

# Public Accounts Committee

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

February 2019

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## Preamble

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The *Audit Act 2008*, Section 44 – Periodic review of Tasmanian Audit Office (TAO) mandates that:

1. The TAO is to be subject to a review of the efficiency, effectiveness and economy of its operations at least once in every period of five years. The definition of efficiency, effectiveness and economy is generally defined as:
  - Efficiency - The minimisation of inputs employed to deliver the intended outputs in terms of quality, quantity and timing;
  - Effectiveness - The extent to which the intended objectives at a program or entity level are achieved; and
  - Economy - The minimisation of the costs of resources, within the operational requirements of timeliness and availability of required quantity or quality.
2. An independent auditor may be engaged by the Office, or the Treasurer is to appoint a registered company auditor within the meaning of the Corporations Act to conduct the review.
3. If the latter appointment occurs, the Treasurer is to consult with the Auditor-General in regard to the terms and conditions of appointment.
4. A summary of findings is to be provided to the Auditor-General and to invite the Auditor-General to make submissions or comments on the content of the summary of findings.
5. The findings of the review and any submissions or comments by the Auditor-General are to be submitted to the Public Accounts Committee.

The review of the efficiency, effectiveness and economy of the operations of the TAO is to cover:

- the governance of the TAO, including evaluation of the adequacy of internal risk management, operating procedures and controls;
- the conduct of financial audit engagements;
- the conduct of performance and compliance audits and investigations, including the use of specialist subject experts to undertake technical performance audits and the extent to which recommendations of audits and investigations are practical and actionable;
- the relevance of the strategic objectives and critical success factors set by the Auditor-General in his Strategic Plans for 2012-15 and 2016-20, and the extent to which they are being achieved;
- general management of the Office, including the organisational structure, the organisation of resources, the allocation of audits, the outsourcing of audits and the setting and monitoring of audit fees; the operation of the Office's quality control systems;
- the Office's relationships with its primary stakeholders, in particular Parliament, the Treasurer, the Public Accounts Committee and heads of State entities as defined in the *Audit Act 2008*;
- steps taken in response to past peer reviews and internal and external quality reviews;
- steps taken in response to the past five year review into the efficiency, effectiveness and economy of the operations of the Office;
- such other matters as considered relevant by the Reviewer; and
- consult with a reasonable sample of key stakeholders to make an overall assessment of the performance of the TAO.

Our firm, Moore Stephens Audit (Vic), 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:

## Section

1. Governance, Risk Management and Controls
2. Conduct of Financial Audit Engagements
3. Conduct of Performance, Compliance Audits and Investigations
4. Strategic Objectives and Critical Success Factors
5. General Office Management
6. Office Quality Control Systems
7. Relationship with Primary Stakeholders
8. Response to Peer, Internal and External Reviews
9. Response to the 2013 Efficiency, Effectiveness and Economy Review.

## Executive Summary

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The *Audit Act 2008* (the Act), s44, requires the Tasmanian Audit Office (TAO) to be subjected to a review of the efficiency, effectiveness and economy of its operations at least once in every five years. The first review was conducted in 2013 and this report covers the period from 2014 to 2018.

Since the previous efficiency, effectiveness and economy review, a new Auditor-General was appointed, a change of government occurred, and the TAO has implemented a series of initiatives, programs and process changes that have assisted the TAO in meeting its goals and objectives.

We believe the Auditor-General and the TAO has performed credibly and proactively in meeting its mandate as required by the Act. The implementation of the various initiatives and the completion of the Staff Re-Profiling program embarked upon by the TAO, will afford a more robust and responsive TAO in years to come and assist it in meeting the challenges and changing social environment of the Tasmanian Parliament, Public Sector and the Community.

The governance framework continues to support the TAO by having a robust Audit Committee with an independent Chair and external members that provide oversight and assist the Auditor-General in achieving his responsibilities, and that of the Office. The restructuring of the senior executive group in the last few years has provided a different approach in managing operations and developing strategic initiatives.

The TAO's risk management framework is proactive with regular reviews by the Audit Committee and the Strategic Executive Management Group (SEMG). To better support the risk management process, the TAO in 2018 engaged an external firm to facilitate a risk management workshop for all staff. We have added in the report improvement opportunities to develop the risk management process further to support the governance framework.

Under the Act, the Auditor-General is the auditor of financial statements of the Treasurer, all State entities and subsidiaries of State entities – approximately 165 audits and 80 acquittal statements. The Auditor-General audits these entities using his staff and external audit service providers.

TAO has a sound audit methodology in its use of IPSAM, which has been in place for many years but with a fast approaching end-of-life. The transition and implementation of a new audit tool will be a significant challenge for the Office. This could also be seen as an opportunity for TAO to re-examine its audit practices by reflecting on current and alternative methods to improve its efficiency and quality while ensuring its financial statement methodology remains sound and up to date. We believe the use of data analytics and artificial intelligence should be front and centre in the Office's thinking, and through the coming years should become engrained into the TAO methodology.

Financial Audit Services (FAS) should continue to explore and improve on ways to further add value to their clients. It can be through the delivery of additional information, such as making use of the data made available through their use of data analytics and artificial intelligence to bring further insights to their stakeholders.

Our review of the performance and compliance audits and investigations has identified the implementation of various initiatives to improve the efficiency, effectiveness and the economy of the engagements. A substantial rework in updating the Performance Audit Manual occurred in 2018, which we commend the TAO in revising the manual to reflect the changing expectations, risk environment and methodology of performance audits.

The latest survey results for the performance audit by clients were generally positive about TAO's performance in 2017. The overall performance index score increased from the 2015 levels.

Our review of the Performance audit files in IPSAM noted some improvement opportunities in managing the lockdown of files after completion and the managing of budgets. The independent Performance Audit reviews conducted by TAO's Peers and by external firms provided some robust recommendations for the TAO to consider. We note for the relative size of the TAO, it has been subjected to a number of reviews that would be considered to probing and in in-depth, especially the Australasian Council of Auditors-General (ACAG) reviews.

The 2016-2020 Strategic Plan has been revised and is based on four key pillars of: Relevant, Sustainable, Independent & Reputable and Adaptable. The Strategic Plan recognises the new model of government and community expectations, especially in an age of connectivity and the use of social media. The government is expected to meet the growing demand and expectations, and to provide more personalised services within budgetary constraints.

It is commendable that the TAO provided a breakdown for each pillar including the immediate focus 2017-2018, medium term 2018-2019, and longer term 2019-2020. A number of the immediate focus 2017-2018 initiatives have already been or partially delivered as noted during our review. However, from our review of various peer reviews, surveys and interviews, it has been a challenging year for the TAO in meeting all of the 2017-2018 Strategic and Annual Work Plan initiatives.

The Staff Re-Profiling is currently in transition, the strategy and framework behind the Re-Profiling program has been well documented and discussed within the SEMG and SLG and communicated to all staff. As with any staff transformation, there will be positives and negatives. The negatives are generally short term (during the transformation), and the actual outcome can only be measured at the completion of the program in subsequent years.

As an initiative to support the audit team in improving the effectiveness and efficiency of auditing skills, the TAO commissioned in 2018 an independent review of the IT capabilities of the audit team. The report concluded that the TAO has an opportunity to build a more capable IT audit team to support a broader range of audits in the future.

The TAO is subject to a number of internal and external peer reviews. We commend the office for the magnitude of these reviews and responsiveness to undertake remedial action. Whilst the effort undertaken by TAO to improve the quality should be commended, we did note a number of instances where recurring improvements were raised which they had previously been considered adequately addressed within TAO. We believe to decrease the re-occurrences of review findings, the TAO needs to begin performing a Root Cause Analysis on its internal and external review findings to ensure the remedial actions adequately address the review findings.

Our review of Stakeholder engagement provided a mixed commentary of positive and improvement opportunities. The Parliamentarians survey in 2017 concluded that all Parliamentarians who responded were satisfied with the reports and services of the TAO, representing the highest satisfaction rate recorded since the survey commenced.

The interviews with Stakeholders provided a broad spectrum of views and comments. Some comments were positive and some were negative. Based on our assessment, some of the comments can be attributed to the current staff re-profiling program. We would expect to see at the completion of the program, a general improvement in the clients' attitudes towards the TAO.

We have provided in each of the sections of the report our assessments and where applicable, improvement opportunities.

We would like to take this opportunity to thank the Auditor-General and TAO staff for their assistance in conducting the review.



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28 February 2019

# 1. Governance, Risk Management and Controls

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## 1.1 General

The Governance of the TAO is found in the Governance Policy Statement that documents the TAO's governance principals; outlining how the TAO is to be governed and how it will manage its activities. The policy was updated in April 2017 to reflect the incoming Auditor-General and his management philosophy. The updates to the Policy included specific clarity to enhance the reader's understanding by removing generality and the adding of new support procedures and guidelines.

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 2<sup>nd</sup> Edition*" (the ASX Principles issued in 2007 and amended in 2010).

The following Committees support the Governance Structure of the TAO:

- Audit Committee
- Strategic Executive Management Group (SEMG)
- Senior Leadership Group (SLG)
- Remuneration Committee (sub-set of SEMG)
- Procurement Review Committee

The Committees serve to assist the Auditor-General in fulfilling his legislative requirements by monitoring, advising and advocating strategic and operational objectives. Each of the Committee has a Charter or specific functions to assist the Auditor-General to administer a robust Governance Framework within the TAO.

## 1.2 Audit Committee

The Audit Committee assists the Auditor-General in fulfilling his corporate governance responsibilities relating to the Office:

- Financial and performance reporting;
- System of risk oversight and management; and
- System of internal controls.

The Audit Committee must have two independent members and the Chair as an independent. The Committee is to meet at least four times per year and to engage with management in constructively and professionally discharging its advisory responsibilities and formulating its advice to the Auditor-General.

Our review of the Audit Committee minutes indicates an active committee with set agendas to measure and deliberate on matters including strategic framework, internal and external audit, financial affairs, control framework, risk management, compliance matters and others.



1.2.1

**Improvement Opportunities**

The TAO Governance Policy incorporates the principles from the Australian Stock Exchange Corporate Governance Council: Corporate Governance Principles and Recommendations 2<sup>nd</sup> Edition” (the ASX Principles issued in 2007 and amended in 2010).

The ASX Corporate Governance Council updated the Principles and Recommendations (3rd Edition) in March 2014. The changes in the third edition reflect global developments in corporate governance since the second edition was published. The 3rd Edition simplifies the structure of the Principles and Recommendations.

The TAO Governance Policy was updated in April 2017; management should assess the changes in “the 2014 ASX Corporate Governance Principles and Recommendations”, and where appropriate, incorporate the new Principles and Recommendations into the TAO Governance Policy.

**TAO Comments**

Agreed, the new Principles and Recommendations will be incorporated into the TAO Governance Policy to the extent they are relevant to the TAO.

**1.3 Strategic Executive Management Group (SEMG)**

The SEMG’s primary objectives are to work and assist the Auditor-General with strategic matters such as planning, monitoring, risk assessment, integration and collaboration between business units, promulgation of office culture and values. It also includes the management of operational and emerging matters such as safe working environment, operational alignment to strategic goals, open forum for staff, project management office, and oversee the operations of sub-committees or ad-hoc sub-committees/working groups.

The SEMG’s membership consists of the Auditor-General (Chair), Deputy Auditor-General and Assistant Auditor-General Corporate Support and Strategy. Other staff may be invited to attend meetings for discussion on strategic and business matters.

The SEMG is to meet, as a minimum each month or more. The Chair shall initiate a review of the performance of the SEMG at least once every year. The review will be conducted on a self-assessment basis with appropriate input sought from members and other staff.

Our review of the SEMG Charter and minutes of meetings indicate a working committee that has an assiduous agenda that includes regular topics such as compliance, resources, technical, quality, strategy, emerging risks, and others.

In addition, the SEMG maintains a separate “Action-List” that tracks the agreed actions resulting from the meetings. The Action-List is a standing agenda item for the SEMG meeting. Our review of the Action-List found direct linkage to the SEMG minutes and appropriately recording the actions taken.

1.3.1

Improvement Opportunities

- I. The Auditor-General should consider the inclusion of additional members to the SEMG. As the group that oversees the strategic development of the TAO, and having two critical focal delivery services: Financial and Performance Audit, the value of having the Assistant Audit-General (AAG) from the Financial Audit Services (FAS) and Performance Audit Services (PAS) as a member may add more operational insights to the SEMG.

The management of strategic risks is a top-down approach with a number of operational controls rolling up to mitigate the strategic risk. The AAGs of FAS and PAS are responsible for the two critical operation service units; they can provide valuable insights in assisting with the strategic risk mitigation process and provide the operational aspects required in supporting the achievement of the TAO’s strategic goals.

- II. The “check and balance” principle provides the working mechanism for measurement and influence over how the TAO should function as a cohesive unit. One of the check and balance processes, as stated in the SEMG Charter “is the Chair shall initiate a review of the performance of the SEMG at least once every year. The review will be conducted on a self-assessment basis with appropriate input sought from members and other staff”. We note that no review of the performance of the SEMG has been performed.

We recommend this review should be performed as a measure of the check and balance principle that ensures the SEMG is operating efficiently, effectively and economically, and be perceived as the leadership group with open and receptive inputs from the TAO.

- III. The SEMG Charter requires “the SEMG shall meet, as a minimum each month or more”, however, our review noted that there were several months where no meetings were held: September 2017, October 2017, December 2017 and August 2018.

The SEMG Charter could be updated to reflect the discretionary options available to the Auditor-General to hold these as required or as the Auditor-General deems appropriate as during the “busy period” which is around the financial year-end. The Auditor-General should have the discretion to defer the SEMG meeting or as required.

- IV. The recording of accurate minutes provides an audit trail of the governance processes. Our review of the SEMG minutes noted that the minutes dated Wednesday, 27th September 2017 at 9am was a duplicate of the minutes of Wednesday, 23rd August 2017 at 2.15 pm, with the exception of one extra row added to the September minutes, it is an exact copy of the August month’s minute, however, both the August and September minutes were signed-off on different dates but having the same finishing time of 4.40 pm which means the September SEMG meeting started at 9.00 am and finished at 4.40 pm.

Minutes of the most senior management group at the TAO provides the strategic decisions and the operational directive to the Office. These minutes also offer insight for the Audit Committee into the operation of the TAO. The Auditor-General should ensure when approving or signing the minutes, the minutes reflex the accurate account of the meeting.

TAO Comments

- I. Effective 1 January 2019, the SEMG has been reconstituted as the Executive Committee (EC), the members of which comprise the Auditor-General, Deputy Auditor-General and all Assistant Auditors-General.
- II. Agreed, although the recent culture survey and workshops included specific questions relating to the performance of senior management. The SEMG considered this more relevant feedback than self-assessment feedback given the SEMG only comprise three members.
- III. Agreed, the improvement opportunity will apply to the recently constituted EC and will be incorporated into the Charter for that committee.
- IV. The comments are noted and accepted.

### 1.4 Senior Leadership Group (SLG)

The SLG was set up in April 2017 with the primary purpose to work in the best interests of the TAO (operational level). The establishment of the SLG reflects the change in management of the TAO in the last two years which adds to the support of the governance framework. The SLG’s functions and activities include; making recommendations to the SEMG; assisting in the achievement of strategic objectives; promoting integration and collaboration between business units; and establishing the TAO values. It also provides a forum for raising strategic, operational and emerging matters, and developing associated actions plans and allocating responsibilities for their achievements. It provides a forum to which employees can direct issues for consideration, review, discussion and be notified of outcomes.

The SLG meeting agenda reflects appropriately to the key requirements of the SLG Charter by incorporating topics for discussions such as strategic advice to SEMG, values, strategic initiative, operational matters, emerging risks, One-Office concept and an open discussion forum for senior managers to the Auditor-General or Assistant Auditor-General.

The SLG shall consist of:

- Deputy Auditor-General/Chief Operating Officer (Chair)
- Auditor-General
- Director of Corporate Support Services
- Director of Technical and Quality
- Assistant Auditor-General Financial Audit
- Assistant Auditor-General Performance Audit

The SLG Charter states: SLG shall meet, as a minimum bi-monthly or more frequently if required, as determined by the Chair. Formal minutes will *not* be maintained; instead, an Action-List will be used to record the outcomes from meetings, responsibilities and achievements. The Chair shall initiate a review of the performance of the SLG at least once every year. The review will be conducted on a self-assessment basis (unless otherwise determined by the Chair) with appropriate input sought from members and other staff.

1.4.1

**Improvement Opportunities**

- I. Our review noted that the SLG Charter was approved in April 2017. The first meeting was conducted on 20<sup>th</sup> July 2017 and minuted. Except for the July 2017 meeting, our inquiries with senior management were inconclusive as to the number of SLG meetings that have been conducted. There was no formal evidence, such as minutes or Action-List, to evidence the conduct of the meetings. The SLG Charter requires the “SLG meet bi-monthly or more frequently if required, as determined by the Chair”.

The Chair should consider a review of the Charter to reflect the acceptable meeting approach and the frequency or to enforce the Charter of the SLG. As a minimum, the SLG should maintain an Action-List to ensure matters with actions have been assigned responsibility, progress updates, completion and outcome(s).

- II. The check and balance principle provides the working mechanism for measurement and influence over how the TAO should function in a cohesive unit. One of the check and balances, as stated in the SLG Charter “the Chair shall initiate a review of the performance of the SLG at least once every year. The review will be conducted on a self-assessment basis with appropriate input sought from members and other staff”. We note that no review of the performance of the SLG has been conducted.

We recommend either the review be performed to ensure there is a measure, check and balance process that assures the SLG will be perceived as part of the leadership group with open and receptive inputs from the TAO staff or update the Charter to reflect the required business outcome as appropriate for the Chair and the Group, and the appropriate frequency of the meetings.

