
New South Wales Auditor-General's Report

Performance Audit

Implementing performance audit recommendations

Department of Premier and Cabinet

The Treasury

NSW Ministry of Health

Department of Education and Communities

Transport for NSW

NSW Police Force



The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Implementing performance audit recommendations: Department of Premier and Cabinet, The Treasury, NSW Ministry of Health, Department of Education and Communities, Transport for NSW, NSW Police Force.**

A handwritten signature in black ink, reading 'A. T. Whitfield'.

A T Whitfield PSM
Acting Auditor-General
24 June 2015

Contents

Contents	1
Executive summary	2
Conclusion	2
Supporting findings	2
Recommendation	3
Introduction	4
1. Implementing performance audit recommendations	4
1.1 The Public Accounts Committee follows up recommendations	4
1.2 Implementing recommendations is good practice	4
1.3 What this audit is about	4
Key findings	6
2. Agencies' processes for implementing recommendations	6
2.1 Assigning responsibility for implementation	6
2.2 Developing implementation plans	7
2.3 Incorporating implementation in planning documents	7
2.4 Endorsing the implementation plan	8
2.5 Reviewing the implementation plan	8
3. Agencies' processes for monitoring implementation	10
3.1 Assigning responsibility for monitoring implementation	10
3.2 Reporting to management on implementation	11
3.3 Acquitting recommendations	12
3.4 Public reporting on implementation	12
4. Audit Office process – how we can help	14
4.1 Developing better recommendations	14
4.2 Post-audit activities	14
4.3 Follow-up by the Audit Office	15
4.4 Follow-up by the Public Accounts Committee	15
Appendices	16
Appendix 1: Better practice checklist for agencies	16
Appendix 2: Agency responses	17
Appendix 3: About the audit	23
Appendix 4: Performance audits reviewed by the Public Accounts Committee	26
Appendix 5: Template for Public Accounts Committee follow-up	27
Performance auditing	28

Executive summary

Conclusion

The aim of this audit was to assess agency processes for implementing performance audit recommendations. We used key elements of the Audit Office's 'Better Practice Checklist for Monitoring and Reporting on Performance Audit Recommendations' to assess agencies' performance. We also sought to identify good practice within agencies.

We found that most agencies have sound processes in place to implement and monitor performance audit recommendations. Processes were more sophisticated in agencies that have been subject to more performance audits. Nonetheless, we encourage all agencies to review their practices in line with our Better Practice Checklist. This will help to ensure that the benefits of performance audits are fully realised and support agencies' continuous improvement.

It was encouraging to see examples of good practice. For example, some agencies formed a steering committee and developed a detailed plan to implement recommendations. Another agency incorporated the implementation of recommendations into both its business plan and the work plans of individual officers who were managing projects.

We also found that most agencies use their Audit and Risk Committees to monitor recommendations. This is good practice. We have therefore updated our Checklist to reflect the important role of Audit and Risk Committees.

We found some areas where agency processes could be strengthened. Coordination and review of proposed actions could be improved. Agencies also need to report publicly on performance audits and their implementation of recommendations.

Supporting findings

Agencies have sound processes for implementing recommendations

All agencies we assessed have processes in place to implement performance audit recommendations. All followed these key steps:

- assigning responsibility for each recommendation to a staff member
- developing actions to address each recommendation
- ensuring that proposed actions were approved by senior management
- incorporating proposed actions into relevant planning documents.

Agencies respond to performance audits on a case-by-case basis. Where a significant amount of work is involved, an agency might set up a working group to coordinate implementation, develop an implementation plan, or both. Smaller tasks are typically completed as routine business items.

Coordination and review of proposed actions could be strengthened

We found two areas where agencies could refine their practices. The first is nominating a unit or person to coordinate implementation. While some agencies did this, it was not common practice. We believe that better coordination may lead to more timely and focused actions.

We found agencies generally do not have formal processes for revisiting proposed actions during implementation to determine whether they remain appropriate. Establishing a mechanism for regular review would ensure a more rigorous response and that better information is available when recommendations are followed up.

Agencies have effective processes for monitoring implementation

We found that agencies had effective processes in place to monitor recommendations. These included processes for:

- assigning responsibility for monitoring
- reporting progress to management
- closing recommendations when actions are completed.

In most agencies, the Audit and Risk Committee is responsible for monitoring implementation, supported by an audit or governance unit. This is consistent with NSW Treasury guidelines and provides assurance to agencies that work is progressing.

In some cases, processes for finalising recommendations need clarification. In two agencies, matters are removed from the Audit and Risk Committee register once the Committee is satisfied they are finalised. For example, the relevant manager advises the Committee when recommendations are complete, the Committee then endorses or concurs that actions are finalised. Agencies must be careful that this approach does not go beyond the Committee's advisory role. Senior management is responsible for making decisions about implementation.

More public reporting of implementation is needed

Another area agencies can strengthen is public reporting of implementation. While some agencies referred to particular initiatives in their annual reports that were put in place as a result of performance audits, agencies do not typically report on implementation.

