

## General Principles for Conducting a Performance Audit

### The mandate and role of the Audit Office

The Auditor-General for the ACT is a statutory position created by the ACT Legislative Assembly under the *Auditor-General Act 1996* (the Audit Act). The Auditor-General is responsible to the ACT public, through its elected representatives in the Legislative Assembly, for the audit of all ACT public sector agencies.

The Audit Office supports the Auditor-General in carrying out the functions of the Office. The Office undertakes audits of management performance and the financial statements of public sector bodies. The aim of these audits is to promote accountability and provide independent assessments to the Legislative Assembly, including on whether the ACT Public Service and its resources are effectively and efficiently managed.

The Audit Office operates principally under the Audit Act. The Audit Act defines the Auditor-General's mandate, responsibilities, powers and reporting requirements.

The Audit Act also establishes the independence of the Auditor-General, prescribing that the Auditor-General:

- is an independent Officer of the Legislative Assembly (subsection 6A(1));
- has complete discretion in the exercise of her functions (subsection 7(1)); and
- is not subject to direction by anyone in relation to whether or not a particular audit is to be carried out, the way in which a particular audit is to be carried out, or the priority to be given to any particular matter (subsection 7(2)).

In this respect, the Auditor-General has complete independence in determining the performance audit program, including what to audit, how to audit and what to report.

Through its performance audits, the Audit Office seeks to enhance ACT Public Sector performance and accountability. In this respect, the objectives of the Office are to undertake a program of audits to produce independent reports with the purpose of:

- promoting a well informed electorate by ensuring that Legislative Assembly members, as the elected representatives of the people, are provided with accurate, complete and relevant information about the management of public sector resources; and
- promoting the economic, efficient and effective use of public resources by providing the Legislative Assembly, Executive and public sector officials with independent advice relating to improving the management of those resources.

## **The objectives of a performance audit**

The objectives of a performance audit are twofold. The first objective is to provide the Legislative Assembly with an independent assessment of the quality of management of public resources. The second objective is to assist public sector managers by identifying and promoting better management practices.

Section 11B of the Audit Act provides that a 'performance audit, of a person, body or thing, means a review of any aspect of the operations of the entity.'

In this respect, performance audits may address any matter related to public accountability for the administration of the Territory.

Performance audits typically evaluate the economy, efficiency and administrative effectiveness of ACT Public Sector entities. This can include an examination of governance issues, such as risk management and other control structures, a review of the use of human, financial and other resources, information systems, performance measures, reporting and monitoring systems, probity and legal compliance. .

The performance audit mandate stops short of reviewing the merits of government policy decisions. The scope may, however, incorporate information leading to policy decisions, an assessment of the extent to which policy objectives have been met, and an assessment of the results of policy implementation both within the administering body and externally.

## **Conducting a performance audit - basic principles**

Achieving the key objectives of the Audit Office requires a commitment to maintaining the trust and confidence of audited entities and those who rely on the performance audit work of the Office. In doing this, the Audit Office will:

- conduct performance audits in accordance with professional standards and accepted better practice;
- demonstrate the highest standards of ethical and personal behaviour;
- approach performance audits in a fair and constructive way;
- provide accurate, reliable assessments and sound advice; and
- conduct and report performance audits in a manner that builds strong relationships.

## **Professional standards and accepted better practice**

All performance audits will be conducted in accordance with the principles, procedures and guidance contained in Australian Auditing Standards relevant to performance auditing. These standards prescribe the minimum standards of professional audit work expected of performance auditors, whether they are staff of the Audit Office or contractors engaged under section 9D of the Audit Act.

In meeting these standards, performance audits will apply sound auditing methodologies and techniques and adopt better practices, as reflected in the Performance Audit Methods and Practices (PAMPR) manual.

In accordance with auditing standards, audit reports will generally provide reasonable, but not absolute, assurance. What is 'reasonable' in any given situation will depend on the facts of that situation and will be determined by what evidence could reasonably be expected to be gathered and what conclusions could reasonably be expected to be drawn in the particular situation. In relation to the conclusions drawn against the audit objectives, a reasonable level of assurance is provided by designing procedures so that in the auditor's professional judgment, the risk of an inappropriate conclusion is reduced to a low level through procedures such as inspection, observation, enquiry, confirmation, computation, analysis and discussion.

Absolute assurance is not attainable as a result of factors such as limitations on the use of testing, the inherent limitations of the internal controls in agencies and the fact that much of the evidence available to the auditor is persuasive rather than conclusive in nature. The level of assurance will, to some extent, also be influenced by the degree of precision associated with the subject matter itself.

### Standards of ethical and personal behaviour

Performance auditors, whether they are staff of the Audit Office or engaged contractors, will comply with:

- the ethical conduct obligations of public employees set out in the *Public Sector Management Act 1994* and expanded upon in the Public Sector Management Standards; and
- the Audit Office's values.

The Audit Office's values are:

- *Independence* – impartial and evidenced-based reporting is our most powerful influence
- *Integrity* - we are honest, truthful and fair
- *Professionalism* - we fulfil our obligations
- *Respect* - we seek to understand and be trusted by our stakeholders
- *Learning and innovation* - we strive to realise our full potential

Performance auditors who are members of professional bodies, including the professional accounting bodies, will also comply with the code of professional conduct established by those bodies relating to ethical conduct obligations.

### Fair and constructive audits

Performance audits will be conducted with impartiality and objectivity, and in a manner that recognises the principles of natural justice and procedural fairness.

Performance audits reports will present a balanced perspective, place primary emphasis on business critical matters requiring attention, and identify workable opportunities for administrative improvement.

Performance audits will be reported on a timely basis, although this will depend on the complexity of the audited subject matter.

To the extent possible, performance audit work will be organised to allow entity staff to participate in audits with a minimum of disruption to their regular, ongoing duties.

### **Accurate and reliable assessments**

Performance audits will provide reliable, evidence-based assessments and advice, ensuring all audit criteria or performance standards, findings and conclusions, and advice for improvement are well-founded and supported.

Performance audits will, wherever possible, offer sound, practical recommendations for improving performance.

Opinions and conclusions will be identified clearly and based on sufficient evidence, testing and review processes.

Performance audit staff and contractors will have the knowledge and competence required for the audit, including an appreciation of the business of the entity sufficient to identify and understand significant events, transactions and practices.

### **Building strong relationships**

Auditors will be honest and forthright in all dealings with those audited and those who rely on the work of the Audit Office. Auditors will maintain the confidentiality of information obtained in the conduct of audits, except when the disclosure is necessary to perform duties under the Audit Act.

Auditors will communicate openly throughout an audit with management responsible for the matters under review by:

- meeting with management at the start of an audit to establish a communication plan for the audit, to discuss the terms of the audit, including the objective and scope of the work, the audit criteria and to establish a communication plan for the audit;
- meeting with management during the audit to discuss observations, analysis and interim conclusions, and invite comments and explanations;
- endeavouring to resolve, at an early stage (before drafting the audit report) differences of opinion of facts, interpretation of facts or conclusions to be drawn from them; and
- meeting with management to discuss the draft report, including observations, analysis, conclusions, recommendations and the audit opinion.

A report will be prepared, based on the audit evidence obtained, setting out the facts, findings, and conclusions against the objectives and the audit conclusions.

Management will have an opportunity to provide a formal response for inclusion in the final audit report.

To the extent possible, performance audit work will be organised to minimise disruption to the regular duties of management and staff of the audited agency.

**Approved**

Dr Maxine Cooper	6 August 2014
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Dr Maxine Cooper, Auditor-General	Date