

2016 Strategic Review of the ACT Auditor-General

Des Pearson
26 May 2016

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Mrs Vicki Dunne
Speaker
ACT Legislative Assembly
GPO Box 1020
Canberra ACT 2601

Dear Madam 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*.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Des Pearson', written in a cursive style.

Des Pearson AO

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1 Executive Summary

1.1 Foreword

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

It was evident from my review that the ACT Auditor-General and her staff are discharging their responsibilities diligently and conscientiously and have embraced the recommendations of previous reviews. They have also built on these reviews by commissioning complementary, targeted reviews. The cumulative effect is that the ACT Audit Office is, within the resources available, operating efficiently and effectively in delivering on the mandate provided.

1.2 Key findings and improvement opportunities

Overview

The ACT Audit Office is a relatively small office with a staff of 40 and an annual budget of \$6.7 million comprising government appropriation (\$2.7 million) and financial audit fees (\$3.9 million). The Office is successfully delivering on a comprehensive mandate.

In 2014-15, 75 audit reports on annual financial statements, 30 reports of factual findings on statements of performance, one report on financial audits, seven performance audit reports and an annual report were delivered. This workload has been consistent over recent years.

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

In my opinion, in all material respects

- (i) the ACT Audit Office is achieving its legislative objectives 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
- (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 of the Office, reviews of the ACT Audit Office documentation and numerous discussions with the ACT Auditor-General and her staff.

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.

Legislative mandate

The current *Auditor-General Act 1996* compares very favourably with better practice and recognises the contemporary public sector environment.

The 2013 amendments included provision for the audit of non-public sector entities, provide for audits of multiple entities and the conduct of joint or collaborative audits with other Auditors-General. Complementing this, the ACT Auditor-General has been designated (along with the Ombudsman and the Electoral Commissioners) as an Officer of the Legislative Assembly.

While an exemplary legislative mandate has been established it would now be desirable to clarify the manner in which the Speaker is to be administratively supported in dealing with the ACT Auditor-General. Clear process arrangements for budgetary and other administrative arrangements should also be established, recognising the recent designation of the ACT Auditor-General as an Officer of the Legislative Assembly.

Another issue arising from the amendments to the *Auditor-General Act 1996* is that a term of appointment is no longer nominated in this Act. This is a matter to be addressed.

Auditing function

The ACT Audit Office has adopted proven public sector audit methodologies, Integrated Public Sector Audit Methodology (IPSAM) for financial audit and a comprehensive Performance Audit Methods and Practices Manual (PAMPr) which is supported by ASPIRE, an automated work paper management system.

These methodologies and the associated operational policies, procedures and practices 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.

No material departures from the application of relevant audit and accounting standards were noted during the course of my review or in the course of file reviews of specific financial statement and performance audit files.

Periodic reviews have consistently provided continuous improvement recommendations which have been implemented.

No indication of any material non-compliance with legislated requirements was noted. Reassuringly there are strong indications of a very responsible approach to compliance which is underpinned by the ACT Audit Office's adoption of the values of integrity, professionalism and respect.

I consider better practice audits which compare favourably with those of other jurisdictions are being delivered. There are well developed audit planning and client engagement arrangements in place. Also there are structured quality assurance practices in place.

Post audit reviews are routinely undertaken to systematically build on positive experiences and avoid repeat of less than desirable experiences.

Planning for performance audits

Overall the ACT Audit Office has a well developed process to guide selection of topics for the performance audit program.

Nevertheless in consequence of the small scale of the performance audit capacity and the current approach of selecting topics, essentially based on the criteria of risk and materiality, the program has a high proportion of sensitive and very complex audits.

More analytical approaches to topic selection are raised for consideration with a view to achieving a more balanced performance audit program which is more reflective of the breadth of ACT public sector operations.

Further there is potential for a more radical option of engaging more directly with auditees, to encourage their preparation for potential audits identified for conduct in subsequent years, is raised for consideration. This could contribute to both facilitating more cost effective audits with more predictable outcomes. It also offers the prospect of achieving a better mutual understanding by the ACT Audit Office and auditees of the risks and complexities associated with program management and delivery.

Audit Framework and Methodologies

Financial audit

Financial audit is operating cost effectively and balancing the requirements of the standards and the IPSAM methodology. The assurance audit task is being undertaken in a transparent and generally constructive manner.

There is an evident continuous improvement focus where the successive cycles of audits are professionally planned, reviewed and approved.

My file reviews of five selected financial statement audits and reviews of statements of performance did not disclose any material departures from the standards or the methodology. Issues raised from these file reviews related to further improvement in the use of IPSAM.

Splitting the current annual Financial Audits Report into an acquittal report on the annual financial statement and statement of performance audit program and complementing this with a separate computer information systems (CIS) and other controls report in the second half of the program year is raised for consideration. Such an approach would provide for a more manageable and measured workload for the ACT Audit Office while also providing the Legislative Assembly with more focused and digestible reports.

My interviews with stakeholders indicated a general satisfaction with the core financial audit function and recognising many positive attributes. However they also raised some reservations. These related to an expectation of more open engagement with agencies when they consider new and revised accounting treatments and a desire to avoid duplication in the obtaining of specialist technical advice.

The ACT Audit Office rightly seeks not to compromise its independence however there appears scope for a more open engagement without compromising independence, possibly by more directly involving the ACT Audit Offices' Professional Services area in dealings with auditees.

Performance audit

Overall the performance audit team is doing very well to deliver a commendable program of performance audits.

Performance audit staff are professionally committed and the strategy of routinely using contractors to provide operational viability and specialist support to teams is working.

My review of four selected performance audit files found the documentation in respect of these audits was of an appropriate standard and that the audit findings reflected the evidence obtained.

In recent years most performance audit reports have been tabled in the second half of the financial years, with the majority of these being tabled in the last quarter of the year. This bunching up of the finalisation of reports places inordinate strain on the ACT Auditor-General, the Director, Performance Audit and staff. It also limits opportunity for other activities including on-going communication with auditees.

Performance against approved internal operational budgets is also an issue, both in dollar and time elapsed terms. Accordingly a more rigorous precedent and criteria based approach to sizing and budgeting for performance audits is proposed.

Complementary to this, a more structured approach to performance audit planning, conduct and reporting is also proposed to provide professional audit staff with more autonomy within more clearly specified parameters and expectations.

Interviews with stakeholders raised a number of issues which warrant management attention, as well as to focus more on better informing auditees and managing their perceptions and expectations.

Particular areas for attention include addressing perceptions of scope creep, the rationale for process recommendations, too high a level of section 35 confidentiality being required during the audit process and better managing the approach to and timing of audits.

Management of resources

The ACT Audit Office continues to have a current strategic plan and subordinate action plans. A comprehensive system of internal accountability and governance arrangements has been established and all indications are that they are operating as intended.

Human resources

The ACT Audit Office is taking an active approach to managing and developing its staff. Staff turnover although at the upper end, is within a tolerable range and not inconsistent with the experience of other smaller offices. All staff are appropriately qualified and experienced. Staff are adequately supported by the Offices' learning and development program.

Financial and equipment resources

The ACT Audit Office appears to operate very cost-effectively employing prudent means of accessing and utilising resources.

Financial audit fees

The ACT Audit Office sets its overall financial audit fees each year to recover the cost of its financial audit activity, including financial audit's share of office-wide projects. The fee setting process was subjected to a review in June 2015 with satisfactory results.

Budgetary considerations

The ACT Audit Office continues to operate in a way that achieves high productivity of its staff despite the small size of its operations.

The need to guard against the impost of public interest disclosure (PID) driven activity unduly impinging on the primary audit function is becoming an issue. The merit of seeking approval for supplementation to be provided whenever a threshold is met is raised for consideration.

The opportunity to address the performance audit scale issue is also raised given the quantum of Accumulated Funds reported at 30 June 2015. There is the opportunity for at least a transition investment to address the critical mass and bunching up of reports challenges facing performance audit.

Public accountability

I consider the ACT Auditor-General is providing value for money for both financial and performance audit activity. Financial audit is recognised as steadily improving in its responsiveness while performance audit is providing reports that present evidence and make recommendations that will lead to improvements in both the efficiency and effectiveness of public administration in the ACT.

Relationship/communication with stakeholders

Overall the relationship is regarded as sound though recurring themes, more so in relation to performance audit, were raised. In large measure this reflects the still evolving approach to performance reporting and the low incidence of auditee involvement with performance audit by comparison with financial audit which is well established and underpinned by comprehensive accounting standards, and an annual cycle of audits.

While themes of concern were raised, most of those I interviewed indicated that in the scheme of things satisfactory resolution was achieved. However a number retained reservations as to how situations arose and whether it could have been avoided. In these situations it is generally very difficult to judge where responsibility should ultimately rest.

Previous independent audit

I am satisfied that 17 of the recommendations have been actioned in an appropriate manner. In relation to the residual two recommendations, I agree with the final approach decided by the ACT Audit Office in relation to dealing with and reporting on residual activities charged to the appropriation. With respect to the recommendation to make it a standard practice to provide auditees with a 'discussion paper' before substantive report writing commences, I believe this is adequately addressed by my recommendation for a more structured and phased approach to conducting performance audits.

Benchmarking

Overall the ACT Audit Office performs at the level expected with no significant exceptions.

In terms of primary functions, the ACT Audit Office average hourly audit cost rate is at the lower end of the range of hourly cost rates across Australian jurisdictions.

The timeliness of the ACT for issuing financial audit opinions within three months of balance date is ahead of the average.

For performance audit the ACT compares positively in terms of the average cost per performance audit and for the average elapsed time for undertaking performance audits.

For staff turnover the ACT Audit Office reported turnover of 21% in 2014-15 which compares with an Australasian Council of Auditors-General (ACAG) average of 15% and a range across offices of 11-32%.

Another indicator of interest in a professional services office is the proportion of staff with post graduate or professional qualifications, which are in addition to graduate degree qualifications. For financial audit, the proportion is 71% which is the same as the ACAG average of 71% with a range of 33-100%. For non-financial audit staff the proportion is 69% which compares with an ACAG average of 71% with an ACAG range of 59-100% (after adjusting for an outlier reporting 17%). For performance audit, over half the staff have Masters and/or other higher degrees in addition to a bachelor's degree.

1.3 Recommendations

That:

Legislative matters

- 1 the Standing Committee on Administration and Procedure consider the continued relevance and adequacy of the provisions of the *Legislative Assembly (Office of the Legislative Assembly) Act 2012* 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;
- 2 the related administrative procedures and arrangements be agreed between the Speaker and the independent Officers of the Legislative Assembly, and documented;
- 3 the Standing Committee on Public Accounts consider and make recommendations regarding the establishment of a term of appointment for the ACT Auditor-General be included in the *Auditor-General Act 1996*;

Planning

- 4 additional overt criteria be adopted in selecting performance audit topics;
- 5 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;

Financial Audit

- 6 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;
- 7 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;
- 8 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;
- 9 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;

Performance Audit

- 10 additional criteria and a more analytical based approach be adopted for determining the time and dollar budgets for undertaking performance audits;

- 11 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;
- 12 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;
- 13 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;
- 14 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 *Financial Management Act*, to audit findings and recommendations for inclusion in performance audit reports tabled in the Legislative Assembly;
- 15 following each report where section 20 is invoked, a post audit meeting be held with the Chief Minister (or their representative) to identify options for refining the use of section 20;

Resourcing

- 16 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 Office's Balance Sheet, if these funds are sufficient);
- 17 an appropriate level of Accumulated Surpluses be determined for carry forward and that 'freed up' surpluses be invested to finance additional transitional performance audit activity to achieve an even spread of performance audit reports across the program year;

Stakeholder engagement

- 18 augment the Learning and Development Program with a focused and applied staff training program on stakeholder relationship management;
- 19 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; and
- 20 the ACT Auditor-General seek to meet with the ACT Strategic Board on a six monthly basis to brief on audit issues and findings.