Public reporting is an opportunity for agencies to highlight achievements and provide transparency to stakeholders.

How the Audit Office can help

We asked agencies for feedback about our own processes for developing recommendations. The key themes to emerge from this feedback were around communication and engagement. There may be opportunities for both agencies and the Audit Office to make better use of existing consultation processes.

The Audit Office will review our processes to see how we can further embed consultation into our methodology and practices. This may include better engagement of senior agency staff in developing both the scope of an audit and its recommendations.

We also asked agencies their views on follow-up of performance audits. Most supported some form of follow-up by either the Public Accounts Committee or the Audit Office, such as a stocktake of the status of recommendations or follow-up of high-risk recommendations. We will also consider ways to integrate follow-up of performance audit recommendations into our financial auditing process.

Recommendation

We recommend that agencies:

- use the Audit Office's better practice checklist to implement performance audit recommendations and in particular ensure that:
 - a unit or branch is nominated to coordinate implementation
 - proposed actions are regularly reviewed to ensure that they remain relevant
 - the Audit and Risk Committee monitors performance audit recommendations
 - senior management makes decisions on proposed actions such as closure of recommendations
 - progress against performance audit recommendations is included in the agency's annual report.

Introduction

1. Implementing performance audit recommendations

1.1 The Public Accounts Committee follows up recommendations

The Audit Office of NSW conducted 13 performance audits in 2013-14. Performance audits are one-off projects and, in most cases, the audit team's engagement with an agency ends when the report is tabled in parliament. The Audit Office does not currently follow-up its performance audits.

The Public Accounts Committee has statutory powers to examine reports tabled by the Auditor-General. In 2008, it adopted a systematic approach to the follow-up of performance audits. Twelve months after a report is tabled, the Public Accounts Committee asks the relevant agency what it has done to implement the Auditor-General's recommendations. In some cases, the committee seeks further information, either in writing or by asking agency representatives to give evidence at a public hearing.

1.2 Implementing recommendations is good practice

Although agencies are not obliged to accept the Auditor-General's recommendations, most do so. For example, 86 per cent of performance audit recommendations made in 2014 were accepted by relevant agencies.

Ensuring that recommendations are implemented is a management responsibility. Agencies need systems to ensure that recommendations are not only implemented but tracked, monitored, and reported. An effective system for implementing recommendations will feature strong ownership within the agency, with clear accountabilities and time frames for action. It will also have reliable systems to capture, monitor and report on implementation.

1.3 What this audit is about

This audit assessed whether agencies had effective processes in place for monitoring and implementing performance audit recommendations. We answered the following questions:

- do agencies have adequate processes for ensuring that performance audit recommendations are implemented?
- do agencies have adequate oversight processes in place to monitor and report on implementation?

We reviewed six agencies as case studies:

- Department of Premier and Cabinet
- The Treasury
- NSW Ministry of Health
- Department Education and Communities
- Transport for NSW
- NSW Police Force.

We also surveyed nine other agencies that had been subject to at least one performance audit followed up by the Public Accounts Committee since 2009.

We used the Audit Office 'Better Practice Checklist for Monitoring and Reporting on Performance Audit Recommendations' to assess agencies' processes in a number of key areas. The audit criteria are detailed in full at Appendix 3.

Audit Office of New South Wales
Better Practice Checklist: Monitoring and Reporting on
Performance Audit Recommendations, 2009

Following a performance audit, agencies should:

- ☒ Assign responsibility for the implementation of recommendations accepted to a single person or branch.
- ☒ Develop an action plan which includes a timetable for implementation and clearly outlines roles and responsibilities for the implementation of each recommendation accepted.
- ☒ Include in the plan mechanisms to monitor and report on results against key indicators where they have been identified in the audit, and review proposed actions to ensure they remain appropriate.
- ☒ Allocate sufficient resources to implement the plan and set realistic and achievable time frames and targets.
- ☒ Have the plan endorsed by the CEO and where appropriate, the Board and the minister.
- ☒ Incorporate the plan in other planning documents such as the corporate plan, business plans or performance agreements.
- ☒ Provide regular reports on the progress of implementation of the recommendations to the CEO and where appropriate, the Board and the minister.
- ☒ Raise staff awareness of the outcomes of the performance audit and invite feedback on how best to implement the recommendations.
- ☒ Regularly review and monitor the plan and make amendments, where necessary, to maintain relevance and appropriateness.
- ☒ Report progress and actions taken to address issues raised in the performance audit in the annual report, reporting progress each year until implementation is complete.

Note: See Appendix 1 for a revised checklist which we updated as a result of this audit. For example, it now refers to Audit and Risk Committees.

We also asked agencies what the Audit Office could do to increase the likelihood our recommendations would be implemented, and about their experience of the Public Accounts Committee's follow-up process.

We did not assess whether recommendations have been satisfactorily implemented. We focused only on implementation processes.

