



the next solution

Public Accounts Committee

Report on the Review of the Tasmanian Auditor-General's Office

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Background

The Audit Act 2008, S44, requires the Tasmanian Audit Office to be subject to a review of the efficiency, effectiveness and economy of its operations at least once in every period of five years.

Such review may be carried out by the Office's independent auditor, or by a registered company auditor, appointed by the Treasurer.

If the latter appointment occurs, the Treasurer is to consult with the Auditor-General in regard to the terms and conditions of appointment.

For this first review under S44, the Treasurer followed this course, agreed terms and conditions with the Auditor-General then proceeded to a public tender process.

Our firm, Nexia Melbourne, was selected to carry out the review – which is now completed and our report follows. It includes feedback from the Auditor-General.

Note for ease of reading, our report is laid out in the same order as the tender documents and subsequent contract.

The following abbreviations have been used:

- Tasmanian Audit Office – **TAO**
- Audit Act 2008 – **Audit Act**
- Financial Audit Services – **FAS**
- Integrated Public Sector Audit Methodology – **IPSAM**
- Performance Audit Services – **PAS**
- Australian Council of Auditors-General – **ACAG**
- Auditor-General's reports – **AGR**
- External audit service providers – **ASPs**
- Critical Success Factors – **CSFs**

Executive summary

This has been a review of the efficiency, effectiveness and economy of TAO operations.

In terms of efficiency, we believe that the Office currently performs credibly and is proactively taking steps (continuous improvement) to improve efficiency across the organisation.

In terms of effectiveness, we believe the Auditor-General properly fulfils the role of the independent auditor in a Westminster style of democracy, delivering assurance regarding the financial accounts of the public sector and conducting a range of performance audits.

In terms of economy, we suggest that economy is best measured by comparing efficiency and effectiveness and ensuring both are being achieved, but each not at the expense of the other. We believe that the TAO achieves economy through achieving efficiency and effectiveness in relatively equal measures.

The governance structure has developed over a number of years and was influenced by internal and external reviews, management meetings and programs, and continuous improvement initiatives instigated by TAO. During our review, it was noticeable that a significant effort has been made to implement a significant number of improvements to the overall conduct and systems of TAO.

Our overall review of the change in the organisation structure is very positive. We believe that the proposed and implemented structure will prompt more accountability and better awareness of roles and responsibilities.

TAO has a Risk Management Framework in place that outlines the approach and rationale for managing risk within the organisation, including risk analysis and treatment, roles and responsibilities of staff, and regular monitoring and evaluation of risks. The risk register is appropriately focused on the key risks to the organisation with relevant detail added to support the general risk categories. There is clear evidence that the risks are reviewed and updated on a regular basis.

Under the Audit Act 2008, the Auditor-General is the auditor of financial statements of the Treasurer, all State entities, State-owned companies and subsidiaries of State entities – approximately 180 audits and 100 acquittal statements. The Auditor-General audits these entities using his staff and five external audit service providers.

We suggest that FAS considers the level of involvement in audits contracted to External ASPs; reviewing fee charged for small audits; utilising the work of internal auditors more effectively; and, developing a “small audit approach”. More importantly, we also suggest the Auditor-General consider developing his own auditing standards, especially regarding auditing KPIs; develop a more consistent legislation compliance approach; address waste and probity issues more formally; and, improve IT auditing skills and resources.

There are increasing expectations in Western economies for auditors to add value by providing more information than “just” their opinion. Auditors are in a unique position to assist this value-add through their independence, objectivity and knowledge of each entity and of each sector.

Adding to this expectation is the expressed strategic direction of the Auditor-General to help improve service delivery in the public sector, concurrent with the strongly expressed need for the Tasmanian public sector to perform better.

We firmly believe that auditing service performance must be a core part of the TAO audit role in future. Allied to this, we also firmly believe that the TAO role should include an annual assessment and comment on, the management control, financial information systems and controls, and the KPIs / efficiency, effectiveness and economy performance environments for each client.

This type of assessment will materially assist entities, their management and governing bodies, to understand their controls, the adequacy, effectiveness and maturity levels of those controls, in their own organisation. It will also enable comparisons (where practical) across sectors and/or with peers.

The Auditor-General has recently recommended that Tasmanian State entities be required to annually report relevant and appropriate indicators of their effectiveness and efficiency and that these be audited. We fully support this recommendation!

Positive feedback for performance audits came from the political level where they appreciate the independent assurance part of the performance audit role as much as the actual content of each performance audit.

At the other end of the spectrum, some negative comments came from auditee entities where they are less aware of the bigger picture, especially regarding the independent assurance role as part of the whole system of checks and balances within the Westminster style of government.

However, both groups commented on the opportunity or need for PAS to have more specialist skills and the need to report in a more timely manner to ensure maximum value or effectiveness from each performance audit.

In terms of the overall strategic planning, there is a clear and logical set of linkages or a strategic planning journey from Parliament via the Audit Act, through the various strategic and longer term planning activities and documents, all reflecting the desired outcome, with clearly identified and enduring critical success factors, to the shorter term annual planning processes and documents, taking into account the input from stakeholders, the development of KPIs, then to the structuring, resourcing, managing input activities to actually deliver the outputs, and ultimately to the annual reporting processes back to the Parliament that completes the loop.

We note the clear intent of improved “public sector” service delivery and have questioned the role of TAO, as well as its ability, to achieve this – and have made a number of recommendations regarding how TAO can really add such value.

We also suggest some changes to the TAO KPIs to better measure performance.

There is considerable (and understandable) use and presentation of ACAG benchmarks. Given the non homogenous population for these benchmarks, we believe that these benchmarks may be better used as an internal management tool, and your reported KPIs should focus primarily on the outcomes and outputs of the Office.

The requirements of quality standards and explicit evidence of quality control being exercised, continually increase. TAO standards and their evidence must be seen in every facet of operations - in the office, in manuals, in methodologies and in every financial and performance audit.

Quality control is subject to very close scrutiny by every review of the Office, always resulting in recommendations. This does not imply that quality control is poor within TAO rather that the bar is being continually raised – we also make a number of recommendations for improvement.

Stakeholder interviews highlighted the considerable and effective communication channels that have been instituted and maintained by the Auditor-General. The regularity of meetings, the openness of the Auditor-General, his willingness to meet all political parties, and the range of communication styles were all mentioned explicitly and very positively.

Presentations and communications as part of completing Performance Audits and AGRs were also mentioned positively, including the availability and communications by senior TAO managers. However, we noted a number of adverse comments at the working / auditee level where they believed the TAO needs a broader range of skills to properly carryout the widest range of performance audits.

There have been a considerable number of “peer” reviews carried out over the past five years. The number of these reviews and the depth of some of them is significantly more than we would expect for a similar sized professional firm!

We reviewed the peer reviews over the past 5 years and the actions taken generally, and believe that management has made a creditable effort to address the findings and recommendations of the peer reviews.

Yours faithfully

Nexia Melbourne

A.B.N. 16 847 721 257

A handwritten signature in black ink, appearing to read "George S. Dakis".

GEORGE S. DAKIS

Partner

Audit & Assurance

11 February 2014

Overall response by the Auditor-General

The approach taken by Nexia Melbourne was constructive and informative and I thank them for their report. Responses to recommendations made in this report are mine. In a small number of cases I did not support recommendations made, particularly bearing in mind the size of my Office. However, every recommendation will be considered and explored.

Mike Blake

Auditor-General

1. Governance of TAO, risk management and controls

1.1 General

The Governance of the TAO is found in the Governance Policy Statement that documents the Office's governance principles outlining how it is to be governed and how it will manage its activities. This Policy Statement is to be read alongside its vision, purpose, strategic objectives, risk assessments and its values.

The Policy was formulated based on the governance guidelines recommended by the Australian National Audit Office and by the Australian Stock Exchange in its paper headed "ASX Corporate Governance Council: Corporate Governance Principles and Recommendations 2nd Edition" (the ASX Principles issued in 2007 and amended in 2010).

The Governance Structure of the TAO is further supported by the following:

- Office Delegations;
- Organisational Chart;
- Establishment of various Committees and Groups including:
 - Audit Committee;
 - Strategic Leadership Group;
 - Executive Management Group;
 - Human Resources Committee;
 - Quality Control Committee;
 - Information Technology Committee; and
- The TAO Strategic Plan and Work Plan, including the TAO's vision, purpose and values.

The above structure has developed over a number of years and was influenced by internal and external reviews, management meetings and programs, and continuous improvement initiatives instigated by the TAO. During our review, it was noticeable that a significant effort was made by the TAO to implement a considerable number of improvements to the overall conduct and systems of the TAO.

1.2 Organisational Chart

Concerns about organisational performance, much tighter reporting deadlines demanded by legislative changes and feedback from staff prompted the TAO to examine its organisation structure in 2010. As a result of this review, the TAO changed its structure to better reflect the needs of the Office.

Our overall review of the change in the structure is very positive. We believe that the proposed and implemented structure will prompt more accountability and better awareness of roles and responsibilities.

However, the following matters are raised as opportunities to further enhance the organisational structure of the TAO.

1.2.1 Role of the Technical & Quality Director

One of the significant changes as part of the TAO organisational structure review, was the separation of the Technical & Quality Director. The Statement of Duties created for the position is well structured and comprehensive and the role reports directly to the Auditor-General. The importance of the role is clearly stated.

Some of the duties include:

- Directing, controlling and managing a portfolio of contracted audits, including managing client relationships and service delivery, and the Office's contractors.
- For financial audits within the position's portfolio, maintains regular contact with senior management in client organisations to ensure that they are kept informed of the progress of audits and any matters that may impact on management and reporting in their organisation.
- Contributes to the financial audit unit's key audit risk areas, including financial audit methodology; to ensure they are adequately addressed in the conduct of financial audits.
- Undertake, as required, special projects and investigations that are outside the parameters of financial audits, to contribute to improved public sector performance, and the efficient functioning of the Office.

Furthermore, in the Review of Structure – Financial Audit Services Business Unit Report issued in 2010, the report stated that the ... 'The Technical & Quality Director would primarily be involved with providing technical guidance and review services. Except in unusual circumstances, this position would not take on Engagement Leader roles but could be the Signing Officer for Medium and High Risk Audits under the matrix used in FAS. This role specifically focuses on managing audit processes and outcomes not the conduct of audits or the management of people...'

During the course of our review, discussions with management revealed that there is a degree of confusion over the exact role of the Technical & Quality Director. For instance, it is understood that training responsibilities may continue to fall on the Business Units rather than the Technical & Quality Director. Furthermore, the degree and level of involvement required by the role in relation to signing responsibilities and forming part of the team of either a financial statement or performance audit may compromise the independence of the role.

Recommendation: that the TAO clarifies the role of the Technical & Quality Director amongst the TAO Staff.

Particular emphasis should be placed on:

- their involvement in the Performance Audit Engagements; and
- the independence of the role. We believe that any involvement within an audit engagement or the management of contracted audit engagements may compromise the independence of the role.

Refer to point 5.1 for further recommendation pertaining to this role.

TAO Comments: Agreed. As noted under 5.2 the T&QD role has changed from 2013-14, with some steps having already been taken to clarify the role of the T&QD, his involvement in performance audit engagements and his independence, which I regard as essential.

1.2.2 Team structure within the FAS Business Unit

The change in the team structure implemented as part of the Review of Structure is to be commended. The structure allows for greater management responsibility but more importantly, an emphasis on portfolios and ultimately client engagements.

The teams have been split into two groups predominantly based on the nature of the client.

Recommendation: given the relative size of the TAO, we question whether there is a need for two separate teams within FAS Business Unit. There is an argument that greater staff satisfaction and resource efficiencies could be achieved where client engagements are satisfied using one resource pool Client with engagements assigned to signing officers and managers with the remaining resources sourced from one pool. We recommend that the TAO implements a single pool structure.

This would promote a true emphasis on client engagements and allows for better flexibility, variety for staff, economies of scale and the cross pollination of ideas and continuous improvement initiatives within the pool. We recommend that the TAO considers transitioning to a single resource pool.

This structure is very common in firms similar to the size of the TAO in the private sector.

TAO Comments: I concur with the intent of this recommendation and limited sharing of staff across financial audit teams has already been implemented for the current audit cycle. The fact that the FAS Business Unit operates from two locations, Hobart and Launceston, may make broader implementation difficult. However, a single pool structure will be explored.

1.3 Risk Management

1.3.1 General

Consistent with the TAO approach to Governance, the TAO generally has a proactive response to Risk Management. The TAO's approach to Risk Management is regularly reviewed by the Executive Management Group and subject to Internal Audit. The Risk Management Policy is appropriately founded on the AS/NZS ISO 31000:2009 Risk Management – Principles and Guidance standard and referenced to the Governance Policy of the Office. There is clear evidence that the Risk Management Policy has been subject to change and improvement over a number of years and is subject to regular reviews and continuous improvement.

1.3.2 Development, monitoring and review

The Risk Management Policy statement provides clear responsibility over the development, monitoring and review of the TAO's Risk Management approach. The process is shared between the Practice Manager and the Executive Management Group and there is clear evidence that the Policy Statement is managed and reviewed regularly.

1.3.3 The Risk Register

TAO has a Risk Management Framework in place that outlines the approach and rationale for managing risk within the organisation, including risk analysis and treatment, roles and responsibilities of staff, and regular monitoring and evaluation of risks. The risk register is appropriately focused on the key risks to the organisation with relevant detail added to support the general risk categories. There is clear evidence that the risks are reviewed and updated on a regular basis.

1.3.4 Improvements

The Risk Management Framework was subject to review by the Internal Auditor in November 2011. The review found that the TAO had implemented a robust risk management framework. However, the review found that the TAO did not have in place an appropriate disaster recovery and business continuity strategy. Furthermore, it was found that some risk treatment plans did not have appropriate timeframes established. Our review has confirmed that these recommendations have been appropriately actioned by the TAO.