1.4 Response and comments

Overall Response by the ACT Auditor-General

Mr Pearson's conclusion that the ACT Audit Office is generally highly regarded by stakeholders and operating efficiently and effectively in discharging its responsibilities in accordance with the *Auditor-General Act 1996* and professional auditing standards is welcomed. It is reassuring to have it independently determined that the ACT Audit Office is meeting its responsibilities in an appropriate manner.

I also welcome and thank Mr Pearson for his recommendations. The ACT Audit Office's responses to these recommendations are included in the report. Although most have been agreed, some have been agreed in part or agreed in principle. Accordingly, all recommendations will guide improvements the ACT Audit Office intends to make. The ACT Audit Office will give priority to implementing the improvements.

Dr Maxine Cooper
Auditor-General
ACT Audit Office

Response to Selected Recommendations by the Speaker and Head of Service

Three of the recommendations (1, 3, and 14) are beyond the remit of the ACT Auditor-General and some others (2, 15, 19 and 20) would involve a significant level of co-operation by other stakeholders. Accordingly I also invited any comments for me to consider in finalising this report from the Speaker (recommendations 1, 2 and 3) and from the Head of Service (recommendations 1, 3, 14, 15, 19 and 20). Comments received were taken into account in finalising this report.

2 Background and terms of reference

2.1 Background

The ACT *Auditor-General Act 1996* requires that:

a 'strategic review' of the Auditor-General is to be carried out once in each term of the Legislative Assembly (s24) – i.e. once every four years;

the public accounts committee must decide when the review is to be carried out (s24);

the public accounts committee must decide terms of reference for the strategic review in consultation with the Minister (s26); and

the Speaker must, on behalf of the Territory, engage an appropriately qualified person (the strategic reviewer) under a contract to conduct the strategic review (s25);

Under the Act (s23), strategic review means 'a review of the Auditor-General's functions' and a 'performance audit of the Auditor-General'.

Section 10 of the *Auditor-General Act 1996* specifies the functions of the Auditor-General as:

to promote public accountability in the public administration of the Territory;

to audit annual financial statements of the Territory, directorates and territory authorities under the Financial Management Act;

to audit the accounts and records in relation to any person, body or thing ascertained in accordance with the regulations;

to conduct performance audits in relation to any person, body or thing ascertained in accordance with the regulations;

any function given to the auditor-general by or under any other law of the Territory;

to do anything incidental or conducive to any of the auditor-general functions.

The ACT Auditor-General is also required to exercise these functions in the way she considers appropriate, having regard to recognised professional standards and practices.

The ACT Audit Office's Strategic Plan 2016-2019 sets out the vision, role and values of the Audit Office.

The ACT Audit Office's vision is to have 'an accountable and highly performing ACT Public Sector'.

The role of the ACT Audit Office is stated as to:

provide an independent view to the ACT Legislative Assembly and 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 ACT Audit Office's 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 fulfill our obligations;

respect - we seek to understand and be trusted by our stakeholders; and learning and innovation - we strive to realise our full potential.

The Office's Executive comprises the ACT Auditor-General, the Director, Financial Audits and Chief Finance Officer and the Director, Performance Audits. The Office is structured into three functional areas, Financial Audits, Performance Audits and Professional Services 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 is able to access the experience of others as well as being able to cost-effectively and progressively improve audit operations which are being undertaken in a time of increasing complexity and rapid change.

2.2 Terms of reference

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

The objective of the strategic review is to form an independent opinion on:

- (i) whether the ACT Audit Office is achieving its legislative objectives effectively, and doing so efficiently and in compliance with the *Auditor-General Act 1996* and the relevant professional audit and accounting standards (performance audit);
- (ii) the extent to which the legislative mandate strengthens and safeguards the independence of the ACT Auditor-General;
- (iii) the extent to which the legislative mandate supports the work of the ACT Auditor-General in the contemporary public sector environment; and
- (iv) any other aspects to be determined by the Committee.

The full Terms of Reference are set out in Appendix, 4.1.

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 combination of interviews with key stakeholders of the ACT Audit Office, reviews of Office documentation and numerous meetings and discussions with the ACT Auditor-General and her staff.

Face to face interviews were also held with a large sample of the key stakeholders of the Office, including the Speaker, Ministers, Members and staff of the Standing Committee on Public Accounts, Officers of the Office of the Legislative Assembly, Directorate and Agency Heads, Senior Executives, CFOs, and Contractors to the ACT Audit Office.

Documentation reviewed included:

audit planning and conduct information;

documentation relating to systems and methodologies used by the Office in undertaking audits;

documentation relating to the internal management of the Office;

Audit Reports for 2012 - 2016 and Annual Reports for 2012 – 2015;

Report of 2010 performance audit of the Office titled 'Report of the Independent Performance Audit of the Operations of the ACT Auditor-General and ACT Audit Office'; and

Strategic Review Reports 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 paid 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 ACT Auditor-General for comment, to enable provision of any further information relevant to the draft findings for me to consider and to avoid any misunderstandings.

This report is structured broadly along the lines of the Terms of Reference.

Acknowledgement

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

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, Audit Committee Chairs and members, and other stakeholders with whom I had dealings.

Without exception they gave readily of their time and were prepared to discuss their experience with and views regarding the operation of the Office frankly and honestly.

3 Findings and recommendations

3.1 Legislative mandate

To address this term of reference a comparative analysis of the *Auditor-General Act 1996* against the International Organisation of Supreme Audit Institutions (INTOSAI) principles and against comparable legislation in other Australian, and a selection of Canadian and UK, jurisdictions was undertaken.

In summary, the ACT *Auditor-General Act 1996* compares very favourably with 'better practice' and recognises the contemporary public sector environment. The audit legislation is now on a par with best practice legislation across Australasia.

This reflects the very positive impact of the February 2011 Report by the Standing Committee on Public Accounts which followed the Committee's comprehensive Inquiry into the *Auditor-General Act 1996*. This Report represented a watershed in a long running reform conversation in the ACT that ultimately led to statutory change and the new Officer of the Legislative Assembly status being conferred on the ACT Auditor-General (along with the Ombudsman and the Electoral Commissioners).

This Standing Committee Report was complemented by the Seventh Assembly's Standing Committee on Administration and Procedure 2012 Report, 'Inquiry into the feasibility of establishing the position of Officer of Parliament'. In turn this Report was followed by the introduction of the *Officers of the Legislative Assembly (Office of the Legislative Assembly) Bill 2013*.

The evident broad political consensus and the Government's positive response to the recommendations of the Standing Committees has achieved an exemplary outcome.

Amendments to the ACT *Auditor-General Act* in 2013, notably including provision for the audit of non-public sector entities, to provide for audits of multiple entities and the conduct of joint or collaborative audits with other Auditors-General have been central to enabling the ACT Auditor-General to audit effectively in the contemporary public sector environment. These amendments have established an appropriately wide mandate and provided the ACT Auditor-General with the requisite level of discretion in selecting and conducting audits.

The ACT Auditor-General has progressively applied these new provisions in an appropriately cautious manner, taking legal and other advice to assure reliability in application of these newer provisions.

The new Officer of the Legislative Assembly status and the amendments to the Act also establish an unprecedented level of independence from the Executive in so far as the appointment, suspension, ending the appointment of the ACT Auditor-General are concerned.

The special budgetary arrangements arising from consequential amendments to the *Financial Management Act 1996* give the ACT Auditor-General - to the extent permissible by the doctrine of the financial initiative of the Crown - additional separation from the Executive (see s20AC) and provide broad parity on this front with the Office of the Legislative Assembly (the primary support agency of the legislature) in this respect.

These provisions establish the relevant foundations for the ACT Auditor-General to undertake effective public sector auditing in the ACT, irrespective of the means of service delivery.

There is however further work to be done on these matters at an administrative level in so far as the relationship between the Office of the Legislative Assembly, the Officers of the Legislative Assembly and the Speaker is concerned.

While there not significant workload or other resource implications, in recognition the sensitivity of the relationship with these independent officers it would be desirable to clarify the manner in which the Speaker is to be administratively supported in relation to the exercise of the Speaker's functions vis-a vis Officers of the Legislative Assembly.

In the event that the Office of the Legislative Assembly is to play a role in the provision of administrative support it would be prudent to consider codifying these functions by way of a consequential amendment to the *Legislative Assembly (Office of the Legislative Assembly) Act 2012*. This could be done, for example, by amending s6 of the Act to include such a remit in the statutory functions of the Office.

At an administrative level, it would also be helpful to develop clear process arrangements in relation to the submission of budgets, approval of Officers' travel and leave arrangements, and the administrative 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).

One notable development with the amendment of the *Auditor-General Act 1996*, however, is that there is no longer a term nominated for the appointment of the ACT Auditor-General as is normal in such legislation. The INTOSAI principles regarding the independence of Auditors-General propose that Auditors-General should be 'given appointments with sufficiently long and fixed terms, to allow them to carry out their mandates without fear of retaliation'.¹

The generally accepted term for an Auditor-General across Australia is in the range of seven to 10 years. Of the other eight jurisdictions in Australia, three have 10 year non-renewable terms, one an eight year non-renewable term and one a seven year non-renewable term. One jurisdiction provides for a once renewable five year term, ie maximum of 10 years. The other two jurisdictions have legislation which has not been substantively amended for a decade or more with one providing for a seven year renewable term and the other appointment until age 65.

The seven to 10 year non-renewable terms of appointment generally reflects the principle of the Auditor-General being appointed for a term that exceeds at least one, if not two electoral cycles, to enhance independence.

Another consideration in relation to the appointment of an Auditor-General is to codify in the legislation the principle that the salary and conditions will not be altered to disadvantage the Auditor-General during the term of appointment.

In recognition of the particular independence considerations in relation to the ACT Auditor-General, it is being recommended that the substantive consideration of potential legislative amendments be subject to consideration by the relevant Standing Committees of the Legislative Assembly. In this way the Assembly, the Chief Minister and the Speaker would be provided with advice and recommendations reflecting a broad political consensus, on which to act.

¹ United Nations General Assembly Resolution A/66/209, Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions 15 March 2012, Mexico Declaration on the Independence of Supreme Audit Institutions, p 1-32

Recommendations

That

- 1 the Standing Committee on Administration and Procedure consider the continued relevance and adequacy of the provisions of the *Legislative Assembly (Office of the Legislative Assembly) Act 2012* 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;
- 2 the related administrative procedures and arrangements be agreed between the Speaker and the independent Officers of the Legislative Assembly, and documented;
- 3 the Standing Committee on Public Accounts consider and make recommendations regarding the establishment of a term of appointment for the ACT Auditor-General be included in the *Auditor-General Act 1996*.

3.2 Auditing function

This term of reference was addressed by enquiry, review and comparative analysis of audit methodologies in use, assessing the quality control and assurance processes and systems in place and by undertaking reviews of a sample of financial statement and performance audits from across the period since the last review, though with a bias toward the last two years.