See Appendix 2 for each agency's response to the report. Appendices 3 and 4 contain information on the audit scope and criteria, and a list of performance audits followed up by the Public Accounts Committee.

Key findings

2. Agencies' processes for implementing recommendations

Most agencies have sound processes in place to implement performance audit recommendations, and provided evidence of actions taken. However, some agencies could do more to coordinate implementation and review proposed actions.

2.1 Assigning responsibility for implementation

Agencies assigned a staff member or unit to each recommendation

All six case study agencies assigned responsibility for implementing one or more recommendations to a relevant staff member or branch. All had a similar process in place after a report is tabled:

- correspondence from the Auditor-General arrives at the office of the agency head
- it is sent to the relevant branch head to deal with often via the deputy head
- if responsibility is unclear, further advice may be sought from relevant staff
- a staff member is assigned responsibility for each recommendation.

Where responsibility for implementing recommendations is shared between different functional areas of the agency, one branch director will act as the 'lead' officer and involve others as required.

We found that decisions on who should be responsible were not always documented. However, the process appears to work reliably, with agencies providing examples of recommendations being actioned.

The nine agencies we surveyed reported similar processes for assigning responsibility. They advised that either the agency head, senior management, or both assigned responsibility.

Coordination of implementation is better in some agencies

Three case study agencies also nominated a unit or person to coordinate implementation. One agency uses its governance unit to help determine who is best placed to implement recommendations. The other two agencies appointed a committee to coordinate implementation.

Exhibit 1: Coordinating implementation

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NSW Police Force

For the recent audit of the Police Death and Disability Scheme, the NSW Police Force set up a governance committee to coordinate implementation. The committee included representatives from Human Resources, Workforce Safety, Finance and Shared Services.

The governance committee meets quarterly. Its role is to review activities, policies, and reporting arrangements, and propose improvements on matters raised in the performance audit.

Source: NSW Police Force.

We believe nominating a person or unit to coordinate implementation may facilitate more timely and focused follow-up of actions. We encourage other agencies to adopt this approach where practical.

2.2 Developing implementation plans

Agencies develop proposed actions for each recommendation

We found that all agencies identify actions to be taken to implement recommendations. In some cases, only one or two actions are necessary to implement recommendations. Where more work is required, agencies develop several actions and prioritise them to ensure work is completed within specified timeframes.

Sometimes proposed actions were determined when agencies responded to a report before it was tabled in Parliament. For example, in its response to the 2013 report on 'Building Energy Use in NSW Public Hospitals', the NSW Ministry of Health provided comment on each recommendation including proposed actions. We encourage all agencies to adopt this practice.

Implementation plans are developed on a case-by-case basis

All case study agencies reported that they may develop an implementation plan, and two provided examples. The implementation plans listed actions against each performance audit recommendation, including time frames and key responsibilities.

Agencies advised that development of a plan would depend on whether there is a significant amount of work needed to implement the recommendations. Some are implemented as part of 'business as usual' in the relevant agency branch.

"If it's something that is fairly straightforward, often I will just do it myself as part of my usual workload".

Agency interviewee

All nine surveyed agencies reported that they develop a plan to implement performance audit recommendations. Most indicated that this would include specific actions, time frames and responsibilities.

It is appropriate for agencies to match their response to the work required. Nonetheless, we encourage all agencies to consider developing an implementation plan, especially if they are the main subject of an audit.

2.3 Incorporating implementation in planning documents

Agencies include proposed actions in relevant planning documents

Incorporating the implementation of recommendations into an agency's business planning should increase the likelihood that they will be actioned. All six case study agencies and seven of the nine surveyed agencies advised that implementation of recommendations is incorporated into their planning where appropriate.

Four case study agencies provided examples where recommendations were incorporated into either branch business plans or project-specific plans.

Exhibit 2: Incorporating recommendations into business planning

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NSW Ministry of Health

In July 2013, the Auditor-General tabled a performance audit report on managing operating theatres. The report contained recommendations addressed to Local Health Districts, to be implemented with the support of the Ministry of Health and the Agency for Clinical Innovation.

The Agency of Clinical Innovation included the implementation of the audit's recommendations in its business plan, and the work plans of individual officers who were managing projects. It reported quarterly on its progress to the Ministry of Health, including copies of outputs such as draft guidelines.

Source: Ministry of Health, Agency for Clinical Innovation.

The remaining two case study agencies were more likely to include recommendations and subsequent actions into individual work plans. As discussed previously, the extent to which agencies integrated implementation into business planning depended on the amount of work required to action each recommendation.

2.4 Endorsing the implementation plan

Proposed actions are approved by senior staff

Endorsement from senior management is essential for effective implementation as it provides the authority to allocate resources and take action. All six case study agencies advised that actions taken to implement recommendations are approved by senior management either before or after a report is tabled. Four agencies provided evidence to support this.

In the remaining two agencies, senior management are more likely to approve actions requiring more significant work. For example, a recommendation to develop or revise guidelines may be accepted by the agency and actioned at branch level. The final product would then be approved by the relevant Deputy Secretary before being released. This approval would be gained through briefing notes or memos to agency senior management.

