Aggregate Report on Survey Findings, August 2012.

Survey of Audit and Risk Committees

Relevant results from our latest survey of the chairs of Audit and Risk Committees for audits of 2011 financial reports were:

Audit Process for the Financial Report	2011 %	2010 %
The organisation was promptly informed of significant issues identified during the audit.	96	88
The auditors demonstrated an adequate understanding of the organisation.	93	95
The auditors demonstrated that they had the professional skills and knowledge required to conduct the audit.	98	100
The auditors met agreed deadlines.	91	83
Senior audit staff were appropriately involved in the audit.	96	97

Source: Orima Research, Audit Office of NSW, 2012 Parliamentarian and Client Surveys, Aggregate Report on Survey Findings, August 2012.

Ninety eight per cent of Audit and Risk Committee chairs felt that our auditors demonstrated the professional skills and knowledge required to conduct the audit

Other resource needs

The Audit Office relies heavily on two further key resources to deliver to its mandate – technology and accommodation.

Both resources require careful management and continuing investment, all of which comes from fee revenue.

The Audit Office is investing heavily in several key strategic initiatives to maintain pace with the need to be smarter and more productive:

- New lightweight laptops and related software
- A new audit methodology and related software
- A new practice management system
- A significant upgrade and overhaul of our records management system to comply with State Records requirements

In the coming years further investment will be required in the systems used to manage our people and their development.

The Audit Office premises are located in the Sydney CBD and were chosen for their location relative to the agencies and to NSW Parliament as well as for the easy access to transport. The Audit Office accommodation is designed to house less than half our full complement of people. In 2015 the Audit Office will have the opportunity as part of the lease rollover to review its location and space requirements.

The effectiveness of the Audit Office's Communication with Agencies, Particularly in Relation to Establishing a Joint Understanding of Expected Audit Fees, the Scope of Performance and Compliance Programs, and the Provision of Advice.

The Effectiveness of the Audit Office's Communications with Agencies

The Australasian Council of Auditors-General's 2012 benchmarking of parliamentary and agency surveys shows communications by the Audit Office of NSW compares favourably against the six other jurisdictions participating in the benchmarking exercise. The Audit Office of NSW achieved high levels of satisfaction for its communications with agencies and ranked well when compared to the other jurisdictions.

Overall Benchmarking Results:

Benchmark (overall)	% Satisfaction	Ranking against other jurisdictions
Satisfaction with the Auditor-General's reports and services	97	1
The clarity of the Audit Office's reports and communications	93	2
The quality of Audit Office reports and services	95	1
FAB reports and services provide valuable information on public sector performance	98	2

Financial Audit Branch Benchmarking Results

Benchmark (FAB)	% Satisfaction	Rank
FAB reports are easy to understand	91	2
FAB reports clearly identify significant issues and implications	93	2
FAB's interaction with agency staff during the audit was conducted in a professional manner	93	2
FAB management letters clearly communicated audit findings and issues	93	2
The agency was given adequate opportunity to comment on FAB findings and issues before publication of management letters	92	2
Communication between the FAB auditors and the agency was effective	94	1
FAB reports to Parliament presented audit findings and issues that related to the agency in an accurate manner	88	2

Performance Audit Benchmarking Results

Benchmark (PAB)	% Satisfaction	Rank
PAB reports are easy to understand	91	3
PAB reports clearly identified the significant issues and their implications	87	3
PAB's interaction with agency staff during the audit was conducted in a professional manner	94	2
The agency was allowed sufficient opportunity to comment on audit findings and issues before finalisation of the report	100	1
Communication between the PAB auditors and the agency was effective	75	4

Source: Orima Research, Australasian Council of Auditors-General Macro Benchmarking Survey for 2011-2012, 22 October 2012.