Effective Risk Management requires the engagement of key stakeholders as well as the whole organisation. During our review, it was unclear to what extent the TAO engaged all of its staff members in order to understand the risks and the risk treatment plans and to participate in the identification of risk.

Recommendation: *that the TAO provides continuous feedback to the whole organisation on risks and risk treatment plans, with an emphasis on engaging and encouraging all staff members to identify and report risks for management's consideration.*

TAO Comments: *Agreed. A recent workshop, conducted after Nexia had completed their field work, reviewed all key risks and was attended by almost half the Office. At future Office forums discussions about our risks and management thereof will become a standing item.*

The Accounting Professional & Ethical Standards Board (APESB) issued professional standard APES 325 Risk Management which applies to all Firms (including Auditor-General Offices). The standard requires all firms to implement a Risk Management Framework in compliance with this Standard by 1 January 2013. The Risk Management Policy statement was updated and reviewed by the TAO on the 1 August 2013. This statement does not make any reference to this standard nor is it clear whether the TAO has assessed its compliance with this standard.

Recommendation: *that the TAO incorporates the requirements of APES 325 Risk Management into its Policy Statement and assess its compliance with the standard. Measures should be introduced as a matter of urgency to ensure compliance.*

TAO Comments: *Agreed and this has been done – we have mapped our current framework with APES 325 and will improve documentation by making explicit reference to this Standard.*

2. Conduct of financial audit engagements

Under the Audit Act, the Auditor-General is the auditor of financial statements of the Treasurer, all State entities, State-owned companies and subsidiaries of State entities. The Auditor-General may appoint a person to audit or may delegate the audit function. The Auditor-General audits these entities using his staff (the FAS business unit) and five external audit service providers.

The FAS business unit is responsible for the annual audit of the financial statements of 179 State entities, the General Government Sector Financial Statements, the Public Account Statements and the Total State Financial Statements and more than 100 acquittal statements. FAS' role includes conducting financial audits, managing financial audits contracted to the External Audit Services Providers and managing financial audits dispensed with. There are three Signing Officers in the Office (including the Auditor-General) who can sign audits on behalf of the Auditor-General.

2.1 Audits completed by the External Audit Services Providers

Only 5 of the 13 firms on the panel of External Audit Services Providers (External ASPs) are currently contracted to complete 30 financial audits (approximately 10% of the total number; 22% of total fee portfolio). We note that this is a 2% higher percentage of total fee portfolio from the targeted 20%. Most of these engagements are allocated through full tender and are largely completed by the "big 4" accounting firms. These audits are signed off by one of the three Signing Officers, thereby requiring Signing Officers to take responsibility for the direction, supervision and performance of the engagements. We believe that a sound process is in place to discharge this responsibility. The Office recovers 15% of the audit fee from the auditee to compensate for their involvement.

We believe that there are merits in considering delegating the Signing Officers' responsibility to the respective External ASPs. This could be done on a case by case basis depending on the engagement risk and capability of the External ASPs.

The Office could continue to retain the a reasonable level of fee to be utilised on quality assurance processes, research and development to support the sector, the External ASPs and/or specific issues relating to the auditee.

Most External ASPs undergo quality control and monitoring regimes in their own network within Australia and globally. Therefore reliance can be placed on the External ASPs' internal quality assurance process to conduct these audits on behalf of the Auditor-General.

Recommendation: *To further enhance the monitoring procedures in place, the Office could consider obtaining an annual declaration of compliance with the Quality Control Standards from these External ASPs and carry out periodic quality assurance reviews of their audit files.*

TAO Comments: *Agreed as it relates to obtaining annual declarations of compliance with the Quality Control Standards from External ASPs. Currently we carry out quality assurance reviews of audit files of all contracted audits. Once we have initiated obtaining declarations of compliance, including evidence of compliance with ASIC, CPAA and ICAA requirements where relevant, we will explore reducing our quality assurance reviews.*

The purpose of such reviews would be to monitor the performance of External ASPs and their audit teams, in accordance with the terms and conditions of the Instrument of Appointment Document, which should include compliance with auditing standards, independence and ethical requirements, and any other requirements and guidance. It is a widespread practice to recover the cost of such reviews from the reviewee (ASPs).

Recommendation: *that the Auditor-General considers including External Audit Services Providers as Signing Officers and / or reviewing the level of involvement in the contracted audits.*

TAO Comments: *I am reluctant to include External Audit Services Providers as Signing Officers because I do not believe this is envisaged by the Audit Act. However, I will explore this with the Public Accounts Committee.*

Other than as outlined in response to the immediately preceding recommendation, I do not plan to reduce our involvement for two reasons:

- *Ultimately the work of the External ASPs results in a report to Parliament. I need to have sufficient understanding of the entity to ensure appropriate reporting; and*
- *Audits conducted by External ASPs may/will not always be outsourced. It is essential that my Office retain close contact with, and understanding of, the entities being audited. Reducing our involvement would not facilitate this.*

2.2 Small size audits

For the purpose of this report, small audits are defined as those audit engagements with annual fees less than \$10,000. Most of these audits are completed by the FAS business unit. There are approximately 40 such audits with a total fee of \$180,000. While these audits are not a significant proportion of the Auditor-General's portfolio, they contribute towards the Office's net financial results of \$399,000 (2012: \$237,000). These audits are traditionally completed by less experienced staff members as a training tool, therefore viability is not seen as a driver when accepting and / or continuing these engagements.

While we recognise that these are small clients and have low monetary impact on the public sector, the inherent audit risk associated with such clients is generally high. In common with other organisations of similar nature, small clients generally have poor segregation of duties, generally do not have highly qualified staff and may have cash handling activities which require high internal controls to ensure completeness. Therefore, the audit approach will need to be tailored for such small clients in response to the inherent risks that are prevalent for such clients. In addition, there is no "differential" auditing standards that can be applied to these small audits, i.e. the same auditing standards should be applied to all entities regardless of size with the consideration of the size of the entity reflected in the audit approach applied.

As noted above differentiating the audit approach between large and small audit clients would enable the Office to manage the audit risk more effectively. The Office needs to weigh up the cost and benefit of developing a small audit approach (note: this is in addition to the IPSAM toolset used) and provide adequate regular training to the team within this small client fee base.

Recommendation: that the Office:

- reviews its financial audits portfolio to ensure the “right mix” of clients for its FAS business unit and External Audit Services Providers;
- develops a small audit approach; and
- reviews the current audit fees charged to ensure that they reflect the minimum work required to comply with the Auditing Standards.

TAO Comments: I respond to each recommendation as follows:

- agree to carry out such a review. Doing so will include reviewing audits dispensed with;
- a small audit approach is now under development. I agree doing so is important and relevant; and
- agree to carry out the review recommended in conjunction with the previous dot point. In this regard it is noted that we comply with the minimum work required to comply with Auditing Standards. Doing so can, and sometimes does, result in audit fees some audit clients believe too high or may result in the fees for some smaller audits needing to increase. I will explore the provision of more information in AGRs where the Office is required to spell out the basis for setting audit fees.

2.3 Dispensed audits

There are 35 audits that are dispensed as they have adequate alternative audit arrangements and the financial statements are reviewed annually by the Office. 25 of these are subsidiaries of State Entities which are audited by the Auditor-General. The remaining 10 entities are audited by third parties. The total audit fees of the remaining 10 entities are less than \$5,000. While they are public sector entities and require the same accountability from the Auditor-General, being part of his mandate, we believe that the current approach is economical for the Office and the client.

2.4 Auditing Standards

At present, there are no separate Auditing Standards promulgated by the Office of the Auditor-General for either Financial Statement or Performance Audits.

Under section 19 of the Audit Act, the Auditor-General’s financial statement audit opinion should be based on an audit carried out in accordance with the requirements determined by the Australian Auditing and Assurance Standards. The Auditor-General appropriately utilises Australian Auditing and Assurance Standards for financial statement audits as the sole resource.

We understand that some Auditor-General Offices in Australia and New Zealand issue their own financial statements and performance auditing standards to supplement the Australian and New Zealand Auditing and Assurance Standards, because these published standards do not always take full account of the particular scope and nature of public sector audits. For example, there is no particular auditing standard dealing with the audit of public sector performance measures including KPIs.

Recommendation: that the Auditor-General publishes his own Auditing Standards where there are gaps in current Australian Auditing and Assurance Standards to incorporate the nature and work performed by the Office and its external ASPs.

These standards should include auditing performance measures including KPIs as per sections 2.8 to 2.10 below.

Note that such standards should also specify additional requirements when there is a gap in existing Australian Auditing and Assurance Standards.

TAO Comments: I respond to each recommendation as follows:

- We will carry out an exercise aimed at identifying gaps in the standards and develop and issue standards where gaps are noted.
- Agreed although this will only be done in the event that the Parliament legislates a requirement for State entities to report performance measures, including KPIs, and that such reports are issued and are required to be audited.

2.5 Audit methodology

When conducting its audits, the FAS business unit uses an Integrated Public Sector Audit Methodology (IPSAM) system which complies with Australian Auditing and Assurance Standards issued by the Auditing and Assurance Standards Board. IPSAM system is a risk based audit methodology and fully integrated lotus notes application which provides for electronic documentation.

IPSAM system was a joint development between the Queensland Audit Office and the Victorian Auditor-General's Office. This system is also used by three other Audit Offices in Australia in addition to Tasmania. The Office participates in the IPSAM user group to help ensure the methodology remains current and provides the most efficient and effective means for completing audits. However, reliance is placed on the developers to update the system and ensure compliance with Auditing Standards.

The introduction of "force of law" Auditing Standards in Australia from 1 July 2006 has placed rigorous requirements on audits, particularly documentation (demonstrating the linkage between Auditing Standards and work performed), professional scepticism, independence and quality control within audit practices. Therefore, it is important that the Office has the assurance that proper completion of the IPSAM system would ensure compliance with Auditing Standards. While it is outside the scope of our work to confirm compliance with Auditing Standards, we note that reviewers of the Queensland Audit Office have concluded in 2010 that its audit processes and documentation are consistent with the Auditing Standards.

Furthermore, The Victorian Auditor-General's Office contracted a consultant to review the compliance of the IPSAM system with the revised Clarity Australian Auditing Standards in May 2010. Key management are also included in user groups which meet and discuss the IPSAM system on a regular basis. However, there is no formal review of the IPSAM system on an annual basis to validate its continuing compliance with current Australian Auditing and Assurance Standards.

Recommendation: that an annual review is performed by the Technical and Quality Director to evidence the continual compliance of the IPSAM system with Australian Auditing and Assurance Standards.

TAO Comments: Agreed.

The IPSAM system contains the audit manual (i.e. policy and guidance) and the toolset to execute financial audits. There are three types of files that can be created depending on size – small, medium and large. We understand that there is currently no policy to provide the audit team with guidance on which templates to use. While most audits are “rolled over” from previous years, a policy would assist in ensuring consistency of the audit package used across the FAS team. A new “smaller” template will be released shortly. Considering this, it is important to formalise this policy.

Recommendation: that a policy providing guidance and thresholds on the audit packages to be applied to the specified sizes of audits be formalised as part of the Office’s Quality Control Manual.

TAO Comments: Agreed.

All financial audits are executed in IPSAM, including work performed by External ASPs although only specific sections of IPSAM are used in the latter case. The next release of IPSAM will include a portal for External ASPs which will enhance the flow of information between the Office and External ASPs.

Procedures within an IPSAM file can be deleted by any audit staff. A trail of these deletions remains on file in a ‘waiting for deletion section’ until the file is finalised and rolled over to the next year. Completion of these procedures will demonstrate compliance with all the mandatory steps within the Auditing Standards and the lack of an appropriate audit trail of deleted documents or a review of the waiting for deletion section of the file may impede on the TAO’s ability to validate compliance with the Auditing Standards.

Recommendation: that the waiting for deletion section of the file is reviewed and approved at the completion of all engagements to ensure only relevant documents and procedures are deleted.

TAO Comments: Agreed.

2.6 Review of financial audit files

We reviewed some 15 files at different depths to assess whether procedures are completed in accordance with the audit methodology and whether there is sufficient appropriate audit evidence on file. The review of the appropriateness of the audit opinion issued by the Auditor-General is outside the scope of our work.

We noted that all programs contained in IPSAM are generally completed which indicates that the respective matters have been considered by the audit team. IPSAM as a tool provides a disciplined and structured approach to the audit process. Refer Quality Control section for observations and recommendations relating to review of financial audit files and Steps Taken in Response to Previous Peer Reviews section for a follow up of recommendations raised previously.

The Auditing Standards since becoming “force of law” many years ago have put a significant focus on “ticking the boxes” and have put pressure on the time available on audits. This is generally taken to have somewhat limited the opportunity for auditors to “think outside the box” and inadvertently creates a perception within clients that auditors do not understand the entity and its environment or do not have the requisite skill base to add much additional value (note the explicit Stakeholder feedback in section 7). We note that the audit team appears to have an adequate understanding of the sector and issues faced. However, these attributes are not always adequately demonstrated on the audit file. We believe there are opportunities to bridge this gap by considering the following areas:

2.6.1 More emphasis on legislative compliance by clients

There is generally a good level of identification of relevant legislations during the planning stage. While there is a program “complete the finalisation checklist” that is available, these checklists are not consistently completed.

IPSAM library has the four commonly used checklists, namely Financial Management and Audit Act 1990, Government Business Enterprises Act 1995, Local Government Act 1993 and Corporations Act 2001. These checklists are very comprehensive and if completed properly, will identify any breaches that may be fundamental to the operating and financial aspects of the entity. There are no other standard checklists for other legislations.