3.2.1 Methodologies, practices and procedures

The ACT Audit Office has adopted proven public sector audit methodologies, Integrated Public Sector Audit Methodology (IPSAM) for financial statement audits and Performance Audit Methods and Practices (PAMPr) for performance audits.

IPSAM was developed by the Victorian and Queensland Audit Offices over a decade ago and has been progressively refined and quality assured. It is now being used by six Australian jurisdictions, including the ACT Audit Office. IPSAM is reviewed at least annually and following revisions to account for changes in Auditing and Assurance Standards and operational approaches, appropriate training on the updates is provided, largely under the auspices of the participating jurisdictions.

The comprehensive PAMPr Manual is supported by ASPIRE, an automated work paper management system.

ASPIRE is a Lotus Notes based tool that was adapted by the Queensland Audit Office from the IPSAM methodology to provide the functionality required for performance audits. The ACT Audit Office initially customised this system for its use by building in links to its own policy and practice documents, etc. ASPIRE was initially adopted in 2010-11.

In August 2014 a comprehensive review and update of PAMPr was completed. The update provided more specific and explicit guidance for performance audit teams, updated templates for the conduct of performance audits and integrated PAMPr with ASPIRE.

In May 2015 the revised manual was subjected to review by an appropriately qualified external professional to provide added assurance that the Manual was compliant with Auditing and Assurance Standards.

All subsequent performance audits have been conducted using the updated Manual. File reviews of audits indicate a significant improvement in the quality and consistency of audit documentation, post the adoption of the latest version of the Manual.

The ACT Audit Office has in place comprehensive and well integrated subordinate operational policies, procedures and practices. These are impressive for 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, i.e. fortnightly for operational activities such as the respective Financial and Performance Audit Manager's meetings, monthly for the Office Management Committee and quarterly for the Office Consultative Committee.

3.2.2 Compliance with relevant audit and accounting standards

No material departures from the application of relevant audit and accounting standards were noted during the course of my review or in the course of file reviews of specific financial statement and performance audits.

A strong culture of demonstrating integrity in professional practice was evident. Sound internal accountability and governance arrangements are in place and assured by obtaining targeted external assurance in relation to core elements of the framework and for high risk audits.

Periodic reviews utilising ACAG Peer Reviews such as the October 2011 Governance and Audit Framework for Self assessment and the more recent May 2014 ACAG External Peer Review of the Office have been embraced and conscientiously followed up.

These reviews have consistently provided continuous improvement recommendations and the ACT Audit Office has adopted an open and receptive approach to considering and implementing accepted recommendations.

3.2.3 Compliance with legislated requirements

Again no indication of any material non-compliance with legislated requirements was noted in the course of my review. Accordingly I conclude that in all material respects legislated requirements are being met.

Reassuringly there are strong indications of a very responsible approach to compliance underpinned by the adoption of the values of integrity, professionalism and respect.

Complementing this culture driven approach, periodic internal audit assurance has been obtained. In February 2013 (Compliance with Key Legislation - Internal Audit), July 2014 (Legislative Compliance Matrix- Internal Audit) and in February 2016 an Internal Audit review of the ACT Audit Office's Implementation of the Remuneration Guide 2014 were undertaken.

Collectively these initiatives indicate a responsible and appropriately risk based approach to demonstrating compliance with legislated requirements.

3.2.4 Delivery of better practice audits

Criteria for determining better practice audits is subjective however I consider the ACT Auditor-General is delivering professionally credible audits which meet the professional practice standards established by the professional accounting bodies and the Australian standard setters. The reports tabled are of a comparable standard to those of other jurisdictions.

The audits are conducted in accordance with relatively sophisticated, up to date and quality assured methodologies and approaches. The audits are being conducted by suitably qualified and experienced staff who are appropriately supervised and directed.

There are well developed audit planning and client engagement arrangements in place and post audit reviews are routinely undertaken to systematically build on positive experiences and avoid repeating less than desirable experiences.

To assure consistent and reliable operational judgements, there are structured quality assurance practices in place and all high risk audits, both financial statement and performance, are routinely subjected to Engagement Quality Control Reviews (EQCR).

Reports to those charged with governance and to the Legislative Assembly are routinely subjected to procedural fairness checks prior to finalisation and issue.

Surveys of those subject to audit are routinely undertaken and it is evident feedback is being appropriately considered and acted upon. An annual survey of Members of the Legislative Assembly is also undertaken. Feedback received is considered and used to inform future approaches.

Accordingly in my view the ACT Auditor-General is delivering better practice audits.

3.2.4 Overall conclusion

In all material respects I consider:

- a) the existing audit methodologies, practices and procedures are adequate
- b) there is compliance with relevant audit and accounting standards
- c) compliance with legislated requirements, and in particular those listed in s 10 of the *Auditor-General Act 1996*, and that
- d) better practice audits are being delivered.

I have no recommendations to make in this respect.

3.3 Planning for performance audits

The process for selecting potential performance audit topics was assessed against better practice principles and against the practice of other Australian offices. However regard was had to the scale of operations in the ACT and the level of resourcing of the ACT Audit Office.

Overall the ACT Audit Office has in place a well established process to guide selection of topics for the performance audit program.

The ACT Audit Office develops its plan for publication on its website each year as an ongoing annual activity. Environmental scans of ACT directorates, agencies and issues inform this process, as does the ongoing work of the ACT Audit Office.

The program is developed having regard to the ACT Audit Office's mandate, its strategic plan, and 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. This process of consultation appears appropriate to the ACT context and is operating effectively.

This process is underpinned by inviting around 75 individuals and bodies extending from members of the Legislative Assembly, through ACT Public Sector bodies and around 15 non - ACT Government stakeholders to propose topics for consideration. Over a third of those approached responded in relation to the formulation of the 2015-16 Performance Audit Program.

This process and approach is similar to that followed by other offices, including those with much greater capacity for undertaking performance audits.

The inherent challenge for all Audit Offices, which is significantly more pronounced for the ACT Audit Office however, is that the pool of potential topics will inevitably exceed the finite resources available for undertaking the performance audit function.

In the ACT although the public sector is relatively small, the sector nonetheless provides the full range of services generally provided elsewhere in Australia by respective states and their related local government authorities. Accordingly there is a similar quantum of higher risk and materially significant potential audit topics to other jurisdictions which warrant consideration for audit review of their performance and accountability standards.

The ACT Audit Office however has a just viable performance audit capacity given that approximately \$2.0M is spent on performance audits (from the \$2.7M appropriation)² and a complement of 10 staff.

With these resources the ACT Audit Office consistently delivers seven audit reports each year. This means that selecting the seven topics it has the capacity to deliver each year is always going to be particularly challenging.

There is a further degree of complexity to the topic selection process in the ACT.

² The appropriation also funds other activities including the development of the performance audit program, handling public interest disclosures and representations, liaison with Legislative Assembly Committee and ACT Government agencies. The appropriation also funds a share of costs for office-wide activities including preparation of the annual report, professional development activities and other administrations costs.

By logical extension, when the small scale of the performance audit function of the ACT Audit Office is considered, unless particular and counter intuitive discernment is applied there will be a proportionately greater concentration of materially significant and higher risk topics in the seven topic annual program. This in turn increases the pressure on the small unit.

In discussion with stakeholders a number expressed a desire for more of the Auditor-General's reports to address outcomes and that they should focus on achieving improved operational efficiency and effectiveness. With such a limited resource and the ability to only deliver seven audit reports a year, it is challenging for the ACT Audit Office to deliver a balanced program that includes both sensitive and complex audits through to more routine program delivery focused audits.

To deliver a program representative of the range of operations across the ACT public sector would require increased resourcing of the ACT Audit Office or the adoption of a proportional approach where for example only one or two sensitive and complex audits are undertaken in a program year complemented by three or four single program or agency focused audits and one or two compliance and controls type audits.

Such an approach would however mean that some highly complex activities of significant public interest would not be audited and the Auditor-General would find it even more difficult to select which of these audit topics to pursue.

If the number of large, complex and sensitive audits could be limited to one or two a year, a more balanced and manageable program could be developed. This would offer the opportunity to address more operational efficiency and effectiveness issues in program delivery. For context, in my view both the 2013-14 and 2014-15 programs each included at least four large and complex audits.

These audits are appropriate and I am not advocating that they should not have been undertaken. Here I am canvassing for consideration of alternative approaches to developing a performance audit program for consideration.

From another perspective larger budget expenditure areas of Health and Education³ have in consequence received relatively less audit coverage than would otherwise be indicated by their draw on the ACT budget.

The criteria currently in use are comparable with those applied by larger Audit Offices.

However because of the degree of selectivity required to be exercised in identifying potential topics, the merits of considering additional criteria to enhance the analysis is raised.

Additionally, adopting a more overt and objective analysis of the past and proposed program against categorisation of audits by nature and function, and undertaking more explicit assessments of the auditability of, and likely benefit to arise from undertaking an audit, could assist with selecting a better balance of topics over time. This could also facilitate more transparent engagement with stakeholders and clearer communication of the rationale for selecting particular topics.

A more balanced program could also assist with achieving more predictable conduct of and reporting on audits.

For example considering potential audits topics in the context of the identified budgetary priority areas. These currently are:

Enhancing Liveability and Social Inclusion;

³ Health and Education are one of four Government Priorities identified in 2015-16 Budget Paper No 2, page 4.

Suburban Renewal and Better transport;
Economic Growth and Diversification; and
Health and Education.

and providing another category to cover:

Sector wide and enabling issues

offers an alternative set of criteria for considering the allocation of limited audit resources.

Another context is to consider the nature of audits proposed so a balance of large and complex, more routine program delivery and compliance and regularity type audits can be explored. In addition to balancing the program this could also assist with effectively utilising the different skills and experience of staff.

A further dimension to consider is the likely contribution to improving the standard of accountability, efficiency and effectiveness of the public sector. Assessing in both objective and subjective terms the nature and likely benefit from undertaking the audit could also contribute to achieving a more transparent basis for topic selection.

A complementary though somewhat radical opportunity to refining the topic selection process is to build on the initiative of recent years of also including in the program, potential audits to commence over the ensuing two financial years.

This foreshadowing of audit topics initiative is commended. It offers the potential for both the Office and audited entities to engage earlier and to leverage this advance notice for the benefit of the sector's overall accountability, efficiency and effectiveness.

This could however represent a further impost on the already limited resources available to the ACT Audit Office. Carefully managed however this may be contained to less than a person year of effort.

This notice of future potential topics could be more actively promoted as a catalyst for directorates and agencies, to at a minimum prepare for a potential performance audit. If this is done in consultation with the ACT Audit Office a mutually advantageous outcome of an easier audit with more predictable findings may result. It may also lead to sufficient action being taken to justify deferring the audit or rendering the original justification for a performance audit redundant.

It is appreciated that not all potential topics will lend themselves to this approach however when comparing the current ACT topic list with the wider range of topics being examined in other jurisdictions, there appears scope for identifying suitable topics, such as more routine program management and controls and compliance type audits where the comprehensiveness, integrity and monitoring of management information will likely be an issue to be addressed.

For the ACT public sector and the community it serves, this approach may offer a more cost-effective and timely approach.

The ACT Audit Office would need to protect its independence while less directly fostering accountability and promoting efficiency, effectiveness and value for money expenditure in the Territory's delivery of services and programs. It would be acting as a catalyst and facilitator as a complement to its prime direct auditing role. Such an approach may also contribute to achieving a better mutual understanding between the ACT Audit Office and auditees of the risks and complexities associated with program management and delivery.

