

2020 Strategic Review of the ACT Auditor-General

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13 February 2020**

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Ms Joy Burch MLA
Speaker
Legislative Assembly for the ACT
GPO Box 1020
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Dear Speaker

Strategic Review of the ACT Auditor-General

I am pleased to forward my Report for presentation to the Legislative Assembly, pursuant to section 29 of the *Auditor-General Act 1996*.

My review has been undertaken in accordance with the Terms of Reference and the relevant provisions of the Auditor-General Act 1996.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Des Pearson', with a stylized flourish at the end.

Des Pearson AO

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(iii) the legislative mandate adequately supports the work of the ACT Auditor-General in the contemporary public sector environment.

Background

This review has been undertaken in accordance with the Terms of Reference and the relevant provisions of the *Auditor-General Act 1996*. It was undertaken using a combination of interviews with key stakeholders, reviews of policies and procedures, methodologies in use, systems, documentation and discussion with the Auditor-General and the staff of the Office.

The review took into account the ACT context and circumstance, the requirements of Australian Auditing and Assurance Standards and the Westminster approach to public sector audit and accountability.

Review of the Auditor-General's functions

The current *Auditor-General Act 1996* compares very favourably with better practice audit legislation and continues to recognise the contemporary public sector environment.

The Act provides for the Auditor-General to fulfil the functions accorded that office, including those set out in section 10(1):

- a) to promote public accountability in the public administration of the Territory;
- b) to audit annual financial statements of the Territory, directorates and territory authorities under the *Financial Management Act*;
- c) to audit the accounts and records in relation to any person, body or thing ascertained in accordance with the regulations;
- d) to conduct performance audits in relation to any person, body or thing ascertained in accordance with the regulations;
- e) any function given to the auditor-general by or under any other law of the Territory;
- f) to do anything incidental or conducive to any of the auditor-general's functions.

and makes appropriate provision in establishing the coverage of the Audit mandate and adequately providing for resourcing to support the work of the Auditor-General. No recommendations are made.

Performance audit of the Auditor-General

In overview the ACT Audit Office is efficiently and effectively discharging a comprehensive public sector audit mandate. No material shortcomings were noted and recommendations made are in the nature of continuous improvement opportunities.

These opportunities primarily relate to enhancements to engagement with auditees and improving the effectiveness of communication, challenges commonly faced elsewhere by audit offices operating within the Westminster system of government.

The Auditor-General employs and conforms with contemporary standards and best practice in auditing. Proven public sector financial and performance auditing methodologies have been adopted. Comprehensive and well integrated subordinate operational policies, procedures and practices are in place which are impressive for the scale of the Office.

1 Executive summary

1.1 Overview

The ACT Auditor-General and the staff of the ACT Audit Office are generally held in high regard by stakeholders and all indications are that they are operating effectively and efficiently in accordance with the provisions of the *Auditor-General Act 1996*.

It is evident from my review that the Auditor-General and the Audit Office staff are discharging their responsibilities diligently and conscientiously. They have purposefully and resolutely addressed the recommendations of previous reviews. They have built on these reviews and commissioned their own complementary targeted reviews to the extent that in many respects the Office's policies, systems, procedures and practices reflect better practice.

In my opinion the audit mandate is being efficiently and effectively delivered.

There are however some areas where further attention is warranted, primarily to further improve communication with auditees and to more purposefully manage their expectations. These issues however are not unique to the ACT environment do not detract from my overall conclusion.

1.2 Key findings and improvement opportunities

Introduction

The ACT Audit Office is a relatively small office with a staff of 40. The budget for the 2019-20 year is \$7.2 million principally comprising financial audit fees of \$4.2 million and appropriation of \$2.95 million for performance audits and other corporate activities and responsibilities.

The Office is successfully delivering on a comprehensive mandate. In 2018-19, 10 reports were tabled in the Legislative Assembly, seven performance audit reports and three financial audit related reports which covered the 58 annual financial statement audits, 26 limited assurance reports issued and the related reviews of controls implemented by agencies over their computer information systems. This workload has been consistent over recent years.

The ACT Auditor-General participates in the Australasian Council of Auditors-General (ACAG) to contribute to and leverage the experience of other Audit Offices across Australasia.

In my opinion in all material respects:

- (i) the ACT Audit Office is achieving its legislative objective effectively, and doing so efficiently and in compliance with the *Auditor-General Act 1996* and the relevant professional audit and accounting standards;
- (ii) the legislative mandate is adequate to strengthen and safeguard the independence of the ACT Auditor-General; and

The Audit Office has established a responsible and appropriately risk based approach to demonstrating compliance with legislated requirements.

For professional compliance the legislative requirements set out in Part 3 Functions and powers of the *Auditor-General Act 1996* and Part 3 Financial reports of the *Financial Management Act 1996* were mapped to policies, procedures and methodologies employed by the Audit Office. I found logical linkages and approaches existed. Specifically Financial Audit, Performance Audit and Professional Services Annual Action Plans and associated Workforce Plans provided assurance of a cohesive approach to discharging the professional requirements.

For administrative compliance there was evident executive oversight through approximately fortnightly meetings of the Executive Committee, augmented by an appropriate range of complementary Committees

A concise acquittal of overall compliance is provided annually in the Office's Annual Report, specifically Appendix B: Compliance Index, in the 2018-19 Annual Report.

The performance audit selection criteria and risk framework for selection of topics for performance audits is appropriate however opportunity for further refinement has been identified, including by the Office, in some respects.

There is a current initiative to further enhance the approach through earlier and more purposeful engagement with directorates and agencies.

To do this the Performance Audit (PA) team has been organised into three teams, each responsible for planning for a cluster of portfolios to achieve a more collaborative approach with auditees and so the focus for each potential topic is better understood.

This enhanced approach is positive however is unlikely to completely address the gap in understanding of the role and purpose of the external audit function in the public sector.

Some auditees interviewed asserted that the:

- scope of some performance audits are perceived to 'drift',
- timing of audits can impose added strains on the auditee,
- subject matter and/or contextual understanding by auditors and their specialist advisers at times is less than desirable,
- relevance and appropriateness of audits/their usefulness to management was not evident.

These concerns while warranting attention are not unusual in the auditor/auditee context. Further many public sector executives and managers do not appreciate the wider public interest role of the Auditor-General in holding the public sector to account for the use of public resources.

Moreover in contrast to auditee views, members of the Legislative Assembly particularly valued the same reports that auditees had questioned regarding their relevance or usefulness.

There is scope to address in a more targeted way the gap in appreciation of the role and purpose of performance audits in the public sector, and more particularly in the ACT con-

text where the Auditor-General also receives public interest disclosures as a Disclosure Officer under the *Public Interest Disclosure Act 2012* (the PID Act).

The development of an information sheet/brochure appears warranted to provide a lay person explanation of the role and independence of the Auditor-General, how and why audit topics are selected, the standards observed and methodologies adopted in undertaking audits and explicitly stating what the Auditor-General doesn't do would serve to underpin a targeted strategy to further reduce the gap in expectations regarding the role of the Auditor-General.

Another area for consideration is how to better communicate the basis of selection of particular performance audit topics.

Currently in selecting topics there are six selection criteria and six focus areas to consider. A more concise and precise set of selection criteria should serve to focus considerations in the selection process and assist with achieving greater clarity in communicating the rationale for the selection of a particular performance audit topic.

Another consideration to improve understanding of the audit process would be to, wherever practicable, adopt a diagrammatic approach to visibly connecting audit objectives and audit criteria in the Audit objective and scope section of performance audit reports. This should serve to more clearly communicate the audit approach.

Based on my analysis of achievement against targets and comparative benchmarking data available, I consider there is efficiency of service provision by the ACT Audit Office. This is strongly indicated by the achievement of targets within budget and comparative analysis with the performance of other Audit Offices.

There is generally better practice governance and management practices in place in the Office. Sound internal accountability and governance arrangements have been established with a structured and interrelated system of internal committees operating alongside of management and staff groups with defined responsibilities and accountabilities. These arrangements are complemented by rigorous quality assurance and risk management practices.

Human, financial and other resources available to the Office are adequate and are being efficiently and effectively managed consistent with Office circumstances. A purposeful evolutionary approach is being taken to matching structure and staff levels with operational demands. Workforce Planning and Review Guidelines have been developed and a sustainable budget which matches operational needs is in place. A positive initiative being undertaken is a re-visiting of the approach to performance appraisal with a shift to a more proactive performance development approach focused on planned outcomes and provision of support to staff to enable their achievement of their goals.

It is evident value for money for services provided is being achieved both in terms of the level of efficiency of service provision achieved and by assessing the Office's performance and achievements against the elements and principles established by INTOSAI for assessing the value and benefits of Audit institutions.

There are effective practices in place within the Office to support public accountability, particularly those focused on auditees. There is however scope for further avenues to be pur-

sued which should not impose particular imposts on the Audit Office but should assist the PAC in furthering its role. Options to facilitate a more systematic approach to highlighting outstanding Audit recommendations for the benefit of the PAC are suggested.

The effectiveness of communication and relationships with key stakeholders is satisfactory however will always be a work in progress given the nature of audit activities.

There is an inherent underlying tension that permeates auditor/auditee relationships. This is generally regarded as indicative that the auditor is doing their job and applying professional scepticism while ensuring that sufficient and appropriate evidence exists to support audit findings and conclusions. A more structured approach to identifying recurring areas of concern and exception is proposed so a more targeted approach to communicating with and managing relationships can be developed.

Other matters

The findings of the current strategic review are more of a continuous improvement and refinement nature than those of the previous review. This result is understandable given the strong culture of the Audit Office which is focused on developing a highly skilled workforce and delivering quality audits.

The previous Strategic Review recommendations, while recognising a very satisfactory level of performance, made a number of recommendations which related to:

- the then relatively recent establishment of the Auditor-General as an Officer of the Legislative Assembly,
- a revised approach to reporting to the Legislative Assembly on financial and information systems audit,
- a more analytical approach to establishing time and dollar budgets for, and a more phased approach to the management of the conduct of performance audits,
- enhanced auditee engagement activities, and
- enhanced stakeholder engagement.

All the recommendations were effectively addressed and have largely proved worthwhile in practice.

This current Strategic Review found an overall continuing very satisfactory level of performance however noted some opportunities for further improving stakeholder engagement to better communicate the rationale for Audit activities, enhance stakeholder engagement and management of auditee expectations.