Recommendation: *that a review of all legislation is performed to assess the critical compliance sections. Checklists should then be developed for inclusion in the IPSAM library.*

TAO Comments: *Agreed.*

Recommendation: *that legislative compliance checklists are consistently completed on all audits. These should also reflect the procedures client management has implemented to ensure compliance with the relevant legislation.*

TAO Comments: *Agreed.*

Recommendation: *that the audit approach to legislative compliance be reviewed to incorporate identification of key and non-key legislation, clearly documented in the Audit Strategy (Audit Planning) document. These should include the non-compliance of non-financial matters that may be fundamental to an entity.*

TAO Comments: *Agreed.*

2.6.2 *Probity and waste consideration*

There are specific Auditor-General guidance statements stipulating requirements for annual audits to consider issues of effectiveness and efficiency, waste, and a lack of probity or financial prudence. These are embedded in various audit programs and guidance materials in IPSAM to satisfy this requirement.

The overall audit strategy and audit plan should clearly document the types of sensitive expenditure to be examined and the nature, timing, and extent of the audit testing to be carried out. This can be performed by obtaining an understanding of the attitude of management and those charged with governance towards sensitive expenditure, assessing the public entity's policies against current good practice, and performing tests on a sample of expenditure to evaluate whether the public entity has complied with its policies and that the expenditure:

- has a justifiable business purpose;
- preserves impartiality;
- has been made with integrity;
- is moderate and conservative, having regard to the circumstances;
- has been made transparently; and
- is appropriate in all respects.

However, as a general approach, we found that significant audit reliance is placed on the existence of clients' internal policies, effectiveness of clients' controls and review of a sample of credit card statements. There is no clear evidence of other substantive testing procedures on these sensitive expenditures nor evidence that this area was critically analysed and assessed to ensure an appropriate application of the guidance provided by the IPSAM methodology.

Recommendation: that probity and waste considerations are critically analysed, reviewed and assessed during the course of the financial statement audit to ensure a more thorough and appropriate application of the IPSAM audit methodology in this area.

TAO Comments: Agreed.

2.6.3 *Completeness of related party transactions*

There are no audit procedures evident to test the completeness of related parties if there is no disclosure requirement in the financial statements, i.e. when Special Purpose Financial Reports are prepared. The level of testing is limited to checking the accuracy of the disclosures in the financial statements. The general auditing assertion risk is completeness of these transactions.

Auditing Standards (ASA 550 Related Parties) specifically state that irrespective of whether the applicable financial reporting framework establishes related party requirements, auditors are required to obtain an understanding of related party relationships and transactions sufficient to be able to recognise any probity or fraud risk factors and ensure that financial statements are not materially misstated due to transactions with these related parties.

Recommendation: *that the approach to auditing related party transactions be reviewed, to comply with the Auditing Standards and procedures designed to capture the completeness of disclosures.*

TAO Comments: *In the main, public sector financial reporting frameworks establish no or minimal related party disclosure requirements. In previous reports to Parliament I have recommended all Government Businesses fully adopt the remuneration and related disclosure requirements of AASB124 Related Parties Disclosures, as well as the requirements of the Corporations Act 2001 as they relate to disclosing entities.*

Local Government has fewer disclosure requirements with leeway for disclosures in some instances between either the Financial Report or in the Annual Report. Related party financial reporting frameworks for the vast majority of other public sector entities are usually silent. However, the principle and intent of the recommendation is supported and it will be implemented.

2.6.4 Use of Internal Auditors

All previous peer reviews have commented on the improvement to documentation of work papers and audit procedures on reliance on the work of internal auditors. However, several stakeholders specifically commented the TAO could/should use the entity's internal auditors where they have more detailed or technical knowledge, and/or can more readily access data and information. Benefits such as reducing audit costs, getting access to technical or industry specific knowledge, reducing overall audit time and reducing the impacts for the entity were all commented on.

We understand from discussions with FAS and our review of audit files, that the possibility of using internal auditors is regularly assessed. However, in most situations, the timing and scope of the internal auditors' work is considered as not appropriate for the TAO and limited reliance is placed on the work of internal auditors.

Our review has highlighted an expectation gap between the TAO and its clients in relation to the use of internal auditors.

Recommendation: *that training on the reliance on the work of internal auditors is offered to staff for the purpose of re-assessing the TAOs approach to using the work of an internal auditor.*

TAO Comments: *Agreed. There is also a need for us to manage this expectation which we will do.*

While the role of external auditors is not to direct the work of the internal auditor, we believe there are merits in discussing the draft internal audit work plan with management to ensure that expectations are clear from the outset.

Recommendation: *that where applicable, the draft internal audit plan is discussed, agreement reached with management on the level of reliance and the impact on the audit procedures to be performed.*

TAO Comments: *Agreed.*

2.6.5 *Creating a sector specialists group*

The Auditor-General's portfolio can be divided into four main sectors:

- Ministerial Departments;
- Government Businesses;
- Local Government & their joint entities; and
- Other State Entities.

There is limited specialisation within the FAS business unit, i.e. all staff have equal chance of working in all sectors. While this can be a great recruitment feature by providing staff with a wide range of experience, clients do not get the benefit of having experienced staff who have worked in the same sector. We also appreciate that a majority of the Office's portfolio have a June balance date. These audits are required to be completed within three months of balance date which does not give the Office the opportunity to resource in a different manner.

The Auditor-General and his key staff's knowledge are highly regarded by the sectors. However, this view is not consistent for the rest of the Office. We believe that this initiative will provide an opportunity for the Office to provide additional value to clients, further enhance its identification of key issues and providing confidence to clients of the audit team's knowledge.

Recommendation: *that the Office creates sector specialists and champions within the FAS business unit to complete an overall planning document (Audit Strategy document), tailoring audit procedures to address sector specific risks, designing work papers (to ensure consistency within the sector) and detailed sector update to the audit teams.*

TAO Comments: *This recommendation will be explored.*

2.6.6 *Application of materiality*

Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Following the determination of materiality, the Auditing Standards require the determination of:

- performance materiality for purposes of assessing the risks of material misstatement and the nature, timing and extent of further audit procedures. Performance materiality also assists to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
- tracking materiality for ensuring that misstatements that would be clearly trivial and would not need to be accumulated because the accumulation of such amounts clearly would not have a material effect on the financial statements. Tracking materiality is also known as “clearly trivial”.

Materiality, performance materiality and tracking materiality are key to determining the level of audit work performed on each audit. The audit manual contained in IPSAM provides guidance on the application of these concepts. We noted that materiality is determined at planning and again, at conclusion of the audit to ensure that the basis and level set are still appropriate. However, there is no evidence of the determination of performance materiality and the “clearly trivial” threshold.

In addition, it is not apparent that a separate performance materiality was considered when testing sensitive expenditure and related party transactions. The guidance materials clearly state that “as far as materiality issues are concerned with respect to appropriate use of public resources, qualitative aspects need to be considered first as the nature of the transactions may be significant irrespective of the absolute dollar amounts involved.”

Recommendation: *that the concept of performance materiality and tracking materiality is introduced in the execution of all financial audits.*

The Office includes a separate materiality (including performance and tracking) consideration for balances that are material in nature.

Appropriate staff training on the application of materiality, performance materiality and tracking materiality should follow.

TAO Comments: *I respond to each recommendation as follows:*

- *I am of the view that we already comply with this recommendation. We apply a concept of ‘planning materiality’ which is effectively used as ‘performance materiality’. We also have a tracking materiality which is set at 1% of the planning materiality. However, we acknowledge that the terminology used in the Office differs from that in the Auditing Standards and as a result the recommendation will be examined.*
- *Agreed.*
- *Agreed.*

2.6.7 Refocusing audit approach – information technology

There has been significant structural and organisation change in the Tasmania public sector.

The implementation of national and state reforms in housing, homelessness, disability services, children and youth services and health resulted in the establishment of three Tasmanian Health Organisations. Recently, there was the amalgamation of the three Tasmanian Water and Sewerage Corporations - Ben Lomond Water, Cradle Mountain Water, Southern Water and their service firm, Onstream. We also note the increasing use of shared services.

The Office had to refocus its audit approach to accommodate the increasing complexity of audits and the increasing use of technology and the automation of significant client processes generating large volumes of transactions. We are encouraged to see the increased use of spreadsheets such as pivot tables, look up and reference functions as a risk assessment tool (i.e. to understand the population tested) and the random numbers generated as a sampling tool. However, the Office is reliant on a few individuals in FAS to use these tools.

Furthermore, there was little evidence of any critical assessment of the client's use of information technology and whether such systems could be used within the course of the audit. There was very little evidence of the assessment as to whether *Computer Assisted Audit Techniques (CAATs)* could have been utilised to gain efficiencies within the audit process.

Recommendation: that the Office enhances its review and assessment of the client's information technology systems to assess their appropriateness and whether they could be incorporated in the audit process to deliver greater efficiencies.

That the office considers its audit approach to incorporate CAATs to deliver greater efficiencies throughout the audit process. In particular, there has been a growing use of Data Mining software to assist auditors within sophisticated and high volume IT environments.

Examples of Data Mining software include CCH Active Data and IDEA. Data Mining champions should be identified and trained with pilot clients selected for the 30 June 2014 financial year end.

TAO Comments: Both recommendations are agreed to.

Data mining software will assist the auditors to facilitate their work and ensuring consistency across the business unit regardless of the level of Information Technology (excel) skill levels.

While the traditional data mining software focussed the design of procedures around sampling and stratification of data, modern tools have incorporated procedures that can test completeness and accuracy of the entire population within "a minute" (i.e. testing entire populations reducing reliance on sampling). We see the implementation of data mining software as an extension to the Office's risk based approach to auditing.

We noted that significant audit issues identified on individual engagements are generally well addressed by the auditors, with evidence of Signing Officer's involvement. Routine testing on the major cycles appear to be a fairly standard approach (generally consists of understanding the systems, walkthroughs to confirm understanding of the systems, testing the operating effectiveness of controls, analytical reviews and substantive testing via sampling) and consistent with the Office's methodology. With the increased availability of electronic data, we believe that there is an opportunity to redesign the approach to obtain better coverage of audit evidence to satisfy the risk of misstatement based on assertions and to deliver greater efficiency.

Recommendation: *tailor and design audit tests based on efficient use of audit effort and risks using data mining software and/or excel.*

TAO Comments: *Agreed. The Office currently utilises excel to assist in conducting analysis of client data, selection of samples and other analytical procedures. However, as we agree with the intent of the recommendation we will evaluate other techniques and tools to identify any further opportunities to improve audit coverage or increase audit efficiency.*

The Auditing Standards also require that the risks of material misstatement are assessed at the financial statement level and also at the assertion level. In this regard, we noted that the work performed on the risk of material misstatement at the assertions level is not always very clearly demonstrated. Therefore, the testing performed may not fully address the audit risk. For example, related party transaction work described above and auditing tax balance (an accuracy check is performed along with representations from tax advisors, if appropriate). We understand that the Office is aware that training is required to better familiarise the team with the concepts of assertions, materiality and designing of audit procedures.

2.7 Adding value through the audit

Please also refer to sections 4.3 to 4.6 below for a detailed discussion regarding the strategic directions of the Office and the imperative to ensure a greater value add from the financial audit role.

There are increasing expectations in Western economies for auditors to add value by providing more information than "just" their opinion. Auditors are in a unique position to assist this value add through their independence, objectivity and knowledge of each entity and of each sector.

Adding to this expectation, is the expressed strategic direction of the Auditor-General to help improve service delivery in the public sector as outlined in sections 4.5 & 4.6 below, concurrent with the strongly expressed need for the Tasmanian public sector to perform better.

Accordingly, we firmly believe that auditing service performance must be a core part of the TAO audit role in future.

There is no doubt that the independent financial audit role of the TAO adds significant value in itself to "trust in the Tasmanian public sector".

There is also no question that providing an independent audit opinion on just the financial results, only tells half the story for an entity. In the absence of matching audited financial performance reporting, with audited service performance data, the results won't tell the full story.

Accordingly we recommend two areas of major change for FAS. We believe these areas will not compromise the independence or integrity of the Auditor-General (or of his Office) in any way, but they will significantly improve the value he can add generally to the public sector and specifically through helping support continuous improvement in each entity.

Recommendation:

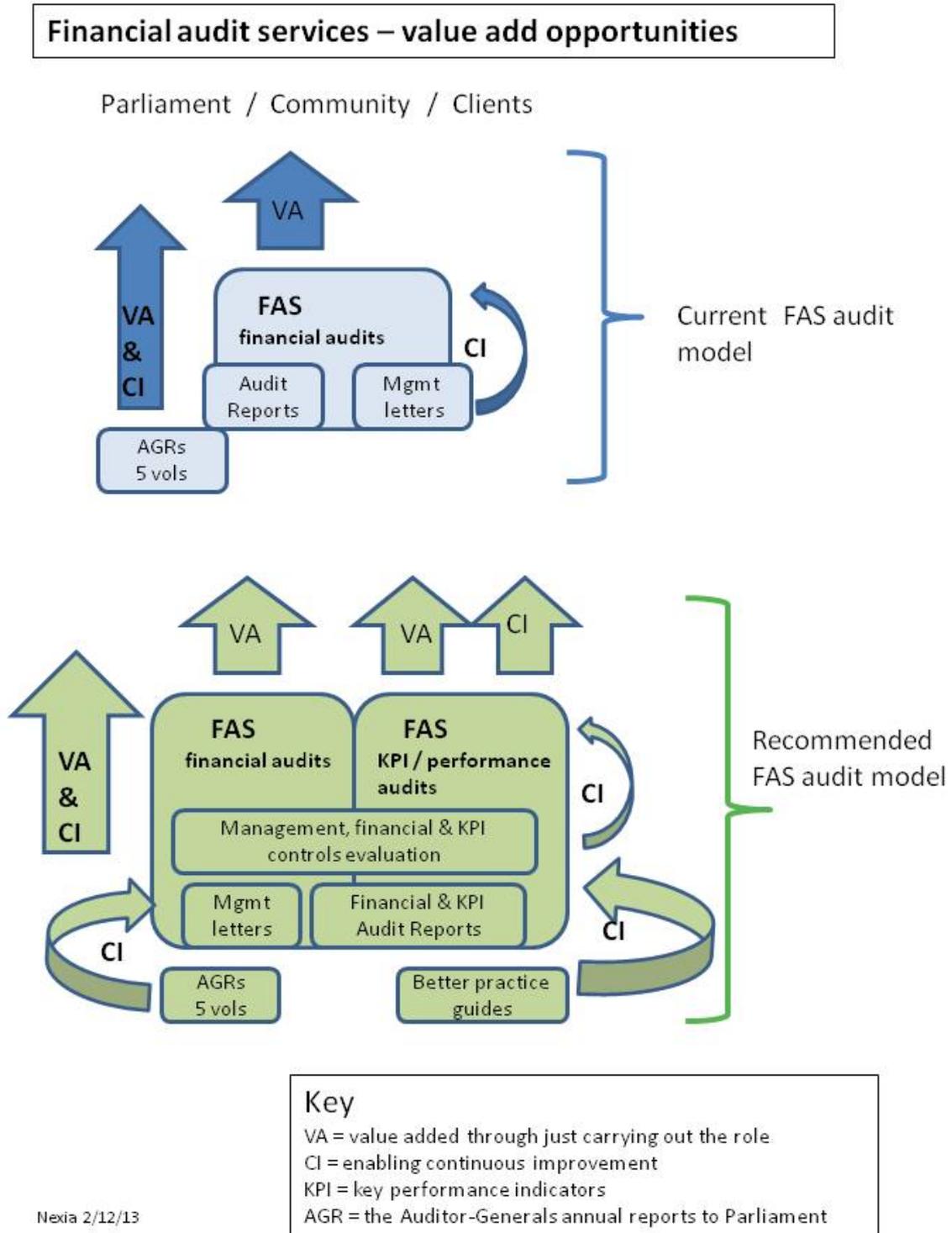
- *assess, comment on and summarise the management, financial and service performance (KPI) environment for every client, every year. To some extent this is already done in terms of assessing internal controls, but we recommend extending this; and*
- *start to carry out a full audit of, and provide an opinion on, the KPIs of each entity.*