Recommendations

That

- 4 additional overt criteria be adopted in selecting performance audit topics;
- 5 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;

ACT Audit Office Response

Recommendation 4

Agreed.

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.

The ACT Audit Office has incorporated additional criteria in planning for the 2016-17 Performance Audit Program.

The internal guidance (PAMPPr) will be updated to reflect the above by 30 September 2016.

Recommendation 5

Agreed.

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.

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.

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.

The internal guidance (PAMPPr) will be updated to reflect the above by 30 September 2016.

3.4 Audit Framework and Methodologies

Complementary to addressing 3.2 above, the framework and methodologies in place were assessed for their comprehensiveness and relevance as well as their efficiency and effectiveness in operation.

3.4.1 Financial audit

Overall I consider financial audit is operating cost-effectively in balancing the requirements of the standards, the IPSAM methodology and conducting the core assurance audit task in a transparent and constructive manner.

The IPSAM methodology in use is well established and remains current. It is annually reviewed and revised to reflect changes in standards and to reflect better practice operational approaches across the six Audit Offices in Australia using the methodology.

Based on discussion with staff and my file reviews the methodology is well understood and appropriately used. Financial audit staff have an obvious familiarity with the methodology, its templates and functionalities. This is serving to reliably support the consistent discharge of the assurance audit function.

There is an evident continuous improvement focus where the successive cycles of audits are purposefully planned, reviewed and approved. There is an obvious building on the experience of other users of the methodology across Australia, and by the local team.

Overarching the individual audit approach is a documented Quality Control and Assurance Policy and associated processes designed to ensure the Office achieves the highest levels of quality in its audits and associated administrative tasks. This policy is underpinned by the principle that high quality is more easily achieved by 'doing it right first time' and valuing high ethical standards and independence in the work of the ACT Audit Office. As part of the overall approach to encouraging quality, a Performance Management Policy and a Learning and Development Policy have been developed.

Responsibilities for quality have been assigned and clearly identify the respective responsibilities of the ACT Auditor-General and Executive, the Quality Assurance Officer, Principals, Senior Managers and Managers and of all Staff.

A risk based approach to undertaking quality assurance reviews and engagement quality control reviews has been adopted and is managed on a rolling program basis. When viewed over three to five years the quality review process is achieving good coverage and all high risk audits are being subjected to EQCR.

To provide greater assurance of the integrity of the reviews a mixture of in house and external reviews is utilised with external reviewers drawn from other Audit Offices and EQCRs being undertaken by private sector providers.

My file reviews of five selected financial statement audits and reviews of statements of performance (Chief Minister, Treasury and Economic Development Directorate, Education and Training Directorate, Cultural Facilities Corporation, Legal Aid Commission and Shared Services Processing Bureau) did not disclose any material departures from the standards or the methodology. A range of operational matters were noted and discussed with the respective teams and the Director, Financial Audits. Satisfactory explanations and comments were provided.

Accordingly the residual issues raised related to further improvement in the approach to the use of IPSAM. For example, some comments in conclusions and in templates could be more precise and applied so as to reduce the need for detailed review and the opening of supporting documents filed within IPSAM. Similarly there would be merit in fostering a more consistent approach to ordering working papers within files, avoiding duplication of papers and routinely including EQCR reports so IPSAM provides the complete repository for the audit.

In a similar vein the opportunity to revise some templates to give greater recognition of the public sector audit context and to promote more open communication within the Office has been raised. For example it is suggested the closing report/summary review memorandum, rather than a qualified recommendation 'based on the work done', could provide a more direct assurance from the team leader 'that the approved plan has been followed with no indication that revision of the plan was warranted' be adopted.

The annual financial audit program is acquitted via the annual Financial Audits Report to the Legislative Assembly. This report is typically tabled in mid to late December. This timing is not inconsistent with practice elsewhere in Australia however some other and larger jurisdictions have in recent years split up their Financial Audit Reports by sector and by purpose.

In the ACT, in addition to acquitting the annual financial statement and statement of performance assurance audit program for the year, this report includes a chapter dealing with computer information systems (CIS).

An initiative to consider would be whether there is merit in separating this chapter out of the Financial Audits Report. CIS are of increasing importance in the contemporary environment, as are the operation of internal controls more generally as the sector employs larger and more complex financial and administrative systems.

An alternative reporting approach for the Financial Audit function would be to limit the 'December' report to an acquittal of the assurance audit and review opinions issued which could enable a shorter timeframe for its preparation and allow its tabling to be brought forward to November. A separate CIS and other controls report could then be prepared for tabling around March the following year.

Aside from providing for a more manageable and measured workload, this alternative approach would provide more timely tabling of the results of assurance audits, provide the Legislative Assembly with more focused and digestible reports while also providing the opportunity for the Office to further refine the message to be included in the CIS and other controls report which could provide a more commentary on findings from the previous year and indications of areas of focus in the upcoming cycle.

Recommendation

- 6 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;

ACT Audit Office Response

Recommendation 6

Agreed.

The merits and challenges of reporting separately and at different times on some chapters in the report on financial audits will be assessed.

The assessment will be undertaken and a recommendation will be made to the Auditor-General by 31 July 2016.

Rounding out my discussions with staff and reviews of policies, reports, other records and my file reviews within the Office, I interviewed a cross section of stakeholders ranging from members of the Legislative Assembly, Directors General, Senior Executives, CFOs, and Audit Committee members.

Overall comments on the core financial audit function were overwhelmingly positive.

Comments that the financial audit staff were professional and diligent, displayed a good understanding of the entity's business, contributed well to audit committee deliberations, communications are good and consistent, excellent relationship, good culture, credentials up to standard, provide opportunity for robust discussion, etc were provided.

Some less favourable comments related to how the service was delivered and how audit independence was exercised compared with their experience elsewhere. In relation to independence an issue raised by a number of stakeholders related to the ACT Audit Office's accessibility in relation to the development of accounting treatments for new initiatives. With respect to the development of accounting treatments, it is important that the ACT Audit Office does not compromise its actual or perceived independence by, in effect, forming part of the development of accounting treatments for which it will subsequently have responsibility for auditing.

In relation to how the service was delivered, examples such as time slippage with finalisation of papers at close, could improve their 'bedside manner', could contribute more in relation to statements of performance and could be more solution orientated were offered. Again as already noted in relation to the development of accounting treatments, the ACT Audit Office should not compromise its actual or perceived independence by effectively becoming part of the process of developing performance indicators for which it will subsequently be responsible for reviewing.

This reflects responses to the Office's satisfaction surveys which are routinely undertaken following each audit. Reservations were raised as is to be expected with any system, let alone an audit system which can by its nature be pre-disposed to some contention.

With respect to the quality of engagement by Financial Audit, while generally there was a recognition of an improvement over recent years a number of stakeholders indicated there remains a gap to be addressed. This indicates a need for continued attention to educating and managing auditee expectations.

Consideration could also be given to adopting more theme based approach to audits as has been adopted in other Audit Offices. They have co-ordinated their cyclical testing of systems across entities which has enabled a more consistent audit approach and a more informed basis for engagement with auditees.

Also being a catalyst for continuous improvement initiatives such as exploring scope for reduced note disclosure in relation to financial statements to redress the aggregation which occurs progressively over the years and scope for enhancement of Statements of Performance indicators would provide mutually beneficial opportunities to improve the quality of engagement with auditees.

The current AASB Exposure Draft (ED) 270 Reporting Service Performance Information provides an opportunity for the ACT Audit Office to engage and contribute to the ACT public sector's response and approach to implementing the proposed standard which is intended for application on or after 1 July 2018 with early adoption permitted.

The ACT already has a reasonably well developed performance Management Framework in place and the ACT Auditor-General reviews annual statements of performance. A performance audit titled Performance Reporting was also undertaken in 2010.

These circumstances provide a foundation for a positive contribution to advancing the ACT to the next stage in performance reporting.

It is recognised audit independence cannot be compromised however a review of the approach to engaging with auditees is warranted even if the outcome is only to better educate and inform auditees.

There appears opportunity however for more open engagement, possibly by more directly involving the ACT Audit Offices' Professional Services area more in dealings with auditees outside of the core audit function.

Another concern raised by a notable minority of stakeholders was where the ACT Audit Office had proceeded to obtain further technical accounting advice when the entity had already sourced external professional advice.

This situation points to the need for a more mature relationship to be developed by all those involved. Audited entities should proactively consult with the ACT Audit Office when they are considering a new or unusual accounting treatment and for its part the ACT Audit Office needs to be responsive to such approaches.

Similarly it is prudent for entities and the ACT Audit Office to seek to respect if not agree the respective aspects for consideration to be raised, the scope of the advice to be sought, and the suitability of the authority being approached for the advice.

For their part auditees also need to respect the ACT Audit Office contribution. The ACT Audit Office counsel regarding the scope and wording of requests for technical advice should not be ignored without explanation.

Ultimately however under the auditing standards there is a responsibility on the auditor to satisfy themselves that an authoritative and independent opinion can be formed. There will inevitably be circumstances where obtaining of further authoritative advice is considered warranted by the auditor. This is a prerogative of the auditor which should be respected.

Another matter raised was where the ACT Audit Office engaged a contractor and the auditee did not consider it had been adequately engaged in the process.

Again this is an area where more attention to the quality of the engagement with the auditee could explain why the level of involvement was decided or alternatively provide a greater level of involvement in the appointment process without impinging on the ACT Auditor-General's discretion to decide on the appointment of the contractor.

Recommendations

That

- 7 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;
- 8 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;

- 9 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;

ACT Audit Office Response

Recommendation 7

Agreed.

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.

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.

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.

Recommendation 8

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 be done by 31 October 2016 following the completion of the 2015-16 financial audit program.

As noted by Mr Pearson, the ACT Audit Office must maintain independence from the reporting processes implemented by audited entities. The ACT Audit Office is therefore unable to jointly seek external advice on new and revised accounting treatments together

with the audited entities. The ACT Audit Office will continue to obtain technical accounting advice from external experts where necessary.

Recommendation 9

Agreed in part.

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.

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.

To maintain independence, the auditee will not be directly involved in the decision making process for the selection of the contractor.

The ACT Audit Office's Procurement Guidelines will be updated to reflect the above by 31 August 2016.

3.4.2 Performance audit

Overall I assess the Performance Audit team as doing very well to deliver a challenging program of seven performance audits each year. I consider the requirements of ASAE 3500 Performance Engagements are being met in all material respects.

The audits are being undertaken in compliance with a sound methodology which establishes a structured approach with the specification of the audit objective and scope along with specified criteria, approach and method. Nevertheless the circumstances where there is such a small scale of the function within the ACT Audit Office brings with it very real challenges. These challenges are further exacerbated by the program's concentration of extremely topical and complex audits.

Performance audit staff are professionally committed and the strategy of routinely using contractors to provide viability and specialist support to teams along with strong hands-on leadership by the Director, Performance Audit and the ACT Auditor-General, external engagement quality control review and exhaustive procedural fairness processes with audited entities in finalising reports are all contributing to ensuring reports tabled are based on reliable evidence and rigorous analysis.

In reviewing this function I spoke with performance audit staff, reviewed planning approaches and documentation. I reviewed in detail four performance audits (Gastroenterology & Hepatology Unit, Canberra Hospital, ACT Government support to the University of Canberra for affordable student accommodation, Bulk Water Alliance and Public Transport: The Frequent Network) which used the PAMPPr methodology.