Eight of the nine surveyed agencies also advised that actions were endorsed by either the agency head, senior management or both. Two agencies also reported that a working group or steering committee would approve key actions.

Several agencies advised that actions to address recommendations were endorsed by the agency head before a report is tabled in parliament. This is because an agency's formal response to an audit report, which may include proposed actions, is approved by the agency head.

2.5 Reviewing the implementation plan

Agency processes for reviewing actions are generally informal and ad hoc

Regular review during implementation is necessary to ensure that proposed actions remain current. We found that most agencies reviewed proposed actions for performance audit recommendations in an ad hoc manner.

Some agencies advised that proposals to change agreed actions are reviewed by senior management. For example, Transport for NSW Group IT Branch discusses whether actions are still relevant during quarterly meetings with their Chief Information Officer. The branch also keeps its own register of recommendations.

Five of the six case study agencies also use the Audit and Risk Committee process to monitor implementation and follow up outstanding matters. While this provides a level of assurance, it may not facilitate a timely response to emerging issues. A mechanism for management to review actions would strengthen this process. Monitoring processes are discussed in more detail in the following section.

The responses from surveyed agencies painted a different picture, with all advising that implementation plans are reviewed on a regular basis and adjusted as necessary.

Implementation can be delayed

Reviewing proposed actions is important so that possible delays might be flagged. Agency staff described a range of obstacles which might delay the implementation of recommendations.

These obstacles included:

- vague or impractical recommendations
- unrealistic commitments made by agency staff when developing recommendations
- lack of support for recommendations among some agency staff
- lack of resources or competing priorities within agencies
- lack of cooperation from other agencies also responsible for implementation
- changes in government policy
- changes in personnel or administrative arrangements within agencies.

Agency staff advised that sometimes recommendations became redundant if government policy or the operating environment changed. Some staff felt that they were 'locked in' to these recommendations. They were unclear about how their agency should respond to such changes.

Agencies should not disregard a recommendation if the operating environment changes. They should instead determine how best to address the issue identified in the recommendation.

3. Agencies' processes for monitoring implementation

Agencies had effective processes in place for monitoring and internal reporting, but there are opportunities to improve public reporting.

3.1 Assigning responsibility for monitoring implementation

Audit and Risk Committees' monitor implementation in most agencies

NSW Treasury guidelines require Audit and Risk Committees to monitor recommendations from external audits. We were encouraged to find that they did this in all our case study agencies, though one agency advised that its committee had only recently commenced this monitoring role. Robust monitoring and reporting on implementation is essential to ensure that barriers are addressed and change is delivered.

Generally the audit or governance unit within each agency coordinated monitoring on behalf of the Audit and Risk Committee. These units maintained a register of recommendations outlining relevant time frames, the responsible officer, and the status of implementation.

Exhibit 3: Monitoring by an Audit and Risk Committee

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Department of Education and Communities

In the Department of Education and Communities, the Audit Directorate coordinates monitoring by the Audit and Risk Committee. It provides reports on the implementation of recommendations four times a year to the committee. This includes reports on all internal and external audits, including performance audit reports.

The Audit and Risk Committee assesses the Department's progress to determine whether it is satisfactory and risks are addressed.

Before each meeting, the Audit Directorate seek reports from Deputy Secretaries responsible for implementation. These reports detail the proposed action, time frame, responsible branch, and status of action to address each recommendation.

Once approved by the Deputy Secretary, reports are forwarded to the Audit Directorate which prepares papers for the Audit and Risk Committee.

Source: Department of Education and Communities.

The results from surveyed agencies were slightly different, with just under half advising that they use the Audit and Risk Committee process to monitor progress. The remaining agencies reported that the responsible manager or the deputy head of the agency monitors progress.

We encourage all agencies to use Audit and Risk Committees to monitor the implementation of recommendations, as per Treasury guidelines. This is in addition to any other monitoring process that agencies establish. For example, in two case study agencies monitoring was also the responsibility of committees set up to coordinate implementation. We have revised our performance audit implementation checklist to reflect the important role of Audit and Risk Committees. See Appendix 1.

Identifying recommendations to be monitored could be difficult

One problem raised by a number of agencies was that it was sometimes hard to determine that there were performance audit recommendations to be monitored. This is because an audit unit responsible for coordinating Audit and Risk Committee papers may not be aware that a performance audit has been conducted.

The Audit Office has recently started advising each Audit and Risk Committee Chair of any performance audits completed in their agency, which should help to address this issue. However, agencies also need to ensure that internal audit units are informed of relevant external reports, including performance audits.

3.2 Reporting to management on implementation

Agencies advise senior managers of progress

We found there were two means by which agencies reported to management on the progress of implementation:

- reporting as part of the Audit and Risk Committee monitoring process
- reporting to senior executive through line management.

We found that processes for reporting through the Audit and Risk Committee generally worked well. An audit or governance unit would ask relevant branch managers to report on the status of implementation every three to six months, in line with Audit and Risk Committee meetings.