TAO Comments: *Both recommendations are supported but will depend on legislative change. Despite this, we will explore ways to add value in line with the recommendation.*

The following diagram shows a simplified overview of the current FAS activity and where we believe, it adds value / contributes to continuous improvement. It then shows a simplified overview of our recommended FAS activity.

The two sections following the diagram provide more detail on our recommendations.

Fig 1 Overview of TAO and FAS value add roles



2.8 Auditing the management, financial and KPI / service performance control environment

We understand that this type of analysis is already carried out to some extent as part of each audit, in terms of assessing the systems of internal control.

We suggest that using a consistent and structured approach, all clients should be ranked in these three areas - i.e. – ranked Very Good, Good, Needs Improvement, Poor - by the audit team as part of the audit and reported to the entity in detail as part of the management letter.

In time, comparisons to previous years for each entity will add further value in terms of highlighting trends.

The rankings should also be summarised, compared and reported for the public sector as a whole, within sectors, so as to be realistically comparable and informative.

Recommendation: that as part of each financial audit, FAS assesses and comments on each client's controls and processes in the following three areas:

- Management control environment;
- Financial Information Systems & Controls environment; and
- KPIs / Efficiency, Effectiveness & Economy performance environment;

with the findings to be reported to management and relevant governing bodies / audit committees through the management letter.

TAO Comments: Agreed in all respects.

Recommendation: that annually, the Auditor-General summarises the three control environment assessments, by sector or other relevant grouping and presents such aggregate analysis through the existing AGR reports.

TAO Comments: Agreed in all respects.

This type of assessment will materially assist entities, their management and governing bodies, to understand their controls, the adequacy, effectiveness and maturity levels of those controls, in their own organisation. It will also enable comparisons (where practical) across sectors and/or with peers.

We recognise that this will add to the workload and costs of the FAS team, but also believe the existing staff should have the skills to carry out the analysis.

We understand that questionnaires supporting the assessments are available through some other audit offices.

2.9 Auditing KPIs of efficiency, effectiveness and economy

As discussed in our report in section 4 and above, we strongly believe there is an opportunity or need to audit each entity's KPIs and to provide an audit opinion on them.

This is entirely in line with the Auditor-Generals recent recommendation as detailed in section 4.5 below. That recommendation warrants repeating here:

“TAO Recommendation:

- *that Tasmanian State entities be required to annually report relevant and appropriate indicators of their effectiveness and efficiency and that these be audited.”*

Source – Report of the Auditor-General No 11 of 2012-13

Our recommendations above reflect this completely, i.e.:

Recommendation: *that as part of each audit, FAS assesses and provides an opinion on the KPIs of the entity, in terms of fit with their strategic direction, agreed outputs and outcomes and actual reported achievement and their match with financial reporting.*

TAO Comments: *Agreed but this will require legislative change. In the mean time we will continue to pursue voluntary change in this area.*

Recommendation: *that as appropriate, TAO develop “better practice guides” to assist public sector entities in KPI setting and systems development.*

TAO Comments: *Agreed.*

Recommendation: *that as appropriate, TAO includes pertinent analysis and commentary on KPIs in the AGR reports.*

TAO Comments: *Agreed.*

From our discussions it is clear that this proposed action to audit KPIs is not new to the Auditor-General. But the biggest challenge is how and when to introduce it to the Tasmanian public sector and how to ensure that TAO is in a position to play its part.

We note that existing legislation (such as the State Service Act 2000 S 34 and 36) addresses the requirement for agencies to operate efficiently, effectively and economically; and to report annually on effectiveness of performance management. At the same time, we got specific stakeholder feedback that there is confusion as to what KPIs are and how to develop them!

To achieve this recommendation for TAO specifically will take several years although TAO could pilot KPI reporting with a small number of public sector entities and learn from that before gradually extending to the whole public sector. Regardless, there are a number of immediately obvious tasks, viz.:

- Developing consistent definitions (suggested building on those developed by the Productivity Commission);
- Identify and build on the work already completed in other audit jurisdictions (Western Australia was mentioned consistently);
- Ensure that the next appropriation / budget cycle uses consistent KPI terms and requires outcomes as well as output measures that can be audited at year end;
- Identify the appropriate membership and driver of a working party to implement a pilot study;
- Determine the effectiveness of current legislation and the need (if any) for legislative change, new accounting or auditing standards, new Treasurers Instructions (TI), or other backing;
- Determine the resourcing and cost impacts for TAO; and
- Determine the need for training and methodology development / adoption.

2.10 Fee setting and monitoring process

The basis for setting audit fees is published in the AGR as required by the Audit Act. We note that a comprehensive process is undertaken to determine the expected audit hours required considering the basis detailed in the document. The Office also performs an overall resourcing capacity check (charge out rate x number of staff x production rate) based on the projected fees from auditees to ensure there is no significant surplus (and to confirm the rates used are reasonable).

Cost overruns (write offs) are monitored on a job by job basis. The Office should consider monitoring this at a macro level to identify apparent trends, such as one sector subsidising another.

We note that the overall write offs percentage for year-end audits is very low at 1% which compares favourably with peers. See also section 5.5 below re the impact of this from general management of the office's perspective.

Recommendation: *that write offs continue to be monitored at sector levels to ensure consistent performance within the sector or across sectors.*

TAO Comments: *Agreed.*

3 Conduct of performance and compliance audits and investigations

The latest ORIMA survey of performance and compliance audit clients showed very good results for the PAS group in 2013:

“The results were very positive overall for TAO in 2013, with all indices recording the highest scores since 2005 June 13”.

We got very good feedback relating to performance audits from a broad range of stakeholders (see appendix 1). The messages covered a wide spectrum from:

“very positive, good reports, well presented and communicated”.

“the value in his carrying out a variety of performance audits is more important than the actual number of performance audits”.

Many of the stakeholders expressed these types of sentiments, quite strongly.

to

“too historical, too little value add, too much accountant input and too little specialist expertise, not authoritative”.

“no wow factor”.

“could have / should have used our internal auditors more”.

“it’s a useful role but many of the reports don’t really add value, except that departments know the Auditor-General is there and can / will carry out performance audits”.

Many of the stakeholders expressed these types of sentiments, generally in a positive way for improvement.

As we expected, the more positive feedback came from the political level where they appreciate the independent assurance part of the performance audit role as much as the actual content of each performance audit.

At the other end of the spectrum, the more negative comments tended to come from auditee entities where they are less aware of the bigger picture, especially regarding the independent assurance role as part of the whole system of checks and balances within the Westminster style of government.

One stakeholder uses reports from other state Auditors-General as they are more technical and/or address specialist areas. The same stakeholder also clearly recognises the size and limited resources of TAO. However, TAO should consider how to learn from them, and/or consider how to effectively use the technical expertise of other State Auditors-General when needed, and when the expertise is pertinent to Tasmania.

These comments regarding specialist expertise and practical knowledge are relevant and are commented on further under section 5 below.

The comments regarding internal auditors are relevant and are also commented on below.

We believe that both of these areas are relevant to TAO being able to demonstrate and deliver a higher degree of value add over a period of time.

3.1 Performance audit methodology

We reviewed the methodology as evidenced in the Performance Audit manual and IPSAM (the latter used as a document management tool). It is appropriate to the task and is used in a practical way that is relevant to TAO's smaller sized performance audits (when compared to peers). We note that the Technical and Quality Director recently co-ordinated a review of the manual's compliance with the Assurance Standards and did not identify any significant concerns.

The Performance Audit Manual has been updated this year and is appropriate for the size and nature of TAO. In considering alternative methodologies for documenting performance audits, we believe that the IPSAM toolset is appropriate and is perfectly scalable for TAO size audits. We note that IPSAM is largely used as an effective document management system for PAS.

Given that most of the other state audit offices (especially those you work closely with) also use IPSAM (although primarily for financial audits), we can't see any reason for or benefit in changing.

There are a number of smaller compliance audits, as well as a range of investigations, carried out and there is an internal protocol that determines acceptance and management of these by TAO.

Recent reviews of the Performance Audit group and of some performance audits by the ACT Office in 2009, by Bob Sendt in early 2009 and by an ACAG team from 3 other Offices in late 2011 were generally positive. Most comments and suggestions appear to have been actioned to an appropriate level given the small size of the Office.

Our reviews of the Performance Audit manual and of the two performance audit files we reviewed in some depth (noted below), confirm that the issues raised by these reviews have largely been addressed.

We believe the cost of IPSAM is reasonable to the Performance Audit group and represents value for money.

3.2 Compliance audits and investigations

We noted that these vary significantly in size and frequency. We understand that Compliance audits are similar to Performance Audits and are managed using the same methodology, quality control and documentation approach.

Investigations (often termed "complaints") tend to be more ad hoc in the approach, with many of the smaller ones dealt with rapidly, by phone / email and it would be totally inappropriate to try to use the Performance Audit methodology for them.

In this context, several of the stakeholders commented very favourably and explicitly that:

“The Auditor-General responds rapidly to smaller requests and often deals with them personally and resolves the issue satisfactorily”.

We noted one, more significant Performance Audit, DHHS – Output Based Expenditure, was largely carried out by the Auditor-General and reported through volume 5 of the Auditor-General’s Report on the Financial Statements of State entities in 2013. It is a good report and from our experience of health sector reforms in other jurisdictions, it contains good analysis and logical recommendations. However, we also noted that the supporting records are “manually” maintained rather than being managed through IPSAM as part of the Performance Audit methodology.

Recommendation: *clarify the definition of when a “complaint or inquiry investigation” is sufficiently large to warrant more formal management and quality checking in line with the Performance Audit methodology. This could be built into the internal protocols for dealing with complaints and inquiries.*

TAO Comments: *Agreed.*

3.3 TasPorts: benefits of amalgamation review

We selected this review at random and scanned most of the key documents and records held in IPSAM, to ensure completeness and effectiveness of the planning, execution, reporting, overall management and risk management. By and large, there was a good trail of evidence covering all of these areas.

The report reads well and covers a lot of analysis against the agreed objectives. The final conclusions were rather subjective as so much of the economic and trade activity had changed, especially following the Global Financial Crisis.

With the benefit of hindsight, there was a lack of clear benchmarks, definitive data or criteria at the outset that was going to be able to be used for the review to evaluate actual performance against.

However, the two recommendations, although not based on the objectives, were meaningful and relevant.

The overall time taken (some 15 months) and costs (some \$255,000) were 50% higher than originally budgeted. The review was lengthy, changed and was re-scoped and re-staffed after a considerable amount of effort and cost had been consumed.

We noted on one of the regular progress reports, that the execution time was 149% of budget, overall the audit was at 86% of budget, and that estimated completion was 56%. However there was no comment or red flag in the progress report regarding the rationale for overruns, actions to address them or re-planning the audit.

We understand that progress of all audits is now reviewed weekly by the PAS management team and actions regarding overruns / issues dealt with then.

It became apparent part way through the review that, first, the original forecast benefits were too broad to be able to be readily compared to subsequent post amalgamation performance of the amalgamated ports, and second, that external economic events had changed conditions so much that there was no possibility of a proper or relevant “apples with apples” comparison.

However, regardless of the subsequent external economic events negating much of the value of the original objectives, we understand that there was some significant political benefit from the performance audit. This latter benefit accrued in the sense that elected members were able to see that the amalgamation had not resulted in any significant or wholesale diminution of port infrastructure and operational capability in their respective constituencies.

The internal post audit review highlighted a number of lessons learnt for TAO.

3.4 Royal Derwent Hospital: site sale

We selected this review at random and scanned most of the key documents and records held in IPSAM, to ensure completeness and effectiveness of the planning, execution, reporting, overall management and risk management. By and large, there was a good trail of evidence covering all of these areas.

The report reads well and covers a lot of analysis against the agreed objectives. The final conclusions were in keeping with the objectives.

We noted that a number of the key planning and execution documents prepared in the period May to August 2012 were finally signed off as reviewed in March / April 2013. While this is just the formal signoff process in IPSAM, and there is evidence of appropriate involvement at appropriate times, it would be better if the formal evidence or review is recorded in IPSAM on a timelier basis.