**TAO Comments**

- I. Effective 1 January 2019, the SEMG has been reconstituted as the EC, the members of which comprise the Auditor-General, Deputy Auditor-General and all Assistant Auditors-General. Consequently, the SLG was been abolished.
- II. Agreed, the improvement opportunity will apply to the recently constituted EC and will be incorporated into the Charter for that committee.

**1.5 Other Support Governance Framework**

Our review noted that the TAO has implemented a number of other tools to ensure there is a robust governance framework in assisting the Auditor-General to achieve legislative compliance. There are a number of policies, guidelines and registers to support the governance framework including:

- Register of Recommendations from Reviews
- Gifts, Benefits and Hospitality Policy and Procedure
- Gifts, Benefits and Hospitality Register
- Staff Training Register
- Conflict of Interest Declaration Register
- Referrals Register
- Fraud and Corruption Incident Register
- Improvement and Innovation Register
- Compliance and Breach Register

**1.6 Risk Management**

**1.6.1 General**

Consistent with the TAO approach to Governance, the management of the risk management framework is generally proactive with regular reviews by the Audit Committee and SEMG as evidenced from our review of the minutes. 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 TAO Risk Matrix and Assessment Register has been subjected to change and improvement over the last five years and is subject to regular reviews and continuous improvement as noted in the Audit Committee and SEMG minutes.

As a proactive action and part of the risk management framework and to provide a better understanding of the risk management processes to the TAO, the SEMG engaged Oakton (TAO’s Internal Auditor) in March 2017 to conduct/facilitate a Risk Management Workshop to improve the overall risk culture and awareness. The overall objectives of the Risk Workshop were to:

- Enhance the understanding and awareness of risk management, to increase the level of maturity and risk culture amongst TAO staff; and
- Assist in identifying and rating strategic risks for updating in the strategic risk register.

**1.6.2 Development, monitoring and review**

The Risk Management Policy statement provides clear responsibility for the development, monitoring and review of the TAO’s Risk Management approach. The process is shared between the Practice Manager (now the Assistant Auditor-General Corporate Support and Strategy) and SEMG.

**Improvement Opportunities**

- I. The review of the Risk Management Policy noted that the last review was in September 2014 and the next review date was scheduled 22 September 2017. Risk management is a dynamic process and requires constant updates to ensure the risk management framework is current and relevant. The SEMG should ensure the Risk Management policy remains current and relevant by performing regular reviews.

In addition, in performing the next Risk Management Policy update, the TAO should incorporate the revised AS/NZS 31000:2018. The revised AS/NZS standard was released in September 2018.

- II. The last Risk Management review by Internal Audit was conducted in 2011, more than seven years ago. Since that last review, the Risk Management Policy has been updated (2014) and the Risk Matrix and Assessment Register has had a significant format revision.

The risk management framework is a dynamic process that requires a constant update to meet the challenges confronting the TAO in the services provided and work environment. Whilst the Strategic Internal Audit Plan included a scheduled review of the Risk Management Framework within a 3 to 5 year timeframe, we note the review was not commenced in-line with the plan.

**TAO Comments**

- I. Review of the risk management policy commenced in September 2018 but has not been finalised. The revised policy will incorporate consideration of the revised AS/NZS 31000:2018.
- II. A review of the risk management framework was included in the internal audit plan for 2011-12 and 2015-16. The risk management framework review was completed by the internal auditors in 2011-12. The 2015-16 internal audit risk management framework review was deferred pending appointment of new internal auditors. The internal audit risk framework review commenced in November 2016.

1.6.3 Risk Matrix and Assessment 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 the regular monitoring and evaluation of risks. The risk register focuses on the key risks to the organisation with relevant detail added to support the general risk categories and a brief description of the mitigation to reduce the inherent gross risk to an acceptable or manageable level. Where the mitigating controls cannot reduce the risk from high to medium, further actions have been provided in the risk register.

The Risk Register has been divided into five different categories of risks. Each of the categories has an overall inherent gross risk rating and after the mitigation process, with the exception of the “Issuance of an inappropriate, impractical or irrelevant audit *opinion/Parliamentary report (covers both Financial and Performance Audits)*” remains as high risk, the other four have been reduced to a risk rating of medium.

There is evidence that the risks in the register are reviewed and updated on a regular basis. The inherent risk number 1a in the Risk Register had an initial gross risk rating of 9 which is classified as a medium risk. After the peer review conducted by Australasian Committee of Auditors-General (ACAG) where the overall ratings by the TAO peers were unsatisfactory for the sections of financial and performance audit, the residual gross risk rating in the Risk Register increased to 12 which is a high risk.

Our review of the Risk Register noted several anomalies that may require further senior management attention. The following anomalies were noted:

Improvement Opportunities

- I. Likelihood vs Consequence. In most risk registers, the controls applied to an inherent risk is to mitigate the risk to an acceptable level (risk appetite), thereby, the likelihood of the risk occurring can be controlled by the mitigation actions performed. However, the “consequence” of the risk in general does not usually change (except in the use of insurance or avoidance). The review noted that a number of the “consequences” were changed after the application of risk mitigation controls. Management should review the risk register to ensure that the residual “Consequence” rating has been appropriately applied.
  - II. A full review of the risk register should be performed by an independent third party such as internal audit every 3 to 5 years or when significant changes to the register have been made. Key focus should be on significant movements. The reviewer should challenge the rationale for the rating movements and ensure they are appropriate.
  - III. In the Annual Report 2017-2018, the message from the Deputy Auditor-General on page 5 stated “A significant risk for us has been the fast approaching end-of-life of our current audit toolset, IPSAM. This will be a significant project that will ensure we maintain a contemporary approach to our audit work and possibly achieve some efficiencies”.
- As a significant risk mentioned in the annual report, there is no reference made in the Risk Register or any mention of significant IT project and the associated risks.
- The Risk Register is a living document for the TAO and needs to be current and relevant. The selection of the right information system to replace IPSAM is a significant project with significant risks. The project should be included as a new category in the Risk Register to ensure the associated or appropriate risks are recorded and managed.
- IV. Our review noted that the TAO does not have a Risk Appetite Statement. Our review, although at a high level, has noted that the TAO has a framework for governance and risk management. As such, and part of the risk maturity model process, the TAO should consider the development of a Risk Appetite Statement to complement the Risk Register and to allow the Audit Committee and SEMG to measure the necessary mitigation processes required to have an acceptable risk in achieving the TAO’s strategic goals.

- V. The linkage between the Risk Register and Strategic Plan 2016 to 2020. Our review noted there is a tenuous link between the Risk Register and Strategic Plan 2016 to 2020. A Strategic Risk Register is purported to support the business strategy; it should address the potential risks that may prevent the organisation in achieving their strategies.

The SEMG should ensure there is a linkage between the risk register and the strategic plan. The 2016 to 2020 Strategic Plan states “The Risk Management Framework outlines the TAO’s approach to risk oversight and management and is supported by the TAO risk register which documents our strategic and operational risks”.

The Strategic Plan has four key focuses: Relevant, Sustainable, Independent and reputable, and Adaptable; the risk register should address the risk associated with these four key focuses and the environmental factors that shape these focuses including:

- Community expectations and influence;
- Commonwealth and state relations;
- Sustainability of government services;
- New modes of government; and
- Digital transformation.

The current Risk Register should be revised to include and support the above strategic focuses. Detailing what are the risks and mitigation controls to assist with the achievement of the strategic goals.

**TAO Comments**

- I. We disagree with this comment as it depends on how you interpret the risk. For example, airbags in a motor vehicle reduce consequence of accident (less physical harm) but not the likelihood of an accident occurring.
- II. The risk register was reviewed by the internal auditors in 2011-12. The 2015-16 internal audit risk register review was deferred pending appointment of new internal auditors. The internal audit review commenced in November 2016.
- III. We disagree with this comment – the risk is covered by risk 5(h) in the risk register. This risk was specifically raised with the replacement of IPSAM in mind
- IV. Our risk appetite was assessed in the risk management workshop facilitated by the internal auditors in January 2018. The risk appetite was assessed as low, but is yet to be documented in a Risk Appetite Statement.
- V. Strategy focus areas were considered in January 2018 risk workshops facilitated by the internal auditors. The risk register will be amended to link identified risks with strategic focus areas.

## 2. Conduct of Financial Audit Engagements

Under the Act, the Auditor-General is the auditor of financial statements of the Treasurer, all State entities, and audited subsidiaries of State entities. Pursuant to section 34 of the Act, 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) while also having thirteen external Audit Service Providers (ASPs) available to use.

The FAS business unit is responsible for the annual audit of the financial statements of approximately 165 State entities, the General Government Sector Financial Statements, the Public Account Statements and the Total State Financial Statements and 80 acquittal statements. FAS’s role includes conducting financial audits, managing financial audits contracted to the ASPs and managing financial audits dispensed with. There are three permanent Signing Officers, being the Auditor-General, Deputy Auditor-General and Assistant Auditor-General FAS, who are appointed to their positions to sign off the audits on the Auditor-General’s behalf. The Auditor-General, in consultation with the Deputy Auditor-General and Assistant Auditor-General FAS, also allocate signing responsibilities for small, lower risk jobs to the four FAS Group Leaders in the Office.

### 2.1 Number of Signing Officers

In 2018, including the Auditor-General, there were 7 officers in FAS delegated to sign financial statements. With consideration of the re-profiling transition plan noted in Section 1, the FAS team aims to have approximately 26 FTEs, this means more than 25% of FAS employees will sign financial statements which may be considered high when comparing to the standard structure of an audit firm.

As noted above, the FAS clients allocated to the Group Leaders are the engagements which have been assessed as smaller and lower risk to the TAO. We believe that the current approach is appropriate and economical for both the Office and the client. It contributes to the growth of talent within the Office while also allowing the 3 permanent Signing Officers to concentrate their effort on the higher risk clients.

While economical, it does expose the Office to additional risks. By spreading the signing officer’s responsibilities too wide, it can increase the risk of issuing inappropriate audit opinions. Due to the size and risk profile of the audits signed off by Group Leaders, the current quality monitoring program being performed on engagement files has not covered these audits. To ensure the quality of the files is to a high standard and the Group Leaders have the necessary skills to meet the Signing Officer requirements under the auditing standards, we believe it would be prudent for TAO to ensure these files are considered when planning the internal monitoring program. This could be performed as a peer review between the Group Leaders, supervised by the Technical & Quality Director, serving as a method of ensuring compliant audits and as a professional development opportunity for Group Leaders.

#### Improvement Opportunity

Ensure each Signing Officer is subject to at least one cold file review per year.

The results of the QA reviews should be directly linked to the Group Leaders performance assessment and considered when the Auditor-General is assigning audits to Group Leaders.

#### TAO Comments

Corporate policy COR 8.0 - Quality Assurance Monitoring Activities Policy will be amended to ensure all Signing Officers are subject to at least one cold file review each year.



## 2.2 Audits completed by the External Audit Services Providers

We understand that in 2018, 9 out of the 13 firms on the Panel of External Audit Service Providers (ASP) were currently contracted to complete 23 financial audits (approximately 19% of the total number; 19% of total fee portfolio). The panel of ASPs is set up by tender and then they're engaged, either directly or following a request for quotation, through the issuance of an official order. The panel is made up of a variety of firms, ranging from the "Big 4", mid-tier and small accounting firms depending on the size and complexity of the engagement. These audits are signed off by the Signing Officers, thereby requiring Signing Officers to take responsibility for the direction, supervision and performance of the engagements.

On our review of 7 of the TAO's ASP engagement files, we noted in all instances a full Quality Assurance (QA) review had been undertaken. TAO is of the view that as they are issuing the audit opinion, a QA review should be performed on each ASP file, a position we agree with.

During our review of the ASP engagement files, we noted that the amount of documentation placed on file differed from the key supporting documents attached to the QA review and the documentation of queries raised/responses received throughout the engagement. It was not clear to us if this was based on the unique characteristics of the entity, either risk or the size of the entity. For example, throughout our review we documented no difference in the QA requirements of a small audit <\$15k and a large audit >\$50k. Previous experience with the ASP also didn't appear to be a factor which was considered.

### Improvement Opportunity

The Office formalise an expectation of what a complete ASP file should look like. Consideration into such factors such as the minimum documentation requirements and how queries & responses from the ASP are documented/retained on the file.

The Office should consider whether a smaller contracted audit could require a smaller QA checklist be completed and documentation expectations reduced.

With a consistent approach applied, the Office should benchmark each file as part of the QA review in order to assess the quality of each ASP on the Panel of External Service Providers. The information gathered should be considered when awarding contracted audits.

### TAO Comments

The existing panel of Audit Service Providers expires in March 2019. We commenced a tender process to establish a new panel of Audit Service Providers in February 2018. In conjunction with the tender process, we commenced communication with Audit Service Providers to advise revised reporting and contract management requirements. This includes deliverables in relation to financial statement audits and deliverables required under the terms of the contract of engagement. Work is still underway to clarify audit file documentation requirements for contracted audits.

We consider the existing ASP QA checklist is appropriate for all audit files.

We have considered the benefits of benchmarking each ASP file as part of the QA review and have concluded this is not necessary given the diversity in size and nature of audits contracted out. The work of each ASP is assessed following the completion of each annual audit and audit quality matters are communicated to ASPs as appropriate.

## 2.3 Small size audits

For the purpose of this report, and to ensure consistency with the 2013 report issued, small audits are defined as those audit engagements with annual fees of less than \$10,000. Most of these audits are completed by the

FAS business unit. There are approximately 30 such audits with a total fee of approximately \$155,000. While these audits are not a significant proportion of the Auditor-General’s portfolio, they contribute towards the Office’s net financial results of \$545,000 (2017 loss: \$145,000).

The office has been able to utilise IPSAM templates for small entities that require less onerous programs to be completed and instead allows the auditor to use their professional judgement to scope in/out work to be performed. This approach taken by the office has allowed them to perform small sized audits more efficiently.

We reviewed 5 small sized audit engagements and there was a difference in the quality of evidence and documentation put on the file. While we recognise these are small clients and have a low monetary impact on the public sector, the inherent audit risk associated with such clients is not always low. In common with other organisations of similar nature, small clients generally have inadequate segregation of duties, generally do not have highly qualified staff and may have cash handling activities which require high internal controls to ensure completeness.

As noted previously in this report, due to the size of small audits, they recently appear to have been scoped out of the TAO’s internal monitoring. The files should be subject to some form of QA monitoring to ensure compliant, efficient audits continue to be performed on TAO’s smaller clients.

**Improvement Opportunity**

TAO to ensure small audits are subject to a limited form of QA monitoring.

**TAO Comments**

Agreed, a sample of smaller audits will be included in the QA monitoring program.

**2.4 Dispensed audits**

As at the date of the review, there were 38 audits which had been dispensed for the 2018 financial year as they have adequate alternative audit arrangements and the financial statements are reviewed annually by the TAO, or they were subsidiaries of other State entities and the financial transactions and balances of the controlled entity were subject to audit procedures as part of the group audit of the controlling entity.

While they are public sector entities and require the same accountability from the Auditor-General, being part of his mandate, we continue to believe the current approach is economical for the Office and the client.

## 2.5 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.

Some of the other Auditor-General Offices in Australia have issued their own financial statements and performance auditing standards to supplement the Australian Auditing and Assurance Standards because these published standards do not always take full account of the scope and nature of public sector audits.

### Improvement Opportunity

The Auditor-General undertakes a formal review of the current Australian Auditing Standards to identify any areas they believe themselves and their external ASPs should be required to perform duties over and above the current requirements of the auditing standards.

Where such instances are identified, the Auditor-General should publish his own standards that specify additional requirements which are not mandated by the Australian Auditing and Assurance Standards.

### TAO Comments

We will assess whether additional auditing standards are required to specify additional audit requirements not mandated under existing Australian Auditing Standards.

## 2.6 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. We note the use of IPSAM methodology on a Lotus Notes database, coupled with TAO’s own Standard Operating Procedures (SOPs) that supplement the standard IPSAM methodology where deemed appropriate, has provided a sound risk-based audit methodology for use by auditors of financial reports within the TAO over the past decade.

The Technical and Quality Director is tasked with ensuring IPSAM remains compliant with Australian Auditing and Assurance Standards, but this has not been performed every year. The TAO has placed reliance on the Queensland Audit Office to update the IPSAM system and ensure compliance with the Auditing Standards.

Currently the Office is looking for an alternative to IPSAM, as highlighted in their 2018 Annual Report:

*“A significant risk for us has been the fast approaching end-of-life of our current audit toolset, IPSAM. After examining options available, we decided to trial a commercially available product, CaseWare, during 2019. This will be a significant project that will ensure we maintain a contemporary approach to our audit work and possibly achieve some efficiencies. TAO has a project under way which has the aim of ensuring the financial audit methodology remains at best practice in meeting the needs of the office”.*

On review of the TAO audit methodology, we noted they have issued several SOPs that reside outside of the IPSAM methodology. As a reviewer, it was not immediately evident these SOPs had superseded the IPSAM guidance, and it requires the auditor using IPSAM to know there were supplementary SOPs.

**Improvement Opportunity**

The TAO incorporates the necessary IPSAM policies and internal SOPs into a single, lucid document that details the methodology of the Office, and Audit Clarity Manual for TAO. All staff should have access to this manual and be encouraged to refer to it throughout TAO FAS engagements.

An annual review of the Audit Clarity Manual (or equivalent) should be performed by the Technical and Quality Director to evidence the continual compliance of TAO’s methodology with Australian Auditing and Assurance Standards.

**TAO Comments**

SOPs are constituted to replace or supplement IPSAM Guidance material, not Procedures (as explained at the beginning of SOPs). Notwithstanding this, we will review the consolidation of audit policies and SOPs following the replacement of IPSAM.

The Office of the Auditor General will undertake an annual review to assess whether TAO’s audit methodology complies with Australian Auditing and Assurance Standards.

**2.7 Review of financial audit files**

We reviewed approximately 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.