The ACT Audit Office performs at a level reasonably expected when compared with other jurisdictions and adjusted for mix of audit activities, relative scale, etc. No unexplained or notable negative exceptions were noted from benchmarking the Audit Office.

A diverse range of stakeholders were consulted in the course of the review and their views have been reflected across the considerations under various terms of reference.

The matter of a formal process for complaints about the Auditor-General was considered.

The most obvious approach is to leverage the existing oversight role of the Public Accounts Committee in relation to the Auditor-General.

There seem two categories of complaint.

For particularly serious complaints such that if substantiated the Legislature should give consideration to the removal of the Auditor-General from office, there is an Australian precedent where the Legislature referred the matter to the PAC to inquire specifically. This approach is warranted in such extreme circumstances.

For any complaints of a more operational nature no specific precedent was found. The PAC however is in a position to consider such a complaint as an adjunct to its routine role of inquiring into tabled reports. Accordingly it is recommended that complaints and allegations about the Auditor-General's findings presented in a report be routinely considered in the course of inquiry into the relevant report. Only particularly serious complaints warrant specific inquiry by the PAC.

1.3 Recommendations

1. That the current initiative to achieve earlier and more purposeful engagement with directorates and agencies in the development of the Performance Audit Program be continued and refined further based on the 2020-21 experience.
2. That consideration be given to developing a fact sheet/brochure to explain in lay terms the role and independence of the Auditor-General, how and why audit topics are selected, the standards observed and methodologies adopted in undertaking audits and explicitly stating what the Auditor-General doesn't do.
3. That consideration be given to revising topic selection criteria to a more concise and precise set to better assure objectivity and assist with added clarity when communicating the rationale for the selection of a particular performance audit topic.
4. That in principle a diagrammatic approach be adopted to visibly connect audit objectives and audit criteria in the Audit objective and scope section of performance audit reports whenever practicable.
5. Consider options, including in consultation with the PAC, to facilitate a more systematic approach to highlighting outstanding Audit recommendations.
6. That Audit Strategy documents for entities where use of experts is needed be more tailored to the particular context.
7. That more senior executive level staff representation be used at entrance and exit interviews of entities where experts are to be used.
8. That Performance Audit and Financial Audit respectively specifically consider recurring areas of concern and exception on an annual basis and develop more focused and targeted approaches to communicating with and managing relationships with key stakeholders on these matters.
9. Only complaints of a substantial nature which in light of any findings that the Committee may make, could lead to consideration to the removal of the Auditor-General from office should be subject to a formal inquiry. Any complaints and allegations of an operational nature about the Auditor-General be routinely considered by the Public Accounts Committee in the course of inquiries into the relevant report.
10. Consideration be given to highlighting in the transmittal letter to the Speaker that the performance audit has been 'undertaken in compliance with the requirements of the *Auditor-General Act 1996* and relevant professional standards (including ASAE 3500 - Performance engagement'.

1.4 Response and comments

Overall Response by the ACT Auditor-General

The Audit Office acknowledges the reviewer's overall findings that 'the Auditor-General and the Audit Office staff are discharging their responsibilities diligently and conscientiously' and that 'the audit mandate is being efficiently and effectively delivered'.

The Audit Office fully embraces the areas for improvement identified by the reviewer and will ensure these recommendations are addressed promptly. Specific comments have been made against each recommendation on how and when these will be addressed.

The Office notes that recommendation 9 is a matter for consideration by the Speaker and Public Accounts Committee.

Michael Harris
Auditor-General
ACT Audit Office

2 Background and terms of reference

2.1 Background

Under the *Auditor-General Act 1996 (ACT)* a strategic review of the Auditor-General 'must be carried out once in each term of the Legislative Assembly'.

The Act provides that the Standing Committee on Public Accounts must:

- a) decide when the strategic review is to be carried out,
- b) ask the Speaker to, on behalf of the Territory, engage a person to conduct the strategic review,
- c) decide the terms of reference for the strategic review, in consultation with the Minister,
- d) ask the strategic reviewer to conduct the strategic review according to the terms of reference.

Section 23 of the Act specifies the meaning of strategic review is:

- a) a review of the auditor-general's functions; and
- b) a performance audit of the auditor-general.

Section 10 of the Act specifies the functions of the auditor-general as:

- a) to promote public accountability in the public administration of the Territory;
- b) to audit annual financial statements of the Territory, directorates and territory authorities under the *Financial Management Act*;
- c) to audit the accounts and records in relation to any person, body or thing ascertained in accordance with the regulations;
- d) to conduct performance audits in relation to any person, body or thing ascertained in accordance with the regulations;
- e) any function given to the auditor-general by or under any other law of the Territory;
- f) to do anything incidental or conducive to any of the auditor-general's functions.

The auditor-general is also required to exercise these functions in the way the auditor-general considers appropriate having regard to recognised professional standards and practices.

The Audit Office's Strategic Plan 2019-2022 sets out the vision, role and values of the Audit Office and defines its objectives.

The Office's vision is 'an accountable and highly performing ACT Public Sector' and the Audit Office's role is to:

- provide an independent view to the ACT Legislative Assembly and the community on the accountability, efficiency and effectiveness of the ACT Public sector;
- foster accountability in the public administration of the Territory; and
- promote the efficiency and effectiveness of public services and programs provided by the Territory

The following values guide the Audit Offices work and the behaviour of its staff:

- *independence* - impartial and evidence 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 stakeholder; and

- *learning and innovation* - we strive to realise our full potential.

The Office's Executive comprises the Auditor-General, the Assistant Auditor-General Performance Audit, the Assistant Auditor-General Financial Audit and Senior Director Professional Services.

The Office is structured into three functional areas, Performance Audit, Professional Services and Financial Audit and employs approximately 40 staff.

The ACT Auditor-General and the ACT Audit Office participates in and contributes to the work of the Australasian Council of Auditors-General (ACAG) which provides consultative arrangements for the sharing of pertinent information and intelligence between Auditors-General.

This is particularly beneficial to a relatively small office as it provides access to the collective experience of other Audit Offices as well as facilitating more cost effective research and development activities to progressively improve audit operations in a time of ever increasing complexity and rate of change.

2.2 Terms of reference

Pursuant to section 26 of the *Auditor-General Act 1996* the Standing Committee on Public Accounts has determined the terms of reference for this review.

The terms of reference provide for a:

1. Review of the Auditor-General's functions;
2. Performance audit of the Auditor-General; and
3. Other matters.

The full terms of reference are set out in Appendix 1.

2.3 Approach to review

The review was conducted in accordance with the terms of reference and the relevant provisions of the Act.

It was undertaken using a five step approach:

- i) Research and information gathering
- ii) Extensive semi structured interviews with external stakeholders and Office staff
- iii) Review of Office policies, systems and procedures and of selected audit files
- iv) Analysis and distillation of issues identified followed by testing of options to address
- v) Write-up of report with supporting evidence and effecting procedural fairness.

The approach to assessing issues and forming conclusions was to the extent appropriate a combination of review of facts, enquiry, discussion, comparative analysis against better practice/applicable standards/relevant precedent along with comprehensive stakeholder consultation.

Documentation reviewed included:

- audit planning and conduct information

- documentation relating to systems and methodologies used by the Office
- documentation relating to the internal management of the Office
- Annual Reports for 2016-17, 2018-18 and 2018-19
- Previous Strategic Review Reports for the Office itself and of comparable Offices

The review took into account the ACT context and circumstance, the requirements of Australian Auditing and Assurance Standards, the Westminster approach to public sector audit and accountability. Regard was given to approaches and precedent in smaller Australian and Canadian jurisdictions via consultation and website searches.

Prior to finalisation of this report a draft was provided to the Auditor-General for comment, to enable provision of any further information relevant to draft findings for consideration and to avoid any misunderstandings.

The report is structured to address the terms of reference serially.

2.4 Acknowledgement

I acknowledge the willing cooperation and assistance received from the Auditor-General and staff of the Audit Office as I undertook this review.

I also acknowledge the quality of work papers provided which had been assembled to address the terms of reference and to facilitate this review. In this respect the Office met INTOSAI's principle of ensuring good governance¹ by demonstrating that it had:

- adopted and complied with good governance principles
- had an appropriate organisational management and support structure to give effect to good governance processes and support sound internal control and management practices, and
- assessed organisational risk on a regular basis.

Similarly I am indebted to the Speaker, Members and staff of the Legislative Assembly and the Standing Committee on Public Accounts, Directorate and Agency executives and other stakeholders with whom I had dealings.

Without exception everyone gave readily of their time and were prepared to discuss their experience with and views regarding the operation of the Audit Office frankly and honestly. All gave freely of their time and accommodated my requests.

¹ INTOSAI-P 20 Value and Benefits of SAIs - making a difference to the life of citizens, Principle 9, [intosai.org/Documents](https://www.intosai.org/Documents) - Open access, accessed 23 November 2019.

3.1 Auditor-General's functions

3.1.1 Fulfilling legislative functions

Term of reference

The Term of Reference (ToR) B (a) requires the strategic reviewer 'to consider the extent to which present arrangements allow the ACT Auditor-General to fulfil the functions accorded that office in the Auditor-General Act 1996, including those set out in Section 10 (1) of the Act'.

Approach adopted

A comparative assessment of the *Auditor-General Act 1996* was undertaken against the International Organisation of Supreme Audit Institutions (INTOSAI) independence and public sector auditing principles, equivalent legislative provisions across Australia and a limited selection of Canadian and UK jurisdictions was undertaken.

Considerations

In short the ACT Auditor-General Act compares very favourably with 'better practice' and recognises the contemporary public sector environment.

This situation enables the Auditor-General to audit effectively in the contemporary public sector environment. An appropriately wide mandate has been established which provides the Auditor-General with the appropriate level of discretion in selecting audit topics and undertaking effective audits, recognising contemporary service delivery approaches.

The mandate has been cautiously applied, based on legal and other advice to assure reliability in application of the newer follow the dollar and joint or collaborative audits undertaken in conjunction with other jurisdictions.

Establishing the Auditor-General as an Officer of the Legislative Assembly has reinforced the independence of the role.

The 2016 Strategic Review of the ACT Auditor-General raised the desirability of developing clear process arrangements in relation to the submission of budgets, approval of Officers' travel and leave arrangements and the support that is brought to bear in supporting the Speaker in the process of appointing the Officers themselves (as well as the strategic reviewer and the independent financial auditor of the ACT Auditor-General).