Communications by the Audit Office of NSW compares favourably against the six other jurisdictions

Survey Results on the Effectiveness of Audit Office Communications

The table below shows the results of the 2012 agency opinion surveys of the audit of the 2010-11 financial reports completed by the Chairs of Audit Committees, CEOs and CFOs. The results reflect the percentage of respondents who either agreed or strongly agreed with the following statements about the quality indicators for audit communications¹:

Survey Statement	AC Chairs %	CEOs %	CFOs %
Communication between auditors and the agency was effective	n/a ¹	72	94
The agency had adequate opportunity to comment on the audit findings and issues before finalisation of the management letter	n/a	n/a	91
The agency was promptly informed of significant issues	95	65	87
Auditors respond promptly to requests our needs	n/a	65	91
Audit Office communications were timely	94	80	85
The Audit Office's communications including reports, opinions and management letters clearly communicated findings and issues	95	80	96

Source: Orima Research, Audit Office of NSW, 2012 Parliamentarian and Client Surveys, Aggregate Report on Survey Findings, August 2012.

Communication in Relation to Establishing a Joint Understanding of Expected Audit Fees

The Audit Office's mandate only allows it to 'recover costs' (s 27B (6A), s 35, s 43(3), s 45(3) and s 45I (3) of the *Public Finance and Audit Act 1983*). The Audit Office determines an estimated audit fee for each audit by determining and considering:

- the risks associated with the engagement, its size and complexity, prior experience on the audit, and the impact these factors have on the audit scope and approach
- the staff members required in the audit team, the mix of skills, specialist knowledge, experience and time required to address the scope and risks of the audit.

The estimated fee is submitted to an AAG for review and recommendation to the DAG, who approves the fee before it is communicated to the agency.

The estimated fee and associated arrangements are communicated to agencies through discussions and briefing meetings with key agency management personnel (usually the CFO) and the audit director.

¹ Not applicable to this group

The fee arrangements are confirmed in the following key documents:

- Terms of Engagement (available on the internet and referenced in each individual Client Service Plan and/or Engagement Letter). The Terms of Engagement covers all audit services the Audit Office provides and contains information on the setting of Fees at item 14, which states:

'For engagements, other than Performance Audits, we charge fees based on time and direct out-of-pocket expenses, plus goods and services tax, where applicable. The fee assessment is based on the agency's existing circumstances and any substantial and unforeseen changes will incur additional fees, as will separate inspections or examinations under the PF&A Act. We rely on the following assumptions when budgeting the hours for each audit:

 - compliance with all our requirements
 - no significant changes to the organisational structure, internal controls or accounting systems
 - no major breakdowns in internal controls during the financial period
 - internal audit undertakes all work detailed in the Internal Audit Plan and, if appropriate, additional work agreed with us.'
- The Client Service Plan is a customised document created from a template for the audit of the general purpose financial statements of each agency. Fees are communicated at item 9 in this template. As well as quoting the quantum of audit fees, the Client Service Plan states:

'The audit fee reflects standard charge rates applied to resource budgets based on estimated hours, the audit team structure, known changes in your agency and its operations and audit requirements.

The fee may change if we encounter matters not known at the date of this letter that lead to a significant change to the budgeted audit cost or if your agency is responsible for unreasonable delays to the audit.'

Engagement Letter templates are available for other common types of non-GPFS engagements. There are a variety of templates (Australian Financial Services Licence, Audits of Controls at a Service Entity etc) and these communicate audit fees in a similar manner to the Client Service Plan for a general purpose financial statements.

Each year, after agreeing the content with management, the audit director presents the Client Service Plan/Engagement Letter to the Audit and Risk Committee for consideration and recommendation to the agency CEO. This generally occurs at the Audit Committee's first scheduled meeting of the year. If the Client Service Plan is acceptable to the Audit Committee and the CEO, the CEO is asked to agree to the terms in writing.

Communications accompanying the Client Service Plan may include:

- a Client Assistance schedule detailing the nature, extent and timing of assistance and supporting audit evidence management has agreed to provide to the auditors
- a Financial Reporting Developments Appendix advising management of developments by accounting standard setters that may impact the financial statements
- a guidance note advising management of pronouncements by Treasury (included in Treasury Policy Papers) that may impact the financial statements.