We noted all programs contained in IPSAM are generally completed which indicates 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 to the Quality Control Section for observations and recommendations relating to the review of financial audit files and Steps Taken in Response to Previous Peer Reviews section for a follow up of recommendations raised in the 2013 review.

There have been several different reviews conducted by external parties regarding TAO’s Financial Audit files, with the most major, detailed external review being performed by the Australasian Council of Auditors-General (ACAG). We made use of this report to confirm whether the remedial actions taken was sufficient and have re-raised several of the points issued where applicable, a summary of ACAG and a brief overview of TAO’s financial audit review results follow.

The ACAG has developed an approach to help individual Audit Offices demonstrate to internal and external stakeholders that they meet relevant legal and professional standards. The approach is based on a framework that enables reviews to be undertaken of an office’s audit and corporate functions against a common set of questionnaires covering relevant professional standards and pronouncements. The ACAG Peer Review was requested to provide a compliance review of the Tasmanian Audit Office with respect to their Quality Control System.

The latest ACAG peer review, finalised on August 2017, included the in-depth review of two Financial Audit Engagements. The overall rating for their two financial audit files reviewed were “unsatisfactory”, with the main theme being around lack of audit evidence and documentation being placed on the file for a high risk area in each file, be it missing documents, more detail or further documentation required to support the comments and assessments made. No major issues were found with the TAO’s methodology or approach, it was generally around the execution of the audit as opposed to the framework.

The review of the Financial Audit engagements generated fifty-one (51) recommendations, of which, the TAO had responded to each of the recommendations with either: acceptance, partial/unsure and not accepted. We note that the ACAG Peer Review Report has been recorded in the Register of Recommendations from Reviews; please refer to Section 8.

We note from our own review and on reflection of the other review undertaken in the past 5 years, the audit team appears to have an adequate understanding of the sector and issues faced. However, we believe there are opportunities to improve the overall quality of the audit file by considering the following areas.

**2.7.1 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 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.

Generally, we found the approach to the review of the risk of probity inconsistent. On most files, we found audit reliance is placed on the existence of clients’ internal policies, effectiveness of clients’ controls and review of a sample of credit card statements, of which the substantive testing procedures linked to these sensitive expenditures was clear and sufficient. However, there were multiple instances where there was no clear evidence of other substantive testing procedures on these sensitive expenditures nor evidence this area was critically analysed and assessed to ensure an appropriate application of the guidance provided by the IPSAM methodology.

We also note that the sector specific probity programs are available for the audit team to use. Highlighting the program ‘Probity for Councils’, we observed the use of this program varied between councils, with it being used in approximately 50% of the councils audited.

**Improvement Opportunity**

The TAO re-enforces the importance of probity and waste considerations being critically analysed, reviewed and assessed during the course of the financial statement audit to ensure a thorough and appropriate application of the IPSAM audit methodology in this area.

Sector specific probity programs are consistently utilised throughout the Office.

**TAO Comments**

The requirements for annual audits to consider issues of effectiveness and efficiency, waste, and a lack of probity or financial prudence will be reassessed during the IPSAM replacement process. Under the revised public sector audit approach being developed by Queensland Audit Office these considerations may be excised from the financial audit process and replaced with targeted probity reviews across client segments or on topical areas. We will make a decision on the approach it will adopt once the revised public sector audit approach being developed by Queensland Audit Office has been released.

## 2.7.2 Understanding the entity

Stakeholders highlighted through the client satisfaction survey, they felt the audit team members did not always demonstrate an adequate understanding of their organisation. Our discussions with stakeholders mirrored this in part. The feedback we directly received was that the senior members of the team do have an understanding but the issue was below the Signing Officer and Engagement Leader level.

This is a challenge for any audit firm who, depending upon the size of the audit client, may only be working within the audit client for interim and end of year audit purposes for a few weeks each year. Through our discussions with members of the FAS team, it was not uncommon for junior team members to not have been thoroughly briefed about the client before attending to the fieldwork due to time constraints. It was raised that informal meetings commonly take place at the client, but lacked the depth of a pre-visit planning meeting due to the demand to perform fieldwork once on site.

We note in all instances, there is a documented planning meeting held where the key engagement team members attend and the knowledge of the entity on the audit file was generally to a high standard, quite thorough and well documented. This is consistent with the stakeholder feedback received.

In many instances, the documented planning meetings often occur a considerable period before the team will attend the office for fieldwork. We believe it would be beneficial to TAO and their stakeholders if junior team members were scheduled more closely to the time of the review to discuss with the Engagement Leader before commencing the engagement with the client. If the initial planning meeting is held more than 2 months (or a period of time deemed more appropriate by the Office) before attending the client's office, another planning meeting in which all team members attend should be held and documented, to a lesser degree of the original planning meeting.

### Improvement Opportunity

We believe it would be beneficial to TAO and their stakeholders if junior team members were scheduled more closely to the time of the review to discuss with the Engagement Leader before commencing the engagement with the client.

When scheduling/planning for jobs, additional time should be accounted for this.

### TAO Comments

We will investigate the feasibility of conducting audit client familiarisation meetings for all audit team members prior to visiting an audit client.

Where such meetings are held, we would expect team members to charge their time for attending such meetings to the audit engagement code, consequently, the need to account for 'additional time' is not required.

**2.7.3 Use of Internal Auditors**

During our review of the audit files and our discussions with FAS, we noted the possibility of using internal auditors is regularly assessed and provided for in sufficient detail. However, in most situations, the timing and scope of the internal auditors’ work is considered as not appropriate for TAO and as a whole, it appears the office place limited reliance on the work of internal auditors.

Several stakeholders commented that TAO could work closer with the entity’s internal auditors where they have more detailed or technical knowledge, and/or can more readily access data and information, within the parameters of the Audit Standards. 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.

Our review has highlighted an expectation gap between TAO and its clients in relation to the use of internal auditors. With several stakeholders expressing a desire for the TAO to provide some feedback and recommendation into the focus of the internal audit plan for upcoming years which could result in a more efficient audit.

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 expectations are clear from the outset. We would suggest that as a minimum moving forward, TAO should have its team completing the IPSAM program (or CaseWare equivalent) ‘Preliminary discussion of Internal Audit Plan’.

**Improvement Opportunity**

TAO should seek to narrow the expectation gap with stakeholders relating to their allowed involvement with internal audit function through client meetings and information sessions, specifically highlighting the requirement of TAO to remain independent when management is setting their internal audit plans.

**TAO Comments**

Our planned reliance on the work of internal audit is communicated in our financial audit strategies. To maintain our independence we do not provide advice to management on the scope or selection of internal audit projects. We will clarify this position in our financial audit strategies and in our interactions with audit committees.

**2.7.4 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.

Materiality for the Financial Report as a Whole

Determining materiality involves the exercise of professional judgement. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial report as a whole. Factors which may affect the identification of an appropriate benchmark are multiplicitous and are detailed in ASA 320 Materiality in Planning and Performing an Audit. For the purpose of this report we will not expound on the factors that should be considered.

The Australian Auditing Standards require the auditor to document the factors considered in determining the appropriate benchmark. This was not a task that was well performed on our review of the audit files. We believe this is due, in part, to how the Office determines the percentage to be applied to the chosen benchmark through the use of a sliding scale based on the value of the benchmark used, and not its unique characteristics. The use of the sliding scale turns the process into a mathematical derivation, as opposed to the auditor taking a considered approach.

Although TAO materiality methodology allows the team to alter the materiality base if needed, in our review of all FAS files completed by TAO, the sliding scale was used in all cases and there were instances where the justification for the benchmark used was not documented. With the automation and no narrative attached to the benchmark, the audit team is unable to display their use of professional judgement, a requirement of the Australian Auditing Standards.

The Australian Auditing Standards provide guidance around the relationship between the percentage of a chosen benchmark. For example, a percentage applied to net profit will normally be higher than a percentage applied to total revenue. For example, a firm's methodology may allow a benchmark range of 5 to 10% of net profit, while the firm may consider 1 to 2% of total revenues or total expenses or 3 to 5% for net assets. The sliding scale does not distinguish between these very different type of benchmarks and deters the users from selecting benchmarks such as net profit and net assets if one of those benchmarks is the most appropriate based on the users of the financial statements focus.

### Improvement Opportunity

That the TAO reconsiders its application of the sliding scale and adopt the use of different threshold calculations as prescribed above.

### TAO Comments

A review of the approach to materiality, including the use of benchmarks, was undertaken in December 2016, including a comparison of our approach against four ASPs and other public sector audit offices. We decided our existing approach to determining materiality was appropriate and no change was made.

We will reinforce the requirement to document the rationale for the base chosen for the determination of materiality.

Our approach to materiality will be reviewed as part of the IPSAM replacement program.

### Performance Materiality and Tracking Materiality

Following from the determination of materiality, the Australian 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; and
- 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.



The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgement. It is affected by the auditor's understanding of the entity updated during the performance of the risk assessment procedures. The nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period.

During our review, there is no evidence of the determination of performance materiality based on the auditor's risk assessment of the entity. Furthermore, the same expected error rate was used to determine performance materiality despite planning procedures characterising the audit risk differently. It is common practice for audit firms to have threshold guidance to apply to overall materiality in order to calculate an appropriate performance materiality, for example, Low Risk 80%, Moderate Risk 70% and High Risk 60%, these benchmarks could also be applied to individually risky areas of the audit.

### Improvement Opportunity

That the concept of performance materiality is amended to reflect the risk associated with the specific entity being audited, including guidance on a starting point based on the assessed levels of risk.

### TAO Comments

We will review and update the SOP as necessary.

It is not apparent separate performance materiality was considered when testing sensitive expenditure and related party transactions. The guidance material clearly states that "as far as materiality issues are concerned with respect to the 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." However, in the files we reviewed, the area in the TAO calculation sheet was either marked N/A or left blank, indicating a lack of consideration.

### Improvement Opportunity

The Office provides staff training and continues to reinforce the concept of setting separate performance materiality for balances which are deemed riskier due to their qualitative characteristics.

### TAO Comments

We will reinforce the requirement to consider and document separate performance materiality when testing sensitive expenditure and related party transactions.

The clearly trivial threshold (known as 'scoresheet level' per TAO methodology) has a set calculation, as is the industry norm and has been appropriately applied through all engagements we reviewed.

We noted materiality is determined at planning and again, at the conclusion of the audit to ensure that the basis and level set is still appropriate. This was performed consistently well throughout the files we reviewed.

**2.7.5 Referencing**

As noted in point 2.6 of this report, the IPSAM methodology platform has provided a sound risk-based audit methodology for TAO to use, but it does not lend itself to implementing and maintaining a robust referencing system. Throughout our review of the FAS files, various steps and audit processes were completed without adequate linkage and cross referencing to other areas of the file or incorrect linkage to PY files. This gives rise to inconsistent and inefficient engagement practices.

The review of the engagement files was at times difficult because of the lack of cross referencing and integration of audit steps. A more robust referencing system, which has consistency over all the TAO’s file would ensure the review process is more efficient and importantly given the staff turnover the TAO experienced, it will assist the TAO to integrate new employees, allowing them the autonomy to review/conduct a quality audit in a shorter period of time.

<b>Improvement Opportunity</b>
<ul style="list-style-type: none"> <li>I. TAO ensures the ability to implement a robust referencing system is considered when evaluating their new audit toolset.</li> <li>II. TAO provide training to their staff, establishing an expectation of TAO referencing requirements.</li> </ul>
<b>TAO Comments</b>
<ul style="list-style-type: none"> <li>I. The need for cross referencing capability in a replacement audit system has already been considered by the IPSAM replacement project team.</li> <li>II. Training on cross referencing requirements will be provided during implementation of the new audit system.</li> </ul>

**2.7.6 Timeliness of Reviews**

We noted instances throughout our review of TAO’s audit files where it appeared the signing partner had not reviewed what were considered the riskier areas of the engagement on a timely and comprehensive basis, in some instances occurring very late in the audit process or post signing of the audit report. Based on our discussions with senior members of the TAO, we understand that although senior members of the team are involved in the audit during the entire process and having input into the key areas of the engagement, the documented involvement on the file was sometimes lacking. It also included planning and interim work not being reviewed until much later in the audit than would normally be expected

<b>Improvement Opportunity</b>
TAO ensures all Signing Officers are aware of their requirements to document their review of work on the file on a timely basis.
<b>TAO Comments</b>
We will reinforce the requirement for signing officers to undertake and document their review of the audit file on a timely basis.

**2.7.7 The use of data analytics**

TAO has identified the use of analytics as one of its 4 key priority initiatives in its Strategic Plan for 2016-2020, Advanced Analytics. We understand through our discussions with the TAO, its data analytics initiative aims to better understand data and present actionable insights to the agencies, TAO will aim to ‘develop a strong analytical capability that delivers high quality and impactful audit insights and findings’.

The TAO recognises the cost/benefits and insights the use of data analytics can bring to an audit. However, due to the resourcing constraints, TAO has not been able to deploy significant resources to this initiative to date and has made a little progress in this area recently (as noted below). As the audit industry rapidly moves toward the use of data analytics, it is important this remains a focus for the office and adequate resources are made available to continue their development in this important, rapidly developing area of audit.

Recently, TAO has made progress in their use of Computer Assisted Audit Techniques (CAATs) to gain efficiencies with the audit process. Through our review of the FAS engagements, it was encouraging to see the use of data mining to assist the Office in sample selection and for journal entry testing (JET), although we note it is not currently being used on all files.

**Improvement Opportunity**

- I. TAO continue to develop, tailor and design additional audit tests based on efficient use of audit effort and risks using CAATs.
- II. TAO to roll out the use of standard CAATs on all engagement, this would involve upskilling the FAS team to ensure it is consistently being used in an effective and efficient manner.
- III. TAO begin to analyse the data which is being made available through their use of CAATs and search for opportunities to bring further insights to their stakeholders.

**TAO Comments**

- I. We are continuing to develop, tailor and design additional audit tests based on efficient use of audit effort and risks using CAATs. Based on our reviews of our ASP work and also our understanding gained from various ACAG forums the level of data analytics work currently being performed is comparable and in some cases more advanced and other public sector audit offices.
- II. We are continuing to roll out the use of standard CAATs on engagements where the benefit warrants doing so.
- III. Data analysis will be undertaken to the extent it is a cost effective audit procedure and satisfies Australian Auditing Standard requirements and supports selected audit procedures.

A clear strategy and plan should be developed and implemented to ensure the use of data analytics in all audits becomes engrained in the TAO audit methodology and approach. This may involve the development of an in-house data analytics support team, third party assistance in providing data analytics expertise or leveraging off the other audit offices.

**Improvement Opportunity**

- I. A detailed action plan is drawn up and implemented to ensure the use of data analytics in audits becomes engrained in the TAO audit methodology and approach.
- II. Build data analytical skill as a core capability across the TAO.
- III. The availability of an integrated data analytic tool is considered when deciding on the appropriate auditing software to replace IPSAM.

## TAO Comments

- I. The incorporation of data analytics is one of our existing strategic initiatives. A strategy has been prepared, but detailed action plan for the next stage of data analytics is in progress pending resourcing and priorities. We will leverage off the work undertaken by the ACAG Data Analytics Group in implementing this strategic initiative.
- II. This is already embedded in our audit training program
- III. The availability of an integrated data analytic tool is being considered.

## 2.8 Fee setting and monitoring process

The basis for setting audit fees is published in the Auditor General's Report to Parliament as required by the Audit Act. We note a comprehensive process is undertaken to determine the expected audit hours required considering the basis detailed in the document. The TAO 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).

We note the overall write offs percentage for year-end audits is low at 6-8% which compares favourably with peers.

Cost overruns (write offs) are monitored on a job by job basis (high level). The TAO also monitors at the macro level, by sector and by internal teams in order to get a full view of the performance of the TAO. The level of detail on each individual engagement was an area of the process we see room for improvement.

### 2.8.1 Review of actual to budgeted audit costs on individual engagements

Under the IPSAM methodology, it is the responsibility of the engagement leader to develop budgets and the responsibility of the team leader to monitor time spent against budgets. On many files, we note there is insufficient, detailed documentation of the management of time incurred against allocated budget time during the course of the audit as little information in relation to time charged is appropriately recorded on the audit file itself.

We observed instances where no comparison of actuals to the budget were on the file and when there was a comparison performed, which was the majority of files reviewed, there was a lack of detail. Examples include; no detailed analysis of actual time against the budget at the task level, only comparing hours overall and not factoring in the cost (i.e. which team members incurred the hours) and no, or a lack meaningful commentary discussing the variance of actual to budget.

We believe an analysis which incorporates the above points would provide useful information to facilitate the planning of future audits, the calculation of engagement budgets and the identification of efficiency improvements for subsequent years.

**Improvement Opportunity**

With consideration of the factors above, TAO should establish minimum expectations for the level of detail which needs be included when reviewing the actual to budget audit costs at the engagement level.

**TAO Comments**

We will reinforce the requirement for establishing audit budgets and monitoring actual audit costs compared to budget.

Our decision not to cost to task level will also be reconsidered as part of IPSAM replacement program. Establishing expectations for the level of detail to which costs on jobs are recorded will be done with due regard to costs compared to expected benefits.

In the majority of the files we reviewed, the budgets v actuals program was completed in the last week before signing off, many times on the day the audit report is being signed.

Based on the issues around quality of the comparison highlighted above, it appears the attitude towards this important step has become that of an administrative “tick it off” process to complete the file. To an extent, this is understandable if the expectation is to have this completed before signing off. The engagement team leader is in the heat of a busy season and as this process has no bearing on the audit opinion being issued, the objective of the engagement, it is likely to be hurried.

TAO should be aiming to produce meaningful commentary around the write on / write off on each of their engagements to inform future fee setting at the engagement level. More time should be given to this procedure and this can be performed when the ‘sign off pressures’ are lessened. In order to gain meaningful insights into the performance of each year’s audit, for each client, we would encourage the team to perform this when the time allows. As the procedure is an administrative one, the time between the date the report was issued, and the file is locked down (capped at 60 days after the audit report is issued) can be utilised to perform this procedure in what would be a less intense period of the audit season.