Section 37B Assistance for Speaker was added to the *Auditor-General Act 1996* in 2017 and the Speaker tabled in the Assembly the Budget Protocols Agreement for the Office of the Legislative Assembly and Officers of the Legislative Assembly on 18 September 2018.

In practice these arrangements are reported as working effectively and evolving constructively to the satisfaction of the Auditor-General.

Accordingly I do not recommend further refinement or codification at this point

Opinion

Based on my enquiries and related assessment of the current situation, in my opinion the present arrangements allow the ACT Auditor-General to fulfil the functions accorded that office in the *Auditor-General Act 1996*, including those set out in Section 10(1) of the Act.

3.1.2 Supporting the work of the Auditor-General

Term of reference

ToR B (b) requires the strategic reviewer to 'consider the extent to which the *Auditor-General Act 1996* makes appropriate provision to support the work of the Auditor-General'.

Approach adopted

Auditor-General Act 1996:

- Division 1.2 Important concepts
 - Division 2.1 Establishment and independence of auditor-general
 - Division 2.4 Office of the auditor-general,
 - Division 3.6 Power to obtain information and
 - Section 37 Protection of auditor-general etc from liability
- were reviewed in this 'enabling' context having regard to the INTOSAI independence and public sector auditing principles and equivalent legislative provisions across other Australian jurisdictions.

Considerations

The Auditor-General Act 1996 establishes that the audit coverage of the auditor-general extends to controlled entities, establishes the independence of the auditor-general, and in particular provides that the auditor-general is not subject to direction from anyone in relation to whether or not a particular audit is to be undertaken, the way in which the particular audit is to be undertaken or the priority to be given to a particular audit.

The Act (s 9C & 9D) further provides the means for the auditor-general to discharge the statutory functions by providing that the auditor-general can employ staff and engage contractors.

The Act also provides (s9DA) that staff and contractors are not subject to direction from anyone other than the auditor-general, or staff authorised by the auditor-general, in their exercise of the auditor-general's functions.

Provision (s9E) is also made for the auditor-general to arrange with the head of service to use the services of a public servant or Territory facilities

Further support is provided to the auditor-general by providing coercive powers to obtain the information the auditor-general considers necessary for audit purposes (Division 3.6).

In terms of budget, best practice is that the auditor-general has sufficient resources to discharge his or her functions, and that executive government cannot limit resources.

The Financial Management Act 1996 provides at sections 20AB and 20AC that as an Officer of the Legislative Assembly, the auditor-general's budget is determined via the Speaker of the Legislative Assembly following consultation with the auditor-general and the Public Accounts Committee.

There is provision for the tabling of a statement of reasons by the Treasurer if the appropriation is less than the recommended appropriation for the financial year.

The financial audit program is for practical purposes self funded by a fee for service arrangement whereby auditees are charged for audits conducted during the reporting period. Appendix A to the Annual Report 2018-19 (Report 8/2019) sets out the basis of setting these fees. This fee setting approach is considered appropriate to the ACT circumstance.

Performance audit is dependent on budget appropriation, for which as noted above, there is provision for appropriate transparency should the appropriation be less than the recommended appropriation for the year.

Positively, provision has been made for an increased budget for the Auditor-General in the current financial year and a further increase is proposed for 2020-21, to enable additional performance audits to be undertaken.

Accordingly it is considered sufficient financial resourcing is being made available to the Auditor-General and there is adequate provision for transparency should the actual budget be less than that recommended by the Speaker.

Opinion

Based on my review of the Act and assessment of the budgetary position of the Audit Office, in my opinion the *Auditor-General Act 1996* makes appropriate provision to support the work of the Auditor-General.

3.2 Auditing function

3.2.1 Contemporary standards and best practice

Term of reference

ToR C (a) requires the strategic reviewer to 'consider the extent to which the Auditor-General employs and conforms with contemporary standards and best practice in auditing'.

Approach adopted

Audit Office policies, methodologies, systems and approaches were reviewed in the context of legislative provisions, auditing standards and reported practice in other jurisdictions. This review involved interviewing selected staff and auditees, file reviews and broader research and comparative analysis.

Considerations

The ACT Audit Office has adopted proven public sector audit methodologies.

For financial audits an integrated risk-based audit methodology and management software developed in partnership with other public sector audit offices in Australia, designed for the Australian public sector environment - the Integrated Public Sector Audit Methodology (IP-SAM) is used. This methodology has been tailored for the ACT jurisdiction's legislative requirements and each auditee's risk profile. The software provides structure for audit planning, conduct procedures and reporting activities. The audit methodology incorporates policies and guidance to auditors.

For performance audits the comprehensive Performance Audit Manual Practice methodology (PAMPr) is used. This approach is supported by ASPIRE, an automated work paper management system. ASPIRE is a Lotus Notes based tool that has been adapted from the IPSAM methodology to provide the functionality required for performance audits.

The ACT Audit Office has customised this system by building in links to its own policy, practice and procedures. This methodology has been in use since 2010-11 and is well embedded in practice.

All performance audits are undertaken using the methodology and file reviews indicate an assured level of documentation quality and consistency within and across files.

There are comprehensive and well integrated subordinate operational policies, procedures and practices in place. These are a credit to such a relatively small office.

These methodologies, operational policies, practices and procedures are managed in practice through direct supervision and are monitored and informed by the range of internal committees and management groups which meet at appropriate intervals.

The IPSAM methodology however is no longer supported. In the short to medium term however it continues to reliably serve its purpose.

A replacement methodology has been selected and a structured approach to transitioning with effect by 2021, in collaboration with a number of other Audit Offices, is in place.

Opinion

Based on my review, in my opinion the Auditor-General employs and conforms with contemporary standards and best practice in auditing.

3.2.2 Compliance with legislated requirements

Term of reference

ToR C (b) requires the strategic reviewer to 'consider compliance with legislated requirements'.

Approach adopted

A review of the Office's approach to, and the means of assuring, compliance with legislated requirements was undertaken.

Considerations

For professional compliance the legislative requirements set out in Part 3 Functions and powers of the *Auditor-General Act 1996* and Part 3 Financial reports of the *Financial Management Act 1996* were mapped to policies, procedures and methodologies employed by the Audit Office. I found logical linkages and approaches existed. Specifically Financial Audit, Performance Audit and Professional Services Annual Action Plans and associated Workforce Plans provided assurance of a cohesive approach to discharging the professional requirements.

Delivery against these action plans was operationally oversighted by responsible executives directly as line managers and via management and team meetings at fortnightly or monthly intervals.

Complementing these plans and operational management oversight there was a clear Audit Framework and Methodologies which were reviewed and updated at least annually.

Finally there is a rigorous Quality Assurance regime in place where, in addition to routine professional reviews of team members' procedures and judgements in the conduct of audits, there is an annual program of Quality Assurance (Cold) Reviews by external professionals of a sample of Financial Audit and Performance Audit files.

These reviews are completed in a timely manner and matters raised routinely incorporated as revisions to policies and procedures and subsequent training. Findings from these reviews have been minor and mostly in the continuous improvement category.

For administrative compliance there was evident executive oversight through approximately fortnightly meetings of the Executive Committee, augmented by an appropriate range of complementary Committees viz. the Audit and Review Committee which has two external members, the Agency Security Committee, the Quality and Assurance and Review Committee which on a fortnightly basis considers quality assurance matters and monitors changes to auditing standards. There is also the Office Consultative Committee which provides a formal forum for liaison between the Office Executive and staff for effective consultation and staff participation in decisions that affect employment.

A concise acquittal of overall compliance is provided annually in the Office's Annual Report, specifically Appendix B: Compliance Index in the 2018-19 Annual Report.

This represents a cohesive approach to assuring compliance

Opinion

Based on my review, I consider there is a responsible and an appropriately risk based approach to demonstrating compliance with legislated requirements.

3.2.3 Performance audit selection criteria and risk framework

Term of reference

ToR C (c) requires the strategic reviewer to 'consider selection criteria and risk frameworks for selection of topics for performance audits'.

Approach adopted

Consistent with prior practice the approach to selection of performance audit topics is set out at Attachment B to the 2019-20 Performance Audit Program and Potential Audits for 2021 and beyond. This has been reviewed against practice elsewhere and in the context of the views expressed in interviews with stakeholders.

Considerations

Overall the Audit Office has a well established process to guide selection of topics for the performance audit program. The program is developed having regard to the Auditor-General's mandate, the Office's Strategic Plan, and the interests of its primary stakeholders: the Legislative Assembly and the ACT community.

In addition to the formal consultation with the Standing Committee on Public Accounts, each member of the Legislative Assembly and the Head of Service as required by section 13 of the *Auditor-General Act 1996*, the Auditor-General consults with a range of other stakeholders.

There is however a current initiative by the Office to further enhance this approach through earlier and more purposeful engagement with directorates and agencies.

To do this the Performance Audit (PA) group has been organised into three teams, each responsible for planning a cluster designated as:

- A - Strengthening Governance, promoting opportunity
- B - Supporting our community, and
- C - Enhancing our city

Teams are conducting environmental scans of their cluster directorates and agencies and are meeting with agency representatives. Their objective is to be fully informed on potential audits identified for the PA Program so the focus for each potential audit is well understood.

Working collaboratively with auditees is also intended to provide the opportunity to discuss appropriate timing and to establish a positive working relationship with directorates and agencies prior to initiation of an audit. It should also better inform the potential objective and scope of audits so planning is well considered and more effective.

This enhanced approach is positive and should serve to mitigate concerns voiced by some auditees interviewed that the:

- scope of some performance audits are perceived to 'drift',
- timing of audits can impose added strains on the auditee,

- subject matter and/or contextual understanding by auditors and their specialist advisers at times is less than desirable,
- relevance and appropriateness of audits/their usefulness to management was not evident.

These concerns while warranting attention are not unusual in the auditor/auditee context.

Compounding the situation is that at times a report which the auditees assert is no longer relevant or useful can be particularly valued by members of the Legislative Assembly.

Continued attention to achieving frank and focused communication with stakeholders is important to minimising the opportunity for misunderstanding or conjecture.

