

Performance Audit Guide

for Audited Entities

June 2018



INSIGHTS FOR BETTER GOVERNMENT

PERFORMANCE AUDIT

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INTRODUCTION

Performance audits assess whether entities are carrying out their activities effectively, and doing so economically and efficiently and in compliance with relevant laws.

This Guide provides audited entities with information about the Audit Office of New South Wales' (the Audit Office) performance audit process. The Guide outlines the legislative framework and the Auditor-General's authority, and what to expect of the Audit Office during a performance audit.

The Guide also informs audited entities of their obligations to assist the performance audit team to effectively and efficiently complete their work.

SUMMARY OF KEY POINTS

- Performance audits within the NSW Public Sector are conducted under Part 3, Division 2A of the *Public Finance and Audit Act 1983* (the PF&A Act).
- Performance audits within the NSW Local Government Sector are conducted under Chapter 13, Part 3, Division 2A of the *Local Government Act 1993* (the LG Act).
- The PF&A Act and LG Act give the Auditor-General authority to choose the topics and entities for review, and to access required entity information.
- The Audit Office consults with the audited entity before the audit report is finalised.
- In conducting a performance audit, the Audit Office is responsible for:
 - obtaining sufficient knowledge of the program or activity being audited
 - maintaining a constructive relationship with the audited entity and undertaking adequate consultation (see Table 1)
 - securing and keeping confidential all entity information obtained in the course of the audit.
 - The head of the audited entity is responsible for:
 - nominating up to two suitable liaison officers to work with the audit team
 - providing full and free access to people and information within requested timeframes. This includes providing all information that is relevant to the audit, even if not specifically requested
 - a duty of care to the audit team under work health and safety and anti-discrimination laws, and harassment-free workplace policies.

LEGISLATIVE FRAMEWORK

Auditor-General's authority to conduct performance audits

Section 38B of the PF&A Act and section 421B of the LG Act sets out the Auditor-General's functions, mandate and powers to audit NSW state and local government entities respectively.

The Auditor-General's independence is assured by key provisions in the PF&A Act and LG Act. Specifically, the Auditor-General:

- reports directly to NSW Parliament and can only be dismissed by a resolution of both houses of the NSW Parliament
- decides on the program of work undertaken by the Audit Office
- is appointed for a non-renewable eight year period.

In addition, performance audits are funded by NSW Parliament, not the entities being audited.

Performance audits and topic selection

Activities examined by a performance audit may include a government program, all or part of a State or local government entity, or it may consider particular issues affecting the whole public sector. Performance audits cannot question the merits of State and local government policy objectives.

The Auditor-General uses a strategic approach to selecting performance audits, which balances the performance audit program to reflect issues of interest to Parliament and the community. The performance audit program includes topics that align with the State government's policy objectives and reform agenda to assess progress and impacts.

Each year, the Auditor-General seeks input from key stakeholders on proposed topics before publishing the performance audit program. The Auditor-General also takes into account performance audit topic suggestions from the Public Accounts Committee, Members of Parliament, local councils and members of the public.

Details of the approach to selecting topics and the forward program are available on the Audit Office website.

Authority to access entity information

Under section 36 of the PF&A Act, and section 423 of the LG Act, audited entities must provide the Audit Office with full and free access to information irrespective of any entity-specific obligations for confidentiality. If the requested information is not provided in a reasonable period of time, the Auditor-General may issue a notice which compels provision of this information.

The only exception to this access is information that is Cabinet information defined in the *Government Information (Public Access) Act 2009* (GIPA Act). However, as a matter of convention, the Secretary, Department of Premier and Cabinet provides access to relevant Cabinet documents to the Auditor-General when requested.

Section 27A(b)(iii) of the *Privacy and Personal Information Act 1998* (Privacy Act) allows for the transfer of personal information held by an entity to the Audit Office to enable the auditing of the accounts or performance of a public sector entity.

Clause 10(1)(b) of Schedule 1 to the *Health Records and Information Act 2002* (Health Records Act) permits an entity to disclose health information to the Audit Office for the purposes of auditing the provision of a particular product or services the organisation has provided or is providing to the person.