There are existing workflow tools (within Outlook) that readily automate these processes and we believe these would materially assist in ensuring that documents that need to be reviewed, are presented to the reviewer, and follow up processes occur automatically if the review signoff doesn't happen within expected timeframes. The use of workflow within TAO would also lead to continuous improvement in this area.

Recommendation: *use workflow tools to automate the routing of key documents to reviewers and to help ensure effective management and quality control action on a timely basis.*

TAO Comments: *Although it appears that a review may not have been conducted, this was not the case. Review of working papers occurs continually and the seeming anomaly is a result of the dynamic situation that arises in creating successive versions of draft reports when the working papers are revisited and sometimes updates made.*

However, the use of workflow tools to assist the review process will be explored.

3.5 Re-focusing performance audits

We noted that some performance audits considerably exceed their time and cost budgets i.e. Financial and Economic Performance of Forestry Tasmania and TasPorts: benefits of amalgamation.

Both of these audits were complex and needed to be refocused part way through execution. With the considerable and increasing rate of change in all aspects of economic, social and political activity, any audit that last more than 12 months is at risk of failure because of such change.

This issue similarly affects the private sector and we have seen a clear and logical move in project management disciplines, to pause and challenge / re-scope any project that has been running for more than 6 months. While this review timeframe is not suitable for major capital works programs, it is entirely suitable for most other types of project, especially performance audits, where timeliness of reporting is increasingly a key factor.

Recommendation: *build into performance audit plans the requirement to stop, challenge and re-focus an audit that is more than 20% over budget, and/or 20% over time, or is taking more than, say, 6 months.*

TAO Comments: *Agree with this recommendation so far as exceeding the budget goes. When it comes to timeliness, there are often valid reasons that the audit is drawn out. Sometimes when these situations have arisen, the audit has been re-scoped — as in ‘Hospital bed management’ — to include later, more current information from the client.*

However, we will insert a major re-evaluation of any audit that is running by more than 20% over budget at the six-month mark.

We did notice a suggestion from Bob Sendt re performance audits, that there should be checkpoints at 40% and 75% completion. The weekly PAS review meetings have to some extent addressed this suggestion, however, we still believe that it would be useful to formalise check points.

Because of the nature of performance audits, there appears to be no consideration of stopping an audit even if it is clear part way through that conditions have changed and /or that the objectives substantially won't be met. However, we understand that from time to time, performance audits have been stopped at the early planning stage.

Such consideration should also include where the objectives will still be met, but now at an unacceptable cost.

Recommendation: build into the performance audit delivery process, the ability to cease a performance audit where:

- it is apparent that conditions have materially change; and/or
- the objectives won't be met; and/or
- the end result of the performance audit will not be worth the effort and cost.

TAO Comments: The Performance Audit Manual already allows for the situations described (in Section 4.12 - Approval of revised audit plans). We will ensure these procedures are complied with in all situations.

3.6 Use of internal auditors

Several stakeholders specifically commented that TAO could/ should use the entities internal auditors where they have more detailed or technical knowledge, and/or can more readily access data and information.

Benefits such as reducing audit costs, getting access to technical or industry specific knowledge, reducing overall performance audit time and reducing the impacts for the entity were all commented on.

We noted from our review of the Derwent Royal Hospital site sale, that there was explicit (documented) consideration of using internal auditors but it was assessed (quite correctly) as not relevant in that review.

We understand from discussions with the Performance Audit group that the possibility of using internal auditors is regularly assessed. However, in most situations the internal audit group is considered to be operating at too low a level and is often an internal checking group (or is focused on risk management activities) and not appropriate to be used to assist in a performance audit.

This issue is commented on further under section 5 below. However, in relation to performance audits specifically, we suggest that at the planning stage, the possibility of using the entities internal auditors and the subsequent decision, be made more explicit and communicated briefly to the entity.

This should avoid any subsequent negative comments – it might also help some entities to challenge and refocus their internal audit capacity to ensure it can operate at a more value add level.

Given the government's drive to achieve efficiencies and savings across the entire public sector, there appears to be a significant opportunity (where practical) to move the focus of internal audit groups from internal check to continuous improvement.

Recommendation: communicate formally with entities regarding the decision to use / not use their internal audit capability when conducting performance audits.

TAO Comments: Agreed. This can be achieved by explicit reference in the audit plan.

Recommendation: carryout a performance audit to review internal audit capabilities and opportunities to refocus them to assist entities in terms of developing and maintaining a continuous improvement culture.

TAO Comments: Agreed. Our previous audit on this topic (Special Report 52 'Internal audit in the public sector') was tabled in 2004 and followed up in 2007. We can add this topic to the 'Performance Audit topic matrix' that is used when considering future annual planning.

Note we understand from subsequent discussions that a performance audit addressing internal audit capabilities and delivery was carried out some years ago.

3.7 Quality Control reviews

This area has been commented on by most of the reviews over the past five years and given the emphasis on quality control within the standards, it will continue to be closely looked at.

In terms of performance audit, we noted that:

- quality control on each performance audit is primarily carried out by the PAS manager not responsible for the audit;
- there has been no (internal) cold quality control review of performance audits after completion to date – but this review role is to be undertaken by the Technical and Quality Director. He has just completed the first of these reviews after we completed field work for our review. We note that his review has not identified any significant concerns;
- reviewing the performance audit methodology and manual to ensure continuing compliance with ASAE 3000, 3100 and 3500, as applicable, is carried out by the Performance Audit team, in addition to the Technical and Quality Director. His recent review did not identify any significant concerns; and
- there has been a number of external / peer reviews of performance audits.

While we did not see any material or relevant breakdown in quality control, we believe that it is important for quality control to include an element of internal independence and that both the "cold" reviews or performance audits and the regular reviews of the performance audit methodology / manual to the standards need to be carried out.

Recommendation: that the cold (subsequent) reviews of performance audits are carried out by someone independent of the performance audit team.

TAO Comments: Agreed.

Recommendation: that regular reviews of the performance audit methodology are carried out to ensure continuing compliance with the standards (ASAE 3000, 3100 and 3500).

TAO Comments: Agreed.

4 Relevance of the strategic objectives, CSF's and their achievement

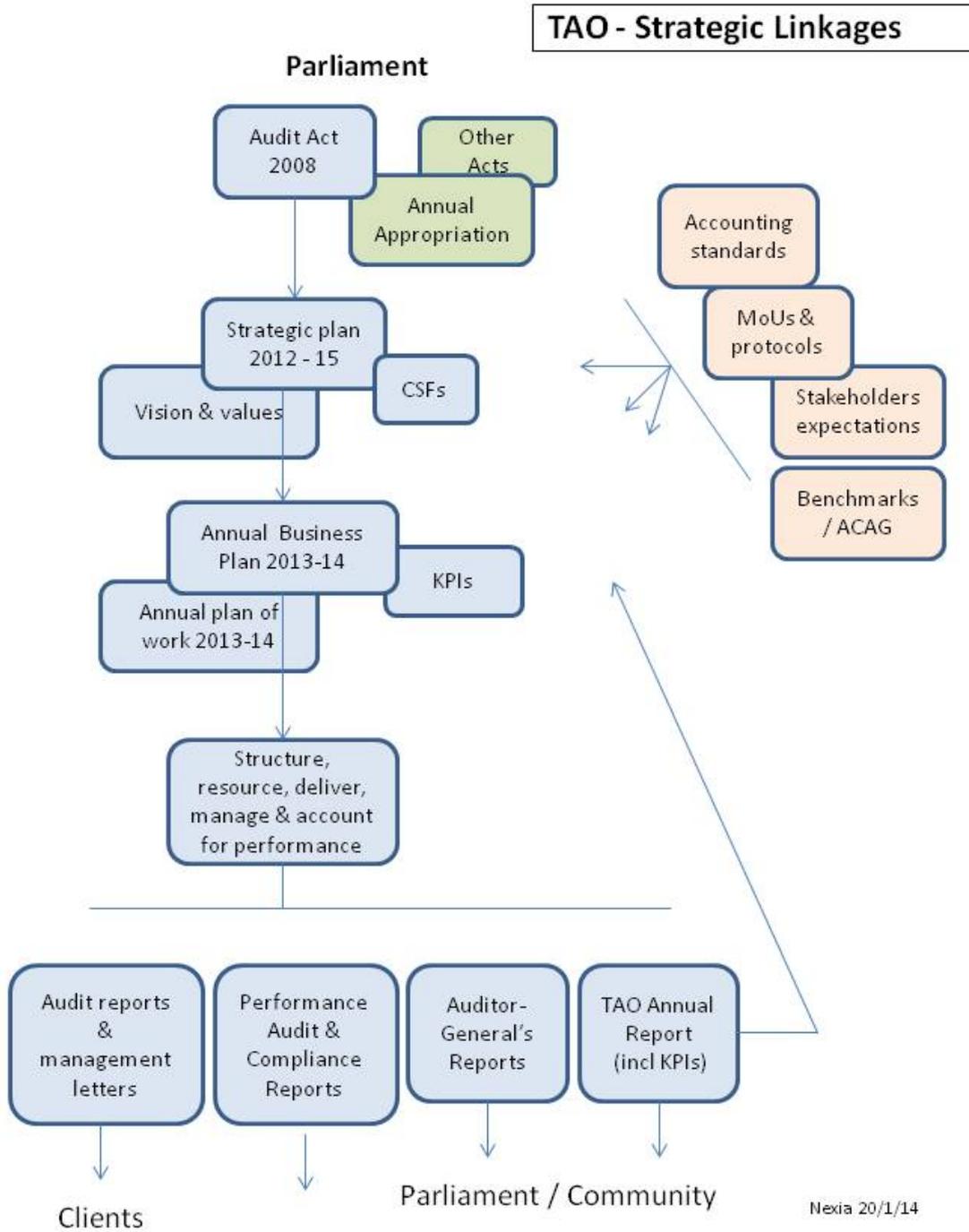
There is a clear and logical set of linkages or a strategic planning journey as shown on the following page, i.e.:

- from Parliament via the Audit Act, through the various strategic and longer term planning activities and documents, all reflecting the desired outcome;
- with clearly identified and enduring critical success factors;
- to the shorter term annual planning processes and documents;
- taking into account the input from stakeholders;
- the development of KPIs;
- then to the structuring, resourcing, managing input activities to actually deliver the outputs; and
- ultimately to the annual reporting processes back to the Parliament that completes the loop.

Responsibilities and accountabilities are clearly and logically identified in the Strategic Plan.

The consequent Annual Business Plan (the internal detailed document) and the Annual Plan of Work (the public summary document) build well on the strategic planning documents.

Fig 2 Overview of TAO and strategic linkages



4.1 Outcomes

There is one logical outcome that the TAO strives to achieve and this is totally in accord with the Audit Act:

Parliament and community are well informed and value the TAO as a source of independent audit assurance on the performance and accountability of the Tasmanian public Sector

Source: TAO Strategic Plan 2012-15

This is an ongoing outcome and like most outcomes, it is difficult to easily measure performance. However, the various stakeholder and client surveys do provide valuable independent and objective feedback regarding achievement each year.

All of the results of the surveys we have seen and feedback from our stakeholder interviews are very positive as to the achievement of this outcome.

4.2 Outputs

To ensure TAO can achieve this outcome, TAO has determined two outputs:

1. Audit assurance – independent assurance of Tasmanian public sector financial reporting, administration, control and accountability; and
2. Parliamentary reports and services – independent assessment of the performance of selected Tasmanian State entity activities including scope for improving economy, efficiency and administrative effectiveness

Again these are ongoing outputs but they are more readily measurable in broad terms by Parliament and stakeholders generally; and in more specific details by auditees and clients.

In terms of being able to measure the first of these outputs, the Audit assurance output, the independent auditors report and opinion clearly addresses financial reporting and accountability to the Parliament and the public at large – while the auditors management letter or report to the governing body addresses, inter alia, administration, control and other relevant issues that the TAO sees fit to comment on.

However, in terms of being able to measure the second of these outputs, the Parliamentary reports output encompasses the complete range of measures, especially scope for improving economy, efficiency and administrative effectiveness.

In addition, the broader Auditor-General's Report on the Financial Statements of State Entities (usually 5 volumes) provides a considerable body of supporting information, analyses and interpretations / conclusions that significantly inform Parliament and stakeholders regarding the activities and state of the public sector as a whole. It also provides unique sector analyses and comparisons.

The combined effects of individual audit opinions / reports, performance and compliance audit reports and the Auditor-General's overall report clearly demonstrate achievement of the two desired outputs.

We note the Audit assurance output is primarily funded by the clients and/or auditees, while the Performance and reporting outputs are funded by annual Appropriation.

4.3 Strategic objectives

The outcome and these two outputs are then developed into two strategic objectives that are externally focused and more readily measurable and achievable:

1. Confidence in the performance and accountability of public sector entities; and
2. Improved service delivery by public sector entities.

The first of these is a very logical development from the outcome and outputs. It is largely up to the TAO to achieve or deliver this objective although, fair, open and competent governance, management, reporting and activities of entities will go a long way to helping instil such confidence by the Parliament and stakeholders.

However, the second objective, “improved service delivery” is more of a challenge, and it’s arguable as to the TAOs responsibility to be striving to achieve this. It is laudable for TAO, but questionable as to whose role this is, in the Tasmanian public sector.

The Output as stated in the TAO Appropriation is “Parliamentary reports and services – independent assessment of the performance of selected Tasmanian public sector activities including scope for improving economy, efficiency and administrative effectiveness”.

We suggest the primary responsibility to improve service delivery lies completely with the governing bodies and the heads / management of each entity; and ultimately with the relevant minister. They all must be responsible for developing and driving some form of continuous improvement within their entity.

Treasury and Finance obviously have a keen interest in and responsibility for, helping drive and deliver improving service delivery across the entire public sector, and shares this objective with the Parliament.

However, we believe that the TAO does have a unique role and ability, through its independence, objectivity and wealth of knowledge of the public sector (especially in terms of governance, management, controls, systems, comparisons and measures), to help drive improvements in service delivery or performance. This is already being achieved through a range of actions.