The challenge faced by Audit is accentuated as for instances raised during my consultation with auditees, I noted when the actual reports were reviewed specific coverage of the basis for the audits such as a public interest disclosure or specific representations having been received had been disclosed in the introduction chapter of the respective reports.

The current conscious effort to engage earlier and in a more applied way with directorates and other entities in developing the 2020-21 Performance Audit Program is a positive initiative. It is a step in the right direction and should serve to mitigate some concerns in relation to 'scope drift', audit timing and subject matter and/or contextual understanding issues, etc.

This initiative alone however is unlikely to completely address the gap in understanding of the role and purpose of the external audit function in the public sector.

In the performance audit context imparting an adequate understanding of Audit's overall role and purpose can be challenging for a number of reasons.

Many executives and managers subject to performance audits, while overwhelmingly being conscientious public sector program managers, do not have public sector accountability training or experience. This situation contrasts with the financial audit role where there is a much more mature context with comprehensive accounting and auditing standards complemented by a much closer alignment of skills and understanding between auditors and auditees in consequence of their common training in the accounting discipline.

Further many public sector executives and managers do not appreciate the wider public interest role and the independence of the Auditor-General in holding the public sector to account for the use of public resources and contributing to strengthening the accountability, transparency and integrity of the public sector as a whole and of individual entities.

There is scope to address in a more targeted way the gap in appreciation of the role and purpose of performance audits in the public sector, and more particularly in the ACT context where the Auditor-General also receives public interest disclosures as a Disclosure Officer under the *Public Interest Disclosure Act 2012* (the PID Act).

The development of an information sheet/brochure appears warranted to provide a lay terms explanation of the role and independence of the Auditor-General, how and why audit topics are selected, the standards observed and methodologies adopted in undertaking audits and explicitly stating what the Auditor-General doesn't do would serve to underpin a

targeted strategy to reduce the gap in expectations regarding the role of the Auditor-General.

Another area for consideration is how to better communicate the basis of selection of particular performance audit topics.

Currently in selecting topics there are six selection criteria for considering the merits of potential performance audit topics:

- Significance, financial materiality, materiality by nature, influence
- Environmental significance, recognising s12(2) of the *Auditor-General Act 1996*
- Risks to Good Management
- Potential Audit Impact
- Previous Reviews, and
- Auditability

There are however a further six focus areas for consideration:

- greatest benefit for the whole community
- improving services and programs
- assisting disadvantaged and vulnerable
- developing the next generation - all children get a 'fair go'
- advancing sustainable practices, and
- minimising waste in government.

More concise and precise set of selection criteria which integrate contextual considerations within 5-7 selection criteria should serve to focus considerations in the selection process and assist with greater clarity in communicating the rationale for the selection of a particular performance audit topic.

A further consideration to improve understanding of the audit process would be to routinely adopt a positive practice which has been raised by a quality assurance review. This is to adopt, wherever practicable, a diagrammatic approach to visibly connecting audit objectives and audit criteria in the Audit objective and scope section of performance audit reports

This would serve to assist understanding by the audited entity and also serve as a cross check for Audit that everything has been considered in this important respect. Such an approach would routinely serve to demonstrate that:

- sufficient and suitable sub criteria are used to address the audit objectives,
- audit methods and tasks are suitable, and
- each sub criteria has been answered with suitable evidence.

Opinion

Based on my review of the selection process for performance audit topics, I consider the selection criteria and risk frameworks for selection of topics for performance audits is appropriate however there appears opportunity for further refinement in some respects.

Recommendation

1. That the current initiative to achieve earlier and more purposeful engagement with directorates and agencies in the development of the Performance Audit Program be continued and refined further based on the 2020-21 experience.
2. That consideration be given to developing a fact sheet/brochure to explain in lay terms the role and independence of the Auditor-General, how and why audit topics are selected, the standards observed and methodologies adopted in undertaking audits and explicitly stating what the Auditor-General doesn't do.
3. That consideration be given to revising topic selection criteria to a more concise and precise set to better assure objectivity and assist with added clarity when communicating the rationale for the selection of a particular performance audit topic.
4. That in principle a diagrammatic approach be adopted to visibly connect audit objectives and audit criteria in the Audit objective and scope section of performance audit reports whenever practicable.

ACT Audit Office Comments

Recommendation 1

Agreed.

At the conclusion of the development of the *2020-21 Performance Audit Program* the Audit Office will review its processes and identify any potential improvements for strategic planning for the *2021-22 Performance Audit Program*. The review will take place in the first quarter of 2020-21 and any changes to the processes documented by 30 September 2020.

Recommendation 2

Agreed.

The Audit Office will develop a fact sheet/brochure for publication on its website and distribution to stakeholders. The fact sheet/brochure will be developed by 30 September 2020.

Recommendation 3

Agreed-in-principle.

At the conclusion of the development of the *2020-21 Performance Audit Program* the Audit Office will review its processes and identify any potential improvements for strategic planning for the *2021-22 Performance Audit Program*. The review will take place in the first quarter of 2020-21 and any changes to the processes documented by 30 September 2020.

Recommendation 4

Agreed-in-principle.

Consideration will be given to the presentation of audit objectives and audit criteria in Chapter 1 of performance audit reports. The presentation of this information will be given consideration after the delivery of audits for 2019-20. A desired approach will be determined and documented by 30 September 2020.

3.2.4 Efficiency of service provision

Term of reference

ToR C (d) requires the strategic reviewer to 'consider efficiency of service provision'.

Approach adopted

The performance of the Office in meeting its targets and its relative ranking in the Australasian Council of Auditors-General (ACAG) Macro Benchmarking Survey 2018-19 was used to assess the efficiency of service provision.

Considerations

Over time the Audit Office has consistently met its service provision targets. This has been reported in the Annual Report.

The Statement of Performance is covered by a 'clear opinion' provided by the independent financial auditor appointed pursuant to Division 5.2 of the Act.

As noted in the 2018-19 Annual report the accountability targets were:
for Performance Audit (page 13)

- Number of performance audits presented to the ACT Legislative Assembly
- Average period of completion of performance audits
- Percentage of agencies satisfied with performance audits
- Percentage of agencies agreeing that the performance audit will help their organisation improve administration of the audited activity

for Financial Audit (page 31)

- Number of audit reports issued on financial statements and compliance audit reports
- Number of reports of factual findings issued on statements of performance
- Percentage of recommendations accepted in financial audits
- Percentage of audits completed within the required timetable
- Percentage of agencies satisfied with financial audits
- Timing of the tabling of the three summary reports on financial audits

Complementing these operational achievements, the 15 audited accountability indicators on the quality and timeliness of reports and effectiveness of audit work (page 107) also report overall achievement of targets across the categories of costs, quantity, quality and effectiveness, timeliness and preparation of summary reports on financial audits to the ACT Legislative Assembly.

Variance from targets were reported, with commentary in the body of the Annual Report and explanatory notes in the Statement of Performance. Almost all variations were favourable and those which were negative were by less than 10%.

I did not note any underlying adverse trends and observed appropriate action being taken to address the negative variances. The effectiveness of this action is evident in the reversal or reduction in variances achieved when compared across years.

The ACAG Macro Benchmarking project is an annual exercise that has been conducted since 1994. The overall purpose is to provide, to the extent practicable, comparable quantitative and qualitative benchmarks of the operations of audit offices and specific characteristics of each jurisdiction. The project is conducted by a research firm in accordance with the international quality standard ISO 20252 and the Australian Privacy Principles contained in the *Privacy Act 1988 (Comm)*.

The Benchmarking Report covers:

- Context, information to assist interpretation of benchmarking of results
- Resourcing of operations
- Attest audit activity measures
- Performance audit activity measures
- Other measures

My review of the Benchmarking report for the year ended 30 June 2019 did not disclose any significant exceptions for the ACT jurisdiction. Overall the ACT jurisdiction performing as expected, eg consistently at the higher end of the scale on measures such as Total audit costs (excluding payroll tax) per \$'000 of public sector assets 2014-2015 to 2018-19 because of the relative small scale of the ACT. By contrast the Commonwealth and larger states are understandably at the lower end of the scale due to economies of scale.

On other more meaningful benchmarks such as Percentage of total (whole-of-office) hours charged to attest audit activities the ACT rated 44% of the state and territory average of 45%. Similarly Chargeable hours per FTE professional-attest audit staff, where the ACT recorded 1,143 hours against the state and territory average of 1,173. For Chargeable hours per FTE professional-non attest audit staff, the ACT recorded 1,117 hours against the state and territory average of 1,070.

Opinion

Based on my analysis of achievement against targets and comparative benchmarking data reviewed, I consider there is efficiency of service provision by the ACT Audit Office

3.2.5 Governance and management practices

Term of reference

ToR C (e) requires the strategic reviewer to 'consider governance and management practices'.

Approach adopted

A self assessment which had been undertaken by the Audit Office using the ACAG Governance and Audit Framework tool, assured by an external review, was analysed along with undertaking a broader assessment of the governance and management structure in place.

Considerations

The office has a head count of 43 representing 40.5 FTE at 30 June 2019 (page 55 of 2018-19 Annual Report) structured into three operational areas of:

- Financial Audit (headcount 24/FTE 22.1),
- Performance Audit (headcount 10/FTE 9.4), and
- Professional Services (headcount 6/FTE 6) with an Executive of 3 (page 55).

Operationally, sound internal accountability and governance arrangements, including tailored audit methodologies, rigorous quality assurance, risk management, business continuity and fraud prevention plans have been developed and have been in place for many years.

The Executive Committee of four comprises the Auditor-General, Assistant Auditors-General Financial and Performance Audit and the Senior Director Professional Services.

A structured and inter related system of internal committees and management and staff groups have been established with defined responsibilities and accountabilities.

My review disclosed that these committees and groups are meeting and reporting as planned.

In consequence policies, methodologies and plans are being reviewed and updated on a timely basis. I was also impressed by the comprehensiveness and integrity of these policies, methodologies and plans in practice indicating that they are embedded and routinely applied in office operations.

Opinion

Based on my analysis I consider there are better practice governance and management practices in place in the ACT Audit Office.

3.2.6 Human, financial and other resources

Term of reference

ToR C (f) requires the strategic reviewer to 'consider an assessment of human, financial and other resources'.

Approach adopted

A review of available contextual information including workforce plans, ACAG Benchmarking, staff survey results, the learning and development plan and performance development planning was undertaken having regard to the level of Office deliverables being achieved.