The following recommendation should be read in conjunction with point 6.4.1, which recommends TAO expand their lock down policy to include guidance on what administrative tasks can be performed between the date of the assurance report and the lock down date, in accordance with ASA 230.

**Improvement Opportunity**

To enable the engagement team to perform a more meaningful budget to actual cost analysis, TAO should ensure the FAS team is aware this procedure can be performed after the audit report has been signed.

**TAO Comments**

We will reinforce the expectation that this procedure be completed after the audit report has been signed.

## 2.9 Reporting Deadlines for TAO and Accountable Authorities

A theme that appeared from our discussions with stakeholders was the audit process often feels rushed due to the tight deadlines imposed by the *Audit Act 2008*. Under Section 17 (1), “*the accountable authorities are obliged to submit financial statements to the Auditor-General within 45 days after the end of each financial year*”. There was a feeling that the process puts pressure on the accounts team and mistakes/adjustments will understandably follow, leading to some work being re-performed.

Under Section 19 (3) of the *Audit Act 2008*, “*the Auditor-General must finalise his or her audit opinion for a State entity or an audited subsidiary of a State entity within 45 days of receiving financial statements from the accountable authority*”. Again, this tight turnaround appears to put TAO under a considerable amount of pressure, and as the focus for the TAO should be shifting to the quality of their audit files, a more extended period to complete the audit would help facilitate this. These pressures also appeared to be observable by the stakeholders, in both a positive and negative light, mostly positive, TAO’s ability to meet the tight deadline while maintaining a high level of service.

As noted in the TAO strategic plan 2016-2020, a longer-term goal of the office is to “*vigorously and proactively engage in any review of the Audit Act 2008*”. We believe that this feedback should be considered when engaging in such a review; an example is the NSW Audit Office. The NSW *Public Finance and Audit Act 1983* allows statutory bodies and departments to apply to the Treasurer for an extension on their financial submission deadline and legislates the Auditor-General to audit and finalise their audit opinion within 10 weeks of them receiving an organisation financial statement.

Whilst acknowledging that it may be difficult for the Tasmanian Parliament to change the short reporting timeframe, we believe the Auditor-General should advocate for a change in the short reporting timeframe of 45 days and have recommended as such in point 7.4 of this report.

## 3. Conduct of Performance and Compliance and Investigations

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### 3.1 Performance Audit Methodology

We have reviewed the methodology in the Performance Audit manual and IPSAM, in addition, we have reviewed the ACAG peer review for the Performance Audit section, an independent consultant report and the IT Audit Capability report conducted by an IT consultant. These reviews are discussed further in this section and in section 5.4.

The Performance Manual was last updated this year in October 2018; the previous manual amendment was in 2015. Since the 2015 version, there has been substantial work performed to update the Performance Manual 2018, which we commend the TAO in revising the manual to reflect the changing methodology for performance audits.

The Performance Audit Manual is a comprehensive document for conducting a Performance Audit by the TAO. The document offers in detail the processes required to conduct a Performance Audit. The Manual incorporates a summary of the procedures to be completed, followed by the detail and explanation of each of the procedures to be performed for planning, fieldwork, reporting and tabling, and post-audit actions.

The use of the IPSAM system for Performance audits has always been contentious as the system was primarily designed for Financial Audits. Our review noted that the IPSAM system is largely used as a document management system for Performance Audit reviews. A shell structure is used and all documents are allocated to the relevant sections with the file.

There have been a number of different reviews conducted by external parties regarding the Performance Audit methodology used by the TAO, our review has incorporated two of the reviews: the ACAG peer review and other independent reports for their detail review and assessment of Performance Audits conducted by the TAO, and we have also included an independent IT review for its relevance.

We also conducted a general review of the Performance Audit review files in IPSAM, our review, in general, agrees to some degree with the ACAG peer review and independent consultant report reports in the founding which, we have extracted the relevant sections from those reports and incorporated as part of this report.

### 3.2 IPSAM Performance and Probity Audit File review

#### 3.2.1 Formation of TasWater

The review was completed by the TAO Performance Audit Services team. Our review noted the completeness of the file and supporting documentation in IPSAM. The IPSAM file was reviewed by the Auditor-General for key procedures, all other procedures were reviewed by either the Assistant Auditor-General, Director PAS or Manager PAS. We have not reviewed or assessed the findings, recommendations and opinion of the Performance Audit

Budget management – engagement started in December 2016 and completed in November 2017. The budgeted hours 1,050, actual hours 2,557 representing 144% over budgeted hours.

In summary, our review of the IPSAM file for TasWater has found the file to be comprehensive with relevant supporting documentation, appropriate methodology and approach, and appropriate sign-off by TAO staff.

However, the budget management process requires better planning, scoping and monitoring. The findings and management recommendations, in general, were not well received by TasWater based on the “close out meeting minutes.

### **3.2.2 Probity Review of Fuel Cards**

The review was completed by the TAO FAS. Our review of the IPSAM files noted there was a quantifiable amount of support data on file.

The Planning section of the file was comprehensive and appropriately reviewed by the manager.

However, there was no final and signed copy of Audit Planning Memo, only the Word version on file.

The Execution section provided a large amount of supporting data for each of the agencies. Individual testing of the agencies was recorded separately.

The Finalisation section included detail auditee meetings including exit interviews from 19 different agencies, management response from agencies, report to Parliament, media and tabling activities.

Budget management – engagement started in January 2016 and completed in April 2016. The budgeted hours 377 - \$62,945, actual hours 1,029 - \$171,372 representing 173% over budgeted hours.

The review noted that the IPSAM file remains open and not all the activities in the Finalisation section has been evidenced by reviews from the Auditor-General or Deputy Auditor-General. Also missing were the quality assurance procedural checklists: Planning checklist, Implementation checklist and reporting checklist. There was no Independence declarations or signed Audit Planning Memorandum. The IPSAM file has not been locked down 60 days from completion.

In summary, our review of the IPSAM file for the Probity review of Fuel Card was found to be comprehensive and with relevant supporting documentation. However, some anomalies were found which have been noted above

The findings and recommendations in the report were generally well received by all clients.

### **3.2.3 Gambling revenue and harm minimisation**

The review was completed by PAS. Our review noted the completeness of the file and supporting documentation in IPSAM. The IPSAM file had been reviewed and the final report was reviewed by the Auditor-General

Budget management – The budgeted hours 1,000, actual hours 1,402 representing 40% over budgeted hours.

In summary, our review of the IPSAM file for Gambling Revenue and Harm Minimisation has found the file to be comprehensive with relevant supporting documentation, appropriate methodology and approach, and with proper sign-off by TAO staff.

The findings and recommendations in the Performance audit report were, in general, well received by the clients.

### **3.2.4 Use of Tasmanian Government Cards**

The review was conducted by FAS as part of the 2017-2018 of the Probity and propriety of purchases, the Use of Tasmania Government Cards was an extension of the Probity review. The review was set up in the IPSAM system as a separate file with an Audit Planning Memorandum. As compared to the other selected files for review, the review noted a number of anomalies in that, it did not include documents such as:

- There was no signed Audit Planning Memorandum
- No signed Independence Declaration for the five TAO staff nominated
- The working papers lacked conclusion or reference to the supporting documents
- The Finalisation section of the file was incomplete
- The Quality assurance procedural checklists were absent
- No Auditee meeting or exit interviews on file
- No departmental response on file
- No system review sign-off for any of the activities in the IPSAM file by management
- No evidence of review by the Auditor-General or Deputy Auditor-General on file



The findings and recommendations in the Performance audit report were, in general, well received by the clients.

In summary, our review of the Use of Tasmanian Government Cards file in IPSAM was found to be unsatisfactory for the points noted above.

### 3.2.5 Tasmanian Prison Review

Our discussion with internal staff and external stakeholders highlighted the well-publicised issues regarding the Tasmanian Prison review (cost and duration). The period of the review had extended for two years and during which, both the TAO and Tasmanian Prison had a number of staff changes. No further comments will be made due the on-going nature of the review.

### 3.2.6 Improvement Opportunities from the review of IPSAM Performance Audit Files

#### Improvement Opportunities

- I. The Performance Audit Manual is a detailed and comprehensive document for assisting the TAO PAS team in conducting Performance audits. The use of the manual should be viewed as a general guide, as each Performance audit conducted by the TAO is unique, the methodology, approach and technical requirements may differ for each Performance review.  
  
Senior management should use the manual to ensure the key criteria are complied with and have the discretion to dispense with certain requirements that are not critical to meeting the objectives of the audit. This may permit TAO staff to have more time dedicated to the fieldwork instead of complying with the all the templated requirements. The AAG or above should approve the planning for what and how the methodology and approach are to apply.
- II. For IT security, the signature of staff should not be copied and pasted into the Microsoft Word document. We note that on some of the documents in the IPSAM file, the signature was a copied and pasted. It is difficult to ascertain if the designated signatory gave permission or signed the document.  
  
The use of copy and paste of signature has become a common approach, however, in an audit file, where evidence, review and authorisation are critical; care should be given as to what document may deploy this approach. An electronic signature procedure should be developed and used.
- III. IPSAM file lockdown. Our review noted that not all the completed Performance audits files have been locked down as required by the Australian Auditing Standards (ASA) and in section 9.2 of the Performance Audit Manual states: "Audits are to be finalised (archived in a form in which working papers and signing history cannot be altered) as soon as possible after tabling of the audit report. ASAs require that this is completed within 60 days of tabling".  
  
The Use of fuel Cards and Appointment of Tasmanian State Service Senior Executive Officers both were not locked down within the 60 days permitted period.
- IV. As a compliance requirement and good audit practice, senior management at the TAO should ensure all audit file in IPSAM are locked down 60 days from tabling to parliament. Please refer to section 6.4.1 Review of audit files – Quality Controls Systems. Our interview with the AAG – Quality and Standards confirmed that not all Performance audit files in IPSAM are reviewed for quality and standards. The AAG for Quality and Standards does have plans in the future to review Performance Audit files for quality assurance.
- V. Performance Audit Budget. From the three IPSAM Performance and two Probity Audit files selected for review, we note that three of the audits had exceeded the original budget by more than 20%. From our discussion with staff and management, it was highlighted that once the audit budget is exceeded by 20%, management will need to assess if the review should be continued. Staff interviewed have indicated that no known Performance audit has been terminated due to exceeding the budget by 20%.  
  
However, senior management should document on file the reason and justification for the continuation of the engagement.

## TAO Comments

- I. Discretion to dispense with certain requirements of the Performance Audit Manual will be considered, subject to maintaining compliance with the relevant AuASB standards for assurance engagements.
- II. We currently have a policy covering the use of electronic signatures. Compliance with this policy will be reinforced. In addition, we have developed and implemented a workflow for all correspondence which provides an audit trail on the use of electronic signatures via this process.
- III. We will reinforce the requirement to lock down all completed performance audit files within required time frames as required by Australian Auditing Standards.
- IV. Corporate policy COR 8.0 - Quality Assurance Monitoring Activities Policy does not require all performance audits to be subject to a quality assurance review.
- V. We are committed to completing the audits communicated in our Annual Plan of Work. We believe the reasons for the budget overrun should be documented rather than justification for the continuation of the engagement.

### 3.3 2017 ORIMA – Performance and Compliance Audit Client Survey

The latest ORIMA survey of performance and compliance audit clients was generally positive about TAO's performance in 2017. The overall performance index score was higher than in 2015 (73.4 index points (ip), up from 68.7ip in 2015). Increases in the index scores for audit reporting (78.3ip, up from 74.1ip) and value (69.5ip, up from 59.8ip) were also recorded, while index scores for audit process (72.6ip, in line with 72.2ip) remained stable.

The overall performance index score for 2017 indicates improvement from the 2015 survey but deterioration from the 2013 survey; however, the overall trend is positive as improvements have been made since 2015 and with the number of new initiatives and office transformation, the TAO should continue to receive positive results from future surveys once the transformation has been given sufficient time to be embedded.

The trend indicates that the TAO is improving and that clients were largely positive about TAO's performance. Clients were most positive about the auditors' skills and knowledge, professionalism and communication, with over four in five rating these aspects favourably. Clients were least likely to agree that the analysis and research conducted by the auditors were of high quality.

In addition to positive feedback, clients provided a range of suggestions for improvement to the audit process. These included:

- improving timeliness of the audit program (e.g. early communication of time consuming tasks);
- improving the scope of the audit (e.g. taking the social benefit of a program/ event into consideration);
- setting clear expectations around time required to complete tasks; and
- providing more opportunity to comment on audit findings/ recommendations.

The above suggestions for improvement were also reiterated in some of our stakeholder interviews conducted.

The audit reporting index score was 78.3ip, slightly up from 74.1ip in 2015.

- At least four-fifths of clients provided positive ratings across all aspects of audit reporting.
- In comparison with 2015, clients' perceptions of the accuracy and balance/ fairness of the tabled audit report improved, as well as the perceived clarity and practicality of audit recommendations, contributing to the increase in the audit reporting index score.
- Comments and suggestions provided related to increasing opportunity for organisations to comment on audit findings/ recommendations, broadening the scope of the audit and taking the organisation's capabilities/ resources into consideration for the audit recommendations.
- The audit value index score was 69.5ip, up from 59.8ip in 2015.
- The majority of clients agreed that the audit would help them improve the performance of the audited activity.
- Clients' comments about audit value suggested broadening the scope of the audit to increase the audit's value to their organisation.

It should be commended that the TAO has demonstrated and delivered a higher degree of value add over the period from 2015 to 2017 based on the survey results.

### 3.4 ACAG Peer Performance Review

The Australasian Council of Auditors-General (ACAG) has developed an approach to help individual Audit Offices demonstrate to internal and external stakeholders that they meet relevant legal and professional standards. The approach is based on a framework that enables reviews to be undertaken of an office's audit and corporate functions against a common set of questionnaires covering relevant professional standards and pronouncements. The ACAG Peer Review was requested to provide a compliance review of the TAO with respect to their Quality Control System.

The ACAG peer review with a finalisation date of August 2017 included the review of two Performance Audit engagements:

- Road Management in Local Government
- Provision of Social Housing

The ACAG assessment of the Performance Audit Engagement for Planning and Quality Control and Management of the Audit/Finalisation was "*satisfaction with improvement opportunities*". In the Implementation/Conduct section, Audit evidence and Documentation was "*unsatisfactory*".

The overall rating for these Performance audit engagements was "*unsatisfactory*". The conclusion was based on "*sufficient appropriate audit evidence was lacking (qualitative and quantitative) and the analysis relied on in forming the audit findings were not adequately documented to enable the reviewer to understand the work performed and conclusions reached*".

The review of the Performance engagements generated eighteen (18) recommendations, of which, the TAO had responded to each of the recommendations with either: acceptance, partial/unsure and not accepted. We note that the ACAG Peer Review Report has been recorded in the Register of Recommendations from Reviews; please refer to Section 8.

### 3.5 Performance Audit Services Quality Assurance Reviews

An external consultant had conducted two Quality Assurance reviews in 2015 and again 2017 for Performance Audit engagements completed by the TAO. The review examined the documentation of working papers and other evidence in IPSAM and interviewed key executive and the audit staff to assess whether:

- the TAO Quality System and Practices supported the performance audit engagement
- the conduct of each engagement was compliant with the TAO Quality System and its controls, processes and procedures

The approach taken by the consultant included:

- The standards applicable
- The way that TAO operationalises these standards through its guidance in the Performance Audit Manual, the TAO Quality Manual and template documents
- How effectively the relevant procedures and standards were implemented in the audits reviewed

#### 3.5.1 Quality Assurance Review Report - 2015

The 2015 quality assurance reviews included:

- Number of public primary schools, tabled in May 2015
- Security of information and communications technology (ICT) infrastructure, tabled in March 2015

#### Main findings and conclusions

The PAS team delivered a remarkable output of seven performance audits in a year on a modest budget. Success factors critical to delivering these outputs included:

- a 'lean' approach to managing audit processes, using minimal documentation, simple templates and checklists to guide process and record compliance with standards.
- a flexible approach to audit roles, in particular a willingness for senior staff to undertake hands-on auditing, and to plan, conduct, analyse and write reports, where required.
- long experience and strong relationships in the senior Performance Audit staff.

The consultant identified three broad areas for improvement from the 2015 reviews:

- Quality Assurance and Risk Management – while a 'lean' approach to quality control and risk mitigation is appropriate for the size of the Performance Audit Group, and generally effective, it lacks a transparent connection to the Office's overarching quality and risk management systems. The focus is limited to compliance with the risk mitigation and quality controls in each audit, rather than on continuous improvement of the Office's parliamentary products and the standing – profile, reputation and position – of the TAO within the broader public sector in Tasmania.
- External advice to audits – the complexity of public administrations means that in order to assess the efficiency, effectiveness or economy, the TAO may benefit from the use of external experts by contracting out large parts of the audit - the PAS team would maintain control of the audit, setting the audit questions, analysing the results of fieldwork and drafting the report, while being supported in their understanding of, and conclusions about, the area under audit by readily available, short-term expert advice.
- Broad Consultation – While the modest budget of Performance Audits leaves minimal time for extensive consultation. It is essential that the recommendations made add value to public administration, and emphasis on the ownership and implemented by the public sector entities involved, and deliver value to the service end-users.

### Conclusion for the 2015 reviews

The parliamentary report *Security of information and communications technology (ICT) Infrastructure* has followed the quality control policies and procedures, the majority of which are documented in the *IPSAM Security of information and communications technology (ICT) Infrastructure* database.

The parliamentary report *Number of Public Primary Schools* has generally followed documented quality control procedures; however, there was one significant irregularity:

- TAO's Quality Assurance guidelines indicated that an Engagement Quality Control Review (EQCR) was required. However due to personnel changes this was not completed until after the report was tabled, diminishing the value of the review.