I found the documentation in respect of these performance audits was of an appropriate standard and that the audit findings reflected the evidence obtained. The quality of the working papers since the revised version of PAMPPr/ASPIRE was implemented was notably superior.

I raised a number of matters of detail in respect of each of these audits with the respective teams and was satisfied with the responses I received. I have also reinforced the need for performance audit staff to continue to pursue opportunities for more consistent use of ASPIRE, the need to avoid duplication of documentation and to use ASPIRE as the repository of all material, including the EQCR report.

In terms of the process implementation and efficiency of service provision however there are a number of considerations.

There is the reality that in the last three years between five and seven performance audit reports have been tabled in the second half of the financial year, with many in the final quarter. This bunching up of the finalisation of reports places inordinate strain on the Auditor-General, the Director, Performance Audit and staff. It also limits opportunity for other activities including on-going communication with auditees. It is generally accepted the distillation of findings and the finalisation of a performance audit report are the more demanding aspects of the task. To have this occurring contemporaneously across a number of teams should be avoided.

I also note that performance against internal cost and time elapsed budgets is an issue. Budgeting for a performance audit is inherently challenging however for the 2013-14 and 2014-15 years the average over run of time elapsed has been around three and a half months against the average time elapsed for a performance audit in these years being 8.5 and 9.0 months respectively. The cost over run has been in the order of 39 and 20 per cent respectively for these years in the context that the average cost of a performance audit was \$280 813 and \$287 762 respectively.

There is an evident conservatism in establishing budget costs and estimated time elapsed. A more rigorous, precedent and criteria based approach is warranted. Particular attention should also be paid to the impact of known holiday periods such as Christmas/New Year on time elapsed estimates and actual audit conduct and reporting processes.

A canvassing of the historical costs of performance audits across other jurisdictions and the ACT indicates predominantly three levels of costs of performance audits.

Adjusted for ACT costs these levels are in the order of \$350 000 for large and complex audits, \$250 000 for audits across multiple agencies or with some complexities and \$190 000 for more routine audits. Conventional wisdom across Australian jurisdictions is that the realistic time elapsed required for routinely undertaking a performance audit is around nine months, regardless of complexity. More complex resources tend to have larger teams involved.

Accordingly a more structured approach to planning and budgeting for performance audits warrants consideration. Precedents and criteria should be established against which cost and time elapsed budgets are determined.

A more structured assessment of the nature of the proposed audit and recognition that without specific arrangements with auditees, around nine months elapsed time will be required. This could also assist with more reliable staffing and contracting arrangements.

Complementary to this, a more structured and disciplined approach to performance audit planning and conduct of audit process would also be beneficial. Currently the management of the audit process is primarily undertaken via documented weekly progress meetings, mid point and end of fieldwork reviews. Adopting a more structured, three phased approach to the audit would remain compatible with the PAMPPr based approach.

The approach proposed for consideration is to segment the audit into planning, conduct and reporting phases with specific and more tangible deliverables and timelines set. An overriding objective would be to progressively confirm with the auditee context and facts being used in the audit analysis and to achieve progressive drafting of the report.

This could reduce the risk associated with weekly reviews where serial small variations can blur the underlying situation. It would also provide the professional audit staff undertaking the audit with more operational autonomy and personal responsibility, within clearly specified parameters and expectations.

For example the planning phase could cover the research and refinement of the audit's objective, criteria and method and have key deliverables such as the Audit Work Plan, the Audit Test Plan and the draft introductory chapter of the proposed report. The conduct phase could provide the timeline for the gathering of audit evidence, its analysis and distillation and the progressive preparation of issues papers and discussion drafts while the final reporting phase would be based around drawing the elements of the report together and undertaking formal procedural fairness processes to finalise and table the report.

Recommendations

That

- 10 additional criteria and a more precedent based approach be adopted for determining the time and dollar budgets for undertaking performance audits;
- 11 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;

ACT Audit Office Response

Recommendation 10

Agreed.

Additional criteria and the cost of previous audits will be used to estimate the internal budgets and timing for performance audits.

The internal guidance (PAMPPr) will be updated to reflect the above by 30 September 2016.

Recommendation 11

Agreed.

An additional milestone will be included in each performance audit work plan and guidance on requirements for existing milestones will be enhanced.

The internal guidance (PAMPPr) will be updated to reflect the above by 30 September 2016.

As with Financial Audit I also sought the views and perspectives of a range of stakeholders on the Performance Audit function.

As is to be expected a wider range of views were expressed than was the case with respect to Financial Audit.

Performance audit by its nature involves a relatively more subjective assessment of diverse programs and initiatives where there is generally not an established performance reporting regime. It also reflects the still evolving approach to performance reporting and the low incidence of auditee involvement with performance audit by comparison with financial audit which is well established and underpinned by comprehensive accounting standards and an annual cycle.

Accordingly the audit assessment is usually the first external view that the responsible conscientious staff receive about the efficiency and effectiveness of the program they administer.

Further, engagement with a performance audit tends to be a one off experience for program managers as distinct from the annual cycle approach experienced in relation to financial audit where a level of familiarity and understanding is developed regarding the respective responsibilities of the entity staff and the independent external auditor.

On the positive side there was an acknowledgement of the Auditor-General adopting a no surprises approach to audits, a willingness to listen, choice of topics generally were seen as reasonable, the accessibility of the Auditor-General and the Director, Performance Audit was appreciated and some saw the audit processes as good.

On the less positive side stakeholder concerns expressed included assertions of scope creep with audits, a perception that audits at times encroached on government policy, a perceived narrow approach to process, the quality of engagement by audit staff and contractors, timing of audit conduct activities, 'over' use of section 35 confidentiality notices, perceptions of partiality, the need for more strategic thinking and a desire for a more outcomes focused approach.

A positive underlying message was a recognition of the invidious position audit occupies in the system, an appreciation that the small scale of resources makes it difficult to deliver the spread of capability desired and a number of stakeholders making positive comments such as that the Office is 'punching above its weight'.

Clearly there is scope for even more engagement by the Office with auditees. Also a more structured and predictable approach to the planning, conduct and reporting of audits and a better spread of the timing of the finalisation and reporting phase throughout the year will provide more opportunity for improving the quality of engagement with auditees and a more focussed interaction which will work to the benefit of the sector as a whole.

I did however pursue the following issues in some detail.

Perceptions of partiality, I saw two dimensions to this. One related to concerns with particular staff and subject matter experts engaged to assist with audits. On delving deeper on this dimension I assessed the issue was more to do with the approach exhibited by some staff and contractors on one hand, while on the other hand audited entities having developed their own particular views about the capability or leanings of some staff and contractors.

This may be mitigated by greater engagement with audited entities during the staff allocation and contracting process. Clearly the Auditor-General has to retain the final decision in these allocations and appointments. However providing auditees with more insight to the experience and capability of staff and about the rationale for proposed contractor selection could be beneficial.

The more concerning dimension however related to the perceived partiality of two former staff members, one of whom has since leaving the ACT Audit Office made public statements in relation to the Light Rail Project, which is the focus of a current audit; Initiation of the Light Rail Project. This is an unfortunate development which unfairly reflects on the integrity of the ACT Audit Office.

I have been able to establish that the individuals did not work on the planning for, or conduct of the Light Rail Project audit and that the public comments which were made by one of these two staff members were made after separating from the ACT Audit Office.

During their period of employment with the ACT Audit Office all indications are that the two former staff members in question complied with the conflict of interest policy and they observed the strict confidentiality requirements of the ACT Audit Office and the ACT Public Sector.

Scope creep, this is a difficult issue as the auditor has a challenging task in refining the audit objective, criteria and method from the high level outline of potential audits promulgated in the annual performance audit program. This is done in consultation with auditees and can take some time, particularly if audit staff are doing this at the same time as they are finalising another report. Further the auditor's attitude to matters for inclusion or exclusion can legitimately change during this period as new information comes to light.

In relation to the four performance audits for which I undertook detailed file reviews I paid particular attention to this issue. I was satisfied that there was not other than editorial adjustments to the scope and criteria between the point of approval of the Audit Work Plan where the scope was formally established, immediately prior to issue of the audit initiation letter which signifies the commencement of the audit, and that used in the report tabled in the Legislative Assembly.

I therefore conclude this perception will likely be best addressed by a more pronounced phasing approach to conducting performance audits that I have already canvassed above. This is intended to provide greater predictability in the conduct and timing of audits.

Process and outcomes focus, again this is a challenging issue for audit as an effective process is a key ingredient to enabling systems to operate consistently and reliably.

I paid particular attention to this when I undertook the detailed review of the four performance audit files in addition to making enquiries of audit staff and stakeholders. One stakeholder assessed the balance between process and outcomes of audit reports in recent years as dealing with process over outcomes by a factor of two to one. My own assessment of the audits I specifically reviewed generally aligned with this assessment. In the audits I reviewed I was satisfied the focus on processes was appropriate as without these processes in place, reliable assessment of outcomes is not be possible.

Encroaching on policy. Audit's role can be seen as twofold. On one hand to provide assurance on the comprehensiveness and reliability of information provided to government for decision making. On the other hand the role is to provide independent assurance regarding the efficiency and effectiveness of the process of implementing the policy decision through program delivery.

Audit is not entitled to challenge the elected government's decisions regarding policy directions. Decisions about policy directions are the prerogative of elected governments who in turn are accountable for these decisions to the electorate in elections.

My exploration of issues raised by stakeholders as 'government policy' satisfied me that audit recommendations related to operational and administrative policy and not government policy direction. Further in the course of my review I paid particular attention to audit objectives and scope and the related audit criteria and was satisfied they did not relate to government policy directions. Accordingly I consider that this important principle of not questioning the merits of government policy direction has been observed.

With respect to process, my assessment is that the matters of process being raised are core enablers and appropriate to be raised in the context of being able to provide assurance regarding the efficiency and effectiveness in program delivery. By my judgement, the process recommendations relate to contexts such as reliably populating data bases which are designed to support decision making, requiring documentation to explain rationale for decisions taken so important decisions can be shown to be prudent and so precedent is developed and observed. This facilitates approaches that will reduce future workload and exceptions.

Accordingly my view is that this matter is best addressed by more focused engagement with auditees and a mature approach to understanding the rationale for and the importance of key processes and controls.

Timing of audits and audit conduct activities, this is another common and understandable criticism of audit. Rarely is it ever the right time to do an audit!

In this respect I commend the practice of including potential audits to commence in the two years beyond that covered by the statutorily required annual performance audit program. This provides advance notice and I observed one particular situation where an agency appears to have responded to this by self initiating action to address known challenges. In consequence the audit had been deferred. This is a positive outcome.

Timing of fieldwork was raised by one agency in particular which was facing operational challenges. On the other hand the audit was of a material and significant initiative. While it appears best endeavours were made to time audit fieldwork around the entity's commitments, there remained some overlap which exacerbated concerns on both sides. I cannot see a solution to this situation as it appears both parties used best endeavours without fully achieving the intended outcome. Provided such instances remain an exception they will continue to need to be individually managed.

Another dimension of timing was an audit in progress that is scheduled to be tabled in this Eighth Assembly. One view expressed was that this brought a political overtone to the audit. This is unfortunate however the operational exigencies within the ACT Audit Office point to this being purely an operational decision revolving around the outputs planned for the 2015-16 program year and delivering on the ACT Audit Office's role of providing a timely and independent view to the Legislative Assembly and the community on the accountability, efficiency and effectiveness of the public sector in implementing a significant policy decision of government.

A further aspect of timeliness raised was that of audit timelines themselves and the timing of raising issues with auditees.