Considerations

Overall the level of human, financial, information technology and accommodation are assessed as adequate and fit for purpose.

In terms of human resources, an adequate number of staff are deployed at appropriate levels commensurate with the task required of the Office. I observed developments which indicate a purposeful evolutionary approach, such as has recently occurred with the establishment of clusters each led by a Senior Director within the Performance Audit operational area.

The Office has developed Workforce Planning and Review Policy and Guidelines which I have established are being applied in practice with annual plans. These plans are updated at the half year mark. In practice this is successful as the Office continues to deliver quality work while facing the challenges of a small office in providing sufficient career opportunities and retaining experienced staff.

A Learning and Development Program is in operation which covers induction, methodology, people capability, stakeholder engagement, written communication, risk and safety training as well as access to wider professional and ACAG training opportunities.

The Audit Office provides a comparable number of training hours per FTE for both attest audit staff (71 hours in 2018-19 of the State and Territory average of 77 and a range from 50 to 105) and for non attest audit staff (80 hours in 2018-19 of the states and territory average of 74 and a range from 54 to 91)

A recent positive initiative is a re-visiting of the approach to performance appraisal with a shift to a more pro active performance development approach focused on planned outcomes and provision of support to staff to enable their achievement of their goals.

Recognising the small size of the Office, providing detailed information on some aspects of its workforce could infringe the privacy of individual staff. From the general information available the gender mix at 30 June 2018 was 44.2% female and 55.8% male. Staff from culturally and linguistically diverse backgrounds represent 46.5% of the workforce. No staff have advised that they are Aboriginal and/or Torres Strait Islander or that they have a disability.

In terms of financial resources the Office reported an operating deficit of \$36 000 in 2018-19. The Office's income is mainly comprised of financial audit fees (\$4.036m in

2018-19) and appropriation (\$2.927m) in 2018-19) which mainly funds the cost of performance audits.

Positively total income is estimated to increase over the 2019-20 and 2020-21 years mainly due to additional appropriation for performance audits to take the number of performance audits undertaken up to nine per year from 2020-21.

Current office accommodation is suitable however the lease is due to expire in October 2020. Planning is already underway, in consultation with staff, to specify future accommodation requirements with no particular issues of concern being evident to date.

IT resources serve the Office well, most notably with electronic methodologies being used to manage the Office's core business. Again no particular issues came to notice during the course of my review.

As already noted at 3.2.1 above a suitable replacement methodology for IPSAM has been identified at a similar recurrent cost to the current methodology so no material change in budget is anticipated.

Opinion

Based on my review I consider the human, financial and other resources available to the Office are adequate and are being efficiently and effectively managed consistent with Office circumstances.

3.2.7 Value for money for services provided

Term of reference

ToR C (g) requires the strategic reviewer to 'consider value for money for services provided'.

Approach adopted

Complementary to 3.2.4 above, regard has been had to INTOSAI principles. INTOSAI-P-12 The Value and Benefits of Supreme Audit Institutions - Making a difference to the lives of citizens.

Considerations

This standard sets out 12 principles which seek to demonstrate the contribution an Auditor-General makes under three groupings:

Strengthening the accountability, transparency and integrity of Government and public sector entities

- 1 Safeguarding the independence
- 2 Carrying out audits to ensure that government and public sector entities are held accountable for their stewardship over, and use of public resources
- 3 Enabling those charged with public sector governance to discharge their responsibilities in responding to audit findings and recommendations and taking appropriate corrective action
- 4 Reporting on audit results and thereby enabling the public to hold government and the public sector entities accountable

Demonstrating ongoing relevance to citizens, Parliament and other stakeholders

- 5 Being responsive to changing environments and emerging risks
- 6 Communicating effectively with stakeholders
- 7 Being a credible source of independent and objective insight and guidance to support beneficial change in the public sector

Being a model organisation through leading by example

- 8 Ensuring appropriate transparency and accountability of the Office
- 9 Ensuring good governance of the Office
- 10 Complying with the Office's Code of Ethics
- 11 Striving for service excellence and quality
- 12 Capacity building through promoting learning and knowledge

As part of this review I have assessed the Audit Office's performance and achievements against the 66 elements supporting these 12 principles.

My assessment is that the Audit Office met all elements of these principles, most to a high degree.

Opinion

Based on this analysis, and combined with the conclusion at 3.2.4 Efficiency of service provision that there is efficiency of service provision by the ACT Audit Office, I consider value for money for services provided is being achieved.

3.2.8 Supporting public accountability

Term of reference

ToR C (h) requires the strategic reviewer to 'consider effectiveness in supporting public accountability in the Territory'.

Approach adopted

Initiatives by the Auditor-General and the Audit Office in supporting public accountability have been canvassed with a view to identifying any obvious gaps when compared to practice elsewhere.

Considerations

I observe the Auditor-General and the Office undertakes a range of initiatives to support public accountability in the Territory.

In addition to the core task of undertaking audits, tabling reports in Parliament, and issuing media releases to alert the wider community, the Auditor-General engages with a wide range of stakeholders beyond those statutorily required when developing the annual performance audit program.

Notable ongoing initiatives which support public accountability are:

- Mounting annual FA and PA seminars
- Meetings and liaising with the Accounting Branch of the Treasury.
- Making the Auditor-General and senior staff available to provide briefings and presentations

Recently the Auditor-General has

- Met with the Strategic Board of Directors General
- Commenced a program of meetings with Chairs of Audit Committees
- Met with members of the Legislative Assembly

which are positive initiatives in further leveraging elements of the governance and accountability framework operating in the ACT public sector.

An area where there appears opportunity to work in collaboration with the Standing Committee on Public Accounts is in relation to follow up of action taken in response to audit recommendations.

Options to consider in relation to addressing outstanding audit recommendations range from a periodic briefing by the Audit Office to the PAC through to developing an additional report to the Legislative Assembly which could be examined consistent with other reports of the Auditor-General in terms of the resolution establishing the PAC.

Both the Audit Office and the PAC have limited resources however leveraging existing work of the Audit Office, most likely as an adjunct to developing the Performance Audit Program where as part of the environmental scan regard would be had to previous reports. A by-product could be a briefing to the PAC on exceptions and anomalies identified in relation to outstanding audit recommendations.

Alternatively a periodic (eg annual) review of the status of outstanding recommendations around two years after the Government response to each audit report has been tabled could be undertaken and a factual report tabled in the Legislative Assembly.

Opinion

While there are already effective practices in place to support public accountability, there is scope to consider further avenues which should not impose particular imposts on the Audit Office but should assist the PAC in furthering its role.

Recommendation

5. Consider options, including in consultation with the PAC, to facilitate a more systematic approach to highlighting outstanding Audit recommendations.

ACT Audit Office Comments

Recommendation 5

Agreed-in-principle.

Consideration will be given as to how the Audit Office can work with the PAC to identify outstanding audit recommendations. The Audit Office notes that this may involve additional workload and activity. The Audit Office will work with the PAC to identify potential options and preferences. The Audit Office will seek to achieve agreement with the PAC by 31 March 2021.

3.2.9 Effectiveness of communication and relationships

Term of reference

ToR C (i) requires the strategic reviewer to 'consider effectiveness of communication and relationships with key stakeholders, including the Legislative Assembly for the ACT, the Standing Committee on Public Accounts, the ACT Executive and the heads of government agencies'.

Approach adopted

Feedback and views expressed during the course of interviews with stakeholders as part of this review, as well as an environmental scan of communication and relationships with key stakeholders elsewhere, were used to address this term of reference.

Considerations

Overall the status of the effectiveness of communications and relationships with key stakeholders were found to be at least consistent with experience elsewhere.

There is a natural underlying tension that permeates auditor/auditee relationships which is generally regarded as indicative that the auditor is doing their job in applying professional scepticism, ensuring audits are undertaken in accordance with professional requirements and that sufficient and reliable evidence exists to support audit findings and conclusions.

Undoubtedly there will be occasions where with hindsight particular experiences could have been avoided. I assessed however that generally differences of view were genuinely held and should be able to be mitigated going forward by more focused communication, education and explanation.

A particular and somewhat recurring auditee view is in relation to Performance Audit where assertions made were:

- scope of some performance audits are perceived to 'drift',
- timing of audits can impose added strains on the auditee,
- subject matter and/or contextual understanding by auditors and their specialist advisers at times is less than desirable,
- relevance and appropriateness of audits/their usefulness to management was not evident.

Points one to three have been addressed at 3.2.3 above however the fourth point regarding relevance and usefulness warrants elaboration.

This represents another inherent challenge with audit reports where an auditee who has been subject to audit may have one view while Members of the Legislative Assembly for whom the report has been prepared have a very different view.

There was one notable report where these very different views were evident. The recommendations made at 3.2.3 are intended to at least mitigate this situation via more directed engagement and communication with auditees.

Similarly in relation to Financial Audit some expressed reservations about the need for the Audit Office to engage specialists such as actuaries and valuers when the auditee had already obtained such advice. Again there are multiple considerations however generally clearer communication of and more tailored explanation of the rationale for the need for additional independent advice is required.

I noted the Audit Strategy template document routinely addresses the matter of 'Use of External Experts' by entities when they do not have sufficient internal expertise to correctly account for significant and/or complex arrangements or transactions in financial statements.

The Audit Strategies reviewed appropriately noted the need for the Audit Office to remain independent of the process however invited entities to request the Audit Office to review and provide suggestions on:

- instructions to be provided to the expert before they are finalised and issued to the expert; and
- advice received from the expert before it is finalised.

The Strategy documents proceed to advise that the Audit Office will also engage its own external independent expert to assist with its review if the Audit Office assesses that it does not have sufficient internal expertise to properly perform its review.

This is consistent with Auditing Standard ASA 620 *Using the Work of an Auditor's Expert* which establishes the requirement for the auditor to determine whether to use the work of an auditor's expert, where such expertise is necessary to obtain sufficient appropriate audit evidence, and requires the auditor to obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to determine the work to be performed by the expert and evaluate the adequacy of that work for the auditor's purposes.

Even so, this matter was raised as representing a duplication by some stakeholders.

My enquiries also indicated limited take up of the Audit Office's invitation to provide suggestions which may assist with entities' engagement of their experts and serve to reduce the extent of the need for the Audit Office to seek its own advice.

Accordingly more targeted communication appears warranted to address this situation. I therefore raise two areas for consideration.