Recommendation: *change the wording of the second objective to reflect the TAO role in assisting the public sector to improve service delivery – and also:*

- *more clearly confirm the primary responsibility for improving service delivery; and*
- *link more directly to the outputs per the TAO Appropriation.*

TAO Comments: *All recommendations agreed.*

The challenge of improving service delivery is commented on in more detail below (and also detailed in Section 2 – Conduct of Financial Audit Engagements).

4.4 Critical success factors

The four critical success factors make sense and logically follow on from the outcome, outputs and objectives.

We do suggest however, that it may be useful to include an explicit statement regarding the Office being and being seen to be, independent at all times.

In terms of critical success factors, we believe this is fundamental to the ability of the Office to deliver in all senses. While it is mentioned through the strategic plan, there is no clear and explicit statement that this is considered a core success factor, or as we suggest, is the most critical factor.

It is clear from all of the stakeholders comments that, above all else, they value the independence (and objectivity) of the Office.

We suggest including a statement regarding maintaining your independence, in the strategic plan, clearly shows stakeholders and staff that this is seen as one of your most valued attributes and that it is constantly striven for.

Recommendation: *add a critical success factor to the strategic plan regarding always being, and being seen to be, independent.*

TAO Comments: *Agreed. At a recent strategic planning session, at which progress against the Office's 2012-15 strategic plan was assessed, the four CSFs were replaced by four pillars being:*

- *Sustainable;*
- *Independent and Reputable;*
- *Adaptable; and*
- *Relevant.*

Each pillar has been defined and measures to assess our performance against each developed. These changes are to be discussed at a whole of Office forum in March 2014.

4.5 Improving service delivery

As stated above, TAO is already carrying out a considerable number of activities that generally lead to institutional strengthening – e.g. improving governance, management, systems, controls, reporting and risk management.

There is a clear desire to improve service delivery across the public sector, expressed by Parliament in the Budget papers and the Memorandums of Understanding (MoUs) with both PAC and Treasury build on this, i.e.:

the MoU with PAC includes “enhance public sector accountability and performance”

the MoU with Treasury includes “to work closely together to ensure continuous improvement and adoption of better practices”

This thinking is further developed in the MoU with the University Of Tasmania Faculty of Business:

the MoU with UTAS includes “a common mission to enhance the outcomes of service delivery of government programs, activities and assessments of efficiency, effectiveness and economy”

The common threads across all of these memoranda are to develop or achieve a continuous improvement culture and to enhance service delivery. We understand that the Auditor-General has also recently undertaken a KPI and service performance project addressing this same area.

While enhancing service delivery can be a one-off exercise, continuous improvement is an attitude and ongoing series of activities that should continually enhance service delivery.

The challenges of measuring performance are not new and the latest report of the Productivity Commission discusses and defines the terms of outcomes, outputs, equity, effectiveness and efficiency well. We suggest that these definitions and supporting material be used entirely rather than “re-inventing the wheel”.

The real challenge for the Tasmanian public sector is how to initiate and drive continuous improvement, to deliver the expected benefits, and for the TAO, to define and deliver their role without affecting their fundamental independence.

Departments are currently required to prepare output information with supporting KPIs as part of their annual appropriation. This output information, is, in theory, able to be debated by Parliament as part of the budget process and can be challenged regarding the planned performance and service achievements / outcomes of any department.

The actual performance information is then reported at the end of the year, but is not audited by TAO.

The Office has recently reported on the need for better output and outcome based reporting, in the Performance Audit report on the Department of Health and Human Services – Output Based Expenditure.

This report clearly outlines the issues, the types of KPI measures needed by all state entities, and the need for the reported measures to be audited. It implies such auditing with the same degree of rigour as a financial audit and ensuring proper matching of financial and performance data.

While most of the recommendations are DHHS specific, the first one is fundamental to the whole issue of continuous improvement – because without true, fair and objective measurement of output and outcome measures, independently audited, performance can't be properly measured and subsequent improvements made and measured.

It is major in terms of impacts for the public sector as a whole, but more importantly as regards the role of the Auditor-General and the Office. Accordingly, we state his recommendation again, with our thoughts on the impacts for TAO:

“TAO Recommendation

1. That Tasmanian State entities be required to annually report relevant and appropriate indicators of their effectiveness and efficiency and that these be audited.”

Source – Report of the Auditor-General No 11 of 2012-13

There are several implications for TAO, viz:

- TAO will also have to continue to present such effectiveness and efficiency measures themselves and have them audited rather than just reviewed
- TAO will need the resources to carry out audits of their clients development of such measures, audit their systems to collect and report such measures, and ensure the matching (with financial reports) and fair presentation of such measures in annual reports
- TAO will need to be funded either by audit clients and /or by additional appropriation to cover the costs of such additional audit work.

Recommendation: that:

- *TAO seriously review and assess the impacts on its capacity to fund and carryout efficiency and effectiveness measure audits;*
- *TAO leads by example and has its own efficiency and effectiveness measures audited by its external auditor;*
- *TAO uses its MoUs with Treasury, PAC and UTas to help investigate, review and ultimately achieve the AG’s recommendation to DHHS above; and*
- *TAO consider if a change to the Audit Act is required to drive / help deliver this change.*

TAO Comments: Agreed in all respects.

All of the issues regarding auditing KPIs are discussed further in Section 2 – Conduct of Financial Audit Engagements.

4.6 TAO KPIs

The current KPIs as reported in the TAO 2012-13 Annual report are clear, relevant and largely independently and objectively measured. They make sense and demonstrate performance.

We believe they could be fine-tuned and related more directly to your purpose statement and to the strategic objectives, thus clearly demonstrating achievement and closing the loop e.g.:

Purpose and Objectives	KPIs (<i>those in italics are our suggestions</i>)
1 To provide independent assurance to Parliament and Community on the performance and accountability of the Tasmanian Public Sector	1.1 <i>Develop as a survey question</i> 1.2 Responsiveness of the Auditor-General or his Office 1.3 Extent to which the advice / information provided by the Auditor-General or his Office addressed your needs 1.4 Survey – clients (financial audit and performance audit) believe the TAO provides a quality and valued process
2 Confidence in the performance and accountability of public sector entities	2.1 Survey – overall satisfaction with AGs reports & services 2.2 Survey – provide valuable information on public sector performance 2.3 Financial audit opinions issued within 45 days 2.4 <i>Reducing numbers of modified financial audit opinions</i>
3 Improved service delivery by public sector entities	3.1 Survey – reports & services help to improve public sector administration 3.2 <i>Performance and compliance audits are completed on time and on budget</i> 3.3 Performance audits address key areas of interest 3.4 Percentage of performance audit recommendations agreed and acted upon... 3.5 Percentage of financial audit recommendations agreed and acted upon.... 3.6 <i>Entities are improving their management, financial and performance control environments</i>

We don't believe that the present KPI "performance and compliance audits are completed on average within 9 months" is very meaningful and suggest changing it to "Performance and compliance audits are completed on time and on budget". This is pertinent given the various stakeholder comments that some performance audits were way over time and (possibly) no longer relevant.

We suggest that the "Purpose" statement could be asked as a question in the survey of Parliamentarians, Clients and other stakeholders to get direct feedback as to your highest level purpose.

We suggest that you consider showing % results by bar charts, with targets slowly increasing and therefore demonstrating continuous improvement – bar charts are more easily understood than reading %ages.

Where KPIs are only assessed every two years, consider showing six years of KPI information to get a fair comparison and ensuring the ability to see trends.

Recommendation: *that:*

- *the KPI measurement for timely completion of performance audits should be that all such audits are completed on agreed time and cost budget;*
- *you pose the core Office purpose statement as a survey question; and*
- *you show results as bar charts over six year periods. These are more easily understandable by general readers and six years enables trends to be seen.*

TAO Comments: *The intent behind these recommendations is supported. We will explore how best to introduce each recommendation.*

4.7 Peer benchmarking

We note the considerable emphasis on comparisons with peer offices, via the formal ACAG benchmarking.

However, we also noted that many of the benchmarks are qualified regarding their applicability to the significantly smaller size of the Tasmanian Audit office compared to, especially, Victoria, New South Wales and Queensland Offices.

The TAO Annual Report covers the benchmarks over three pages.

We question the real value of reporting these benchmark comparisons, when:

- the national average of non-homogenous states data is misleading. A fairer average would be of the smaller states only; and
- showing the comparisons but then qualifying them as not really applicable probably confuses the average reader of your Annual report.

We believe that these benchmarks are better used as an internal management tool, and that reported KPIs should focus primarily on the outcomes and outputs of the Office.

5 General management of the Office

The organisational structure of the Office changed on 1 July 2012 to introduce the role of a Chief Operating Officer (COO). The COO is also the Deputy Auditor-General. The main purpose of this new role is to manage the day to day operations of the Office allowing the Auditor-General greater scope for stakeholder engagement and strategic matters. It also facilitated greater separation of the Office's internal quality review function from operational units.

The new structure resulted in the creation of a new business unit being the Office of the Auditor-General (OAG). The revised structure maintains Corporate Support Services unit and the two main operational business units of Financial Audit Services (FAS) and Performance Audit Services (PAS).

The FAS business unit is headed by a General Manager, supported by three managers (two managers post 1 November 2013) with their team of 22. PAS business unit is also headed by a General Manager and has two managers and four analysts. Together these units deliver the two Office's outputs - Parliamentary Reports and Services and Audit Assurance.

The Corporate Support Services unit is responsible for the management services within the Office. This unit consists of six staff and is responsible for providing a wide range of services to the Auditor-General and the other business units. These services can be broadly classed under three categories:

- Finance – Financial Management and Accounting;
- People – People Management and Personnel Records; and
- Information – Information Technology and Information Processing.

The function remains largely unchanged since the Office's last strategic review in 2009. The review commented on the ambitious suite of services to be provided by a relatively small complement of staff. Some of these functions were outsourced to Department of Justice from 1 July 2013, recognising the key person dependency risk as the primary driver. While it is still early days to see the ongoing benefits of the outsourcing, we concur with the rationale of this decision.

5.1 Technical and Quality Director

The Office's Technical and Quality Director is part of the OAG business unit, along with the Auditor-General and the Deputy Auditor-General / COO. The Technical and Quality Director's main role is to ensure the Office's financial audits and performance audits compliance with Office policy, including professional auditing practice, quality standards and the responsibilities imposed upon the Auditor-General by the Audit Act.

Until recently, the Director also managed financial audits contracted to the private sector, including necessary outsourcing arrangements. This position also undertook the roles of Signing Officer, Engagement Quality Control Officer (EQCR) and Engagement Leader, as defined in the Office's audit methodology, for financial audits assigned to the incumbent (assigned audits). Being in a "compliance & monitoring role", we agree that the Director should not be involved in the FAS business unit activities.

Recommendation: that the Technical and Quality Director's statement of duties be updated to exclude the roles of Signing Officer, Engagement Quality Control Officer and Engagement Leader.

TAO Comments: Agreed. Action has already been taken to address this.

We note that while the Director is the key point of reference for all staff and auditees on all technical matters, the responsibility for training does not appear to be included in the Director's statement of duties. The General Managers of FAS and PAS units are responsible for this aspect of quality. Training is key to maintaining quality aspects of the Office and will complement the Director's "compliance and monitoring" role.

Recommendation: that Office considers including training responsibility in the Technical and Quality Director's statement of duties.

TAO Comments: The COO is responsible for ensuring that all staff receive appropriate training. This is done in conjunction with each of FAS, PAS and CSS with administrative support from CSS. The T&QD's role is to identify training requirements, not necessarily to provide that training although this could be an outcome. The T&QD's statement of duties will be amended to clarify this.

5.2 HR strategic plan

The Office has recently updated its HR strategic plan (Human Resource Plan) for the period 2013 to 2015. This plan recognises the recent transition of corporate service functions and staff to the Department of Justice as part of the Service Level Agreement. Most of the action plans are planned for 2014 and 2015.

We are pleased to see the recognition of succession planning for key positions and the need for an HR management system. These actions are planned for development in 2014.

5.3 Staff capability – mix & specialists skills

The profession has seen an increasing need to access (or rely on) specialist expertise for financial and performance audits. These skills include tax, IT, internal audit, actuaries, and industry specialist knowledge (as seen in the contracting out of the Hydro Electric Corporation audit).

We are aware that bringing skills in from the private sector is expensive and entities do not always see the benefit of such additional cost. We also understand that accessing skills / resources from e.g. VAGO, ACT or NSW offices is theoretically feasible, but the reality is that invariably staff are not available when needed. The need to access specialist skills will increasingly challenge the Office in future.

5.3.1 IT audit literacy skills

This is becoming fundamental to the FAS business and needs to be in house - it is becoming a strategic enabler for the Office – this challenge is “short term” as within say, five years, all FAS staff should be IT audit literate.

We understand that most if not all of the FAS staff have good excel skills and are competent to take complete files from clients and then filter, extract and analyse all of the data as part of the audit testing work. As identified in the section above, the Office is reliant on a few individuals in the FAS business unit to complete these analyses.

Recommendation: that the Office consider some or all of the following:

- All graduates / new recruits must be IT literate when they commence;
- Any recruits at more senior levels need to have IT expertise;
- All personal development plans to include IT training;
- Consider sharing an IT audit resource with VAGO or other AGs office (noting comment above regarding the reality of this in practice); and/or
- Consider implementing the use of data mining tools and ensuring all FAS staff are equipped to use this tool.

TAO Comments: Agreed. We will explore all of these suggestions with the objective of enhancing our IT audit capability.

5.3.2 Internal audit resources

As commented above (see section 3.6), several stakeholders referred to the possibility and practicality of the Office utilising their internal audit resources to assist both PAS and FAS audits. Benefits were identified as reducing audit costs, getting access to technical or industry specific knowledge, reducing audit time and reducing the impacts for the entity and were all commented on.