### 3.5.2 Quality Assurance Review Report - 2017

The Quality review for 2017 included the *Water and Sewerage in Tasmania: Assessing the outcomes of industry reform*, tabled on 14 November 2017.

#### Main findings and conclusions

The review had a very large scope, complex data, and changes in senior staff during the audit and a volatile political environment. The report was marred by over-runs in time and budget and by a contentious and protracted clearance process.

The consultant identified two broad areas for improvement:

- Quality assurance, risk management and cultural change - Changes within the Office that impacted on Performance Audit – including a new Assistant Auditor-General, revision of the performance audit methodology and ongoing structural change (re-profiling) caused a decrease in the quality assurance process – refer to the conclusion.
- Rigorous and agile engagement performance – The duration of the engagement – over several months created challenges that were unforeseen or planned in the Audit Planning Memo. The lack of agility and rigour to the changes and challenges (internally and externally) through the lifecycle of the engagement resulted in delays in audit clearance and budget overrun.

### Conclusion for the 2017 reviews

The Performance Audit of *Water and sewerage in Tasmania: Assessing the outcomes of industry reform* was not *sufficiently* supported by the TAO Quality System and Practice. As a result, the conduct of the audit failed to meet some significant Office requirements and some of the relevant standards.

While most of the TAO's quality control policies and procedures were followed, some of the major areas of failure to meet standards were:

- Documentation of the engagement's compliance with the Office's systems of control was not adequate.
- Staff supervision was weak during the planning stages of the Performance Audit. As a result, during this phase the work to understand the entity was of insufficient depth, would have benefited from an expert.
- Risk Management was inadequate as the initial risk analysis failed to consider entity risks. Further, the risk management process was not monitored effectively during the audit.
- The Standard and the Office's own policy on EQCR was disregarded.

We note that the consultant's Review Report has been recorded in the Register of Recommendations from Reviews; please refer to Section 8.

## 4. Relevance of the Strategic Objectives and Critical Success Factors

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The current TAO Strategic Plan is from 2016 to 2020, at the time of this review, the TAO is halfway through the progress of the strategic plan. The current plan has been revised as compared to the 2012 to 2015.

### 4.1 The 2016 - 2020 strategic direction is based on four key pillars:

- Relevant - committed to remaining contemporary, competitive and client focused to meet the needs of our people, stakeholders, clients and mandate;
- Sustainable - adopt practices that will enable us to deliver our mandate without adverse effects on our people, finances, environment and society;
- Independent and reputable - preserve our independence and reputation to ensure that we maintain the confidence of our stakeholders, client and the community; and
- Adaptable - be nimble and responsive in the face of an ever-changing environment and take advantage of opportunities as they arise.

### 4.2 The strategic planning framework includes:

- Details the TAO commitments to the Parliament and how these are funded;
- Primary planning document sets the strategic direction and outlines the environment in which the TAO operates, incorporating the key capabilities and resources for delivery ;
- Annual plan to inform Parliament and Public Section and the community of planned and potential audit projects during the next final year;
- Business unit plans to support and deliver the Strategic Plan; and
- Each performance plan can be linked to the TAO Strategic Plan.

The 2016 – 2020 Strategic Plan recognises the new model of government and community expectations, especially in an age of connectivity and the use of social media. The government is expected to meet the growing demand and expectations, and to provide more personalised services within a budgetary constraint.

The Strategic Plan 2016 – 2020 also included the TAO's organisational enablers for delivering their mandate as a public sector audit office. The six enablers include:

- Governance structure - Leadership, organisational and risk management structures facilitate essential oversight of TAO activities
- People - Attracting and retaining highly skilled and engaged people underpins the delivery of quality services
- Communication - Effective communication is vital to preserving TAO's reputation and achieving operational excellence
- Business systems and processes - Productivity is enhanced through the use of efficient and effective business systems and processes
- Information management - Effective information management facilitates efficient service delivery, confidentiality, privacy and security
- Technology - Contemporary technology underpins the delivery of quality audit and corporate support services

### 4.3 Four Strategic Pillars – Key Capabilities

To achieve the TAO four strategic pillars, four key capabilities will be the focus:

- Future expertise - foster individualised career development, technical specialisation, leadership development, and greater engagement with experts;
- Contemporary communication - engage with stakeholders and will produce accessible and engaging audit reports that are valued by our stakeholders ;
- Advanced analytics - develop a strong analytical capability that delivers high quality and impactful audit insights and findings; and
- Future Audit - invest in new audit technologies to enhance productivity and remain aware of future audit delivery models.

It is commendable that the TAO provided a breakdown for of each pillar including the immediate focus 2017-2018, medium term 2018-2019, and longer term 2019-2020. A number of the immediate focus 2017-2018 initiatives have already been or partially delivered as noted during our review.

However, from our review of various peer reviews, surveys and interviews conducted internally and externally; it has been a challenging year for the TAO in meeting all the 2017-2018 Strategic and Annual Work Plan initiatives.

The ambitious initiatives for 2017-2018 that support the four pillars may be required to be extended further into the 2018-2019 and 2019-2020 years. The current staff re-profiling exercise has had an impact on the TAO in delivering quality services to their stakeholders. Our interviews with key stakeholders and staff also highlighted the issues of staff morale, stress and succession planning. The current deposition of the TAO may have an impact in attracting new local talents to join the TAO, which in the longer term may affect the budget as new talent may need to be hired from interstate. However, we note that the Staff Re-Profiling transformation has a sound framework and the benefits will be realised in the coming years once the program has been completed and embedded within TAO's culture.

### 4.4 Critical Success factors

Critical to the TAO's success is their ability to anticipate and respond to changes in their operational environment. The Tasmanian Public Sector is evolving and the corollary is the new challenges for the TAO in delivering successful engagements. The Strategic Plan included a number of critical success factors (CSF) to meet the challenging environment that the TAO is required to operate in. The CSF has incorporated:

- Community expectations and influence – greater awareness and the use social media has create new expectations, requiring quicker responses and an agile agenda;
- Commonwealth and State relations – achieving the right balance of share responsibility and fiscal discretion between the state and the federal government;
- Sustainability of government services – Parliament needs assurance that the government programs are providing value for money and having the intended impact. Delivering more with fiscal constraints;
- New models of government – Contestability as a framework to assess what services the government is best placed to deliver and what are the alternatives; and
- Digital transformation – to transform the way public services are designed and delivered with the constraint of lower incomes, educations and employment levels are seen as a contributing factor to a reduced digital inclusion.

In supporting the CSF, the TAO, each year develops an Annual Plan of Work, which is the key accountability document for the TAO and their statement of intent on what they will audit and examine during the forthcoming years and reports that are expected to Parliament.

The Annual Plan of Work is a detailed document that describes the proposed work programs for the coming financial year. The Plan provides Parliament, Public sector and the Community with an opportunity to understand the priorities and scrutinise the proposed work programs. In developing the Annual Plan of Work, the TAO continuously monitors issues and developments across the public sector and consults extensively with relevant stakeholders throughout the year. For the 2018-2019 Annual Plan of Work, the Auditor-General has used his discretionary power to reduce the number of performance audits to ensure the reports have

relevance to Parliamentarians and of interest to the member of the public. This action by the Auditor-General, in our assessment, is commendable and demonstrates the agility of the TAO in meeting its commitments.

Our review has noted the TAO has implemented a number of initiatives to counter its working environment challenges and to deliver the CSF required under its mandate. There are always opportunities for improvement, however, in our general assessment, the TAO is setting the right framework for continuous improvement and a measure of success in a single point in time or in a short period will not provide an accurate picture of the progress made or programs delivered.

## 4.5 TAO Key Performance Indicators (KPI)

The current KPIs as reported in the TAO 2017-2018 Annual report were independently assessed by TAO's external auditor with a review opinion published in the report.

The indicators included in the Annual Report and audited by the External Auditor included:

- Parliamentarian and Audit Client Survey Indicators – with the exception of “*High level of performance audits addressing key areas of interest*” decreased when comparing the last surveys in 2014-2015, all other indicators improved.
- Financial Indicators – all KPIs achieved for 2017-2018, the Positive net operating result that is  $\geq 1\%$  of turnover was not achieved in 2016-2017.
- Operational and Governance Indicators – once again, the clear matter of emphasis was the “Performance and compliance audits are completed on average with nine months” was not achieved. For the 2017-18 audit cycle, 90% of financial audits were completed within 45 days of receipt of financial statements from clients as at 28 September 2018. This was mainly due to unexpected staff turnover and sick leave at critical times in the audit cycle.
- Three reports were tabled in Parliament on the outcomes of performance and compliance audits. The decrease in Performance reports being tabled was due to the audits being more complex and longer in duration. The Office did provide the PAC with an investigation report on Special Care Packages for Children in Out of Home Care. This report does not feature in reports tabled in Parliament.
- People Indicators – of the eight (8) measurable indicators, four (4) were achieved and four (4) were not achieved. The four non-achievements that require further attention include:
  - Employee turnover rate
  - Percentage of employees who are member of professional bodies
  - Percentage of employees who undertake 10 days of professional development per annum
  - Sick leave taken by employees

Office turnover increased due to graduates and staff obtaining other promotional opportunities in other departments or private entities. In addition, the Office is in the process of undertaking a staff re-profiling exercise so vacant positions were filled on a fixed-term basis. Some fixed term positions expired during the year.



## 4.6 Benchmarking

The benchmark that the TAO measures itself against is the national average of other State and Territory audit offices as reported in the annual ACAG Macro-Benchmarking report; we have selected relevant sections from the report for inclusion.

In relation to the first two measures, the TAO expected costs as a proportion of total State transactions and assets to be higher than most other states. Typically, State entities in Tasmania are smaller than their interstate counterparts as is the TAO. Both measures confirm this expectation.

- Percentage of total (whole of office) paid hours charged to audit activities
- Percentage of total paid hours of attest audit staff charged to attest audit activities
- Percentage of total paid hours of non-attest audit staff charged to non-attest audit activities

The downward movement in chargeable hours was mainly due to the employment of fixed-term staff to replace vacant positions and the need for a larger amount of on-the-job training for new staff. In addition, a number of positions were filled using fixed-term resources as a result of an office-wide re-profiling exercise taking place. Non-attest activities slightly fell due to staff attrition and a slight increase in leaves.

- Cost per audit hour charged to audit activities

The 2016 to 2018 fluctuations were explained by the cost of obtaining short-term resources and/or delays in recruiting of key positions. In the next year, the Office envisages these fluctuations will reduce with the finalisation of the Office-wide re-profiling program.

- Cost per performance audit (\$)

The increase in 2015 represented normal increases in costs, particularly salaries, from year to year. In 2016 the reduction of costs was mainly a result of the employment of a graduate in Performance Audit and a more senior position not recruited for, hence the increase in 2017. The increase in 2018 represented the level of complexity for audits during 2017-18.

Benchmarking is a valuable internal management tool, especially when viewed over a time lapse period. The purpose of the benchmark measures used against other similar entities is only for the purpose as a guide which, the TAO understands, the emphasis is more on explaining the internal impact and rationale for the disparities over time and not so much against the other audit offices with different organisational size.

## 4.7 Customer Service Assessments

A key measure of the critical success factor a service provider of Audits to the Public Sector is client feedback. The review of the Client Service Assessment (CSA) revealed positives points as well as areas for improvements.

The following has been extracted from the CSA and Satisfaction Survey Summary prepared by the TAO for FAS:

### 4.7.1 Client Service Assessment – Positive comments received:

Overall, the vast majority of audit committees and clients were satisfied of totally satisfied with our service across all of the questions in the surveys.

Generally clients provided rating from 6 to 8 (with the occasional 10) for each of the following:

- How would you rate our overall performance on our last audit engagement (on a scale of 1 poor to 10 outstanding)?
- If given the opportunity to select an audit firm, how likely would you be to re-engage the Tasmanian Audit Office (on a scale of 1 never to 10 most definitely)?

Other positive comments received:

- Senior staff were experienced and demonstrated that we knew the appropriate processes when he needed to seek further advice and/or provide answers
- Senior audit team members appeared experienced and knowledgeable
- TAO provided more depth than they were getting from their internal auditors
- Relationship is more positive -more “working together”
- Team understood the business very well
- Met agreed timetable with the client and the audit was relatively smooth
- TAO staff are always professional, respectful and co-operative
- The Client had a strong sense that TAO wanted to work with them to meet the outcomes of the audit
- Operationally, no issues with meeting deadlines
- Consider in relation to audit matters (check and review) and advice on new accounting standards, we provide a quality product
- TAO staff interacted well, are appreciative of the client’s staff and show courtesy and respect in their dealings
- All commitments were met and the client appreciated and thanked the team for the turnaround time
- Present well, on time, put hours in and got the job done
- Organised and best audit performed so far
- The audit team understood the business and industry very well
- All the deadlines were met
- Audit team demonstrated a good level of technical ability and skill, ensuring that we met the accounting standards
- On the ground communication from the entire team was great. Follow up was great from all team members
- Generally a great team to work with.

#### **4.7.2 Suggestions for improvement:**

Summary of the main themes coming from each CSA and the satisfaction surveys. While the overall results are strong, comments provided should not be dismissed as they provide an indication of the possible areas that we could further improve or areas that could potentially become a more widespread issue. This is consistent with our value of continuous improvement.

Final actions arising from above feedback to be developed by FAS management and implemented as part of the unit’s 2018 business unit plan. Some of the more apparent areas are:

## Office:

- Earlier release of model Local Government model accounts
- Ensure team continuity (to the extent possible) and reduce staffing changes
- Consider what areas across the sector can be leveraged off when planning and conducting audits.
- Would like to see more value adding services
- Need to consider methods of file and data transfers between the client and the Office
- Provide clear guidance on what is materially complete for the submission of financial statements
- Clearer guidance on the role of the Auditor's experts
- Maintain continuity as far as possible; Some inconsistencies noted on matters that had been signed off in prior years or advice previously given during the audit; Ensure there is a consistent TAO approach to key issues across audits
- Consider knowledge of contract auditors working on audits, especially in local government.
- Increased contact outside of audit visits

## Client communication and contact:

- Be more proactive with our communications
- Engage with clients early and in a timely manner especially as deadlines approach
- Earlier and better communication and discussion of issues – clients want 'no surprises'
- Need to be more specific and clearer in our written communications
- Whole of client and audit team meeting earlier in the planning process on the entities operations
- Timely responses, especially on more important issues
- More regular catch up meetings with signing officer or EL before audit committee meetings
- Need to improve quality of AGR drafts to clients
- Drafts to be provided to CFO's prior to providing to those charged with governance
- Consider practicality of recommendations, whether already known by client and tailor communications to suit audience
- More face to face interaction with clients and less reliance on emails
- Maintain contact with clients in between visits
- Increased interactions with audit committees, including outside of meetings
- Talk to the right person
- Update clients on progress of audit

## Timing:

- Earlier commencement of audits and provision of strategies
- Stick to our commitments, including attendance at Audit Committees and Annual General Meetings
- Completion of audits in a timely manner
- Need to consider clients internal reporting deadlines for the Annual Report
- Improved forward planning of audits
- More time to respond to management letters and AGR

## Management of audits:

- Better co-ordination within the team to ensure work not being duplicated or asked of the client more than once

## Audit approach:

- Earlier provision/request of information and other data requirements
- Early provision of officers that we want to contact to ensure availability and co-ordinate appropriate introductions/meetings.
- Ensure appropriate training/handover to new staff working on audits prior to commencing audits
- Ensure prior year files are reviewed to better target questions and information requirements and avoid asking the same questions as in previous years
- Better integration with internal audit and use of other entity audits
- Need to get a deeper understanding of business by ELs and TL's, including factors unique to the client

## 5. General Management of Office

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The TAO is currently going through a transformation program (Staff Re-profiling). The TAO has developed a transformation plan which has been presented to all TAO staff outlining the framework of the re-profiling process with the key point of: positions and promotion are based on merit and not on longevity.

### 5.1 Organisational Structure

The proposed new structure is a departure from the previous (2013) structure with four reporting lines:

- Office of the Auditor-General:
  - Assistant Auditor-General
  - Senior Manager
  - Senior Advisor
  - Senior Auditor Data Analytics
- Performance Audit:
  - Assistant Auditor-General
  - Director
  - Senior Manager
  - Manager
  - Senior Auditor
  - Auditor
- Financial Audit:
  - Assistant Auditor-General – (2)
  - Senior Manager – (3)
  - Manager – (4)
  - Senior Auditor – (7)
  - Auditor (3)
  - Graduate Auditor (5)
- Corporate Support and Strategy
  - Assistant Auditor-General
  - Senior Manager
  - Manager
  - Senior Corporate Support Officer
  - Corporate Support Officer
  - Corporate Support Officer/Trainee

The strategy and framework behind the Re-Profiling program has been well documented and discussed within the SEMG and communicated with transparency to all staff. As with any transformation, there will be positives and negatives. The negatives are generally short term (during the transformation process). The true outcome can only be measured at the completion of the program and the years after.

## 5.2 Staff Interviews

As part of the review, interviews were conducted with staff across units and levels. The following are some of the more common comments derived from the interviews:

### Pros

- Senior Management is in the process of developing a strategy to improve the IT literacy of audit staff.
- The Auditor-General will be using more external consultants as subject matter experts for Performance Audits.
- There are plans for the Annual Work Plan to reduce the number proposed Performance Audits.
- The current Auditor-General tends to be more IT focussed and to leverage off technology to gain efficiency and economy in the use of data analytics.

### Cons

- Small organisation – issues with individual dynamics
- Staff low morale and motivation, work stress due to Staff Re-Profiling
- Workplace culture can be improved, top-down approach
- Staff adjusting to the new Auditor-General's work philosophy
- Poor communication, top-down approach
- Perception of high absenteeism
- Fees not realistic

The above comments in general have also been expressed in the staff survey report of 2018.