First a more tailored coverage of this matter in the Audit Strategy document and second by revisiting the Audit Office representation at entrance and exit meetings with entities where use of experts is required.

In both the financial and performance audit situations even more consideration of opportunities for earlier and more focused engagement is proposed.

Opinion

Based on my review I consider the effectiveness of communication and relationships with key stakeholders is satisfactory in all the circumstances however warrants some specific initiatives and ongoing attention.

Recommendations

6. That Audit Strategy documents for entities where use of experts is needed be more tailored to the particular context.
7. That more senior executive level staff representation be used at entrance and exit interviews of entities where experts are to be used.
8. That Performance Audit and Financial Audit respectively specifically consider recurring areas of concern and exception on an annual basis and develop more focused and targeted approaches to communicating with and managing relationships with key stakeholders on these areas.

ACT Audit Office Comments

Recommendation 6

Agreed.

Audit strategy documents for entities needing to use experts will be more tailored to the particular context.

The audit strategies issued to the relevant entities for June 2020 financial audits will be completed by 30 June 2020.

Recommendation 7

Agreed.

More senior executive level staff representation will be used at entrance and exit interviews of entities where experts are used.

This will be addressed for June 2020 financial audits by 30 November 2020.

Recommendation 8

Agreed.

The financial and performance audit management teams will, as part of annual reviews of the delivery of their respective programs identify any recurring areas of concern and exception and develop a more focused approach to communication and managing relationship with these entities. This will be addressed for June 2020 financial audits by 30 November 2020 and for the 2019-20 performance audit program by 30 September 2020.

3.3 Other matters

3.3.1 Comparison with previous strategic review

Term of reference

ToR D (a) requires the strategic reviewer to 'compare present findings with those of the previous strategic review'.

Approach adopted

The nature of the findings of the current strategic review were compared with those of the previous review.

Considerations

The Terms of Reference (ToR) for this current review represent an evolution of those of the previous strategic review.

Both ToR address the functions of the Auditor-General in terms of the Auditor-General Act 1996, the performance of the Auditor-General along with consideration of other contextual matters.

There is a consistency in elements identified however there are differing emphases in the approach indicated. Notwithstanding the core considerations of:

- whether legislative arrangements allow the Auditor-General to fulfill the functions accorded
 - the extent to which contemporary standards and better practice are employed
 - efficiency of service provision and benchmarking
 - governance and management practices
 - effectiveness in supporting public accountability, and
 - effectiveness of communications and relationships
- in the context of delivering financial and performance audits and associated reports to the Legislative Assembly.

The findings of the current strategic review are more of a continuous improvement and refinement nature than those of the previous review.

The previous review recommendations, while recognising a very satisfactory level of performance, made a number of recommendations which related to:

- the then relatively recent establishment of the Auditor-General as an Officer of the Legislative Assembly,
- a revised approach to reporting to the Legislative Assembly on financial and information systems audit,
- a more analytical approach to establishing time and dollar budgets for, and a more phased approach to the management of the conduct of performance audits
- enhanced auditee engagement activities, and
- enhanced stakeholder engagement

All the recommendations were effectively addressed and have largely proved worthwhile in practice. The Audit Office response and approach, including obtaining my independent as-

urance that the recommendations had been satisfactorily addressed, was reported in the 2015-16 and 2016-17 Annual Reports.

A summary acquittal of these previous strategic review recommendations is provided at Appendix 2.

This current Strategic Review found an overall continuing very satisfactory level of performance however noted some opportunities for further improving stakeholder engagement to better communicate the rationale for Audit activities, enhance stakeholder engagement and managing auditee expectations.

Recognising the strong culture of the Audit Office which is focused on delivering quality audits, this result is understandable. The culture of the Audit Office is to exercise professional scepticism in undertaking audits consistent with auditing standards and using sound methodologies.

3.3.2 Benchmarking Audit Office

Term of reference

ToR D (b) requires the strategic reviewer to 'benchmark the Audit Office against an appropriate comparator'.

Approach adopted

A limited comparative assessment of the ACT Audit Office (jurisdiction population 406 692 and 2,358 km² land area) against another smaller Australian jurisdiction (population 520 830 and 68 401 km² land area) and against publicly available information on a smaller Canadian jurisdiction of Newfoundland and Labrador (population 525 355 and 405 212 km² land area) was undertaken.

Considerations

While the geography and circumstance of these jurisdictions is very different they have a reconcilable mandate and similar professional and management challenges.

Particular regard was paid to the well established ACAG benchmarking process (refer also to 3.2.4 above) which has matured over more than 20 years. Within the ACAG framework the Tasmanian jurisdiction was a primary focus while South Australia (population 1.677m) was also of some relevance.

Overall the ACT Audit Office performs at the level reasonably expected when compared with other jurisdictions and adjusted for mix of financial and performance audit activities, relative scale, etc. No unexplained or notably negative exceptions were noted.

For the ACT Audit Office the cost per audit hour charged to Audit in 2018-19 was around the middle of the scale at \$169 which compares with the state and territory average of \$164 and within a range of \$125 to \$219.

Another key consideration is that the ACT Audit Office completed 91% (53 of 58) of the financial audits within the required (three months of balance date) timeline which compares favourably with the average across states and territories of 74% and a range of 54% to 91%.

For performance audits the ACT Audit Office cost per unit output in 2018-19 was at the lower end of the scale at \$231 025 which compares with a state and territories average of \$383 659 and a range from \$231 025 to \$566 222. For elapsed times for performance audits the ACT Office achieved the lowest average of 7.3 months which compares with a states and territories average of 12.0 months and a range from 7.3 to 25.2 months.

Staff turnover is another key indicator given human resources represent the key asset of a professional services office. The ACAG benchmarking data was used in preference to the Annual Report 'point in time' data used in the ACT. The ACAG data is considered more comprehensive and more suitable for comparative purposes.

The ACT Audit Office reported attrition as a percentage of FTE in 2018-19 of 21% which compares with the states and territories average of 16% and a range from 10% to 29%. While a lower rate of attrition would be preferred, the level experienced is far from the lower end of the scale. Also of note is the ACT environment where there are very significant alternative public sector employment opportunities than exist in other smaller jurisdictions. The 2018-19 level of attrition is up from 17% in 2017-18 though below that of 2015-16 to 2016-17 when the rates were in the 24-25% range. Notably smaller offices generally experience greater volatility in attrition.

Opinion

Based on my analysis I consider the ACT Audit Office performs at a level reasonably expected when compared with other jurisdictions and adjusted for mix of audit activities, relative scale, etc. No unexplained or notably negative exceptions were noted.

3.3.3 Consultation with key stakeholders

Term of reference

ToR D (c) requires the strategic reviewer to 'consult with stakeholders'.

Approach adopted

A very consultative approach was adopted with an extensive range of stakeholders interviewed.

Considerations

As provided for in the terms of reference, a diverse range of stakeholders were interviewed as part of the strategic review.

More than 30 external stakeholders were consulted including, members of the Legislative Assembly, the Standing Committee on Public Accounts, the ACT Executive, Heads and Senior Executives of ACT government agencies. Most were interviewed using a semi structured interview approach.

Approximately 15 staff of the ACT Audit Office were consulted individually or as part of a group, aside from a short presentation and question session provided in an all staff meeting.

A general invitation was extended to staff of the Office to contact the reviewer and a small number of staff availed themselves of this opportunity.

3.3.4 Formal process for complaints about Auditor-General

Term of reference

ToR D (d) requires the strategic reviewer to 'consider and make recommendations toward an appropriate formal process through which complaints about the Auditor-General may be dealt with'.

Approach adopted

Enquiry of potentially authoritative persons and research of the provisions of the *Auditor-General Act 1996* (the Act), and of experience elsewhere regarding oversight of the Auditor-General was undertaken.

Considerations

My enquiries and research did not disclose any existing specific formal process for complaints about the Auditor-General aside from generally equivalent provisions to s9A to 9BC of the Act. I was unable to identify any jurisdiction that had established a formal process for complaints about the Auditor-General.

The most evident option to consider in addressing a complaint about the Auditor-General is to leverage the existing oversight role of the Public Accounts Committee in relationship to the Auditor-General.

An exceptional example of a PAC inquiring into a complaint about an Auditor-General occurred in Victoria in 2015.

This case involved serious allegations being made against the then Auditor-General in a formal grievance by a member of staff.

These allegations were of such seriousness that in the referral to the Victorian Public Accounts and Expenditure Review Committee (PAEC) by the Legislative Assembly and the Legislative Council, the PAEC was to inquire into and report, and whether in light of any findings that the Committee may make, that Parliament should give consideration to the removal of the Auditor-General from office.

In the current case under consideration by the ACT PAC is more of an operational issue. The following matters therefore warrant consideration.

The Auditor-General is an independent officer of the Legislative Assembly² with statutorily established independence, in particular that the Auditor-General has complete discretion in the exercise of the auditor-general's functions³.

² ACT Auditor-General Act 1996, section 6A

³ ACT Auditor-General Act 1996, section 7.

These provisions purposefully position the Auditor-General to have the right and obligation to report on audit work⁴ consistent with the principles espoused by INTOSAI. The Act (s 7(1)) provides the Auditor-General 'complete discretion' in the exercise of the auditor-general functions.

Section 10(2) of the Act however provides that the Auditor-General must exercise the auditor-general's functions in the way the auditor-general considers appropriate, having regard to recognised professional standards and practices.

Division 3.7 Reports for Legislative Assembly, inter alia, deals with the process to be followed by the Auditor-General in the preparation of a report and the obtaining of comments on proposed reports.

The complaint under consideration relates to an alleged breach of these provisions.

The complaint arose following the Auditor-General inviting comment from a person considered to have a direct interest in the proposed report (pursuant to s18(3)).

It is evident from the tabled report that the Auditor-General has considered the interested party's comments as required by s18(7) and in fact reflected in the report the nature of those comments and provided an explanation of how the comments have been taken into account in reaching the audit conclusion.

At the time the then Auditor-General sought my independent assurance regarding the adequacy of the acquittal of the comments provided by the particular person and regarding the proposed inclusion in the report of the substance of the comments provided by this party. I provided that assurance which was referred to in Chapter 1 of the report tabled in the Legislative Assembly.