The response from the FAS and PAS General Managers was that often internal audit resources are focused at a different scope rather than true investigative and improvement type assignments or risk based internal audit reviews. Accordingly they (especially the former) are of limited use by the Office in carrying out either financial or performance audits.

This possibly represents an opportunity to work with bigger entities to improve the capability of their internal audit functions: to benefit the entity, to reduce TAO costs and enable Office to deliver more, all to the benefit of the Tasmanian public sector.

The alternative in sticking with the status quo may not lead to any quantum improvement in state sector performance.

Recommendation: see 3.6 above.

TAO Comments: Section 3.6 above focuses on PAS and I have agreed to address the recommendations noted in 3.6. Similarly, I will re-visit the approach by FAS to using client internal audit functions more effectively.

5.3.3 Employee secondment opportunities

We understand that there is a secondment policy in place and the Office had successful secondments to the Province of Ontario Auditor-General Audit and Victorian Auditor-General Offices and more recently, Department of Justice. A regular staff secondment or staff exchange arrangements may be another form of bringing skills into the Office. The arrangement does not have to be limited to the Audit Offices (i.e. mid tier firms in Australia or New Zealand) and long term arrangements (i.e. weeks or less than 3 months). While a temporary measure to bridge the skills or resource shortage, it is also an opportunity to provide experience to the Office's staff. While we do not see attrition as an issue, this can be used as a retention tool. We note that the attrition as a percentage of FTE is within the national average of ACAG Macro Benchmarking Survey for 2012/13. We understand that development of a secondment policy is part of the Human Resources Plan 2013 to 2015.

Recommendation: that staff secondments or exchange arrangements continue to be explored.

TAO Comments: Agreed.

5.4 Staff resourcing

The teams within the PAS business unit vary widely depending on the nature and stage of each performance audit. All teams regardless of size, report back through one of the two managers and then to the General Manager – PAS.

Each team within the FAS business unit reports to their managers. They generally work on allocated audits within the team. Staff resourcing for the year is maintained on spreadsheets by individual managers. Therefore the resourcing for the 22 staff is not centralised for planning purposes, which is not ideal.

Team leaders and team members are allocated at the start of each year and each manager plans their own staff resourcing. We understand that it is not uncommon to have staff allocated on the planning and/or interim work but not involved in the final audit. This is due to staffing limitations during the peak season.

Recommendation: that the Office implements a centralised electronic resourcing system. This will assist in ensuring that issues are identified immediately and enable the ability to make informed planning decisions while ensuring staff are effectively utilised.

TAO Comments: The costs and benefits of using a centralised electronic resourcing system will be explored.

5.5 Recoverability of audits (productivity and write offs measure)

The general view is that the Office is a public sector entity and profitability is not a key driver to running the Office as long as it lives within its appropriations and audit fees. The Office has included 'financial sustainability' as a focus in the current strategic plan and successfully recorded surpluses in the 2012 and 2013 financial years. We understand that the zero-based budgeting exercise contributed to this.

PAS business unit's financial sustainability measure is to meet a targeted hours and expenditure within budget. The targeted hours for 2013/14 financial year are translated to approximately 60% productivity (over total available hours). When compared with the ACAG Macro Benchmarking Survey for 2012/13, it is above the national average.

We note that the FAS business unit's chargeable hours also rank above the national average in the ACAG Macro Benchmarking Survey for 2012/13. The FAS business unit's financial sustainability measures in 2012/13 are similar to the PAS business unit, although we note that chargeable hours measure is not evident in the 2013/14 financial year. While we recognise meeting revenue and expenditure targets are critical to the bottom line of the Office, the chargeable hours measure is an important measure for efficiency. In addition, the write off rate is also an important measure for the Office to consider.

The Office has a time recording system which is integrated with its General Ledger (Finance One).

We understand that there is no apparent regular review of staff productivity or engagement performance against budget. Although time and costs are informally reviewed at a high level at the engagement level, this review is not performed consistently as part of the individual jobs close off process (i.e. a formal post mortem of financial performance on each engagement). The write offs (and write-ons) are not reviewed and monitored at business unit level, sector level or in comparison to previous years.

This information is useful to identify trends within the Office and sector information to assist with assessing the business unit's performance, sector wide fee setting and if appropriate, fee recoveries.

While the staff performance review document addresses productivity and write offs, performance in the "planning competency", it is not explicitly attended to.

Recommendation: *that the Office performs an appropriate review of each engagement's performance against budgets and uses productivity and write offs as a measure to monitor efficiencies.*

TAO Comments: *Agreed.*

5.6 Staff development – Personal versus office wide

The Office's investment in staff training, development and coaching is highly commendable by its FAS business unit team members, especially in the graduate, cadetship and internship programme.

We observed that most of the Office's professional staff have more than one qualification in addition to being a provisional or full member of an Australian professional body.

PAS staff are generally recruited with some degree of analysis skills, practical experience and the ability to communicate. There is no specific qualification for a performance auditor and it is very much an apprenticeship for new staff to see if they can sink or swim.

This is rather informal but within the size of the Office and given the limited pool of available recruits and the TAO funding ability; it is adequate.

We noted that (in PAS business unit) there are few personal development plans reflecting the wider needs of the PAS group going forward; rather they rely on the wider office training and development plan. We also note:

- some of the stakeholder comments regarding the PAS "lack" of specialist expertise (in the stakeholders eyes). This clearly points to the need for a wider range of skills and to a large extent this is already acknowledged by the PAS General Manager in terms of e.g. economic analysis skills; and
- the Office strategic objective of improved service delivery by public sector entities.

In our review of performance audits, we saw the inclusion of some specialist skills and this is in line with the manual and standard regarding properly resourcing any engagement.

We believe there should be a more formal personal development plan for each performance auditor, within the overall PAS group plan and in turn within the overall Office plan.

We also understand that certain qualified staff and managers have had development in specific skill needs, such as excel and leadership & management programs. The Office has also started working on the areas (viz, management of underperformance, development of good people managers and rewarding of effective people managers) identified by the Tasmanian State Service workforce survey.

The last independent employee satisfaction survey in 2012 also echoed the above. It highlighted staff development as an area below the targeted rating. We note that the total average satisfaction was above the targeted rating.

Recommendation: *develop personal development plans for each performance auditor, within the framework of their skill needs, the PAS Group skill needs and the Office skill needs.*

TAO Comments: *I concur with the need to develop personal development plans for all staff in the Office, not just PAS.*

However, in addressing the variety of audits in the Annual Plan of Work, it is usual for PAS managers to ensure a 'best fit' of audit resource with audit topic. The degree to which the skill set of the auditor aligns with the planned project varies. As an offset to that, the skills of the wider team can be used. In addition, almost all audits use an Audit Advisory Committee (AAC), where often an outside expert or specialist is engaged to advise on the audit plan and report. We also avail of this person's professional expertise during the course of the audit.

Despite this, the point made by Nexia has relevance and skill requirements will be explicitly considered as part of approving all PAS audit plans.

6 Operation of the Office's quality control systems

The Office is bound by the Auditing and Assurance Standards Board's (AUASB) quality control standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information and Other Assurance Engagements; along with the revised Accounting Professional and Ethical Standards Board's (APESB) quality control standard APES 320. Both standards apply to practices that conduct assurance engagements from 1 January 2010. The compliance is mandatory across the Office, not just in the FAS business unit.

We acknowledge however, that the TAO has a unique relationship with its auditees in that Parliament determines who it will audit. Consequently, various quality control measures need to reflect this relationship but does not eliminate the TAO's requirement to comply. For instance, client acceptance and continuance requirements for the TAO will differ from that of the private sector.

6.1 Quality Control manual

A Quality Control Manual is commonly used to demonstrate compliance with the required standards. A typical manual has policies covering the following areas:

- Leadership responsibilities;
- Ethical requirements;
- Acceptance and continuance of client relationships;
- Human resources;
- Engagement performance; and
- Monitoring.

The Office has over the last 12 months formalised a number of critical policies required by the quality control standards. This was largely driven by recommendations made by the ACAG peer review conduct in December 2011. We are pleased to report that these policies were introduced by 1 July 2013.

Recommendation: *that the Office incorporates these policies into a formal quality control manual. All staff should have access to this manual and the updates to this manual communicated to the staff on a timely basis.*

TAO Comments: *Agreed.*

6.2 Review of Quality Control policies

A high level review of the available policies has revealed the following potential gaps:

- It is critical to ensure the Office can demonstrate compliance with the requisite ethical requirements. As an overarching principle, the Office is responsible for the development, implementation, compliance, enforcement, and monitoring of methods and procedures designed to assist all staff in understanding, identifying, documenting, and addressing conflicts of interest, and determining their appropriate resolution.

In the light of the above requirement as driven by ASQC 1, the Technical and Quality Director should ensure that appropriate procedures are followed when conflicts and potential conflicts of interest have been identified. Whenever a conflict or potential conflict is identified from the Office's quality control processes or independence testing, the affected Staff should not act or provide advice or comment until they have thoroughly considered the situation and reviewed the facts and circumstances, and the Technical and Quality Director agrees that the required safeguards and communications are in place and it is appropriate to act. Generally, the decision to act or provide advice in these circumstances is extremely rare and it is suggested that the details are fully documented as part of the quality control assessment at the Office level or engagement level.

- ASQC 1 and APES 320 require TAO staff to ensure they are independent both in mind and appearance of their assurance clients and engagements. Independence is expected to be maintained throughout the engagement period for all assurance engagements.

While the Office undertakes annual independence declarations for all staff, to further enhance the independence assessment process, it is imperative that threats to independence and conflicts of interests are also assessed at the engagement level. Any threats to independence or conflicts of interest identified at this stage should be assessed to ensure there are adequate safeguards in place to reduce the threat to acceptably low levels. The following tools or methods can be used in assessing the independence and conflicts to interest at the engagement level:

- Sending conflict and independence emails for all new clients taken on by the Office;
 - Sending conflict and independence emails during the re-acceptance process for existing clients to any relationships with the entity or its key officers. Subsequent emails need not be sent if there are no changes to key officers;
 - Encouraging staff to respond to the conflict and independence e-mails; and
 - Ensuring that all relationships and interests with audit and other assurance clients have been recorded in the independence registers.
- We commend the Office for ensuring that registers are maintained with regard to gifts and hospitality received from clients. We suggest that additional registers be maintained (even when there is no entry) for other matters, including:
 - Financial interests;
 - Family and personal relationships;
 - Business relationships;

- Loans and guarantees; and
- Recent or previous employment service.

Such registers would assist the Office identify threats to independence and ensure adequate safeguards are in place. The registers will also demonstrate compliance with ASQC1.

Recommendation: *that our suggestions be considered when updating the Quality Control Manual.*

TAO Comments: *Agreed.*

6.3 Review of audit files

The findings of our files review are detailed in the Conduct of Financial Audits Engagements section and Conduct of performance and compliance audits and investigations. We also noted some matters relating to the general quality control of the engagements that should be considered by the Office:

6.3.1 Timely lock down of files

The conduct of financial audits policy states that assurance engagements will be finalised (locked down) within 60 days from the date of the assurance report. This is in line with the Auditing Standards. However, most of the engagements reviewed have not been finalised or locked down even though the respective audit reports were issued more than 60 days prior to the review.

We also note that there were still some outstanding work papers including the concluding memo. This is not consistent with the spirit of the Office's policy.

While the finalisation of audit files within 60 days of the assurance report is a critical step in ensuring compliance with the above quality processes, the policy can be further enhanced to include details of the lock down procedures in place and how future access is restricted. This is critical for the Office to demonstrate compliance with auditing and quality standards (ASQC 1 and ASA230) and also safeguard the integrity of finalised files.

Recommendation: *that files are locked down in accordance with the financial audits policy. Access to the locked down files should only be granted upon approval by the COO as the person ultimately responsible for quality control of the Office.*

TAO Comments: *The existing policy will be reviewed taking into account this recommendation and then re-issued along with appropriate training and guidance.*

6.3.2 Engagement Quality Control Review (EQCR)

It is the Office's policy to have engagements identified as high risk (known as "key" in the Office) to undergo an EQCR and the remaining engagements only selected at the discretion or on application by the Engagement Leader to the Auditor-General or Deputy Auditor-General.

The Standard Operating Procedures (SOP) that complements the EQCR Policy states that such reviewer must be of equal or higher seniority to the Engagement Leader. There were 19 clients subjected to EQCR. We noted that most of the EQCR Reviewers allocated to these engagements were FAS Managers. This is not consistent with the Office's policy given that the Signing Officer is senior to the respective FAS Manager performing the EQCR.

The requirement of EQCR comes from the Auditing Standards (ASA 220 Quality Control for an Audit of Financial Statements). The responsibility of audit lies with the "engagement partner" and is deemed to be the person who issues the audit report on behalf of the Auditor-General. The "engagement partner" is also responsible for determining the EQCR requirement and discussing significant matters arising during audit engagement. We regard the Signing Officer as the "engagement partner" and not the Engagement Leader. Therefore, there are only three eligible EQCR reviewers.

Recommendation: *that the EQCR reviewers are reconsidered for the next audit cycle. We believe that the EQCR role can be allocated effectively between the three Signing Officers within the Office or an external ASP.*

TAO Comments: *Agreed. Steps have been taken to address this.*

6.3.3 Seniority of reviewer

We noted a number of instances where a less experienced staff member (cadet or senior auditor) reviews a manager's work. We understand that it is sometimes used as a training and development tool – whereby the less experienced staff member gets the practical experience in reviewing a file.

The purpose of a review is to ensure all work is adequately completed and raises significant matters to ensure compliance with professional standards, regulatory/legal requirements and completeness and accuracy of work performed. The review also assesses whether adequate sufficient audit evidence has been obtained to support the audit opinion. Therefore, the reviewer should have the appropriate competencies, capability and experience, and most importantly not in a subordinate position.

