



Understanding the ACT Audit Office

Our Vision

An accountable and highly performing ACT
Public Sector

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What is audit?

Audit:

[aw-duht] **noun**

1. an official examination and verification of accounts and records, especially of financial accounts.
2. a thorough examination or inspection, particularly in relation to an approved standard measure.



What is an audit?

An audit is a methodical, systematic, and documented process of examining any activity based on evidence to provide a reliable and independent opinion that is based upon fact.

Simply, an audit is a formal review that helps ensure compliance with laws and regulations and provides practical recommendations for improvements.

However, audit has various meanings due to the different type of audits. The type of audit conducted is dependent on the nature of the business.

What types of audit are there?

- Financial audit
- Performance audit
- Internal audit
- Forensic audit
- Inventory audit
- Compliance audit
- Tax audit
- Information System audit

What is audit in the ACT Audit Office?

Audits conducted by the ACT Audit Office provide assurance to the ACT community that those responsible for the public administration of the Territory are undertaking their roles efficiently and effectively and are publicly accountable for the outcomes of their decisions and actions. The ACT Audit Office conduct two types of audits to fulfill its responsibilities to the ACT community:

- **Financial audit** – investigates financial statements and statements of performance to determine if auditees have presented a true and fair view of their financial results and operating performance.
- **Performance audit** – investigates the quality of the management of public resources and identifies and promotes better practice through an independent assessment.

Fact: An ACT Audit Report is confidential and is not made public until it has been tabled in the ACT Legislative Assembly.

How the ACT Audit Office Functions

The beginning:

The ACT Audit Office officially began operations on 1 July 1990 under the *Audit Act 1989*, following the introduction of self-government for the ACT. The ACT Audit Office published its first audit report in February 1991.

The *Audit Act 1989* was repealed in 1996 and replaced with the *Financial Management Act 1996* and the *Auditor-General Act 1996*, which is the legislation that prescribes the operations of the ACT Audit Office today.

Why do we need an Auditor-General?

The ACT Auditor-General is a key part of the governance arrangements of the Australian Capital Territory. Put simply, the role of the Auditor-General is to provide independent assurance to Parliament and the community that those responsible for the public administration of the Territory are undertaking their roles efficiently and effectively and are publicly accountable for the outcomes of their decisions and actions.

Auditor-General's powers:

The *Auditor-General Act 1996* states that the ACT Auditor-General has complete discretion in the performance and exercise of the Auditor-General's functions.

The ACT Auditor-General is not subject to direction by anyone and is legally empowered to determine what and who is audited and what and how it is reported. The Auditor-General also has the power to obtain information and administer oaths or affirmations.

Independence:

The ACT Auditor-General is an independent officer of the ACT Legislative Assembly. An independent officer is:

- independent of the government of the day;
- appointed by the Speaker of the Legislative Assembly; and
- reports through the Speaker to the Assembly and not to a government minister.

Independence provides important safeguards to ensure the work undertaken by the ACT Audit Office is independent of the political processes, cannot be obstructed by non-compliance or non-cooperation and cannot be constrained in the choice of topic or subject matter audited.

Reporting to ACT Legislative Assembly:

The ACT Auditor-General presents audit reports to the Speaker of the Legislative Assembly for tabling in parliament.

The audit report is then automatically referred to the Standing Committee on Public Accounts for further review. The Public Accounts Committee may choose to conduct further inquiries in relation to the audit report.

The government has four months to provide a response to an audit report outlining its position in relation to each finding and recommendation in the audit report. The government's response may assist the Public Accounts Committee in deciding if it will conduct a further inquiry.

The work of the ACT Audit Office

Financial Audit

The ACT Audit Office performs the audit of the financial statements and limited assurance engagement for the statement of performance of ACT public sector entities in accordance with the *Financial Management Act 1996*.

A financial audit provides reasonable assurance that financial statements are presented in a true and fair manner. A limited assurance engagement provides a lower level assurance as audit work is limited to making inquiries, performing analytical procedures and examining documentation.

The ACT Audit Office is required by the *Financial Management Act 1996* to provide:

- an auditor's report on the financial statements of the entity. An unmodified auditor's report is provided when financial statements comply with applicable Australian Accounting Standards, and present a true and fair view of the entity; and
- a limited assurance report on the statement of performance of the auditee. An unmodified report is provided when results of the accountability indicators reported in the statement of performance agree with the auditee's records and fairly reflect the performance of the entity.

What is a statement of performance?

A statement of performance is used by an agency to report on its efficiency and effectiveness in delivering its outputs. It compares the actual performance in delivering its outputs with the performance criteria set out in the Budget.

The Audit Office is required by the Australian Auditing Standards to report significant audit findings identified during an audit to those charged with the governance of an agency. Audit findings include: weaknesses in governance arrangements, internal controls, reporting systems and practices; legislative breaches, and errors or fraud.