### 5.3 Pooled Resources

One of the key changes in the new structure is the concept of “Pooled Resources”, that is, allowing resources to be shared between Financial and Performance Audit. The use of Pooled Resources, in theory, sounds practical and appropriate for a certain size of audit office. Having a pool of resources that the financial and performance units can draw on should expedite the efficient, effective and economical (3Es) use of resources. However, in practice, the achievement of having auditors that can perform financial and performance audits, and to achieve the 3Es, requires time, training, and having the opportunities to gain the required experience.

#### Improvement Opportunity

The TAO should critically assess the true value of implementing a pooled resource for the size of the TAO. Cost of training auditors in both financial and performance audits may be more efficient and effective by focusing the auditor in one stream and allowing the staff to develop the experience and expertise in one discipline rather than trying to train for two.

If the TAO is to pursue the use of pooled resources, it may facilitate this process by deploying the staff in financial audit first. After having gained relevant experience and understanding from performing financial audits, the transition to a Performance auditor may be more expeditious.

#### TAO Comments

The previous Section 44 review, in relation to FAS staff, recommended we explore a single resource pool to allow for better flexibility, variety for staff, economies of scale and the cross pollination of ideas and continuous improvement initiatives within the pool. In relation to PAS staff it was recommended we review personal development plans and overall Office needs

To ensure efficient use of available resource and to maximise staff productivity it is essential that our audit staff have the capability to undertake different types of assurance related activities. The current graduate program also provides for graduates to be rotated through all business units with the Office to widen their experience and training opportunities.

### 5.4 Information Technology Literacy Skills

The way information is processed and stored continues to change and at a pace that is getting faster and more complex with reliance on outsourcing service providers especially the use of cloud computing for enterprise systems and storage. With Public Sector entities, there are pressures to reduce cost and improve efficiency; the use of information technology (IT) is often viewed as the enabler to deliver efficiencies. However, with these changes come new risks such as Cyber-attacks, data theft, the reliability of third party service providers for IT solutions, cloud services. IT risks have become a standard item in most Audit Committees meeting agendas. Management in Public Sector entities have been entrusted with the responsibility to ensure risks are adequately addressed.

The TAO in performing their mandate has a responsibility to ensure the IT risks have been mitigated and the controls are appropriate and effective. To perform this task, the TAO must maintain the capability to monitor and assess the IT risks for each audited entity. The challenge for the TAO is to have the appropriate skill set to understand and assess the risk for each of its public sector clients.

The TAO commissioned an IT consultant to review the Office’s IT skills in meeting the challenges of the IT environment that confronts the Finance Audit team at each of the public sector clients.

The objective of the engagement will be to gain a clear understanding of the existing capability of the Office and to understand the overall competency of the Financial Audit Services (FAS) team.

The report was presented to TAO in April 2018. The following are salient points extracted from the report regarding the IT capability of the TAO:

- The review has highlighted the need for the TAO to build a more contemporary IT Audit function. One that reflects the current technical landscape of the public sector in Tasmania and one that can address the core requirements set out under the audit methodology.
- The Office currently does not have a formalised IT Audit team in place. FAS staff address the IT Audit elements of each audit on a case by case basis. In comparison to other state audit office operations, the current model is very limited and brings some risk to the Office in its current state.
- It was clear that none of the staff were comfortable with their level of competency in IT Audit. They were also concerned over their ability to apply the correct IT Audit strategy and then execute against it.
- There is potential to gain further value from outsourced IT Audit work undertaken on behalf of the TAO. As the public sector uses a common infrastructure and a number of common application systems, there is some ability to leverage this work if it is properly designed and assessed by an experienced IT Auditor.
- The transfer of knowledge from outsourced external audit resource to permanent FAS staff managed through permanent FAS staff working with the contractors. The transfer of knowledge focused on well-documented work papers prepared by the contractor and the audit team.
- All FAS staff interviewed felt that there was value in undertaking training in key IT Audit areas, including how the IT Audit strategy ties into the financial statements audit, to assist them better understanding the process and gain benefit from the It Audit work.
- Within the files, there are contradictions where the strategy states that ITGC is not to be relied upon but then at the application layer there is reliance placed on systems such as payroll.

The IT consultant's report conclusion:

The TAO has an opportunity to build a more capable IT Audit team that can support a wider range of audits in the future. The program needs to become embedded in the ongoing program of competency for the Office as it is a skill that is hard to acquire and harder to retain. It is essential the Office has a core capability in this area to execute its mandate and to ensure it can review and QA the work of contracted audits.

We note that the IT consultant's report has been recorded in the Register of Recommendations from Reviews; however, no actions have been taken by the TAO at the time of the review; please refer to Section 8.

## Improvement Opportunity

- I. The IT consultant's report identified a number of IT capability improvement opportunities for the TAO. The report proposed a Roadmap to assist with the transformation of the TAO's IT capabilities. The TAO should assess the feasibility of the Roadmap in adopting the recommendations that could increase the IT capabilities of TAO staff and to work strategically with external IT experts to meet the TAO's audit mandates.
- II. The Information Security Governance Policy was last reviewed in 2013. The Information Security Governance Policy represents the TAO's attitude and approach to IT security for staff and how the TAO manages IT. The Information Security Governance Policy should be reviewed and updated on a regular basis every two years to reflect the fast-changing IT environment within the TAO and Public Sector.

## TAO Comments

- I. We are currently assessing the feasibility of the Roadmap in adopting the recommendations. In the interim, to help increase staff IT capabilities training was delivered by the IT consultant to all FAS staff on IT Audit on 20 April 2018.
- II. We are waiting on the whole of government approach to information security to be finalised before reviewing our policy.



**5.5 Organisation of Resources**

The current Staff Re-Profiling program has generated some anomalies as noted from our interviews with staff and stakeholders. The Program may have contributed to the high staff turnover making staff continuity planning a challenge. Stakeholders have noted that the re-profiling program may have resulted in a loss of staff continuity on the audit engagement.

**5.5.1 Staff Survey**

As part of the Governance framework, the TAO is required to conduct a staff survey every two years. The last staff survey was completed in June 2018. The survey asks for the opinions and perceptions of the TAO staff about their work environment through a rating system.

Question 1 asked from a scale of 1 to 10, where 10 equals “very confident” and 1 equals “not at all confident” how confident do you feel about the future direction of the Office? The average weighted score was; 4.8 out of 10.

The survey presented an opportunity for the TAO to understand some of the staff concerns regarding the Office and for senior management to address some of these concerns and matters raised in the report. We note from our review that senior management has already taken steps to address some of the matters raised through meetings, open forums, training and seminars. Transformation generally will have a negative short term impact on staff morale. To improve the morale, change perception, and the office culture will take time, we believe the senior management team has a good understanding of the impacts and has the right framework to complete the transformation program.

**5.5.2 Staff Performance Review**

Performance reviews are conducted every year for all staff. The Office has a comprehensive performance review process to assess the key competencies and to link the development areas for training and development needs.

Each staff has an Annual Performance Plan, the Plan details the Task (linked to the business unit plan), Due Date, how it will be measured and comments. During the annual Performance Review, the Plan is reviewed and updated. The Plan includes a Learning and Development section detailing the type of activity and the training needs with Date and Priority.

However, there is no indicator if the staff completed the training or linkage to the TAO Staff Training Register.

**Improvement Opportunity**

To ensure the proposed training for staff in the Learning and Development section of the Performance Plan has been completed, the same Plan should be included in the following year’s Performance Review Plan detailing whether the training was actually completed and if required, link back to the Staff Training Register.

**TAO Comments**

Information on learning and development activities undertaken, as recorded in the Staff Training Register, is provided separately to inform all performance discussions and to assist with the development of updated Learning and Development Plans.

## 6. Operation of the Office's Quality Control Systems

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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 Quality Control for Firms. Both standards apply to practices that conduct assurance engagements and 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 for quality within the Firm;
- Relevant Ethical requirements;
- Acceptance and continuance of Client relationships and specific engagements;
- Human resources;
- Engagement performance; and
- Monitoring.

In the s44 review performed in 2013, it was noted the Office had not yet compiled a formal quality control manual that all staff had access to. This review, we are pleased to report the Office has adopted a comprehensive Quality Manual which addresses the critical policies required by the quality control standards that apply to the Office.

### 6.2 Leadership responsibilities for quality within the Firm

The Office has undergone a considerable amount of "peer" reviews over the past five years. Both the number of reviews and the depth of some of them is significantly more than we would expect for a similar size firm and the leadership of TAO should be commended for undergoing such extensive reviews.

In making the following recommendations, we wanted to acknowledge the significant steps TAO has taken recently to improve their processes in addressing review findings, with the Technical & Quality Director maintaining a register of recommendations that scales the priority, delegates a responsible party, and sets a target completion date for each recommendation which is now allowing TAO to carry out remedial action much more effectively.

**6.2.1 Timeliness of responding to review findings**

We reviewed the quality reviews over the past 5 years and the actions taken, and we generally believe management has made a credible effort to address the findings and recommendations for corrective or remedial action in recent years. However, many of the recommendations made in the 2013 report had not been addressed in a timely manner, including several recommendations pertinent to the Office’s compliance with auditing and quality standards not being completed for more than 24 months after the review was finalised.

**Improvement Opportunities**

TAO continues to develop and monitor the planned timeline of remedial action to review findings to ensure the response is both prompt and realistic to enable the Office to hold the responsible parties accountable for the timeliness of their responses.

The timeliness (and effectiveness) of the remedial action undertaken by the responsible parties should feed into the competency and commitment to quality control of their performance evaluation.

**TAO Comments**

We will consider how remedial action required in response to quality assurance reviews can be incorporated into performance evaluations.

**6.2.2 Effectiveness of remedial actions taken by the Office**

In the most recent Audit Inspection Program report issued by ASIC<sup>1</sup>, their discussion around improving audit quality highlighted a need for firms to undertake comprehensive analysis to identify the underlying root causes of findings from their internal and external quality reviews of audit files. They noted, that “conducting effective analysis to identify the root causes of individual and thematic findings from internal and external file reviews and implementing initiatives to address those findings” appeared to have improved the audit quality within firms. Additionally, they have included the effectiveness of a firm’s Root Cause Analysis (RCA) in their areas of focus for their upcoming inspections.

In other words, this has now become a focus for the audit industry!

RCA is a technique for considering review findings – an RCA exercise is an exercise in getting to the bottom (the root cause) of suboptimal review findings by asking ‘why did this happen’.

At this stage, RCA is not explicitly required by ASQC 1. However, consideration of why sub-optimal findings were made during reviews is implicitly required by, for example, ASQC para 1.49 which states:

<sup>1</sup> [ASIC Report 607 – Audit Inspection Program report for 2017-2018](#)

The firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either:

- (a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or
- (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.

It is difficult to see how it could be determined whether a deficiency was systemic or repetitive, or whether it did not necessarily indicate the system of QC was insufficient, without considering the root cause of that deficiency. Which is why, increasingly, RCA (or equivalent) is seen as representing both best practice and an efficient way of complying with ASQC 1, as highlighted above.

In the QA reviews undertaken in the past five years and through our own review of recent FAS & PAS files, it was noticeable that many of the same points were raised even though they had been considered adequately addressed by TAO.

For example, many points had been classified as completed by the Office as they had been covered in a training session which had been conducted. Conducting a training session, although important, will not always be the most effective way to address a review finding. This is especially true in accounting practices given the natural staff attrition rate experienced, with TAO being no exception to this industry norm.

We believe the office needs to begin performing RCA on their internal and external review findings to ensure their remedial actions adequately address the review findings. This should decrease the reoccurrences of review findings, and the overall quality of work in the Office will continue to improve.

## Improvement Opportunities

TAO should adopt policies requiring RCA be performed and documented on all review findings (internal and external).

The RCA should be completed before the action plan has been drawn up and it should address all RCA conclusions reached.

The action plan, having considered the conclusions of the RCA, should determine what constitutes successful remedial action.

## TAO Comments

We will consider amending quality assurance policies to incorporate root cause analysis of suboptimal review findings.

### 6.3 Human Resources

The Office’s Human Resources policies are largely covered in the People Management Policy, Recruitment Framework. The Human Resources function is outsourced to the Department of Justice under a Service Level Agreement. 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.

#### 6.3.1 Training plan

The Office provides a wide range of training, internally and externally. A centralised database continues to keep records of all training completed by staff. In addition, each staff member has an individual training register which records completed training.

TAO currently develops an annual training plan. The annual plan is devised based on the results of identified development needs, resulting from developments in the industry, internal feedback through the use of staff surveys, individual performance reviews and external and internal peer reviews.

On review of the annual training plans for the past several years, we were unable to identify the desired outcomes of each session, or what the Office would regard as a successful outcome from the training sessions provided. Therefore, we are unable to critically evaluate the effectiveness of the training being provided.

Setting performance tracking expectations is an important aspect of the training plan to ensure the sessions being conducted are having the desired, positive impact on the Office.

#### Improvement Opportunity

The annual training plan formally documents desired, measurable outcomes for each session to allow the Office to determine the success of the plan each year. The plan should detail the how, when and by whom ‘success’ will be evaluated.

#### TAO Comments

We will clarify and document intended outcomes from training programs and introduce ways to measure the effectiveness of training outcomes.

### 6.4 Review of audit files

The findings of our file reviews 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 which should be considered by the Office.

#### 6.4.1 Completing the audit file after the date of the assurance report

The conduct of financial audits policy states assurance engagements will be finalised (locked down) within 60 days from the date of the assurance report. This timeframe is in line with the Auditing Standards which require audit files to be archived “on a timely basis after the date of the audit report”. However, our review found TAO had generally not been complying with this policy.

Several of the engagements reviewed had not been finalised at the time of this review or had not been locked down within the 60-day limit. We also note there were still some outstanding work papers and several locked down files had work papers which were signed off longer than 60 days after the date of the assurance report. This is not consistent with the spirit of the Office’s policy.

The finalisation of audit files within 60 days of the assurance report is a critical step in ensuring compliance with the above quality processes, it is also critical for the Office to demonstrate compliance with auditing and quality standards (ASQC 1 and ASA 230) and also safeguards the integrity of finalised files.

## Improvement Opportunities

TAO should reinforce the expectation and continue to monitor that all files are to be closed within 60 days of the audit opinion/report being issued and hold the various Group Leaders accountable to these obligations using metrics which flow through to individual performance assessments.

TAO could also consider allocating the responsibility of monitoring the lockdown process to an individual or individuals within TAO to ensure there is more accountability over the process.

## TAO Comments

Up until the 2018 financial year, financial audit files had not been finalised within the 60 day requirement as other audits by arrangement were also being documented in financial statement audit files. For example, Roads to Recovery Grant audits were included in council financial statement audit files and these audits were generally performed one to two months after the completion of the financial audit. Separate files are now being established for such audits by arrangement.

We will reinforce the expectation that all audit files be finalised within 60 days of the audit opinion/report being issued and will reassess processes required to ensure adequate monitoring and achievement of this requirement.

We note guidance exists for archiving the file and the steps to be taken if the file is modified after it has been archived (locked down), but TAO provides no guidance around the administrative procedures that can be performed between the date of the assurance report and the file archival date.

Having guidelines would allow staff to understand and perform the allowed administrative procedures in accordance with ASA 230 to improve the quality of the audit file. For example, it could allow the engagement team to ensure their working papers are to a higher standard by simply correcting references throughout the file as well as improving future audits by taking additional time to confirm all relevant points for next year have been raised. Other administrative procedures such as the review of actual to budgeted audit costs can be performed in a more meaningful way, an issue noted in point 2.8.1 of this report.

## Improvement Opportunities

TAO expand their policy to include guidance on what administrative tasks can be performed between the date of the assurance report and the lockdown date, in accordance with ASA 230.

## TAO Comments

We will update the policy to include guidance on what administrative tasks can be performed between the date of the assurance report and the lockdown date, in accordance with ASA 230

**6.4.2 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 of the Auditor-General in consultation with the Deputy Auditor-General. Currently, EQCRs are conducted internally by the Auditor-General, Deputy Auditor-General and Assistant Auditor-General Financial Services

The Standard Operating Procedures (SOP) which complement the EQCR Policy states the EQCR review will be performed on a timely basis, throughout the audit, so issues are dealt with and adequately addressed prior to completing the fieldwork. The EQCR must be completed before the auditor’s report is issued.

This requires the reviewer to document key outcomes and findings in the EQCR checklist during the planning, execution and completion of the audit. The EQCR reviewer must complete the EQCR section of the concluding memorandum (FAS only) and sign-off the audit procedures reviewed, prior to the release of the audit opinion.

Discussions with senior team members found that on occasion, the EQCR did not commence until the end of the audit due to staff or resource constraints. This was also identified in our own reviews of files where an EQCR was performed, with much of the observable work being performed by the EQCR quite late in the audit process, usually within 2 weeks or less of the audit report being signed, and with no documented involvement in the planning or fieldwork phases.

An untimely EQCR process will limit the effectiveness of the EQCR role, as feedback to the audit team so late into the engagement will increase the risk of audit deficiencies not being identified, which could result in poor quality audits, including inaccurate audit findings. Additionally, the EQCR may be able to provide additional guidance in determining the most efficient approach to the audit at the planning stage.

**Improvement Opportunity**

TAO ensures all EQCR reviewers are aware of their responsibility to conduct EQCR on a timely basis and throughout the audit cycle.

**TAO Comments**

EQCR reviewers are aware of their responsibilities. We will reinforce the need for audit teams to proactively engage with EQCR reviewers to facilitate the conduct reviews in accordance with the EQCR policy, including the need to ensure EQCR reviews are conducted on a timely basis as audits progress.

**6.4.3 Planning – consideration of continuing client relationships at engagement level**

The Quality Control Standards and Australian 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 which have arisen during the current or previous engagement that may affect the continuation of the relationship. TAO may also conclude in some instances which due to resourcing constraints, it will be more appropriate to engage an ASP to ensure a quality audit is performed, this consideration should be documented at the engagement level.