Outside of these exemptions for public sector agencies concerning the transfer of information to the Audit Office, information received by the Audit Office must be managed in accordance with the Principles of the Privacy Act and the Health Privacy Principles of the Health Records Act. Further information about the Audit Office's management of personal and health information can be found in the [Privacy Management Plan](#) published on the Audit Office website.

Confidentiality requirements

The Audit Office maintains the confidentiality of all information obtained whilst undertaking the performance audit. Exceptions include the Auditor-General's Report to Parliament and where the Audit Office is required to disclose information under section 38 of the PF&A Act and section 425 of the LG Act.

All information that the Audit Office receives, and working papers that the Audit Office creates during an audit, are classed as excluded information in Schedule 2 of the GIPA Act. An access application under the GIPA Act cannot be made for excluded information.

ROLES AND RESPONSIBILITIES

The Audit Office's obligations

The Audit Office aims to complete the audit work efficiently to minimise the impost on each audited entity. The time to complete this work varies depending on the complexity of the audit topic and the number of audited entities involved. This may range from four to 12 months.

Knowledge of the program or activity being audited

The audit team will obtain sufficient knowledge to enable it to identify and understand issues relevant to the program or activity being audited.

Performance audits may be undertaken on topics that require specialised skills and knowledge beyond those possessed by the audit team. In these cases, the Audit Office will engage consultants to provide expert assistance to the audit team and will discuss this with the audited entity. The audit team must ensure that any consultant engaged for the audit has the necessary competence, capabilities and impartiality to complete the work required. Any consultants engaged are also bound by our confidentiality requirements.

No surprises approach

The audit team seeks to establish a constructive relationship with the audited entity so that there are 'no surprises' in the final Report to Parliament. The audit team will explain the audit process at commencement and will maintain appropriate communication throughout the audit. The head of the audited entity, and executive staff, are encouraged to provide input at appropriate stages of the audit, such as when the audit is being scoped, and when preliminary findings, the draft report and potential recommendations are discussed.

The audit process outlined in Table 1 provides several formal consultation points for the audited entity to discuss the audit planning, preliminary findings and draft report during the course of the audit. In practice, there is ongoing and frequent communication between the audit team and the liaison officers.

Additionally, the head of the audited entity and executive staff can contact the Auditor-General and the Assistant Auditor-General, Performance Audit at any time to discuss the audit. Contact details are provided to the head of the audited entity and liaison officers at the commencement of the audit.

Audit methodology

The Audit Office's performance audit methodology is designed to comply with Australian Standards on Assurance Engagements ASAE 3500 'Performance Engagements' and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. The Audit Office's processes have also been designed to comply with requirements specified in the PF&A Act and LG Act.

Security of entity information

The Audit Office treats all audit-related information as 'in-confidence'. The Audit Office computer network has appropriate security measures in place to mitigate unlawful access. Secure arrangements are also in place to store physical documentation.

Sensitive information that, in the Auditor-General's opinion, is not in the public interest will not be included in public reports. This may include commercial-in-confidence information. Any issues that the audited entity may have about the Auditor-General's powers and the content of the Report to Parliament should be discussed with the audit team at the earliest opportunity.

The audit team will discuss with liaison officers suitable options and timing to provide information and documentation for the audit. This may include use of a web based secure file transfer facility to enable audited entities to securely and efficiently provide requested information.

Code of Conduct

Everyone working at, and on behalf of, the Audit Office is required to implement and comply with the provisions of the Audit Office Code of Conduct and the core values on which it is based.

The audited entity's obligations

We aim to use entity staff time efficiently and effectively and request the entity's cooperation to facilitate the audit work. In the planning stage of each audit, the audit team will consult with the liaison officers and agree on timely access to people and information (see Table 1).

Nominate up to two liaison officers

The head of each audited entity is asked to nominate up to two liaison officers to work with the audit team. The liaison officers' role is important to both the Audit Office and the audited entity.