The extent to which agencies involved management in the Audit and Risk Committee process varied. Practices included:

- reporting at least annually to the agency head on committee activities and advice
- inviting agency heads to attend committee meetings
- briefing senior executives on progress prior to the committee meeting.

While reporting to Audit and Risk Committees is good practice, it should not be a substitute for management reporting as the role of the committee is purely advisory. Senior management, and not the committee, is responsible for decisions relating to implementation. One agency had recently clarified the role of its agency head in the Audit and Risk Committee process to address this.

Exhibit 4: Clearer role for agency head in monitoring

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Transport for NSW

In August 2014, Transport for NSW clarified the role of its Secretary and the Audit and Risk Committee in overseeing the implementation of recommendations. The Audit and Risk Committee holds a non-financial meeting each quarter. Before each meeting the Internal Audit Unit requests a status report from operational areas on actions for each recommendation. This report is forwarded to the Secretary who then:

- notes each status
- approves or rejects deadline extensions
- approves or rejects proposed changes to actions
- approves the closure and/or removal of actions and recommendations from the tracking register.

The Internal Audit Unit then provides the Audit and Risk Committee with a summary of the quarterly update along with Secretary actions.

Source: Transport for NSW.

Some evidence of implementation may be provided

Agencies did not routinely provide evidence of implementation to Audit and Risk Committees, but advised that it is available on request. An audit officer preparing the progress report might also speak to the relevant branch responsible for implementation and cite relevant activities or policies put in place. The responsible manager might also be invited to attend a committee meeting.

By contrast, seven of the nine surveyed agencies said evidence of progress was provided as part of the reporting progress. However, many qualified this, noting that it depends on the nature of the recommendation, or that reporting had only recently changed to include supporting documents.

Reporting via line management was more ad hoc

As well as reporting via the Audit and Risk Committee, agencies also advised that reporting to their senior executive on implementation also occurred through line management. For example, the NSW Police Force and Department of Premier and Cabinet advised that reporting to the Deputy Commissioner or Secretary occurs as part of normal business processes. However, in general, arrangements for line reporting to senior management were less clear and appeared to be more ad hoc than monitoring via the committee process.

As reported in section 3.1, of the agencies we surveyed just under half used the Audit and Risk Committee process to monitor progress, either on its own or with other relevant operational or executive staff. The remaining agencies advised that other staff were responsible, including agency executive and the manager responsible for the area subject to the audit.

3.3 Acquitting recommendations

Processes were in place for acquitting recommendations

Acquitting recommendations provides agencies with assurance that change has occurred. We found there were two means by which agencies acquitted or closed recommendations after they had been implemented:

- matters were signed off by the agency head or deputy head/executive
- matters were signed off once the Audit and Risk Committee was satisfied that the recommendation had been implemented.

In four of the six case study agencies we reviewed, the head of the agency or a deputy head signed off on briefs prepared by agency staff about completed matters. Who prepared the brief and when it was prepared varied between agencies. This included briefs prepared by:

- the responsible branch manager when actions were complete
- the audit or governance unit every six months
- the audit or governance unit prior to each Audit and Risk Committee meeting.

Management should acquit recommendations

In the remaining two agencies, recommendations are removed from the Audit and Risk Committee register once the committee is satisfied they are finalised. For example, the relevant manager advises the committee when recommendations are complete, the committee then endorses or concurs that actions are finalised. Agencies must be careful that this approach does not go beyond the committee's advisory role. Ultimately it is management's responsibility to close matters, and the role of the agency's executive in this process should be clarified.

Of the nine agencies surveyed, seven advised they also had processes in place to acquit recommendations. They reported similar acquittal processes including closure as part of standard business practice, by the agency executive, or the Audit and Risk Committee.

3.4 Public reporting on implementation

Agencies should report publicly on implementation in their annual report

Public reporting on implementation provides assurance of agency performance to external, as well as internal stakeholders. Agencies do not currently report progress against audit recommendations in their Annual Report, though particular initiatives may be discussed. We found that:

- four of the six case study agencies had reported in their annual report that a performance audit had been undertaken, although the amount of detail provided varied
- two of the nine surveyed agencies advised they had reported progress in their annual report.

Public reporting of performance audits helps hold agencies to account for their activities and performance. The Annual Reports (Departments) Regulation 2010 requires agencies to report on:

“The nature and extent of performance review practices and of improvements in organisational achievements as assessed by both internal and external performance reviews.

Benefits achieved as a result of management and strategy reviews.

A description of management improvement plans adopted by the Department and achievements in reaching previous targets.”

We recognise that the amount of material agencies include in their annual reports varies, particularly when reporting at a cluster level. As a minimum, agencies should report on the status of implementation of performance audit recommendations. That is, the number of recommendations on-track, closed or delayed, and proposed implementation dates. More detailed reporting, for example on the outcomes of planned actions, provides further opportunity to highlight improvements in practice and show the public that agencies are delivering value for money.