Other Communications include:

- Management Letters (interim and final)
- Regular meetings to provide updates on progress and issues identified to date
- Client Service Report
- Independent Auditor's Report
- Statutory Audit Report
- The Audit Office's monthly publication 'Professional Update'.

Communicating the Scope of Performance and Compliance Audit Programs

Performance audits devote significant time and resources to consult with the audited agency through all stages and particularly when we consider audit scope and recommendations.

While each audit is different, in general during the scoping and planning phase we:

- discuss the overall approach, lines of inquiry and sites to be visited
- seek feedback on audit criteria, procedures and sample selection
- provide an extract of the audit plan to the CEO
- discuss the audit process including key milestones and how findings will be reported.

We strive for and usually reach agreement on the audit scope and approach, but this is not a requirement of our professional standards.

During the conduct phase, we generally:

- negotiate fieldwork arrangements
- meet with the agency's liaison officer regularly to discuss progress
- discuss what we are seeing/finding and confirm whether we are collecting complete information and speaking to the right people.

At the end of conduct, we usually:

- discuss preliminary findings and conclusions with the agency
- issue a discussion paper and meet with the agency to obtain feedback
- discuss possible recommendations

Then we:

- issue a draft report and seek feedback
- hold several meetings if necessary
- discuss the reporting timeframe.

After we discuss the draft report, we issue the final report. As required by the *Public Finance and Audit Act 1983*, we include a verbatim response from the agency in the final report.

Ultimately, the scope of the audit and the content of the report are a matter for the Auditor-General. We have to produce audit findings that are supported by evidence and a report that is accessible to Parliament and the public. It is, deliberately, concise focusing on where things can be improved to deliver value for money.

We have to adopt 'professional scepticism' in our work, and therefore cannot simply accept assertions about performance. It is to be expected that from time to time agencies will be of the view we have not listened to them when in fact the agency has not been able to produce sufficient evidence or argument to change our analysis.

Given that the performance audit process culminates in a public document which the media often reports, there will always be some tension about the contents and reporting of audit findings which can be reflected in negative comments and survey ratings.

We have undertaken several initiatives to strengthen our communications skills and procedures including:

- formal training in conducting 'constructive conversations'
- requesting presentations from agencies at audit commencement
- providing a summary of our understanding of the audit context at an early stage
- allowing more contextual information in reports when agencies insist and when the Auditor-General agrees that it is in the public interest.

Compliance Audit

Compliance Audits are requested under s27B (3)(c) of the *Public Finance & Audit Act 1983*, following a 2010 Crown Solicitor's advice that they could not be performed under s35. Section 27B (3)(c) provides that only a Minister or the Treasurer can request a compliance audit. Funding arrangements under s27B(3)(c) of the Act require that funding be negotiated and agreed with the Parliament or the Minister in such amounts as the Treasurer decides.

Where the Audit Office identifies a compliance audit topic through the SAP process, it must convince the Treasury and the central agency responsible for the compliance criteria of the value of the engagement and negotiate the scope of the audit or review with them.

Once the Audit Office has received the s 27B(3)(c) request, the Audit Office issues an engagement letter confirming the terms, scope and fee arrangements for that review. The Audit Office seeks input from the central agency responsible for the compliance criteria regarding the agencies that will participate in the review. For instance, after agreeing the scope and fees with Treasury, the Audit Office sought input from the Office of Procurement on which agencies should be selected for the Electronic Procurement compliance review.

The Audit Office sends an engagement letter to each agency subject to the compliance review, detailing the nature of the review, the timing, engagement team etc. Individual agencies are not charged for this work.

Provision of Advice

The Audit Office does not provide accounting advice (or other consulting services) to agencies because:

- Such services are not within our current mandate under the *Public Finance & Audit Act 1983*.
- Provision of such services to agencies poses a 'self-review treat' within the meaning of Accounting Professional & Ethical Standards APES 110 'Code of Ethics for Professional Accountants'.