In a number of instances frustration was expressed regarding the protracted period over which some audits extend. I believe this would best be addressed via recommendations already made for the ACT Audit Office to engage more explicitly with auditees earlier in the process and by smoothing out the delivery of audit reports across the program year so the Auditor-General and staff can better focus on issues and exceptions progressively and achieve earlier auditee engagement and more timely consideration of issues.

A final dimension of timing is when draft material is provided on the eve of holiday periods for example. While it was acknowledged the ACT Audit Office routinely provided extra time for feedback there remains an underlying level of resentment about such timing. Again I consider recommendations for more precedent and criteria based planning and for a more structured and phased approach to undertaking performance audits would mitigate this issue.

Audit Act section 35 notices, some disquiet was raised regarding the use of these notices which prohibit a person disclosing protected information, generally a draft of a proposed report to the Legislative Assembly.

The *Auditor-General Act 1996* provides that in deciding whether to give a direction the ACT Auditor-General or an authorised person must have regard to whether the direction-

- (a) would promote the purposes of the Act: or
- (b) is necessary or desirable to protect the integrity of an audit

Elsewhere the Act establishes the order of processes for the ACT Auditor-General to undertake procedural fairness in finalising reports for tabling in the Legislative Assembly.

More generally under professional standards and information management principles the auditor is obliged to respect the confidentiality of information gathered in the course of audit. Further the auditor is engaged in a process of forming an opinion based on known information gathered by a process of enquiry and discussion. Audit evidence is generally persuasive rather than conclusive in nature and therefore needs to be assessed particularly carefully.

In these circumstances and in the context of the 'desire to protect the integrity of an audit' provision at section 35 (2) (b) use of this provision is understandable. More so when recognising the permeating nature of media coverage, both established and social, in contemporary society and the incidence of leaks of sensitive draft audit reports, at least in other jurisdictions.

I reviewed the use of section 35 notices, noting that for the 2013-14 to date period, the power has been used in relation to seven audits out of the 21 audits completed or in course. While the notices were used at different stages of the audit process, they were mostly used at the reporting stage.

The ACT Auditor-General's practice has been to issue section 35 notices where:

there are assertions/allegations associated with a person's integrity;

consideration of Executive deliberations are involved;

there is involvement of parties outside the ACT Government;

there is a high public interest or integrity risk to auditees or the ACT Audit Office if conclusions and findings were ultimately not sustainable.

I therefore concluded the use of section 35 notices in practice is not unreasonable.

Recommendations

That

12 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;

13 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;

ACT Audit Office Response

Recommendation 12

Agreed in principle.

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.

Recommendation 13

Agreed.

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.

ACT Government Guidelines for responding to performance audit reports by the Auditor-General, it appears a consequence of the issue of these guidelines is that auditees no longer provide responses to the findings and recommendations for inclusion in performance audit reports. Auditees appear to be restricting their responses to draft proposed reports and the final proposed reports to matters of correcting factual accuracies, providing additional information where necessary and clarifying any misinterpretations.

These guidelines indicate that Directorates should provide a management response to the ACT Auditor-General on the final proposed report. Specifically the process outlined in the Guidelines indicate that Directorate responses should bring attention to any further issues they wish to raise, or otherwise advise that there are no further issues.

Inclusion of Directorate's responses provides an important element to a performance audit report for consideration by the Legislative Assembly.

Section 31 of the *Financial Management Act 1996* provides that the director-general of the directorates accountable to the responsible Minister of the directorate for the efficient and effective financial management of the public resources for which the directorate is responsible. This section further provides that the director-general must manage the directorate in a way that promotes the achievement of the purpose of the directorate, promotes the financial sustainability of the directorate and is not inconsistent with the policies of the government.

This indicates an anomaly in the approach to discharging directorate accountability which has an adverse impact on the statutorily indicated level of comprehensiveness of performance reports tabled in the Legislative Assembly. This situation appears to inhibit the normal legislature approach to considering audit reports as until the Government Response is tabled as required within three months there remains a gap in the information available to the legislature.

Recommendation

- 14 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 *Financial Management Act*, to audit findings and recommendations for inclusion in performance audit reports tabled in the Legislative Assembly;

Reporting Executive deliberations and decisions, the *Auditor-General Act 1996* section 20 provides that the ACT Auditor-General may include deliberative information in a report to the Legislative Assembly only if the ACT Auditor-General considers it in the public interest to include the information. The Act further provides that the ACT Auditor-General must consult with the Chief Minister in deciding whether it is in the public interest to include particular deliberative information.

This is a sensitive area. The auditor is seeking to provide substantiation for a finding or conclusion and on occasions it is only Cabinet documentation that is available for this purpose. From the Executive's perspective however use of Cabinet material can have serious implications for important principles of Cabinet confidentiality and Cabinet solidarity. In the Westminster system these principles are recognised as facilitating the ability for frank discussion and consideration of varying advice on sensitive matters and as having served the community well over time.

I reviewed three instances across 2014 and 2015 where disclosures of executive deliberations were considered and note that the provisions of the Act were followed by the ACT Auditor-General.

Typically section 20 is invoked when the audit objective is to provide assurance regarding the comprehensiveness and integrity of information being provided to decision makers and the core information is only available in Cabinet material. To the extent directorates are able to provide supporting analysis and related documentation, the need to directly reference Cabinet material will be reduced.

Notwithstanding this remains a very sensitive issue that warrants ongoing and close attention.

I note the very recent adoption by the ACT Audit Office of a further revised approach to drafting reports. This builds on recent experience and is designed to more specifically address this matter.

Recommendation

- 15 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.

ACT Audit Office Response

Recommendation 15

Agreed.

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.

The internal guidance (PAMPr) will be updated to reflect the above by 30 September 2016.

3.5 Management and resources

3.5.1 Overview

The governance and management practices in place were assessed against statutory and operational requirements. Regard was also had to whether resources employed were adequate and appropriately focused having regard to the context of ACT operations.

The ACT Auditor-General and the ACT Audit Office participate in and contribute to the Australian Council of Auditor-General (ACAG). ACAG provides arrangements for the sharing of information between members, supports the development of efficient and effective auditing methods and practices and where appropriate facilitates the forming of collective opinion of Auditors-General on financial accounting and auditing standards and related issues.

The ACT Audit Office continues to have a current strategic plan, the Strategic Plan 2016-19 which sets out the vision, role and values of the Office as well as defining the Office's objectives.

The Vision is to have 'an accountable and highly performing ACT public sector'.

The role of the Office is stated as 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 efficiency and effectiveness of public services and programs provided by the Territory.

Values identified to guide the Office's work and the behaviours of its staff are:

independence - impartial evidence based reporting as the most powerful influence

integrity - being honest, truthful and fair

professionalism - fulfilling obligations

respect - seeking to understand and be trusted by stakeholders; and

learning and innovation - striving to realise full potential

The ACT Audit Office is organised across three functional areas:

Financial Audits

Performance Audits; and

Professional Services

The Strategic Plan is underpinned by respective Action Plans for each of the three functional areas. These action plans are related to the ACT Audit Office's Statement of Performance and progress against plans is reviewed six monthly.

Overall the Office is performing to plan, albeit with some variations against budget and plans. However these are reasonably expected to be regularised by the end of the current financial year, consistent with experience in prior years where planned performance has been achieved.

Approximately 40 staff are employed with around 23 allocated to Financial Audit, 10 to Performance Audit, four to Professional Services and three to the Executive which comprises the ACT Auditor-General, the Director, Financial Audits and Director, Performance Audit.

A comprehensive system of internal accountability and governance arrangements has been established and there are reliable indications they are operating as intended in all material respects. Importantly for the core audit function there is a Quality Control and Assurance Policy in place. This is considered fit for purpose though approaching the time for a review as it was approved in January 2013. I am advised that a review is scheduled for completion by January 2017.

These arrangements are over sighted by the Executive Committee which comprises the ACT Auditor-General, Director, Financial Audits and Chief Finance Officer, Director, Performance Audit, Principal Financial Audit, Principal, Performance Audit and Principal, Professional Services which meets weekly. There is also a Management Committee that meets monthly to among other things consider reports of progress against targets. This Committee is Chaired by the Principal, Professional Services and includes the ACT Auditor-General, Director, Financial Audits and Chief Finance Officer, Director, Performance Audit, Principal, Financial Audit, Principal, Performance Audit, Senior Managers, Managers and staff representatives. These committees are serviced by the Executive Officer.

Complementing the line management of the ACT Audit Office operations are a range of internal committees and management groups which are generally meeting consistent with plans. These committees extend from the Audit and Review Committee which is Chaired by an external person and in addition to a second external member has two internal members, to functional, consultative and staff committees.

There are current Risk Management Policy and Plan, Internal Audit, Asset Management, and Business Continuity Plans in place. There is also a Performance Management Policy and Scheme in place that is operating satisfactorily.

The Audit and Review Committee agenda appears to appropriately cover the Office's risk, control and compliance framework.

Encouragingly, in addition to the obvious hands on management approach and interaction across the ACT Audit Office, and with the governance and administrative committees, both the Executive and the Audit Committee oversight progress with the implementation of the recommendations of the regular audits and reviews of the ACT Audit Office's operations. This serves to assure that follow up action is progressing satisfactorily.

3.5.2 Human Resources

The ACT Audit Office is taking an active approach to managing and developing its staff. The particular circumstance of maintaining a small specialised staff in the Canberra environment is a continuing consideration for the ACT Audit Office Executive. There are particular challenges common to all Audit Offices of recruiting appropriately credentialed staff with well developed interpersonal skills, particularly for Performance Audit, while also retaining Financial Audit staff once they have been trained and have obtained their professional accreditation.

Staff turnover is an indicator that has received attention over time. As a raw number it draws attention, however, the following table provides further analysis that adjusts for the impact of contractors who have been engaged specifically for the particular peak in the audit cycle for Financial Audit and for particular expertise for selected performance audits.

| | 2012-13 | 2013-14 | 2014-15 |
|---|---------|---------|---------|
| Staff turnover as reported in Annual Report | 15% | 24% | 31% |
| Staff turnover excluding contractors | 10% | 15% | 21% |

Notwithstanding the upturn in turnover in 2013-14 and again in 2014-15, this situation, although at the upper end, remains within a tolerable range and is not inconsistent with experience in other small Audit Offices.

There remains a solid base of experienced staff in both Financial and Performance Audit functions. There are 15 Directors, Principals and Managers who lead these functions who have with, one exception, relevant experience of between 10 and 29 years. At the Senior Auditor level, the nine operatives have between five and ten years relevant experience which is consistent with broader industry experience and practice.

A similarly reassuring situation is evident when the qualifications and credentials of the professional staff are reviewed. All staff are appropriately qualified with those in Financial Audit all holding a bachelors degree and effectively all holding a post-graduate professional accreditation or are working towards that. For Performance Audit, half the staff possess Masters and/or other higher degrees in addition to a bachelor's degree.

Staff are supported by the Office's learning and development program which is developed through consultation between managers and staff. The program is appropriately focussed on the high priority areas for staff development which are identified in individual Performance Development Plans.

As part of my review I attended a staff meeting and a staff briefing. I found the staff engaging and open.

3.5.3 Financial and Equipment Resources

The terms of reference require an assessment of the adequacy of the ACT Audit Office's human, financial and equipment resources and resources management practices.