Conclusion

Overall, we found that agencies had sound processes in place to implement recommendations. These processes could be strengthened in some areas, including reviewing proposed actions and better public reporting of changes as discussed above. The Audit Office’s better practice checklist outlines key mechanisms agencies can put in place to monitor progress and report on changes following a performance audit. Following this checklist will address these issues. See Appendix 1.

Recommendation

We recommend that agencies use the Audit Office’s better practice checklist to implement performance audit recommendations and in particular ensure that:

- a unit or branch is nominated to coordinate implementation
- proposed actions are regularly reviewed to ensure that they remain relevant
- the Audit and Risk Committee monitors performance audit recommendations
- senior management makes decisions on proposed actions such as closure of recommendations
- progress against performance audit recommendations is included in the agency’s annual report.

4. Audit Office process – how we can help

The Audit Office will review its processes to see how the following strategies can be embedded in our methodology to help agencies implement recommendations:

- clarify agencies' role in finalising scope and engaging agency executive staff in the process
- improve how we develop recommendations, including:
 - holding dedicated 'recommendations meetings' where appropriate
 - discussing draft recommendations with the right agency staff
 - nominating a lead agency in multi-agency recommendations
- consider following up performance audit recommendations as part of our financial audit reporting process.

4.1 Developing better recommendations

Better engagement produces better outcomes

As part of this audit, we sought feedback from agencies about our own processes including suggestions about what we can do to improve acceptance of our recommendations. Three key themes emerged:

- the importance of consulting and engaging agency staff about the audit scope
- clarifying the extent to which the audit scope and recommendations are negotiable
- better work-shopping of recommendations between agency staff and the audit team.

The Audit Office aims to work collaboratively with agencies and audit teams consult agency staff throughout an audit. More clarity about the extent to which the scope of an audit and its recommendations are negotiable may go some way to addressing agency concerns about consultation. Better engagement of agency executive staff in the scoping process may also improve the effectiveness of consultation.

Practical recommendations are easier to implement

Agency staff advised that recommendations could sometimes be vague or impractical. It is important that audit teams are aware of any resource and capability constraints which might affect implementation.

There are a number of strategies we can further embed into our methodology and practices which may address these concerns. These include:

- holding dedicated 'recommendations meetings' with agency staff to discuss solutions
- discussing draft recommendations with the right agency staff, for example:
 - people responsible for implementing recommendations
 - people with authority to allocate resources to implement recommendations
- ensuring we nominate a lead agency in multi-agency recommendations.

4.2 Post-audit activities

De-briefs may be beneficial

We also asked agencies if there was anything the Audit Office could do after an audit was completed to facilitate the implementation of recommendations. The most common suggestion was a post-tabling de-brief or information session, particularly if there are new staff in an agency.

Performance audit staff sometimes attend Audit and Risk Committee meetings to brief committee members, but do not do this for all audits. However, we have recently started advising the Chairs of the Audit and Risk Committees about reports due to be tabled.

Greater participation in the Audit and Risk Committee would improve agency engagement in the performance audit process, and also help to assure us that management have acted on recommendations. Similar engagement with an agency's Chief Audit Executive may also be beneficial.

4.3 Follow-up by the Audit Office

Most agencies support follow-up of recommendations

We also asked agencies their views on whether the Audit Office should follow-up performance audits and sought suggestions about the best approach. About half the staff we interviewed in the case study agencies and three-quarters of the surveyed agencies supported follow-up audits, though not all were specific about the form that follow-up audits should take. Agencies suggested a range of options, including:

- a summary of the status of recommendations
- follow-up of high risk recommendations only
- a follow-up audit which tests whether recommendations have been implemented
- re-audit of a particular topic.

There was no single option favoured by a majority of agencies. The Audit Office does not currently follow-up its performance audits, although this may change in future. Follow-up audits are conducted in some other jurisdictions, most notably in the Commonwealth by the Australian National Audit Office and in Victoria by the Victorian Auditor-General's Office.

Increased role for follow-up in our financial audit reports

The Audit Office could also do more to follow-up performance audits as part of financial audit reporting. For example, we could request information on the status of performance audit recommendations as part of the financial audit planning process. This information could then be included in the Auditor-General's Financial Audit Report.

4.4 Follow-up by the Public Accounts Committee

Some agency staff unsure about the role of the Public Accounts Committee

In 2008, the Public Accounts Committee (the Committee) adopted a systematic approach to following up performance audits. Agency staff who participated in the audit were generally aware of the Committee's follow-up process. In two agencies, reports prepared for monitoring purposes were used as the basis of submissions to the Committee. The NSW Ministry of Health's governance unit, for example, collates information received from tracking reports to prepare submissions for the Committee.

While staff were aware of the Committee's follow-up process, most had not given evidence and therefore expressed no views on the process or its impact. Two agency staff members advised that they had participated in the process, but did not consider that it had a significant impact on the agency's implementation of the recommendations. One agency expressed the view that follow-up should be conducted by the Audit Office, as the Public Accounts Committee does not have adequate resources.