The liaison officer should be a senior member of the audited entity who will keep the head of the audited entity informed of the progress of the audit, and who has authority to make decisions on behalf of the entity, for example, when reviewing the draft Report to Parliament and discussing potential audit recommendations.

The liaison officer will be asked to assist with the day to day administration of the audit, such as assistance in arranging meetings, access to people and information. The head of the audited entity, or the nominated liaison officer, may wish to appoint a second liaison officer to assist the audit team with these matters.

Regular and open communications between the audit team and management of the audited entity help deliver an efficient audit. The audit team will contact the nominated liaison officers regularly during the audit and will direct most questions and documentation requests through them. Refer to Table 1 for more details.

It is essential the audit team receives prompt responses to its questions and requests for supporting documentation.

Prepare early for the audit

The Auditor-General has a three-year performance audit program which is published on the Audit Office [website](#). The program identifies performance audit topics and entities to be audited.

The performance audit commencement letter sent to the head of the audited entity includes an indication of the issues that the audit may examine. This is discussed and refined during the planning phase of the audit outlined in Table 1.

The head of the audited entity can prepare early for the performance audit by:

- reviewing relevant plans, records and source data, and making sure these are up-to-date and available for the audit team
- gathering documentation on how the entity monitors and measures the effectiveness, economy and efficiency of the audited activity and have the most recent results ready.

Provide full and free access to people and information

The Audit Office's authority to access entity information and confidentiality requirements are outlined earlier in this Guide.

The head of the audited entity and the liaison officers are responsible for arranging unrestricted access for the audit team to relevant individuals and documents and for the completeness and accuracy of the information supplied for the audit.

Each performance audit is unique, and as a result it is difficult for audit teams to know exactly the documentation relevant to the audit. It is therefore the entity's responsibility to ensure it provides:

- all information it is aware of that is relevant to the audit, whether or not it is specifically requested
- all information the audit team requests that is relevant to the audit
- unrestricted access to all people in the entity from whom it is necessary to obtain audit evidence.

During the planning stage of the audit, ASAE 3500 requires the audit team to ask the audited entity whether:

- it has any knowledge of any actual, suspected or alleged intentional misstatement (such as fraud) or non-compliance with laws and regulations in relation to the audit topic
- there have been any internal or external reviews or audits conducted in relation to the audit topic.

Transmission of entity information

Audited entities may provide working papers in hard copy or electronic format. Our preferred format is electronic documents in Word, Excel, or PDF formats provided by e-mail or through the Audit Office's secure file upload service. Details of e-mail addresses to use or the file upload service, are provided by the audit team when information is requested.

If the entity sends sensitive information to the audit team, whether by paper, electronically or otherwise, it must label the information accordingly (refer to Department of Finance, Services and Innovation Circular [DFSI-2015-01 'NSW Government Information Classification, Labelling and Handling Guidelines'](#)).

The audit team may need 'read only' access the entity's electronic systems. If this is required, the liaison officer will be asked to arrange the necessary access including guest log in IDs or access terminals on-site.

The Audit Office record keeping practices are consistent with the Information Protection Principles of the Privacy Act and the Health Privacy Principles of the Health Records Act.

To assist with the Audit Office obligations to protect personal information, entities should de-identify data and information before it is provided to the audit team, as well as using a secure file transfer facility where available.

Comply with work health and safety (WHS) and anti-discrimination laws, and harassment-free workplace policies

The Audit Office is committed to maintaining a high standard of work health and safety, and staff are expected to treat each other and audited entity staff with courtesy and respect.

Audited entities have a duty of care to Audit Office staff under the *Work Health and Safety Act 2011*, Regulation, Codes of Practice and recognised industry standards, as appropriate.

If the audit team fails to adhere to anti-discrimination laws or the harassment free workplace policy, the entity liaison officers should advise the Assistant Auditor-General, Performance Audit immediately.

The Audit Office has policies and strategies to prevent and deal with discrimination and harassment.