If it accepted that it is appropriate for the PAC to take responsibility for handling this complaint, there are two clear options for the PAC. One is to address this complaint routinely as part of its inquiry into the a particular report, the other is to require a formal referral of the complaint to be addressed as a separate inquiry.

Given the complaint relates to a particular report, from a practical perspective it would seem reasonable for it to be handled as part of the inquiry into that particular report.

The central issues in considering the merit of this complaint are whether the Auditor-General undertook the audit:

- having regard to recognised professional standards, and
- followed the Division 3.7, s18(3) processes

Both these tests have clearly been met in my view.

While there may be a difference of view between the Auditor-General and the person considered to have a direct interest about the conclusion the Auditor-General reached, this has been anticipated by the Act . There is an express obligation (s10(2)) on the Auditor-General to exercise the auditor-general's functions in the way the auditor-general considers appropriate.

⁴ INTOSAI-P 10, Mexico Declaration of SAI Independence, accessed 16 November 2019 into-sai.org/documents.

This view is reinforced by the INTOSAI principles that an Auditor-General should not be restricted from reporting the results of their work, that the Auditor-General should have the freedom to decide the content of their audit reports and be free to make observations and recommendations in their reports, taking into consideration, as appropriate the views of the audited entity (person with a direct interest).

I consider this complaint falls into an 'operational' category and should be routinely addressed as part of the inquiry into the particular report.

Should a more serious allegation or complaint arise that, if the merits were established, would warrant consideration to the removal of the Auditor-General from office then a process of formal referral to the PAC would be appropriate.

In the course of considering this matter the merits were raised of highlighting in the transmittal letter to the Speaker an express statement that the performance audit has been 'undertaken in compliance with the requirements of the *Auditor-General Act 1996* and relevant professional standards (including ASAE 3500 - Performance engagement'.

While this assurance is already provided in the audit objective and scope section of the Introduction chapter of the report it was suggested highlighting this in the transmittal letter was warranted for the benefit of readers less familiar with the structure and content of audit reports.

Recommendation

9. Only complaints of a substantial nature which in light of any findings that the Committee may make, could lead to consideration to the removal of the Auditor-General from office should be subject to a formal inquiry. Any complaints and allegations of an operational nature about the Auditor-General be routinely considered by the Public Accounts Committee in the course of inquiries into the relevant report.

10. Consideration be given to highlighting in the transmittal letter to the Speaker that the performance audit has been 'undertaken in compliance with the requirements of the *Auditor-General Act 1996* and relevant professional standards (including ASAE 3500 - Performance engagement'.

ACT Audit Office Comments

Recommendation 9

This is a matter for consideration by the Speaker and Public Accounts Committee.

Recommendation 10

Agreed.

This addition to the transmittal letter will be made with immediate effect for audits to be delivered as part of the 2019-20 performance audit program.

3.3.5 Other relevant matters

Term of reference

ToR D (e) requires the strategic reviewer to 'review any other matters the strategic reviewer considers relevant to the effectiveness of the Auditor-General'.

Approach adopted

Attention was paid to noting any matters arising in the course of the strategic review that were not already addressed by the terms of reference.

Considerations

No further matters not already covered by the terms of reference were identified.



LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Vicki Dunne MLA (Chair), Tara Cheyne MLA (Deputy Chair)
Nicole Lawder MLA, Bec Cody MLA

Strategic review of the ACT Auditor-General 2019-20

Terms of Reference

August 2019

1. Background

Under the *Auditor-General Act 1996* (ACT) a strategic review of the Auditor-General 'must be carried out once in each term of the Legislative Assembly'.¹ The Act provides that the Standing Committee on Public Accounts must:

- a) decide when the strategic review is to be carried out;²
- b) ask the Speaker to, on behalf of the Territory, engage a person to conduct the strategic review;³
- c) decide terms of reference for the strategic review, in consultation with the Minister;⁴
- d) ask the strategic reviewer to conduct the strategic review according to the terms of reference.⁵

2. Terms of Reference

A. Strategic review of the Auditor-General

Under the *Auditor-General Act 1996* (ACT) a strategic review of the Auditor-General consists of:

- (a) a review of the Auditor-General's functions; and
- (b) a performance audit of the Auditor-General.⁶

¹ *Auditor-General Act 1996* (ACT), s 24(1), viewed 24 July 2019, available at: <https://www.legislation.act.gov.au/View/a/1996-23/current/PDF/1996-23.PDF>

² *Auditor-General Act 1996* (ACT), s 24(2).

³ *Auditor-General Act 1996* (ACT), s 25(1).

⁴ *Auditor-General Act 1996* (ACT), s 26(1)(a)(i).

⁵ *Auditor-General Act 1996* (ACT), s 26(1)(a)(ii).

⁶ *Auditor-General Act 1996* (ACT), s 23.

B. Review of the Auditor-General's functions

In conducting a review of the Auditor-General's *functions* the strategic reviewer will consider the extent to which:

- (a) present arrangements allow the ACT Auditor-General to fulfil the functions accorded that office in the *Auditor-General Act 1996*,⁷ including those set out in Section 10(1) of the Act, and
- (b) the *Auditor-General Act 1996* makes appropriate provision to support the work of the Auditor-General.

C. Performance audit of the Auditor-General

In conducting a *performance audit* of the Auditor-General, the reviewer will consider:

- a) the extent to which the Auditor-General employs and conforms with contemporary standards and best practice in auditing;
- b) compliance with legislated requirements;
- c) selection criteria and risk frameworks for selection of topics for performance audits;
- d) efficiency of service provision;
- e) governance and management practices;
- f) an assessment of human, financial and other resources;
- g) value for money for services provided;
- h) effectiveness in supporting public accountability in the Territory; and
- i) effectiveness of communication and relationships with key stakeholders, including the Legislative Assembly for the ACT, the Standing Committee on Public Accounts, the ACT Executive, and the heads of ACT government agencies.

D. Other matters

In relation to both the review of *functions* and the *performance audit* the strategic reviewer will:

- a) compare present findings with those of the previous strategic review;
- b) benchmark the Audit Office against an appropriate comparator;
- c) consult with key stakeholders;
- d) consider and make recommendations toward an appropriate formal process through which complaints about the Auditor-General may be dealt with; and
- e) review any other matters the strategic reviewer considers relevant to the effectiveness of the Auditor-General.

⁷ *Auditor-General Act 1996* (ACT), s 23(a).

E. Timing

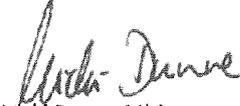
The strategic reviewer will commence work in October 2019 and report to the Speaker of the Assembly in March 2020.

3. Qualifications

The strategic reviewer will demonstrate:

- a) professional integrity;
- b) comprehensive knowledge of public sector auditing;
- c) no pecuniary or other interest in the outcome of the Review;
- d) the capacity to manage conflicts of interest effectively, where necessary; and will have
- e) no substantive ties to the Auditor-General or Audit Office.

The Committee agreed to these Terms at its meeting of 13 August 2019.


Vicki Dunne MLA
Chair
14 August 2019

Appendix 2

Acquittal of Recommendations from 2016 Strategic Review

Recommendation	Audit Office response	Status
<p>Recommendation 1</p> <p>The Standing Committee on Administration and Procedure consider the continued relevance and adequacy of the provisions of the <i>Legislative Assembly (Office of the Legislative Assembly) Act 2012</i> and provide recommendations relating to the Office's capacity to administratively support the Speaker in the performance of the speaker's role and functions in relation to these independent officers of the Legislative Assembly.</p>	<p>N/a</p>	<p>Addressed</p> <p><i>Auditor-General Act 1996</i> s 37B inserted by A2017-41 s10.</p>
<p>Recommendation 2</p> <p>The related administrative procedures and arrangements to be agreed between the Speaker and the Independent Officers of the Legislative Assembly, and documented</p>	<p>N/a</p>	<p>Addressed</p> <p>Budget Protocols Agreement for the Office of the Legislative Assembly and Officers of the Legislative Assembly tabled in the Assembly on 18 Septemebr 2018</p>
<p>Recommendation 3</p> <p>The Standing Committee on Public Accounts consider and make recommendations regarding the establishment of a term of appointment for the ACT Auditor-General to be included in the <i>Auditor-General Act 1996</i>.</p>	<p>N/a</p>	<p>Addressed</p> <p><i>Auditor-General Act 1996</i> s 8AA inserted by A2017-41 s9</p>
<p>Recommendation 4</p>	<p>N/a</p>	

<p>Recommendation 4 (Performance Audit)</p> <p>That additional overt criteria be adopted in selecting performance audit topics.</p>	<p>Agreed.</p> <p>The process in place to select potential audit topics for inclusion in the Performance Audit Program will be enhanced to include additional criteria that mirror budgetary priority areas and cover sector-wide issues.</p> <p>The ACT Audit Office has incorporated additional criteria in planning for the 2016-17 Performance Audit Program.</p> <p>The internal guidance (Performance Audit Methods and Practices or PAMPr) will be updated to reflect the above by 30 September 2016.</p>	<p>Completed.</p>
<p>Recommendation 5 (Performance Audit)</p> <p>That a more active approach be taken to engaging with directorates and agencies in relation to potential performance audit topics identified in out years with a view to encouraging directorates and agencies to prepare for the audit.</p>	<p>Agreed.</p> <p>Agencies identified as having potential audits in out years will be provided with the opportunity for additional consultation during the year and in developing the annual Performance Audit Program.</p> <p>In developing the annual Performance Audit Program agencies will be invited to provide information on assurance activities they have undertaken on the proposed out year audits. This will be considered by the ACT Audit Office in deciding whether or not to retain these audits in its forward program.</p> <p>As noted by Mr Pearson, the ACT Audit Office will need to exercise caution in undertaking the recommended approach to ensure that it maintains its independence and does not become part of the auditees' processes for addressing areas of risk or concern.</p> <p>The internal guidance (PAMPr) will be updated to reflect the above by 30 September 2016.</p>	<p>Completed.</p>