The agencies that responded to our survey likewise reported a range of views on the impact of the Committee's follow-up process. Of the nine surveyed agencies:

- four reported that it had little or no impact on their implementation of recommendations
- three reported that it gave them a renewed focus on the recommendations
- one reported that it reviewed its action plan and expedited implementation.

Following the commencement of the 56th parliament in May 2015, a new Public Accounts Committee was appointed. It will determine whether it wishes to continue the existing process for following up performance audits.

See Appendix 5 for the template agencies use when preparing for a Committee inquiry.

Appendices

Appendix 1: Better practice checklist for agencies

Agencies should use this better practice checklist to establish appropriate mechanisms to monitor progress and report on changes following a performance audit.

Following a performance audit, agencies should:

- ☒ Assign responsibility for coordinating the implementation of recommendations accepted to a single person or branch.
- ☒ Raise staff awareness of the outcomes of the performance audit and invite feedback on how best to implement the recommendations.
- ☒ Develop proposed actions for each recommendation including a timetable for implementation and clarify roles and responsibilities.
- ☒ Develop mechanisms to monitor and report on progress and review proposed actions in the plan to ensure they remain appropriate.
- ☒ Allocate sufficient resources to implement proposed actions and set realistic and achievable time frames and targets.
- ☒ Have proposed actions endorsed by the CEO and where appropriate, the Board and the minister.
- ☒ Incorporate proposed actions in other planning documents such as the corporate plan, business plans or performance agreements.
- ☒ Provide regular reports on the progress of implementation of the recommendations to the CEO and where appropriate, the Board and the minister.
- ☒ Ensure that the Audit and Risk Committee monitors performance audit recommendations.
- ☒ Change proposed actions if the operating environment changes – determine how best to address the issue identified in the recommendation.
- ☒ Report progress and actions taken to address issues raised in the performance audit in the annual report, reporting progress each year until implementation is complete.

Source: NSW Audit Office, 2015

Appendix 2: Agency responses



Mr Tony Whitfield
Acting Auditor-General of New South Wales
Audit Office of New South Wales
GPO Box 12
SYDNEY NSW 2001

Dear Mr Whitfield

I write in response to your letter of 18 May 2015, regarding the Audit Office's performance audit on implementing performance audit recommendations.

I acknowledge that the feedback the Department of Education and Communities has provided to your office on the draft of this report has been considered in the formulation of your final report.

I note that the report reflects positively on the Department's Audit Directorate who coordinates reporting on the status of implementing audit recommendations and the Audit and Risk Committee who monitor the implementation of audit recommendations. I am pleased that your office has revised their performance audit implementation checklist to reflect the important role of Audit and Risk Committees.

The performance audit was helpful and gave the Department the opportunity to reflect and note its achievements.

Your report highlights elements of good practice and the Audit Office's *Better Practice Checklist for Monitoring and Reporting on Performance Audit Recommendations* is a valuable resource for agencies.

I am pleased to inform you that the Department accepts the report's recommendation and is actively improving current processes. The Department is committed to strengthening accountability through continuous monitoring and reporting on performance audit recommendations.

I would like to thank the review team of the Audit Office of New South Wales for their work and also recognise the officers within the Department who provided assistance.

Yours sincerely

A handwritten signature in black ink that reads 'Michele Bruniges'.

Dr Michele Bruniges AM
SECRETARY
DEPARTMENT OF EDUCATION AND COMMUNITIES
17 June 2015

NSW Department of Education & Communities – Office of the Secretary
35 Bridge Street Sydney NSW 2000 GPO Box 33 Sydney NSW 2001 T 02 9561 8000 F 02 9561 8465
www.det.nsw.edu.au



Transport
for NSW

Our Ref: SO15/10396
Your Ref: PA6561

Mr Grant Hehir
Auditor-General
Audit Office of New South Wales
GPO Box 12
SYDNEY NSW 2001

Dear Mr Hehir

Performance audit – Implementing performance audit recommendations

I refer to your letter of 4 June 2015 and thank you for the opportunity to respond to the final report for the performance audit on implementing performance audit recommendations, which was enclosed.

Transport for NSW supports the Audit Office's findings and recommendations regarding the effectiveness of agency processes for monitoring and implementing performance audit recommendations.

Yours sincerely

A handwritten signature in black ink, appearing to read 'TR' followed by a vertical line.

**Tim Reardon
Acting Secretary**

11/6/15

18 Lee Street Chippendale NSW 2008
PO Box K659 Haymarket NSW 1240
T 8202 2200 F 8202 2209
www.transport.nsw.gov.au
ABN 18 804 239 602

Mr Tony Whitfield
A/Auditor-General
NSW Audit Office
GPO Box 12
SYDNEY NSW 2001

Dear Mr Whitfield

On behalf of the Secretary, Department of Premier and Cabinet, I refer to the letter of 4 June 2015 from Mr Grant Hehir, requesting a response to the recent Performance Audit 'Implementing Performance Audit Recommendations', which I note will be included in the Performance Audit Report.

