
Appendix two – About the audit

Audit objective

This audit assessed the effectiveness of the financial arrangements and management practices at four integrity agencies – the Independent Commission Against Corruption, the Law Enforcement Conduct Commission, the NSW Electoral Commission, and the NSW Ombudsman.

Audit criteria

We addressed the audit objective by considering the following questions for each agency:

1. Do funding models effectively support integrity agencies to fulfil their legislative mandate?
2. Have integrity agencies assessed the requirements for fulfilling their legislative mandate?
3. Are the internal budgeting processes at integrity agencies effective?
4. Do integrity agencies monitor how efficiently they use their funding?

Audit scope and focus

In assessing the criteria, we checked the following aspects:

1. Do funding models effectively support integrity agencies to fulfil their legislative mandate?
 - a) Funding arrangements reflect Parliament's intent for the agency's role.
 - b) Transparency in the decision-making process.
 - c) Challenge process for discussion of agency assessments of their core funding requirements.
 - d) Flexibility to respond to unforeseen increases in expenditure required to deliver their core services.
2. Have integrity agencies assessed the requirements for fulfilling their legislative mandate?
 - a) Processes for determining core and discretionary functions and services.
 - b) Systems for prioritising resources to the areas of greatest need.
 - c) Clear rationale for chosen service levels and quality standards.
 - d) Performance metrics to track achievement of organisational objectives.
3. Are the internal budgeting processes at integrity agencies effective?
 - a) Agency budgets based on a clear understanding of the costs of fulfilling their legislative mandate.
 - b) Clear links between spending decisions and organisational strategy.
 - c) Clear ownership and accountability for budget holders and executives.
4. Do integrity agencies monitor how efficiently they use their funding?
 - a) Systems for capturing and monitoring the cost of delivering their functions / services.
 - b) Evidence of work to assess the efficiency of operational and 'back office' services and improve where necessary.

Audit exclusions

The audit did not:

- question the merits of government policy objectives
- assess the overall NSW Budget process as it applies to other departments and agencies.

Audit approach

Our procedures included:

1. Interviewing NSW Government staff including:
 - heads of integrity agencies
 - finance and operational managers at agencies
 - senior staff at DPC and NSW Treasury who work with the agencies
 - senior staff at equivalent integrity agencies in other jurisdictions.
2. Examining documents including:
 - NSW Government legislation and guidelines relating to financial arrangements for integrity agencies
 - agency policies and procedures for prioritisation, budgeting, and efficiency monitoring
 - academic and practitioner literature on the role and functions of integrity agencies in comparable.
3. Analysing financial data including:
 - agency revenue sources
 - agency expenditure.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standard 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. Our processes have also been designed to comply with requirements specified in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by staff at the audited agencies.

Audit cost

The estimated cost of this audit, including staff costs and overheads, was approximately \$750,000.