Recommendation: *that only personnel with the appropriate competency capabilities and experience be allocated for file reviews.*

TAO Comments: *Agreed.*

6.3.4 Planning – consideration of client relationships at engagement level

The Quality Control Standards and Auditing Standards require written evidence of consideration of client relationships before commencing an audit engagement. This process is not limited to assessing the competency, capabilities and experience of the engagement team and ethical requirements but also the integrity of key management and those charged with governance.

This requirement also extends to ongoing clients, a process also known as reacceptance and continuance of client relationships and audit engagements where there is an additional requirement to review whether there are significant matters that have arisen during the current or previous engagement that may affect the continuation of the relationship.

While we accept that the Auditor-General is by default the auditor of the public sector entities in Tasmania, this is a mandatory process as required by the Standards to maintain the quality of audits and ensuring a consistent standard across all audits across sectors and jurisdictions.

The Standards also provide guidance on the safeguards and disclosure requirements that the Auditor-General can consider if there are issues with acceptance or continuance of engagement.

Recommendation: *that the Office considers the acceptance, reacceptance and continuance of audits on all engagements.*

TAO Comments: *As noted, the decision to allocate audits to the Auditor-General is made by Tasmania's Parliament. However, we will initiate procedures aimed at assessing acceptance and reacceptance risk for all engagements.*

6.3.5 Planning – consideration of independence at engagement level

Allocation of audits is performed at the start of each year where any independence and conflict issues are considered when resourcing the engagement teams. A register detailing conflicts of interest, part time work and representation on external committees is compiled based on the results of the annual staff declaration process.

Independence is also considered at each engagement level. A planning meeting is held at the commencement of the audit where all members confirm their independence at that meeting. This is then documented accordingly.

Recommendation: *that procedures are implemented to evidence the specific independence requirements of Professional and Ethical Standards and Independence in Assurance Engagements.*

TAO Comments: *Agreed.*

6.4 Human Resources

The Office's Human Resources policies are largely covered in the People Management Policy, Recruitment Framework. As of 1 July 2013, the Human Resources function was outsourced to the Department of Justice under a Service Level Agreement. We understand that some of these policies are being reviewed and redrafted. Our review noted some matters relating to the human resources element in the Quality Control Standards that may be useful for the Office to consider:

6.4.1 CPD hours

Most of the professional staff are either members of the Certified Practising Accountants Australia (CPAA) or are undergoing the CPA program. The Continuing Professional Development (CPD) requirements for a full member are to complete at least 20 CPD hours each year and 120 CPD hours every three years.

Whilst it is the responsibility of the individual to meet their CPD requirements, the TAO should monitor its staff's adherence to their requirement and maintain documentation of CPD activities.

We understand that a register of all CPD activities is maintained from 1 July 2013.

Recommendation: *that a formal monitoring process is introduced (i.e. at least a yearly review) to ensure that all members CPD requirements are met.*

TAO Comments: *Agreed.*

6.4.2 Performance reviews

Performance reviews are conducted every year for all staff. The Office has a comprehensive performance review process where 360 degree feedback is obtained to assess the key competencies and linking the development areas to training and development needs. However, these needs are not summarised in a centralised database where common needs are addressed as an Office. We understand that the human resources area is currently under review.

We note from the performance evaluation form that the compliance with the quality control policies and procedures has not been clearly linked to performance reviews and rewards.

Recommendation: *that the Office's performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to quality control.*

TAO Comments: *Agreed.*

6.4.3 Training plan

The Office provides a wide range of training, internally and externally. A centralised database was implemented since 1 July 2013, which records all training completed by staff. In addition, each staff member has an individual training register which records completed training.

There is currently no annual training plan for the FAS and PAS business units. We understand that the Office's internal training is held regularly but on an ad-hoc basis.

Recommendation: *that an annual plan is devised based on the results of development needs, in turn, resulting from performance reviews, external and internal peer reviews.*

TAO Comments: *Agreed.*

6.5 Monitoring

The Office's Quality Assurance Monitoring Activities Policy came into effect on 1 July 2013. This policy covers quality assurance reviews across the two business units – PAS and FAS.

The policy also extends reviews to include "hot reviews" i.e. review of an audit whilst in progress. We understand that there were no hot reviews of files completed to date. The Technical and Quality Director completed a cold review of one PAS file and 16 FAS files in November 2013. The review highlighted a number of improvements required in the administration and documentation of audit files and matters raised in this report. The reviewer also confirmed that there was no indication of incorrect independent audit reports being issued.

As part of the monitoring process, we note that there are currently no clear policies addressing complaints and allegations from clients. There is currently no complaints register in place to document and resolve complaints received from clients. This is critical to ensure any reported breaches of ethical or quality standards are dealt with in a timely manner.

The Quality Assurance Monitoring Activities Policy does not extend to the quality and performance of External ASPs (contracted financial audit services). While the Signing Officers are closely involved with these audits, the review performed does not qualify as a monitoring activity.

Recommendation: *that a complaints register be maintained to document and resolve complaints received from clients.*

TAO Comments: *Agreed.*

Recommendation: *that the External ASPs audit files are subjected to the same quality assurance monitoring regime as the FAS and PAS files.*

TAO Comments: *Agreed.*

7 Relationships with primary stakeholders

Without exception, our primary stakeholder interviews highlighted the considerable and effective communication channels that have been instituted and maintained by the Auditor-General.

The regularity of meetings, the openness of the Auditor-General, his willingness to meet all political parties, and the range of communication styles were all mentioned explicitly and very positively.

Presentations and communications as part of completing Performance Audits and AGRs were also mentioned positively, including the availability and communications by senior TAO managers.

7.1 Legislated communications

In addition to the communications developed and driven by the Auditor-General, there are a number of formal communications required by legislation - such as The Audit Act 2008 (S11), The State Service Act 2000 and the Financial Management and Audit Act 1990. These legislated communications generally relate either to planning activity and signalling proposed work areas for consultation with stakeholders, or, to reporting the results of activity and audits after completion.

We did not receive any adverse comments regarding the formal or legislated communications with stakeholders as part of consultation. Equally, we were not made aware of any shortcomings in terms of these legislated communications.

However, we did note that the last formal consultation response to the proposed Performance Audit plan, for example, was brief. There was little evidence of any real robust consultative discussion regarding the need for each performance audit, the costs versus expected benefits, priorities, or availability of skilled resources within PAS.

We understand that much of this information was presented in various sessions with Parliament.

Much of this information was presented / made available in the business case for each performance audit, and was presented to and discussed as appropriate with the auditee.

We suggest that the Office endeavours to drive a more robust discussion regarding the proposed performance audit plan of work.

Recommendation: *that consideration is given to presenting more option information to stakeholders when consulting on the proposed Performance Audit plan of work, to help drive more explicit and in depth discussion.*

TAO Comments: *Agreed. This will be taken up with the Public Accounts Committee in the first instance.*

There was also no evidence of any discussion (or opportunity for such discussion) regarding refocusing performance audits when conditions change – this is commented on in section 3 above – Conduct of performance audits.

7.2 Informal stakeholder communications

We got very good feedback relating to stakeholder communications generally from a broad range of stakeholders (see appendix 1). We accept that we only talked with stakeholders at a specific point in time and as a sample, their comments need to be taken with a “grain of salt”. However, the messages were reasonably consistent and covered a wide spectrum from:

“the Auditor-General has built a brand with a high level of trust in the Office, its credibility and transparency”
“(he is) really approachable, listens, considers, and makes balanced decisions”
“their Annual Reports are very useful and the analysis adds significant value”
“the TAO is open to constructive feedback and there is a genuine openness to improve and make changes”
We have seen a significant improvement in the way the TAO performs its audits”
Many of the stakeholders expressed these types of sentiments, quite strongly.

to:

“sometimes get conflicting advice from TAO staff – key advice is changed at the last minute causing major costs / challenges for us”
“did not live up to their No Surprises philosophy as there was an issue that was discussed during the audit that we believed was appropriately resolved with the right people but the day before signing there was a different interpretation coming from the Office that caused significant work and stress for us”
“they have a reasonable relationship with Internal Audit but we believe that they could better use Internal Audit work to identify risks and reduce their work. More thought needs to go here!”
“they add value through their Annual Reports, but this is not really seen from Performance Audits as they lack the required depth of expertise or specialist skills”
“financial audit staff sometimes lack the real depth of expertise required to understand our business – so how can they audit us?”

These latter comments are concerning. The three areas of using internal audit resources more effectively and ensuring that both FAS and PAS have a greater depth of expertise have already been covered in our report above.

The TAO has implemented a stakeholder communications program that incorporates continuous meetings and on-going surveys and feedback. The results of recent surveys conducted by the TAO have been consistent with the feedback received during our stakeholder meetings. However, the following are significant recurring themes that we believe need to be considered:

- Could better utilise internal audit services within clients;
- There are some concerns as to whether the TAO has the requisite specialist skills to undertake various performance audits; and

- There was a belief that the mix of qualifications and specialisations amongst the staff could be enhanced.

7.3 Effectiveness of relations

The favourable comments from stakeholders highlight that at the most senior level, largely driven by the Auditor-General personally, there are very good communications and relationships at all times and in all forms.

However, at the working level, where financial and performance auditing services are actually delivered to auditees, some of the communications and relationships are slightly less favourable. While this is to be expected to a certain extent at this working level, there appear to be some opportunities to improve.

The post audit reviews with auditees should help to identify the nature of and the quantum of these types of concerns – and knowing this will then enable TAO to start to address them. Some of the concerns may stem from auditees not fully understanding the role of the Auditor-General and that of the Office

We are aware that audit clients are requested to complete such a survey already so are somewhat surprised at the nature and depth of these comments.

Recommendation: *that the formal post audit reviews for both financial audits and performance audits, be analysed to identify the real concerns and issues being raised by auditees. It was noted that at one significant auditee, no post audit review or discussion occurred with the auditee.*

That appropriate action be taken to address these concerns where they are real and warranted.

TAO Comments: *Agreed. In particular I support the need for post audit discussions with audit clients.*

I note however that some of the concerns raised by clients with Nexia are contrary to my own experiences from extensive stakeholder engagement I carry out. I will now be more alert to this and take appropriate action as recommended. Also noted is that, ultimately, the Parliament is my, and my Office's, only client and surveys of Parliamentarians have consistently been positive. However, auditees are a significant client and I welcome suggestions made by them.

In summary, we believe that the Auditor-General has developed a very good and effective range of communications and relationships with primary stakeholders.

We also believe that relationships at the working / auditee level could be improved, largely through proactive and timely communication.

8 Steps taken in response to past peer reviews

There have been a considerable number of “peer” reviews carried out over the past five years.

We reviewed the peer reviews over the past five years and the actions taken generally. We then specifically considered the following two in depth reviews and actions taken by the Office, in the light of our findings and recommendations:

2009 Bob Sendt in depth review of the Tasmanian Audit office

2011/12 ACAG in depth review of the total Tasmanian Audit Office

The various findings and recommendations seem to have been paid thorough attention by management and largely been acted on. This is also confirmed in the November 2013 cold review performed by the Technical and Quality Director. There has been an increased effort this year to follow-up any outstanding actions.

We noted some conflicts between our findings (and some consistency) with some of the peer review findings, e.g.:

Bob Sendt comment 31 - The Office’s Post (Performance) Audit Review process is well managed and provides valuable feedback to assist in subsequent audits.

ACAG finding section 4 – The Office’s Post Audit Review process is well managed and provides valuable feedback for subsequent audits.

Nexia finding - this review does take place but the impacts seem slightly at odds with some of the stakeholder feedback and lessons learnt – see 7.3 above.

Bob Sendt comment 11 - ...little evidence to show the FAS team had meet with the internal auditors... little reliance was placed on the internal auditors work.

ACAG finding section 3 & 3.43 – The (FAS) audit team relied on internal audit work without re-performing any of that work accepted.

ACAG finding section 4 & 4.2.3 – The (PAS) audit team did not document the internal audit work program and any relevant work of internal audit...

Nexia finding – the review of and reliance on internal auditors work seems to be patchy and there are opportunities to first, use their work and resources better, and second, communicate better with clients regarding the use of their internal audit team.

We also noted a number of quality control issues that have been raised in these peer reviews but still warrant some (further) action. These areas are commented in detail in our report above.

However, we also note that carrying out quality work is one thing; continuously documenting and evidencing that quality is more of a challenge, especially when timeframes are tight and the focus is on carrying out the work and reporting within the deadline. On top of this, the quality control environment and documentation / evidence expectations are continually increasing.

We also reviewed the 2009 ACT AO review (PAS focussed) and again believe all of the significant areas and issues have been largely considered and actioned, especially through the following more detailed Bob Sendt and ACAG reviews and subsequent TAO actions.

In summary, we believe that management has made a creditable effort to address the findings and recommendations of the peer reviews.

Appendix 1 – People interviewed

TAO:

Mike Blake	Auditor-General
Ric De Santi	COO & Deputy Auditor-General
Jara Dean	GM Financial Audit Services
Jeff Tongs	Technical and Quality Director
Geoff Driscoll	GM Performance Audit Services
Geoff Fisher	Manager Performance Audit Services
Patty Johnson	Practice Manager
Sue Baker	Chair - Audit Committee
Staff members	Derek Burns and James Hay

Stakeholders:

Hon Lara Giddings MP	Premier and Treasurer
Hon Jim Wilkinson MLC	President Legislative Council
Hon Michael Polley MP	Speaker of the House
Hon Ruth Forrest MLC	Member for Murchison
Hon Ivan Dean MLC	Chair of the Public Accounts Committee
Rhys Edwards	Secretary of Premier and Cabinet
Phillip Reed	Office of the Premier, Chief of Staff
Tony Ferrall	Secretary Treasury
Craig Jeffrey and Susan Peterson	Director Treasury - GFAB
Michael Reynolds and deputy	CFO DHHS
David Nicholson	Deputy Secretary Strategic Control, Workforce & Regulation DHHS
Jenifer Austin	PAC Secretary
Matthew Pigden	CFO, Southern Water
Carl Harris	Partner, Deloitte