The ACT Audit Office appears to operate very cost-effectively, employing prudent means of accessing and utilising resources. Shared Services are used for support services and this arrangement is working well. It is obvious that regard to financial prudence and probity is appropriate and the equipment levels are adequate.

Staff Surveys have raised a range of issues. These have generally been addressed however there are some such as the availability of individually allocated work stations which are more problematic to address though are not unique to the ACT Audit Office. In fact some

professional services firms have moved to a 'hotel' approach of requiring formal booking of a desk by staff who largely operate out of the office.

I also observe that technology is being applied responsibly and that probity and security are taken very seriously.

The fact that a Public Interest Disclosure in relation to procurement practices in relation to the engagement of a contractor could be investigated and the outcome communicated to stakeholders within three weeks provides added assurance in this respect.

3.5.4 Financial Audit Fees

The ACT Audit Office sets its overall financial audit fees each year to recover the cost of its financial audit activity. The approach now includes Financial Audit's share of office-wide projects which was raised in the previous Strategic Review.

Responsibly the ACT Audit Office commissioned a review of the setting of Financial Audit Fees which reported with satisfactory results in June 2015. My review of this report and the setting of the 2015-16 fees did not raise any matters of significance.

3.5.5 Budgetary Considerations

I endorse the conclusion of the last Strategic Review that the ACT Audit Office has been able to, and continues to operate in a way that achieves high productivity of its staff, despite the small size of its operations. There continue to be budget pressures on the sector so while augmentation, particularly for Performance Audit to provide much needed additional scale to more reliably assure sustainability of the function, this is a matter for the ACT Government.

Two matters are raised however for consideration.

First in relation to the impost of Public Interest Disclosures (PID). The ACT Auditor-General is one of only two in Australia that is a designated sector wide Disclosure Officer.

There has been significant activity in this regard in recent years with three disclosures made in 2014-15. Prior disclosures have led to escalation of the matters raised to the stage where they have been considered in a full performance audit.

Even undertaking routine PID investigations involves a noticeable diversion of funds from the audit function in a situation where supplementation for this additional statutory responsibility was not provided.

The cost of dealing with all representations and the two PID investigations in 2014-15 was \$94 751. To date in 2015-16 \$118 675 has been expended on these activities, with the current projection of \$158 233 for this purpose for the full financial year.

It is considered appropriate to establish a process to avoid PID activity materially impeding the planned program of Performance Audits. An agreement that established a threshold after which supplementation would be provided is warranted or accumulated funds in the Office Balance Sheet be used, if available.

Recommendation

- 16 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 Office's Balance Sheet, if these funds are sufficient);

Recommendation

- 16 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 Office's Balance Sheet, if these funds are sufficient);

ACT Audit Office Response

Recommendation 16

Agreed.

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.

The second issue relates to 'managing the Office Balance Sheet' while at the same time offers opportunity to begin addressing the challenges facing the Performance Audit function.

It is noted that in consequence of the accumulation of small operating surpluses over the years accumulated funds reported in the Balance Sheet at 30 June 2015 were \$1 520 000. It would be desirable to establish the appropriate level of accumulated surpluses for carry forward and to consider drawing down on this balance to finance at least a temporary transitional increase in the Performance Audit allocation. A minimum two-year transition period is likely to be required.

This would enable a trial of the use of more performance audit staff and the conduct of additional performance audits, to address both the issues of 'bunching up' of reports so delivery of performance audit reports is spread throughout the program year and achieving a more balanced program of audits.

Even increasing the number of performance audit reports by one per year and having them delivered at the rate of two per quarter would provide a significant long term benefit to both the ACT Audit Office operations and the sector as a whole.

Recommendation

- 17 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;

ACT Audit Office Response

Recommendation 17

Agreed.

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.

Actions to progress the above will commence in 2016-17.

3.6 Public accountability

Financial Audit

The cost effectiveness and focus of financial audit services and the value for money attributes of performance audits were assessed for cost effectiveness having regard to ACAG and other benchmarks and recognised better practice.

My response to this term of reference draws on my response to terms of reference (2) Auditing function and (4) Audit Frameworks and Methodologies.

In overview I consider the ACT Auditor-General is providing value for money financial audit services in comparison with the services and fees of similar organisations.

I have satisfied myself that the methodology in use is robust and reliable and that the staff undertaking the audits are appropriately qualified and supervised as they undertake their audit duties. There is a sound quality control and assurance process in place and the fees being charged are reasonable and reflective of the audit effort involved. Charge out rates reflect the low cost base and break even objective of the ACT Audit Office.

This assessment is generally supported by comments I received from senior representatives of audited entities that were overall satisfied with the financial audit function, its responsiveness and timeliness. A number of stakeholders reported a steadily improving level of service.

Performance Audit

I also consider the performance audits conducted by the ACT Audit Office provide value for money. While warranting targeted continuous improvement in a number of respects, I regard the function as contributing to improving public accountability in the public administration of the ACT.

The underlying tension between some stakeholders' expectation of audits focusing more on outcomes and the current performance audit program being heavily weighted to complex and high risk audits, rather than a more balanced program which would provide coverage of more routine program delivery activities, is in my view largely a function of the small scale of the function.

My assessment of the recommendations being made and of agency responses is that valid outcomes and warranted process related recommendations are being made.

Greater attention could however be given to providing more indication of the rationale for process recommendations. Judgement is needed, however there appears scope for this to be achieved both in the context of interacting with the entities being audited and in the reports themselves. Addressing the rationale in reports would also contribute to the broader education of the whole ACT Public Sector.

While the ACT Audit Office resources are limited I see benefit in more attention to the quality of communication with entities and a focus on educating them on the role and purpose of audit, the basis of topic selection and why many seemingly low level process recommendations are important as enablers of achieving the benefits of investment in developing systems and processes and meeting fundamental public sector accountability

obligations in relation to the use of public resources and demonstrating balanced and equitable regulation of the community.

Finally I consider the reports do present evidence and make recommendations that will lead to improvements in both the efficiency and effectiveness of public administration in the ACT. I believe the evidence of this exists and is reflected by the rate of acceptance of recommendations.

Again, targeted initiatives would improve the ACT Audit Office's performance in this regard. I firmly believe attention to more rigorous phasing of the planning, conduct and reporting stages of performance audits combined with a move to spread the tabling of reports across the full year will enable better engagement with audited entities and other stakeholders.

3.7 Relationship/communication with stakeholders

This term of reference has been addressed by enquiry of a diverse range of stakeholders. Also a comparative analysis of approaches and practices in other Australian Audit Offices was undertaken to assess the nature of relationships and the quality and effectiveness of communication with stakeholder categories.

Overall the relationship is regarded as sound though recurring themes in relation to both financial and performance audit were raised. These revolved around the role of audit in developing accounting treatments, perceptions of audits dealing with government policy directions, findings being overly focussed on process, the extent of use of section 35 Directions about protected information and particular issues with individual performance audits, were regularly raised. Undoubtedly equivalent views exist in other jurisdictions, to varying degrees.

In large measure I believe this reflects the still evolving approach to performance reporting and the low incidence of auditee involvement with performance audit by comparison with financial audit which is well established and underpinned by comprehensive standards and an annual cycle.

An underlying issue is that there are not comprehensive standards covering approaches to program management and performance reporting similar to the accounting standards underpinning financial management and the preparation of annual financial statements.

There is however a comprehensive standard, Standard on Assurance Engagements ASAE 3500 *Performance Engagements* issued by the Australian Auditing and Assurance Standards Board applicable to performance audits which is being adhered to by the ACT Auditor-General.

Generally the situation with core Financial Audit is positively regarded. This reflects the strength of the accounting standards underpinning the preparation of financial statements, the rigour of the annual cycle of audit which has reinforced the respective responsibilities of preparers and auditors and fostered a structured approach to documenting the preparation of financial statements.

The ACT Auditor-General personally is universally regarded as being accessible, responsive, receptive and open. Not unexpectedly a range of views were expressed about the attitude and capability of audit staff and contractors, and to a lesser extent regarding financial audit staff.

Recommendation

- 18 Augment the Learning and Development Program with a focused and applied staff training program on stakeholder relationship management;

ACT Audit Office Response

Recommendation 18

Agreed.

A coaching session on stakeholder relationship management was provided to ACT Audit Office Managers on 6 May 2016.

The ACT Audit Office's Learning and Development Program for 2016-17 will include further staff training on stakeholder relationship management.

The approaches to relationship management used by the ACT Office closely mirrors that in use in other jurisdictions.

There is significant and relatively targeted consultation in the process of identifying potential performance audit topics. Again when the scope and focus of audits is being refined there is consultation with both program managers and other stakeholders that at times contributes to a divergence of views and one or other party being less than satisfied with the final decision of the ACT Auditor-General. This is not an uncommon situation and reflects both the independence of the auditor and having to work with finite resources.

When it comes to audit conduct the process is broadly similar for both financial and performance audit. Formal entrance/entry interviews are held, communication protocols are agreed and an audit plan/approach is shared.

Again in both the financial and performance audit contexts, a no surprises approach is adopted and matters of significance are raised with the audited entity at the earliest opportunity, consistent with the auditor's understanding and judgement at the time.

When finalising audits, exit interviews/meetings are held usually in advance of the issue of draft reports. For financial audit this rarely raises issues however for performance audit this is a common point of contention as generally speaking this is the first time senior executives of the audited entity effectively get to focus on the totality of the findings.

Most of those I interviewed indicated that in the scheme of things a satisfactory resolution was achieved however some retained reservations as to how the situation arose and whether it could have been avoided. In these situations it is generally very difficult to judge where the responsibility should ultimately rest.

This indicates a need for a re-doubling of effort to inform, educate and explain the public sector external audit context and the primary responsibility of program managers 'to not only do the right thing with public resources, but be seen to do the right thing'.

A number of executives raised considerations such as that the ACT being a small system with limited resources, experienced private sector specialists have been engaged, etc. These views while valid to an extent, also need to respect the context of the Legislative Assembly and the community's expectations regarding regularity and probity in the application of public resources, and the requirements of the auditing standards regarding audit evidence.

There also needs however also to be an acknowledgement that the public sector program manager is responsible and accountable for program management. This responsibility and accountability extends for example to understanding and consciously accepting and being accountable for the advice of contracted specialists. This latter aspect was a common area of contention.

Accordingly the more the program manager is able to demonstrate this with documentation and corroborating evidence, the easier it will be to satisfy the auditor's need for sufficient and appropriate audit evidence upon which to form an independent audit conclusion.

Finally an important dimension in managing public resources and a core element of public administration is to always be able to appropriately demonstrate propriety and prudence in the application of these resources.

Hence systems in use must inherently have integrity in application and use, and the basis of judgements taken must be capable of being reliably communicated to third parties. Clearly there are degrees to which this will happen in practice though there needs to be an acceptance by both the executive and audit, that there has to be a balance, relative to considerations of risk, materiality and probity.

Recommendations

- 19 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;
- 20 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.

ACT Audit Office Response

Recommendation 19

Agreed.

The ACT Auditor-General contacted the Head of Service to initiate action to develop a plan on 5 May 2016.

Recommendation 20

Agreed.

The ACT Auditor-General contacted the Head of Service to request arrangements be made for meeting with the Strategic Board on 5 May 2016.

Consistent with better practice in other jurisdictions the ACT Auditor-General consults with members of the Legislative Assembly generally and the Standing Committee on Public Accounts in the course of developing the Annual Program of Performance Audits.

Also a briefing is provided to the Standing Committee on Public Accounts following the tabling of financial and performance audit reports and the annual report.