While we acknowledge the Auditor-General is the auditor of all public sector entities by law, we do not believe this excludes the requirement of TAO to regularly assess the continuance of all engagements at the engagement level.

**Improvement Opportunity**

The Office considers amending their financial audits policy to clarify how, when, where and by whom the continuance of client engagement is assessed on all engagement files.

**TAO Comments**

We disagree with this improvement opportunity. Under section 18(1) of the Audit Act 2008 the Auditor-General is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity. This is a legislated obligation which precludes the Auditor-General from making a decision as to engagement acceptance or continuance.

We are of the view that Australian Auditing standards do provide an exclusion from the requirements for an auditor to complete the usual engagement protocols, where law or regulation is prescribed in sufficient detail<sup>2</sup>. As noted above the Auditor-General is the auditor of all public sector entities by law.

Notwithstanding this, it is our practice to issue each Accountable Authorities with an initial engagement letter to ensure there is an awareness and acknowledgement of financial reporting requirements. We also follow the guidance in auditing standards in relation to recurring audits and issue a new engagement letter where it considered appropriate, such as a change in a Secretary for a department<sup>3</sup>.

**6.4.4 Consideration of independence at the 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. Currently each team member, according to TAO policy, is required to sign an individual independence declaration when they begin working on an audit engagement. However, we note there was no requirement for individuals to reconfirm their independence towards the conclusion of the audit engagement, an important step in demonstrating that throughout the engagement, the signing officer remained alert (through enquiry) for evidence of ethical non-compliance by members of the engagement team.

**Improvement Opportunity**

TAO expands their independence policies at the engagement level to include an independence confirmation which is required to be signed by all engagement team members near the completion of the audit.

**TAO Comments**

Our independence policies comply with the requirements of Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements and auditing and assurance standards issued by the AuASB.

We will consider whether independence policies at the engagement level should include an independence confirmation which is required to be signed by all engagement team members near the completion of the audit in addition to the current sign-off in the Concluding Memorandum which states ‘In your view did all members of the audit team comply with relevant ethical requirements?’.

<sup>2</sup> Refer to ASA210 *Agreeing the Terms of an Audit*, paragraph 11: *Agreement on Terms of Engagement* and accompanying guidance including A29: *Considerations specific to public sector entities*

<sup>3</sup> Refer to ASA210 *Agreeing the Terms of an Audit*, paragraph 13: *Recurring Audits* and accompanying guidance in A30 which includes factors that may make it appropriate to revise the terms of an audit engagement.



Through our review of the FAS engagement files, instances arose where we were unable to determine whether threats to independence were considered for all team members as not all declarations of independence were located on the audit file. A final audit quality checklist utilised by TAO does prompt the engagement leader to ensure an independence declaration for all staff who worked on the file is obtained, but there was no evidence of a final check to ensure all staff members who had charged time to the engagement code had also confirmed their independence. Having this additional step would strengthen this process and result in fewer instances of non-compliance with independence requirements of Professional and Ethical Standards and Independence in Assurance Engagements.

**Improvement Opportunity**

TAO amends their procedures to include steps that ensure all staff members who have charged time (or charged greater than a determined threshold) to the engagement code have also confirmed their independence at the engagement level.

**TAO Comments**

We will establish audit procedures to ensure all staff members who have charged time (or charged greater than a determined threshold) to the engagement code have also confirmed their independence at the engagement level.

**6.5 Monitoring**

The Office’s Quality Assurance Monitoring Activities Policy covers QA reviews across the two business units – PAS and FAS. Cold file reviews are considered to be the core reviews to be conducted each year and do make up the majority of the monitoring procedures performed by the office. The policy also extends reviews to include “hot reviews” i.e. review of an audit whilst in progress, which will often be limited in scope, targeting a selection of review topics.

The most recent reviews highlighted a number of improvements required in the administration and documentation of audit files and matters raised in this report. Most recently, the peer review function has been outsourced to external parties due to internal resourcing constraints, with the last comprehensive quality review of financial audits performed by the Office’s personnel being for the audit year ended 30 June 2014. We note the internal review also covered significantly more files than the outsourced reviews performed since 2014.

**Improvement Opportunity**

That the office aims to perform their own QA reviews on an annual basis or a 3 year rolling program.

**TAO Comments**

Internal quality assurance activities undertaken on financial audits since 2014 include a review of financial statement disclosures relating to the impact of accounting standards issued by not yet effective conducting in 2017 and reviews implemented for all financial audit opinions issued in respect of the 2017 and 2018 financial years.

Following completion of the re-profiling program, the Office of Auditor-General business unit will have additional staff to assist in the completion of internal QA reviews in compliance with our Quality Assurance Monitoring Activities Policy.

The Quality Assurance Monitoring Activities Policy and QA reports we reviewed do not have an overall assessment/score applied to each file that underwent a review. Whilst the findings are grouped into ‘major’, ‘important’ and ‘minor’ – these are not defined in TAO’s QA policy. Consequently, we are unable to ascertain whether a file receiving 4 or 5 ‘major’ QA findings would still be considered satisfactory.

This could potentially lessen the impact of the findings for specific individuals, and at the moment there are no clear consequences in TAO’s QA policy. On review of the performance plans for individuals, we found the wording in the KPI for the QA reviews to be vague, for example, “Ensure all audits are completed to a suitable quality, with no significant QA findings.” We believe it is more appropriate to have a clear link to the outcome of the review, benchmarked by the Office through a grading system for signing officers/group leaders to allow for measured accountability.

## Improvement Opportunities

- I. The Office should expand their Quality Assurance policies to define the criteria for file ratings (see point below for recommended scale) and QA findings, and identify the consequences for poor QA results.

The results of the file ratings should be directly linked to the individual performance assessments of at least the Signing Officers and the Group Leaders.

- II. The office should develop a 4-point scale (or equivalent) to provide an overall rating for each file subjected to a QA review.

Internal reviews contracted to external parties should also be subject to this scale.

## TAO Comments

Corporate policy COR 8.0 – Quality Assurance Monitoring Activities will be amended to define criteria for file ratings and quality assurance review findings.

The Quality Assurance Monitoring Activities Policy does not explicitly extend to the quality and performance of External ASPs (contracted financial audit services). From our review of various ASP files for the past 2 years, the quality of documentation on each file varies noticeably, as noted in point 2.2 of this report. To monitor the work being performed on ASP engagements throughout the Office, it would be prudent to subject their ASP audit files to the same QA monitoring regime as the FAS and PAS files.

## Improvement Opportunity

The External ASPs audit files are subjected to the same QA monitoring regime as the FAS and PAS files (i.e. at least one per year).

## TAO Comments

Corporate policy COR 8.0 – Quality Assurance Monitoring Activities will be amended to incorporate quality assurance reviews of ASP audit files. This will include consideration of the extent to which ASPs undertake their own assurance reviews on those audit engagements.

## 7. Relationship with Primary Stakeholders

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To assess the relationship of the TAO with primary stakeholders, we conducted a number of interviews (refer to Appendix 1), reviewed surveys and other supporting documents. When interviews are conducted across a broad range of participants, there will always be interviews that are positive and some negative.

As part of the TAO's commitment in fostering a positive relationship with stakeholders, the TAO conducts client seminars, information sessions for senior management and members of audit committees and accounting and auditing development Newsletters, and performs independent surveys. We commend the efforts made by the TAO in building relationships with stakeholders and the community.

We have summarised the salient points from the independent surveys and our interviews with stakeholders below.

### 7.1 Parliamentarian Survey 2017

Key points from the Parliamentarians survey included:

- A total of 24 out of 40 Members of Parliament responded to the survey.
- All Parliamentarians were satisfied with the reports and services of the Audit Office, representing the highest satisfaction rate recorded since the survey commenced.
- The vast majority of Parliamentarians (91%) felt the Auditor-General was effectively achieving his desired outcome of informing Parliament on accountability and performance of the public sector, in line with previous results (88% in 2015).
- General impressions of the Audit Office's reports and services were very positive overall, with most respondents providing favourable ratings for each aspect. Significant improvements in ratings were recorded in relation to understanding of the Auditor-General's role (100%, up from 94% in 2015) and the Audit Office providing valuable information on public sector performance (97%, up from 88%).
- The vast majority of Parliamentarians (85%) indicated that the Auditor-General's performance and compliance audits were addressing their key areas of interest to a 'high' or 'very high' extent, a marked increase compared to 2015 (64%).
- Positively, all Parliamentarians who had dealings with the Auditor-General or the Audit Office agreed that they were responsive and the advice/ information they provided met their needs. Ratings for the extent to which advice/ information met their needs increased (100% agreed it had, up from 88% in 2015).
- The majority of the comments provided by Parliamentarians were very positive.

## 7.2 Financial Audit Survey 2017

Key points from the Financial Audit survey included:

- A total of 61 out of 83 Tasmanian public sector agencies responded to the survey.
- Clients were generally positive about TAO's performance in 2017. The overall performance index score was high and consistent with that recorded in 2015 (79.4 index points (ip), in line with 78.8ip in 2015).
- The majority of these were positive comments about the quality of the audit process and auditors involved. Positive ratings for the overall quality of the audit process increased compared to 2015 (89%, up from 81% in 2015). Suggestions provided primarily related to improving timeliness, communication and understanding of organisation/ audit process.
- The vast majority of audit clients provided favourable ratings in relation to the auditors' explanation of the audit approach, professionalism, communication and provision of adequate opportunity to comment on the audit plan.
- All aspects of audit reporting were rated very highly, with over four-fifths of clients providing a positive rating for each.
- Clients were more positive about overall audit value compared to 2015 (90%, up from 80% in 2015).

## 7.3 Performance and Compliance Audit Client Survey

Please refer to section 3.3 for keys point from the Performance and Compliance audit client survey.

## 7.4 Stakeholder Interviews

We conducted a number of Stakeholder interviews across the Public Sector Agencies and Parliamentarians. The interview comments provided a broad spectrum of views and comments; we have summarised below are some of the more consistent comments that were noted in our interviews. We have separated the Pros and Cons of the comments below.

Pros:

- Staff knowledgeable due to having the same senior manager or auditor
- Audit Committee positive on reporting contents
- Involvement of senior management results in positive impetus
- Having the same team from the previous year was positive
- Attendance of Audit and Risk Committee by TAO staff
- A good relationship with TAO
- The TAO is a highly valued service, there is always room for improvement
- The Auditor-General's office engages with stakeholders, open to discussion on recommendations
- TAO has positive and active involvement
- Quality of issues and recommendations generally good and with good acceptance
- TAO has a good relationship with Internal Audit

## Cons:

- Lack of staff continuity and under resource to conduct
- Better understanding of the public section and client's specific issue and risk
- Sharing of knowledge between FAS and PAS
- Late adjustment and bottleneck near the end of the audit, sign-off time pressure
- Not using external experts when there is a knowledge gap
- Lack of value add, should consider cost-benefit approach for recommendations
- Factual inaccuracies requiring reiterations, too black and white approach
- Reports are more politically motivated and media driven than public interest
- Best or better practice as a measuring tool may not be appropriate for some Agencies, subject to unattainable Standards
- Improvement in developing relationship with Internal Audit
- Not innovative in the use of IT or data analytics
- Improvement required in soft close discussion

The above Pros and Cons noted from our interviews highlighted a mix of personal views and perception of the TAO. Where the interviewees provided positive comments, they were generally consistent throughout their viewpoint, and where the interviewee provides more critical viewpoints, it was also consistent for those interviewees.

## Auditor-General Rejoinder

Responses from stakeholders included comments inferring the selection of performance audits, investigations or examinations may be politically motivated or media driven.

Our Annual Plan of Work, a draft of which is required to be submitted to the Parliamentary Standing Committee of Public Accounts by 31 March each year, details the process we undertake in selecting performance audit, investigation and examination topics. The Annual Plan of Work, which details audits expected to commence over the following two years, is available from our website [www.audit.tas.gov.au](http://www.audit.tas.gov.au)

Whilst the selection of audit topics is ultimately that of the Auditor-General, senior staff from within the office are involved in the identification and assessment of potential audit topics. Topics are assessed by the Executive Committee following a preliminary assessment by senior performance audit staff. The criteria used in the assessment process include:

- Significance - financial materiality
- Significance - material nature, influence or public interest
- Risk to good management
- Potential impact
- Other reviews
- Auditability

In finalising our Annual Plan of Work, we consider whether we have effectively covered our legislative obligations to review efficiency, effectiveness, economy and compliance with all relevant legislation and regulation and to consider waste, probity and resource management. We also consider the spread of activity across sectors and State entities as well as ensuring there is coordination between the financial audit and performance audit programs. Additionally, we consult with other integrity bodies to minimise duplication across the broader integrity system.

## 7.4.1

**Improvement Opportunities**

From the number of interviews performed, we have listed some of the improvement opportunities derived from our interviews which, we believe appropriate for the TAO to consider:

- I. Communicate with stakeholders regarding the process of how Performance audits are selected by the TAO and the various factors that are considered in developing the annual Performance Audit plan.
- II. Use of external experts where appropriate, however, due to the nature of the Public Sector where access and response can be time consuming and often delays, the use of external experts can be a costly exercise if there are slippages. If external experts are to be used, the contract should be negotiated and be based on total hours instead of duration.
- III. Communication and soft close are critical for the checking of factual accuracy and acceptance of recommendations by the client. Recommendations made should have a cost-benefit component to be of value to the client. Soft close discussions can save time and effort as factual inaccuracies are resolved before time is spent in writing the report. Soft close should be completed and documented before writing the report.

**TAO Comments**

- I. We will investigate whether there are additional communication channels through which we can communicate our approach to selecting performance audit, investigations and examinations.
- II. We disagree with this improvement opportunity. Audit experts are engaged in line with Tasmanian public sector procurement policies and guidelines. In the majority of cases, fixed price quotations are obtained to avoid cost variations.
- III. We currently adopt a 'soft close' approach for communication of recommendations. We will reinforce the requirement for audit teams to communicate audit findings and recommendations with audit clients prior to drafting reports on audit findings and recommendations.

## 8. Steps Taken in Response to Past Peer Reviews

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The TAO is subjected to many reviews ranging from Statutory to Peers reviews. To manage the reviews and recommendations, senior management has developed a Register of Recommendations from Reviews. The Register provides for a summary of the findings, recommendations, classifications/priority, responsibility and date of completion. The following is a summary of the active reviews conducted by third parties that the TAO is tracking:

- Independent IT consulting firm - IT Audit Capability and IT Audit Strategy, April 2018 – six key recommendations were made, at the time of review, no actions have been taken to address the recommendations made.
- Oakton – Audit Quality Assurance Processes, May 2018 – six recommendations made, responsible staff have started to address all six recommendations. The recommendations are in progress.
- Quality Assurance Review, Public Sector Readiness FAS – one key recommendation. The recommendation has been completed.
- Independent Consultant – TasWater Performance Audit review – nine recommendations were made with seven completed (78%), the other 22% is in progress.
- ACAG Peer review – Performance Audit review for Road Management in Local Government and Provision for Social Housing. – eighteen recommendations were made with sixteen completed (89%) with two still in progress.
- ACAG Peer review – Corporate Services and Strategy – Audit Practice Management – eighteen recommendations made with five completed and twelve in progress and one yet to commence.
- ACAG Peer review – Financial Audit review – fifty one recommendations made, forty five have been addressed with three in progress and three yet to commence.
- ACAG Peer review – Quality Control System – Office Governance and Audit Practice Management – Twenty eight recommendations, sixteen have been completed with eight in progress and four yet to start.
- External Consult Review – Financial Audit review – Quality Assurance – ten recommendations with eight completed and two in progress.

From the selected reviews conducted and the review of SEMG minutes which discusses the progress of the various reviews and status of agreed actions, we note that the TAO makes every attempt to address the recommendations made from all the external reviews. The question arises is why from each of the reviews, there are quality assurance issues and are these issue consistently reoccurring? Addressing the recommendation does not prevent future reoccurrences where the same issue may appear again and again. We believe the current transformation program and strategies will in the longer term assist in reducing the number of recommendations made from the above reviews; a change in culture and people may provide part of the solution.

The time and cost consumed in addressing the recommendations can be resource intensive, the TAO should continue to assess each of the recommendations made by these reviews to ensure they add value to the TAO.

## 9. Steps Taken in Response to the Past Five Year Review

### Responses to the 2013 Statutory Review

Our review of the recommendations from the 2013 review noted that TAO had made efforts to close off all recommendations raised. Our review has resulted in a number of the previous recommendations being classified as 'open' on the basis of our findings during this review.

From the 2013 proposed recommendations, there were a total of 64 recommendations provided of which we assess 61 have been closed based on our 2018 review performed. There are currently 3 open recommendations from the 2013 review based on information arising from our 2018 review. These are recurring findings and still applicable in 2018. They are dealt with as follows:

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
1	Quality	That the TAO clarifies the role of the Technical & Quality Director amongst the TAO staff. Particular emphasis should be place 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.	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.	Closed. T&QD role changed. Refer to section 2 for improvement opportunities.
2	Structure	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 wining 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 he 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 TAO in the private sector.	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.	Closed. Staff Re-Profiling program in transition. Organisational chart shows pool resources, however, not fully implemented in practice. Refer to Section 5 for improvement opportunities.



#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
3	Governance	That the TAO provides continuous feed back 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.	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.	Closed.  Risk Management Workshop conducted by Oakton in 2017. Risk Register has been updated and in new format.  Refer to Section 1 of report for improvement opportunities.
4	Quality	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.	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.	Closed.  Risk Management Policy updated.
5	Quality	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.	Agreed, as it related 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 ASC, CPAA and ICAA requirements where relevant, we will explore reducing our quality assurance reviews.	Closed.  TAO implemented a standard Reporting Sign-Off for Contract Audits that includes a declaration of compliance with the relevant QC standard for audit firms.  This form was used and completed on all ASPs file we reviewed.