If the audit team is treated contrary to anti-discrimination laws and the harassment free workplace policy by any entity staff, the audit team will advise the Assistant Auditor-General, Performance Audit immediately. The incident will be raised with the entity liaison officers and, if necessary, with the head of the audited entity and the Auditor-General.

FOLLOW-UP PROCESS AFTER THE PERFORMANCE AUDIT IS COMPLETED

Approximately 12 months after each performance audit report is tabled in Parliament, the Public Accounts Committee (the Committee) follows up action taken by audited entities in response to recommendations made by the Auditor-General. As part of the follow up process, the Committee questions entities about their response to the recommendations and, if required, conducts public hearings to examine witnesses. The Auditor-General also provides comments on submissions made by entities to the Committee.

After the performance audit report is tabled, the Audit Office writes to the head of each audited entity to confirm this process and provide a template to assist the audited entity to report to the Committee when requested.

PERFORMANCE AUDIT PROCESS

Once initiated, performance audits have three main stages: planning, conduct and reporting. A description of each of these stages, and the extent of our consultation with the audited entity, is outlined in Table 1.

Table 1–Performance audit stages and consultation with audited entities

Activity	Consultation
Planning	
An audit team is assigned and the audit is initiated.	
Commencement letters are issued to the head of each audited entity and the responsible Minister/s.	Commencement letters
The head of each audited entity nominates their liaison officers who will work with the audit team.	
The audit team meets with entity liaison officers, and other key stakeholders, to gain an understanding of the entity and activities relevant to the audit topic.	
The audit team develops the audit’s scope and focus, including the audit objective and potential criteria.	
The potential audit scope is discussed with entity liaison officers.	Draft audit scope and focus
The audit team finalises the audit scope and develops the audit plan in consultation with entity liaison officers.	
In addition to the scope and focus, the audit plan may include:	
<ul style="list-style-type: none"> the audit procedures, including how and what information is to be collected to answer the audit criteria audit fieldwork and approach, including the people and locations the audit team will visit during the audit audit schedule, including consultation milestones and proposed tabling date. 	
Once finalised, the audit plan and audit engagement letter are issued to the head of each audited entity.	Audit plan and engagement letter

Activity	Consultation
Conduct	
<p>Evidence is collected and analysed against the audit criteria. The audit team must ensure they have sufficient and appropriate evidence to answer the audit objective and criteria.</p>	<p>Interviews with relevant entity staff and requests for access to documents and information</p>
<p>Preliminary findings against the audit criteria are discussed with entity liaison officers. Preliminary findings Additional relevant evidence may be requested if needed.</p>	
Reporting	
<p>A draft report is prepared and a meeting held with entity liaison officers to discuss their feedback. The purpose of the draft report is to give the audited entity the opportunity to identify errors of fact or interpretation, and to provide additional relevant evidence that addresses the audit criteria. Responses received from the audited entity are carefully considered and amendments made as necessary.</p>	<p>Draft report</p>
<p>During this process the audit team will also discuss with entity liaison officers potential recommendations.</p>	
<p>The head of the audited entity may wish to meet with the Auditor-General to discuss the draft audit report and recommendations before it is finalised.</p>	
<p>The final report is issued by the Auditor-General to the:</p>	<p>Final report</p>
<ul style="list-style-type: none"> • head of each audited entity, the responsible Minister/s, and the Treasurer, in accordance with the <i>PF&A Act</i> • <i>head of each audited local government entity, the Chief Executive of the Office of Local Government and the Minister for Local Government, in accordance with the LG Act.</i> 	
<p>The audit report includes recommendations to improve accountability and performance.</p>	
<p>The head of each audited entity is invited to provide a written response to the audit report and its recommendations that will be published with the Report to Parliament.</p>	
<p>The audit report is presented to NSW Parliament and published on the Audit Office website.</p>	<p>Report published</p>

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR MISSION

To help parliament hold government accountable for its use of public resources.

OUR VALUES

Purpose – we have an impact, are accountable, and work as a team.

People – we trust and respect others and have a balanced approach to work.

Professionalism – we are recognised for our independence and integrity and the value we deliver.

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