3.8 Previous independent audit

Representations were obtained from the ACT Audit Office regarding the actioning of the recommendations and their impact as the basis for review, analysis and assessment.

I have reviewed these representations and associated reports and files.

I am satisfied that 17 of the recommendations recorded as fully implemented by the ACT Audit Office have been satisfactorily considered and actioned in an appropriate manner.

The two outstanding recommendations are canvassed below.

Recommendation 10 called for the ACT Audit Office to make it standard practice to provide agencies with a 'discussion paper' before substantial report writing commences, to aid earlier resolution of any differences of opinion between the Office and the agency concerned.

At the time the ACT Audit Office agreed this recommendation, noting that for practical purposes the ACT Audit Office already offers the opportunity to resolve differences of opinion.

More recently, review as part of the 30 January 2014 review of Implementation of Recommendations arising from reviews noted there was inconsistent implementation of this recommendation in practice.

The ACT Audit Office executive in considering this matter noted the ACT Audit Office 'always had a practice of discussing findings with auditees at the earliest possible stage of an audit' and that 'Communication of findings with auditees is generally tailored according to the audit and its needs'.

While appreciating the view that findings are generally raised at the earliest opportunity, I take the view that there is no substitute for actual documentation. Accordingly as part of my recommendation for a more structured and phased approach to conducting performance audits I agree that 'issues papers' should be routinely used as they do provide a firm basis of establishing facts and context to underpin findings and conclusions. In my view they should be drafted in a format as similar as possible to the final report template. While requiring additional effort early in the process, experience elsewhere is that there are significant benefits in the form of earlier and more conclusive consultation with the auditee, including achieving greater auditee senior executive buy-in and more efficient and timely finalisation of the final draft report.

Recommendation 16 called for the ACT Audit Office to compile and publish in its Annual Report information on the cost of activities charged to the appropriation, including performance audit, protected disclosures, services to Legislative Assembly committees, etc.

At the time the ACT Audit Office agreed this recommendation in part and indicated the Office would consult further with the Public Accounts Committee on whether there is a need for such information.

On review the Office concluded this compilation would be time consuming and the resources required would be better deployed elsewhere.

I accept this is a judgement issue, note that the ACT Audit Office operates a time recording and costing system to support the financial and performance audit functions which account for well over 95% of activities. Accordingly I endorse the Audit Office's use of discretion and note that given the small value residual activities, they would be capable of cost effective analysis on an exception basis.

3.9 Benchmarking

A limited comparative assessment against another smaller Australian jurisdiction and against publicly available information on the smaller Canadian jurisdictions of Newfoundland and Labrador and New Brunswick was undertaken. While the geography and circumstance of these jurisdictions is very different they appear to have a reconcilable mandate and similar professional and management challenges.

Particular regard was also had to the well established Australasian Council of Auditors-General (ACAG) benchmarking process which has a level of maturity, having been developed over more than 20 years. Within the ACAG framework the Tasmanian jurisdiction was a primary focus.

Overall the ACT Audit Office performs at the level to be expected with no significant exceptions coming to notice.

In terms of primary functions of financial and performance audits the following commentary is provided.

For the ACT Audit Office average hourly audit cost rate is at the lower end of the range of average hourly cost rates. Using the 2014-15 (latest available) ACAG Benchmarking report the ACT average hourly cost rate is \$150 per hour whereas across ACAG the range is from a low of \$142 to a high of \$173, after excluding an outlier of \$109.

The other key measure is that the ACT issues 80% of opinions on financial statements within three months of balance date, a generally accepted target time. This compares with a range of 61-98%. Again the ACT is performing ahead of the average. Further it is worth recording that the better performing jurisdictions have imposed tighter timelines sector wide than apply in the ACT.

It is also pertinent that in respect of the 2014-15 year where the ACT Audit Office reports that in absolute terms 85% were completed within the 'required timeline' against a target of 100% this was largely due to delays in receipt of certified financial statements from reporting entities.

For Performance Audit, the ACT Audit Office performs positively when gauged on the benchmarks of cost and time elapsed for conducting performance audits. The Average cost per performance audit in 2014-15 was an average of \$286 724 and 8.9 months elapsed time on average for a performance audit. This compares with the average cost per report across all Australian audit offices of \$336 320. Individual jurisdictions range from a low of \$155 621 to a high of \$519 806.

Although judgemental, I regard the more comparable jurisdictions, when the nature of the performance audits being undertaken is considered, have average costs in the order of \$335 000. On this basis the ACT Audit Office is performing well.

With respect to the time elapsed measure, the Australia wide average is 8.9 months, the same as achieved by the ACT Audit Office. The range across Australian Offices is from 8.2 months to 11.2 months. Again the ACT Audit Office is performing quite satisfactorily.

Staff turnover is another key indicator given human resources represent the key asset of a professional services office. The ACT Audit Office reported turnover of 21% in 2014-15 which compares with an ACAG average of 15% and a range across offices of 11-32%. Again while a lower rate of turnover is preferred, the actual level, while at a higher than preferred level, is not outside the range of, nor the worst across Australia. Further smaller offices generally do experience greater volatility in turnover and tend to experience the higher levels of turnover.

Another indicator of interest in a professional services office is the proportion of staff with post graduate or professional qualification. This qualification is in addition to their graduate degree qualifications. For financial audit, the proportion is 71% which is the same as an ACAG average of 71% and a range of 30-100%. For non-financial audit staff the proportion is 69% which compares with an ACAG average of 71% with an ACAG range of 18-100%. For Performance Audit, half the staff possess Masters and/or other higher degrees in addition to a bachelor's degree. Yet again the ACT Audit Office rates credibly.

3.10 General

The ACT Auditor-General and the Standing Committee on Public Accounts were consulted regarding any other matters of significance warranting attention as part of this Review.

No further matters not already covered by the Terms of Reference were raised.

4 Appendices

4.1. Terms of Reference

Objective

The objective of the strategic review is to form an independent opinion on: (i) whether the ACT Audit Office is achieving its legislative objectives effectively, and doing so efficiently and in compliance with the *Auditor-General Act 1996* and the relevant professional audit and accounting standards (performance and financial audits); (ii) the extent to which the legislative mandate strengthens and safeguards the independence of the Auditor-General; (iii) the extent to which the legislative mandate supports the work of the Auditor-General in the contemporary public sector environment; and (iv) any other aspects as determined by the Committee.

Terms of reference

In conducting the audit, the strategic reviewer is to have regard to the context and scale of the ACT (and ACT Audit Office), as well as better practice work in other jurisdictions to:

(1) Legislative mandate

Review the extent to which the applicable legislative mandate: (i) strengthens and safeguards the independence of the Auditor-General, including the scope of inquiries undertaken; (ii) supports the work of the Auditor-General in the contemporary public sector environment; and (iii) supports efficient, effective and clear reporting arrangements between relevant entities including those tasked with prescribed responsibilities regarding the Auditor-General.

(2) Auditing function

- a) Assess whether the existing audit methodologies, practices and procedures are adequate and appropriate in undertaking the legislated functions of the Office as per the *Auditor General Act 1996*, including:
- b) compliance with relevant audit and accounting standards, including the requirement of APES320 'Quality Assurance for Audit Firms' issued by the Accounting Standards and Ethical Standards Board,
- c) compliance with legislated requirements, in particular, functions listed in section 10 of the *Auditor-General Act 1996*, and
- d) the relevance and appropriateness of the *Auditor-General Act 1996* to facilitate delivery of better practice audits.

(3) Planning

Review:

- a) the selection criteria and risk framework for the selection of potential performance audit topics; and
- b) planning and pre-audit client consultation for a selection of financial audits.

(4) Audit Framework and Methodologies

Review the appropriateness of the ACT Audit Office's:

- a) audit framework being employed;
- b) focus on process, implementation and efficiency of service provision;
- c) approaches and methodologies applied for scoping and conduct of financial and performance audits; and
- d) skills identification practices for conducting particular or specialist audits.

Provide advice as to potential operational improvements for the ACT Audit Office relating to those items identified in (4) a), having regard to current and emerging national and international better practice.

(5) Management and resources

- a) Review the governance and management practices of the Office, including evaluation of the adequacy of internal risk management, operating procedures and controls and operation of the Office's quality control systems.
- b) Assess the adequacy of the Office's human, financial and equipment resources and resource management practices including the engagement of consultants.

(6) Public accountability

- a) Determine whether the Audit Office is providing value for money financial audit services in comparison with the services and fees of similar organisations.
- b) Determine whether performance audits conducted by the ACT Audit Office provide value for money by:
 - i. improving public accountability in the public administration of the Australian Capital Territory (ACT); and
 - ii. presenting evidence and making recommendations that may lead to improvements in both the efficiency and effectiveness of public administration in the ACT.

(7) Relationship/communication with stakeholders

- a) Assess the effectiveness of communication between the Office and its stakeholders, including:

- i. the Legislative Assembly for the ACT;
 - ii. the Standing Committee on Public Accounts;
 - iii. the ACT Executive; and
 - iv. Directors-General (and equivalents) of ACT Government directorates and agencies.
- b) Assess the standard and quality of service provided to the Legislative Assembly for the ACT.

(8) Previous independent audit

Assess and evaluate how well the recommendations of the 2009-10 independent performance audit of the operations of the ACT Auditor-General and ACT Audit Office have been actioned, and in particular, determine the extent to which they have been implemented and whether they are/have achieving/ed their desired objectives.

(9) Benchmarking

Having completed (1) through to (7), and having regard to the scale of the ACT (and ACT Audit Office), make a comparative assessment of the economy, efficiency and effectiveness of ACT Audit Office service delivery arrangements with at least one other Australian Auditor-General's Office but also assessing performance with consideration given to examples of international better practice.

(10) General

Review any other matters, as the strategic reviewer considers relevant, and provide advice on the potential for improvements to the economy, efficiency and effectiveness of the ACT Audit Office.

Review any matter that may be referred to the strategic reviewer by the Committee during the course of the Review.

Timing, reporting and staging

The Review is to be conducted during the 2015-16 financial year with the intention that it be completed so that a report is provided to the Speaker, and subsequently the Legislative Assembly for the ACT, no later than 30 June 2016.

The field work component should be staged to minimise disruption for the work of the Audit Office.

Review scope

The Review scope is to be conducted in accordance with the requirements of the *Auditor-General Act 1996*; relevant professional auditing and accounting standards; and professional statements and related guidance.

Consultation

Consultation with key stakeholders as part of the Review process should include but not be limited to the Public Accounts Committee, a sample of audited entities drawn from the financial and performance audit programs for the previous three reporting periods, the ACT Executive, Head of Service, and members of the ACT Legislative Assembly.

Qualifications of strategic reviewer

The strategic review is to be conducted by persons/agencies of high professional standing with a sound understanding of public sector auditing and management of a public sector auditing agency.

A former auditor-general (external to the Australian Capital Territory), or an Australian Audit Office that has a mandate to perform external reviews of other Audit offices, would be appropriate to be considered for appointment as the strategic reviewer.

The appointee(s) will need to demonstrate they have no pecuniary interest in the outcome of the Review and have no established relationship with the ACT Audit Office and its employees. The appointee(s) will also be required to demonstrate independence (actual and perceived) from the ACT Audit Office. Further, knowledge of contemporary managerial and organisational standards and techniques would be beneficial.

In the case of local audit firms that may have current or past involvement as contractors with the Audit Office, these firms must be able to demonstrate that they can adequately address any potential conflict of interest issues.