Annual financial audits involve the commitment of resources by both the financial audit team and the auditee. It is therefore important the auditor and auditee work efficiently together. This requires high levels of communication and engagement. Each financial audit is led by an engagement leader, who is supported by a team leader.

The cost of financial audits and limited assurance engagement for the statement of performance are recovered from audit fees charged to the entity for the service provided.

As required by Australian Auditing Standards, all financial audits undergo quality control checks before an opinion is issued.

What are financial statements?

Financial statements are a summary of transactions undertaken by reporting agencies. These transactions are summarised from the accounting records maintained by the reporting agencies to present the financial information in a meaningful way.

Financial statements show a reporting agency's financial performance (revenue, expenses and surpluses/deficits and cash flows) and financial position (assets, liabilities and net assets/liabilities). The financial position shows the capacity of a reporting agency to meet its financial obligations (liabilities).

The work of the ACT Audit Office

Performance Audit

The performance audit team conduct various audits each year in alignment with key focus areas that are determined by the Auditor-General. The Office receives funding from parliament through appropriation for performance audit reports.

What is a performance audit?

A performance audit identifies areas where public services could be improved through a review or examination of the operations of an entity.

A performance audit report makes practical recommendations for improvements against evidence-based findings.

Selecting audit topics is a key part of the ACT Auditor-General's independence. A forward program of performance audits that the Auditor-General intends to conduct in the next financial year is prepared in accordance with the *Auditor-General Act 1996* each year. The published forward program provides a published list that indicates the current areas of interest that have been identified.

The performance audit program aims to:

- balance coverage across the ACT government that focuses on topics that are of interest to the Legislative Assembly and the community; and
- be flexible and responsive to new and emerging issues and instances where proposed audits may no longer be required due to circumstances changing in the subject areas.

The six key focus areas for the performance audit program are:

- effectively protecting our environment;
- making evidence-based decisions to invest wisely for the future and reduce waste;
- embracing technology, innovation and digital disruption;
- providing a safe and inclusive community;
- delivery effective services to meet the expectations of the community; and
- learning from the past to deliver improved outcomes.

The performance audit team conduct a minimum of nine performance audits each financial year. The average time required to complete a performance audit is approximately seven to eight months, depending on the complexity and scope of the audit.

Performance audits involve the commitment of resources by both the performance audit team and the auditee. The main phases of a performance audit involve audit planning, evidence gathering, analysis, and reporting.

Each performance audit draft report undergoes an Engagement Quality Control Review. The aim of the review is to provide assurance that the audit criteria has appropriately addressed the audit objective and that the audit findings are supported by sufficient and appropriate evidence.

Other important information about the ACT Audit Office

Public Interest Disclosures:

The ACT Auditor-General may receive public interest disclosures as a Disclosure Officer under the *Public Interest Disclosure Act 2012*. The ACT Auditor-General may receive a public interest disclosure relating to:

- the ACT Audit Office and its operations; or
- another ACT public sector entity.

In considering disclosures relating to public sector entities, the Audit Office may decide that undertaking a performance audit is in the public interest and is the most appropriate way of addressing the disclosable conduct.

What the ACT Audit Office can't audit:

The ACT Auditor-General's role does not include:

- providing advice or guidance to an entity outside of an audit;
- enforcing audit recommendations, although the Auditor-General can audit an entity to review the implementation of recommendations;
- auditing government policy decision. The Auditor-General can, however, audit the implementation of government policy;
- investigating fraud or other criminal matters; and
- investigating complaints about malpractice by an entity that affects an individual.

Who holds the ACT Audit Office accountable?

The ACT Audit office is held accountable through several mechanisms.

Strategic Review - Under the *Auditor-General Act 1996* a strategic review of the ACT Auditor-General must be carried out once in each term of the Legislative Assembly (every four years). The Speaker of the Legislative Assembly will appoint a strategic Reviewer to assess the ACT Audit Offices functions and performance.

External Audit - The Audit Offices financial statements and statement of performance are subject to audit each year by an independent auditor appointed by the Speaker of the Legislative Assembly.

Audit and Review Committee - The Audit Office has established an Audit and Review Committee to provide independent assurance to the ACT Auditor-General by overseeing and monitoring the Office's governance, risk and control frameworks, and its external accountability responsibilities.

ACAG Benchmarking - The Audit Office participates in the Australasian Council of Auditors-General (ACAG). ACAG is a forum for all Auditors-General in Australia, New Zealand and some from the Pacific region, to share information. The Audit Office takes part in the annual ACAG Macro Benchmarking project which provides comparable information to audit offices across Australasia on quantitative and qualitative benchmarks of the operations of audit offices.