<p>Recommendation 6 (Financial Audit)</p> <p>Consider splitting the current Financial Audits Report into an acquittal report and tabling a complementary computer information systems and other controls report in the first half of the ensuing year.</p>	<p>Agreed.</p> <p>The merits and challenges of reporting separately and at different times on some chapters in the report on financial audits will be assessed.</p> <p>The assessment will be undertaken and a recommendation will be made to the Auditor-General by 31 July 2016.</p>	<p>Completed on 30 September 2016.</p> <p>Progress was delayed due to priority given to financial audit program.</p>
<p>Recommendation 7 (Financial Audit)</p> <p>That heightened attention be given to the quality of engagement with audited entities and opportunities be taken to engage and educate audited entities both directly on targeted areas and via forums such as the Annual Financial Audit Seminar.</p>	<p>Agreed.</p> <p>Information was provided on the use of accounting experts by reporting agencies and the ACT Audit Office in the Office's 2016 Financial Audit Seminar on 'Working Smarter Together' held on 29 April 2016.</p> <p>Furthermore, audit strategies provided to audited entities for 2015-16 financial audits will be amended to provide more information and guidance on the use of experts (e.g. accounting, legal and actuarial experts) by audited entities and the ACT Audit Office. This will be done by 30 June 2016.</p> <p>As noted by Mr Pearson, the ACT Audit Office must maintain independence from the reporting processes implemented by audited entities. While the ACT Audit Office is unable to jointly seek external advice on accounting for significant and complex arrangements together with the audited entities, it will continue to provide advice on the planned scope of work to be undertaken by experts engaged by these entities.</p>	<p>Completed.</p> <p>Audit Strategies were amended to provide more information and guidance on the use of experts (e.g. accounting, legal and actuarial experts) by audited entities and the ACT Audit Office.</p>

Recommendation 8

(Financial Audit)

That particular attention be paid to the likelihood of the need for new and revised accounting treatments in the planning cycle and a pro-active approach be taken to achieving appropriate engagement, and to the extent practicable a consultative approach to obtaining technical accounting advice.

Agreed in principle.

It is agreed that particular attention needs to be given to identifying new and revised accounting treatments early in the audit planning cycle to minimise the risk of delays in completing the financial statements. Accordingly, the ACT Audit Office will continue to manage this risk by:

- seeking information from audited entities on new or revised accounting treatments when planning audits. This information will be sought in relation to 2015-16 financial audits by 30 June 2016;
- providing advice to the Chief Minister, Treasury and Economic Development Directorate on major expected developments in accounting and reporting when requested by the Directorate to provide advice; and
- alerting audited entities to changes to accounting, reporting and audit requirements and better practices in annual financial audit seminars. The ACT Audit Office provided information on changes to accounting and reporting requirements in its 2016 Financial Audit Seminar on Working Smarter Together held on 29 April 2016.

Recognising the importance of this issue, the ACT Audit Office will continue to monitor the effectiveness of this approach as part of its management of the financial audit program by reviewing whether any delays in audits are due to a failure to identify new and revised accounting treatments. This will

Completed.

The Audit Office managed the risk of delays by:

- seeking information on new or revised accounting treatment before 30 June 2016 as part of the planning for each audit;
- provided advice to the Chief Minister, Treasury and Economic Development Directorate on accounting for service concession arrangements and new disclosure requirements relating to key management personnel;
- provided information on changes to accounting and reporting requirements in the 2016 Financial Audit Seminar.

The effectiveness of this approach was reviewed following the completion of the 2015-16 financial audit program and assessed to be effective.

<p>Recommendation 9 (Financial Audit)</p> <p>That when engaging a contractor to assist with an audit, the relevant auditee be appraised of the context and considerations and their views be canvassed as part of the decision making process.</p>	<p>Agreed in part.</p> <p>Information will continue to be provided to an auditee when the ACT Audit Office decides to engage a contractor to perform the audit of the auditee's financial statements. This includes information on related contextual matters and considerations such as the term of the engagement, restrictions to be imposed on the performance of other (non-audit) work under the audit contract, pricing considerations and timing of the engagement. The auditee will also continue to be provided with the opportunity to brief prospective contractors on the operations of the auditee and the manner in which they would like to see the audit conducted.</p> <p>Consistent with this recommendation, the ACT Audit Office will enhance its current practices by consulting with the auditee on the development of the selection criteria to be used by the ACT Audit Office in selecting the contractor.</p> <p>To maintain independence, the auditee will not be directly involved in the decision making process for the selection of the contractor.</p> <p>The ACT Audit Office's Procurement Guidelines will be updated to reflect the above by 31 August 2016.</p>	<p>Completed.</p> <p>Procurement Guidelines were amended and new guidelines were approved by the Auditor-General on 20 July 2016.</p>
<p>Recommendation 10 (Performance Audit)</p> <p>That additional criteria and a more precedent based approach be adopted for determining the time and dollar budgets for undertaking performance audits.</p>	<p>Agreed.</p> <p>Additional criteria and the cost of previous audits will be used to estimate the internal budgets and timing for performance audits.</p> <p>The internal guidance (PAMPr) will be updated to reflect the above by 30 September 2016.</p>	<p>Completed.</p>

<p>Recommendation 11 (Performance Audit)</p> <p>That a more rigorously phased approach to managing performance audits be adopted, which is more prescriptive about processes and deliverables, so as to better utilise the capabilities of individuals and teams of professional staff.</p>	<p>Agreed.</p> <p>An additional milestone will be included in each performance audit work plan and guidance on requirements for existing milestones will be enhanced.</p> <p>The internal guidance (PAMPr) will be updated to reflect the above by 30 September 2016.</p>	<p>Completed.</p>
<p>Recommendation 12 (Professional Services)</p> <p>That a more structured approach be taken to introducing audit staff to the executive staff of auditees in order to promote and facilitate communication and engagement.</p>	<p>Agreed in principle.</p> <p>The assessment of merits and challenges of a more structured approach for introducing audit staff to the executive staff of auditees will be undertaken and a recommendation will be made to the ACT Auditor-General by 30 September 2016.</p>	<p>Completed.</p> <p>The assessment of merits and challenges of a more structured approach for introducing audit staff to the executive staff of auditees was undertaken and a recommendation was made to the Auditor-General.</p> <p>PAMPr guidance has been updated.</p>
<p>Recommendation 13 (Performance Audit)</p> <p>That heightened attention be paid to ensuring the Annual Performance Audit Seminar agenda is informed by feedback comments and that an interactive session be designed to deal specifically with educating entities about the audit mandate, the focus of audit on assuring appropriately informed decision making as well as to provide insight to audit approaches and lessons to be learned more generally from audit findings.</p>	<p>Agreed.</p> <p>The annual Performance Audit Seminar will continue to include interactive sessions with auditees on their experiences with the performance audit process, and provide advice for prospective auditees. It will be designed to reinforce the audit mandate, provide insight on audit approaches and lessons from audit findings.</p>	<p>Completed.</p>

<p>Recommendation 14</p> <p>That the ACT Government Guidelines for responding to performance audit reports by the ACT Auditor-General be revisited with a view to having directorates provide responses, appropriate to their responsibilities under the <i>Financial Management Act</i>. To audit findings and recommendations for inclusion in performance audit reports tabled in the Legislative Assembly.</p>	<p>N/a</p>	<p>Directorates are responding to draft reports on a factual basis as part of the report clearance process.</p>
<p>Recommendation 15 (Performance Audit)</p> <p>That following each report where section 20 is invoked, a post audit meeting be sought with the Chief Minister (or their representative) to identify options for refining the use of section 20.</p>	<p>Agreed.</p> <p>Where Executive deliberation material is used or referenced in a performance audit, the ACT Audit Office will, after the performance audit report has been tabled, seek a meeting with the Chief Minister (or their representative) to discuss the use of executive deliberation material in the performance audit.</p> <p>The internal guidance (PAMPPr) will be updated to reflect the above by 30 September 2016.</p>	<p>Completed.</p>
<p>Recommendation 16 (Performance Audit)</p> <p>That agreement be sought that public interest disclosure (PID) activity beyond a base level be underwritten by budget supplementation (or use of the ACT Audit Office's accumulated funds in the ACT Audit Office's Balance Sheet, if these funds are sufficient).</p>	<p>Agreed.</p> <p>Budget supplementation to fund public interest disclosure activity will be sought as part of the annual budget process where the ACT Audit Office assesses that budget supplementation is needed. Alternatively, the ACT Audit Office will seek to access accumulated funds for this purpose should it become necessary to do so.</p>	<p>Completed.</p>

<p>Recommendation 17 (Performance Audit)</p> <p>That an appropriate level of accumulated funds be determined for carry forward and that these funds be invested to finance additional transitional performance audit activity to achieve an even spread of performance audit reports across the program year.</p>	<p>Agreed.</p> <p>The ACT Audit Office will seek to increase expenditure and access accumulated funds for the purpose of undertaking additional transitional performance audits to achieve an even spread across a program year.</p> <p>Actions to progress the above will commence in 2016-17.</p>	<p>Completed.</p>
<p>Recommendation 18 (Professional Services)</p> <p>Augment the Learning and Development Program with a focused and applied staff training program on stakeholder relationship management.</p>	<p>Agreed.</p> <p>A coaching session on stakeholder relationship management was provided to ACT Audit Office Managers on 6 May 2016.</p> <p>The ACT Audit Office's Learning and Development Program for 2016-17 will include further staff training on stakeholder relationship management.</p>	<p>Completed.</p> <p>Stakeholder management training was included in the 2016-17 Learning and Development Program. This training was provided to all staff by ORIMA Research Pty Ltd and was held on 5 July 2016.</p>
<p>Recommendation 19 (Professional Services)</p> <p>That a structured familiarisation and induction plan be developed to engage with newly appointed Directors-General, Chairs and CEOs of agencies soon after their appointment and an ongoing program of engagement with Senior Executives of the ACT Government be developed in consultation with the Head of Service.</p>	<p>Agreed.</p> <p>The ACT Auditor-General contacted the Head of Service on 5 May 2016 to initiate action to develop a plan.</p>	<p>Completed. While contact has been made no plan has been developed. However, the action of making contact is considered to be completed. Furthermore, the Auditor-General does contact all newly appointed Directors-General and CEOs to meet with these people. This may be sufficient to fulfil the intent of the recommendation without developing a formal plan.</p>
<p>Recommendation 20 (Professional Services)</p> <p>That the ACT Auditor-General seek to meet with the ACT Strategic Board on a six-monthly basis to brief on audit issues and findings.</p>	<p>Agreed.</p> <p>The ACT Auditor-General contacted the Head of Service on 5 May 2016 to request arrangements be made for meeting with the Strategic Board.</p>	<p>Completed.</p> <p>As yet no response has been received from the Head of Service.</p>