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
6	Audit	That the Auditor-General considers including External Audit Services Providers as Signing Officers and/or reviewing the level of involvement in the contracted audits.	<p>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.</p> <p>Other than as outlined in response to the immediately preceding recommendation, I do not plan to reduce our involvement for two reasons:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> </ul>	<p>Closed.</p> <p>Not agreed by TAO and no further action was taken.</p> <p>We accept their position as reasonable and considered the matter closed.</p>
7	Methodology	<p>That the Office:</p> <ul style="list-style-type: none"> <li>• reviews its financial audits portfolio to ensure the "right mix" of clients for its FAS business unit and External Audit Service providers;</li> <li>• develops a small audit approach; and</li> <li>• reviews the current audit fees charged to ensure that they reflect the minimum work required to comply with the 'Auditing Standards.</li> </ul>	<p>I respond to each recommendation as follows:</p> <ul style="list-style-type: none"> <li>• agree to carry out such a review. Doing so will include reviewing audits dispensed with;</li> <li>• a small audit approach is now under development. I agree doing so is important and relevant; and</li> <li>• 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.</li> </ul>	<p>Closed.</p> <p>This review is performed annually.</p> <p>A small audit approach has been implemented within IPSAM.</p> <p>A review carried out by TAO of audits and the budgets set for individual audits. We noted nothing in our review to suggest the fees charged were not considered and appropriate.</p>

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
8	Methodology	<p>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.</p> <p>These standards should include auditing performance measures including KPIs as per sections 2.8 to 2.10 below.</p> <p>Note that such standards should also specify additional requirements when there is a gap in existing Australian Auditing and Assurance Standards.</p>	<p>We will carry out an exercise aimed at identifying gaps in the standards and develop and issue standards where gaps are noted.</p> <p>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.</p>	<p>Closed.</p> <p>TAO did formally review the Auditing Standards for gaps, however it was determined there was no requirement to issue their own standards.</p> <p>We considered this an on-going recommendation but for the purpose of this review, we have concluded the recommendation as adequately addressed.</p>
9	Quality	<p>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.</p>	<p>Agreed.</p>	<p>Closed.</p> <p>Has been performed in conjunction with QAP, but as TAO migrates to their new audit tool this will become an important purview of the Technical and Quality Director as noted at point 2.6 of this report.</p>
10	Audit	<p>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.</p>	<p>Agreed.</p>	<p>Closed.</p> <p>Guidance has been provided by TAO and throughout our review appears to be applied appropriately.</p>
11	Quality	<p>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.</p>	<p>Agreed.</p>	<p>Closed.</p> <p>This step was added to Finalisation Checklist to ensure this step was prompted. Although we noted a couple of instances of non-compliance, on the whole this was performed well and is considered adequately addressed.</p>
12	Methodology	<p>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.</p>	<p>Agreed.</p>	<p>Closed.</p> <p>Reviewed and all four commonly used checklists, being Financial Management and Audit Act 1990, Government Business Enterprises Act 1995, Local Government Act 1993 and Corporations Act 2001 have available in the IPSAM library.</p>

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
13	Methodology	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.	Agreed.	Closed. We observed as being consistently completed on appropriate engagement files.
14	Methodology	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.	Agreed.	Closed. From our review, we noted the audit strategy issued to the client generally detail the relevant legislation quite well, issue considered resolved.
15	Methodology	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.	Agreed	Open – refer to the recommendation at point 2.7.1 of this report. Since the 2013 review, TAO has provided training to their staff and from our comparison to those files, the documentation on file has improved and TAO should be commended. In saying that, the issue has been re-raised. In our review we observed multiple instances of insufficient work being performed, this was also mirrored in their recent peer reviews.
16	Methodology	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.	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.	Closed. Training has been provided and this part of the audit file has been much improved based on our observations, this has also been reflected in their recent peer reviews.

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
17	Methodology	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.	Agreed. There is also a need for us to manage this expectation which we will do.	Closed.  Training has been provided to staff in relation to the reliance on the work of internal auditors.  Based on our review of the FAS audit files, we believe the consideration of reliance on the work of internal auditors were well documented.
18	Methodology	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.	Agreed.	Closed
19	Structure	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.	This recommendation will be explored.	Closed.  Sector champions process continues in the Group Leadership Committee, and they have been able to create/refine processes in several industries & areas unique to TAO, such as; local government, government businesses and probity considerations by sectors.
20	Methodology	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.	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.	Closed.

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
21	Methodology	<p>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.</p> <p>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.</p> <p>Data Mining champions should be identified and trained with pilot clients selected for the 30 June 2014 financial year end.</p>	Both recommendations are agreed to.	<p>Closed.</p> <p>CAATS have been introduced to TAO's audit approach and improvements continue to be made.</p> <p>However we do note in the report that further improvement should be made, and this has been identified by TAO in their 2016-2020 Strategic Plan.</p>
22	Methodology	Tailor and design audit tests based on efficient use of audit effort and risks using data mining software and/or excel.	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.	<p>Closed.</p> <p>Several audit tests have been designed and used throughout the audit (although not applied consistently at this stage). This is an ongoing initiative that TAO will need to continue to develop.</p> <p>TAO understand this, having identified as a key objective in their 2016-2020 Strategic Plan.</p>
23	Mandate	<p>That as part of each financial audit, FAS assesses and comments on each client's controls and processes in the following three areas:</p> <ol style="list-style-type: none"> <li>1. Management control environment;</li> <li>2. Financial Information Systems &amp; Controls environment; and</li> <li>3. KPIs / Efficiency, Effectiveness &amp; Economy performance Environment.</li> </ol> <p>With the findings to be reported to management and relevant governing bodies / audit committees through the management letter.</p>	Agreed in all respects.	<p>Closed.</p> <p>Findings are reported to each client as part of the audit process, except for KPI reporting, see comment below at points 25-27.</p> <p>Details of significant client findings are also included in reports to Parliament on the outcomes of financial audits along with an overview of all findings arising from the audits.</p>

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
24	Reporting	That annually, the Auditor-General summarises the three control environment assessments (above), by sector or other relevant grouping and presents such aggregate analysis through the existing AGR reports.	Agreed in all respects.	Closed.  Although this was originally agreed to, TAO noted resourcing constraints have not allowed this to occur.
25	Mandate	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.	Agreed but this will require legislative change. In the mean time we will continue to pursue voluntary change in this area.	Closed.  This has been performed for Local Government since 2014 following the introduction of the mandatory disclosure of Financial Sustainability KPIs in their annual report as part of the <i>Local Government Ministerial Orders 2014</i> .
26	Mandate	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.	Both recommendations are supported but will depend on legislative change. Despite this, we will explore ways to add value in line with the recommendation.	We consider this closed as it is now out of the hands of the TAO and they have put in sufficient effort to make a credible case for all State Entities to report KPI's. We also believe TAO is in a position to audit and report on performance information when the AASB or Treasurer issues its mandate.
27	Mandate	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.	Agreed but this will require legislative change. In the mean time we will continue to pursue voluntary change in this area.	
28	Reporting	That as appropriate, TAO includes pertinent analysis and commentary on KPIs in the AGR reports.	Agreed.	Closed.  As noted above, this is now only being performed on Local Government reporting, following the introduction of mandatory disclosure of Financial Sustainability KPIs in their annual report as part of the <i>Local Government Ministerial Orders 2014</i> .
29	Mandate	That as appropriate, TAO develop "better practice guides" to assists public sector entities in KPI setting and systems development.	Agreed.	Closed.  The Office explored this, and it was decided not to issue better practice guides due to self-review threat to independence.

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
30	Admin	That write offs continue to be monitored at sector levels to ensure consistent performance within the sector or across sectors.	Agreed.	Closed.  Is monitored at the macro level by TAO, by sector, and internal FAS teams.
31	Reporting	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.	Agreed.	Closed.  Policy and Register provided. There is a Compliant Register which is called the Referral Register. Some referrals have led to audits but not all.
32	Monitoring	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.	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.	Closed.  Use of TRIM's workflow to send or receive reminders, also confirmed during staff interviews that workflow has been used in the use of TRIM workflow.
33	Monitoring	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.	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.	Closed.  Regular reporting on budget and timeframe reported in IPSAM by managers. Refer to section 3 for improvement opportunities.



#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
34	Methodology	<p>Build into the performance audit delivery process, the ability to cease a performance audit where:</p> <ul style="list-style-type: none"> <li>it is apparent that conditions have materially change; and/or</li> <li>the objectives won't be met; and/or</li> <li>the end result of the performance audit will not be worth the effort and cost.</li> </ul>	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.	<p>Closed.</p> <p>Regular reporting on budget and timeframe reported in IPSAM by managers. Refer to section 3 for improvement opportunities</p>
35	Methodology	Communicate formally with entities regarding the decision to use / not use their internal audit capability when conducting performance audits.	Agreed. This can be achieved by explicit reference in the audit plan.	<p>Closed.</p> <p>Review of Audit Planning Memorandums noted reference made regarding Internal Audit.</p>
36	Audit	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.	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.	Closed.
37	Quality	That the cold (subsequent) reviews of performance audits are carried out by someone independent of the performance audit team.	Agreed.	<p>Closed.</p> <p>Word Map Consulting firm engaged to conduct reviews on Performance Audits. Refer to section 3 for improvement opportunities.</p>
38	Quality	That regular reviews of the performance audit methodology are carried out to ensure continuing compliance with the standards (ASAE 3000, 3100 and 3500).	Agreed.	Closed.
39	Governance	<p>Change the wording of the second objective to reflect the TAO role in assisting the public sector to improve service delivery – and also:</p> <ul style="list-style-type: none"> <li>more clearly confirm the primary responsibility for improving service delivery; and</li> <li>link more directly to the outputs per the TAO Appropriation</li> </ul>	All recommendations agreed.	<p>Closed.</p> <p>Strategic Planning for 2016-2020 has been updated and in new format.</p>

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
40	Governance	Add a critical success factor to the strategic plan regarding always being, and being seen to be, independent.	<p>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;</p> <ul style="list-style-type: none"> <li>• Adaptable; and</li> <li>• Relevant.</li> </ul> <p>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.</p>	Closed.
41	Mandate	<p>That:</p> <ul style="list-style-type: none"> <li>• TAO seriously review and assess the impacts on its capacity to fund and carryout efficiency and effectiveness measure audits;</li> <li>• TAO leads by example and has its own efficiency and effectiveness measures audited by its external auditor;</li> <li>• TAO uses its MoUs with Treasury, PAC and UTAs to help investigate, review and ultimately achieve the AG's recommendation to DHHS above; and</li> <li>• TAO consider if a change to the Audit Act is required to drive / help deliver this change.</li> </ul>	Agreed in all respects.	<p>Closed.</p> <p>Part of the governance framework. Refer to section 1 for improvement opportunities.</p>
42	Quality	<p>That:</p> <p>the KPI measurement for timely completion of performance audits should be that all such audits are completed on agreed time and cost budget;</p> <ul style="list-style-type: none"> <li>• you pose the core Office purpose statement as a survey question; and</li> <li>• 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.</li> </ul>	The intent behind these recommendations is supported. We will explore how best to introduce each recommendation.	<p>Closed.</p> <p>Refer to section 4 regarding KPI ad critical success factors.</p>
43	Quality	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.	Agreed. Action has already been taken to address this.	<p>Closed.</p> <p>Technical and Quality Director's statement of duties updated.</p>

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
44	Quality	That Office considers including training responsibility in the Technical and Quality Director's statement of duties.	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.	Closed. Technical and Quality Director's statement of duties updated.
45	Staff	That the Office consider some or all of the following: <ul style="list-style-type: none"> <li>All graduates / new recruits must be IT literate when they commence;</li> <li>Any recruits at more senior levels need to have IT expertise;</li> <li>All personal development plans to include IT training;</li> <li>Consider sharing an IT audit resource with VAGO or other AGs office (noting comment above regarding the reality of this in practice); and/or</li> <li>Consider implementing the use of data mining tools and ensuring all FAS staff are equipped to use this tool.</li> </ul>	Agreed. We will explore all of these suggestions with the objective of enhancing our IT audit capability.	Closed. The TAO had engaged an independent consulting firm to conduct a review of the IT capabilities of TAO's audit staff. Report was completed in 2018.
46	Methodology	See 3.6 above.	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.	Closed. Refer to 35 and 36 above.
47	Staff	That staff secondments or exchange arrangements continue to be explored.	Agreed.	Closed. Refer to section 2 for comments.
48	Staff	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.	The costs and benefits of using a centralised electronic resourcing system will be explored.	Closed. Discussion highlighted the cost benefit of implementing an electronic resourcing for the size of the TAO is not justified.
49	Monitoring	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.	Agreed.	Closed. Refer to 7, 34 and 35 above.

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
50	Staff	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.	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.	Closed.  Personal development plans developed. Note, the size of the TAO audit team number needs to be considered in selecting the right team for each engagement.
51	Quality	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.	Agreed.	Closed.  TAO has a formal, comprehensive Quality Manual.
52	Quality	That our suggestion additions ensuring compliance with ASQC1 be considered when updating the Quality Control Manual (refer to page 54 & 55 of the 2013 Review for the full list of suggestions).	Agreed.	Closed.  As above.
53	Methodology	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.	The existing policy will be reviewed taking into account this recommendation and then re-issued along with appropriate training and guidance.	Open – refer to the recommendation at point 6.4.1 of this report.  Based on our file reviews, there remains too many instances of non-compliance with this policy.
54	Quality	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.	Agreed. Steps have been taken to address this.	Closed.  EQCR reviews are being performed every year, on several different files based on their risk profile by the 3 permanent Signing Officers.

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
55	Quality	That only personnel with the appropriate competency capabilities and experience be allocated for file reviews.	Agreed.	Closed.  Based on our file reviews, we noted no instances where less experienced staff members reviewed an Engagement Leaders work.
56	Methodology	That the Office considers the acceptance, reacceptance and continuance of audits on all engagements.	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.	Close.  We did note further improvement opportunities when TAO considers continuing client relationship at the engagement level. Refer to 6.4.3.
57	Methodology	That procedures are implemented to evidence the specific independence requirements of Professional and Ethical Standards and Independence in Assurance Engagements.	Agreed.	Closed.  TAO has implemented procedures to evidence independent requirement. However, we did note further improvement opportunity in 6.4.4
58	Staff	That a formal monitoring process is introduced (i.e. at least a yearly review) to ensure that all members CPD requirements are met.	Agreed.	Closed.  CPD for the office as a whole is formally measured annually by the. Employees are able to use this to monitor their own CPD requirements.  It is TAO's view that it is the responsibility of the individual and therefore do not monitor the CPD of their team members to ensure the minimum requirements are met, which does not contradict the auditing standards.
59	Staff	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.	Agreed.	Closed.  This point is considered addressed as there are consideration of quality in employee's performance reviews. As noted in the report, we have recommended the use of specific KPI's for all levels within the Office, as the current parameters appear a bit too vague to be able to drive quality further.

#	Nature	Original recommendation	Auditor-General original response to the 2013 Statutory Review	Moore Stephen's comment
60	Staff	That an annual plan is devised based on the results of development needs, in turn, resulting from performance reviews, external and internal peer reviews.	Agreed.	Closed. Training needs are now summarised by the Corporate Support Services team following completion of development plans for individuals.
61	Governance	That a complaints register be maintained to document and resolve complaints received from clients.	Agreed.	Closed. Register has been established and maintained.
62	Quality	That the External ASPs audit files are subjected to the same quality assurance monitoring regime as the FAS and PAS files.	Agreed.	Open – refer to the recommendation at point 6.5 of this report. Through our review of TAO's internal QA procedures, external ASP files have not been subjected the same quality assurance monitoring regime.
63	Methodology	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.	Agreed. This will be taken up with the Public Accounts Committee in the first instance.	Closed. Including in the Audit Planning Memorandum and initial meeting with auditee.
64	Methodology	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.	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.	Closed. Client Service Assessments are performed to seek improvement opportunities. Also surveys are conducted by independent firm for: <ul style="list-style-type: none"> <li>• 2017 Performance and Compliance audit client survey</li> <li>• 2017 Financial Audit client survey</li> <li>• 2017 Parliamentarians Survey</li> </ul> Refer to section 7 for improvement opportunities.

# Appendix 1 – Interviewees

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## External Stakeholders Interviewed

1.	Andrew Paul – General Manager	Clarence City Council
2.	Miriam Coleman - CFO	Clarence City Council
3.	Gavin Wailes – A/g Director	Department of Justice (contact for Prisons Audit)
4.	The Hon Ivan Dean MLC – Chair	Public Accounts Committee
5.	Tim Baker – Chief of Staff	Premier’s Office
6.	Tony Ferrall – Secretary	Department of Treasury and Finance
7.	Craig Jeffery – Director	Department of Treasury and Finance
8.	Michael Pervan - Secretary	Department of Health and Human Services
9.	The Hon Peter Gutwein - MP	Treasurer of Tasmania
10.	Eleanor Patterson – A/g CFO	Department of Human and Health Services
11.	Rob Williams – Deputy Secretary	Department of Education
12.	Andrew Wright - Director Business Improvement & Performance	Department of State Growth
13.	Kane Salter – A/g Financial Controller	Department of Education
14.	Kathrine Morgan-Wicks - Secretary	Department of Justice
15.	Kane Ingham – General Manager Commercial Services	Aurora Energy
16.	Jarrold Shaw – Financial Controller	University of Tasmania

### TAO Staff Interviewed

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1. Rod Whitehead – Auditor-General

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2. Ric De Santi – Deputy Auditor-General

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3. Patty Johnson – AAG - Corporate Support and Strategy

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4. Stacy Brennan – Manager Contract and Support Project Services

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5. Mark Farrington – Financial Auditor

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6. Stephen Morrison – AAG Financial Audit

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7. Andrew Eiszele – Senior Financial Auditor

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8. Danny Moore – Senior Performance Auditor

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9. Jeff Tong – AAG - Quality and Standards

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10. Natalie Verdouw – AAG – Performance Audit

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11. Simon Andrews – Director Performance Audit

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