The department acknowledges the Performance Audit's positive findings regarding the processes agencies have in place to implement and monitor performance audits. The department will also take on board your recommendation that processes could be further improved by utilising the Audit Office's *Better Practice Checklist*.

The department's comment for inclusion in the Performance Audit Report is that "The Department of Premier and Cabinet fully supports the Auditor-General's recommendations. The department will in future utilise the Audit Office's *Better Practice Checklist* to maintain a sound practice in relation to the implementation and monitoring of any performance audits the department participates in".

Thank you for providing us with the opportunity to include a response in the Performance Audit Report.

If you have any queries, please contact Ms Virginia Tinson, Director Governance on 9228 3445 or at Virginia.tinson@dpc.nsw.gov.au.

Yours sincerely



Phil Minns
Deputy Secretary

19 June 2015

GPO Box 5341 Sydney NSW 2001
Tel: (02) 9228 5555 ■ www.dpc.nsw.gov.au

Mr Tony Whitfield
Acting Auditor-General
Audit Office of NSW
GPO Box 12
SYDNEY NSW 2001

Ref: S15/326-2

Dear Mr Whitfield

Re: Auditor-General's Performance Audit Final Report – Implementing Performance Audit Recommendations

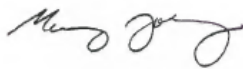
Thank you for your letter of 4 June 2015 inviting NSW Health to provide a formal response on the final performance audit report on *Implementing Performance Audit Recommendations*.

I am pleased to note your conclusions that agencies have sound processes for implementing performance audit recommendations. In particular, I note your references to best practice in relation to the NSW Ministry of Health and the Agency for Clinical Innovation for incorporating recommendations into business planning under Exhibit 2. The Audit Office also cited the performance audit on Building Energy Use in NSW Public Hospitals where proposed actions by the agency were determined when the agency responded to the report prior to tabling. The Audit Office encouraged all agencies to adopt this practice.

In relation to your recommendation for agencies to use the Audit Office's better practice checklist in the implementation of performance audit recommendations, I would like to assure you that NSW Health has adhered to that checklist in the implementation of recommendations, where accepted, across the NSW health system.

I would like to thank you for consulting with officers from the Ministry in the conduct of this performance audit.

Yours sincerely



Dr Mary Foley
Secretary
NSW Health
18 JUN 2015

NSW Ministry of Health
ABN 92 697 899 630

73 Miller St. North Sydney NSW 2060
Locked Mail Bag 961 North Sydney NSW 2059
Tel. (02) 9391 9000 Fax. (02) 9391 9101
Website. www.health.nsw.gov.au



The
Treasury

Contact: Dr N Fletcher
Telephone: (02) 9228 4445
Our Reference: P15/1939
Your Reference: PA6561

22 June 2015

Mr Tony Whitfield
Acting NSW Auditor-General
GPO Box 12
SYDNEY NSW 2001

Dear Mr Whitfield

Performance Audit – Implementing Performance Audit Recommendations

I acknowledge the Auditor-General's letter of 4 June 2015, inviting Treasury to comment on the report of the above audit. The offer is appreciated.

Treasury has been pleased to work with your officers on this review.

Your report indicates that, as the audit function within agencies becomes more mature across the NSW public sector, agencies' capability for implementing, monitoring and reporting on recommendations is becoming more sophisticated. I have been pleased to read the examples of better practice detailed in the report, particularly around the involvement of senior management, and the growing alignment between the implementation of audit recommendations and agencies' planning and resourcing processes.

While Audit and Risk Committees have generally been clear about their role in monitoring the recommendations of internal and external audit, I believe Audit Office performance audits and similar external reviews have not always been equally central to their focus. Treasury supports this report in its endeavours to remedy that. We also appreciate the undertakings of the Audit Office to revise its better practice checklist and improve some of its own processes, so as to enable agencies to respond more easily and definitively to performance audit recommendations.

Yours sincerely

Philip Gaetjens
Secretary

GPO Box 5469, Sydney NSW 2001 ■ Telephone: (02) 9228 4567 ■ www.treasury.nsw.gov.au



NSW Police Force

OFFICE OF THE COMMISSIONER

Mr Grant Hehir
Auditor-General
Audit Office of NSW
GPO Box 12
SYDNEY NSW 2000

D/2015/293056

Dear Mr Hehir,

GRANT,

Thank you for the opportunity to comment on your final report *Performance Audit – Implementing Performance Audit Recommendations*.

I am satisfied that the report is accurate and properly reflects the contribution and performance of the NSW Police Force.

I can also confirm that the NSW Police Force approach to performance aligns with the steps set out in the Better Practice Checklist at Appendix 1.

Yours sincerely,

A.P. Scipione APM
Commissioner of Police

23 JUN 2015



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Appendix 3: About the audit

Audit objective

This audit assessed the effectiveness of agency processes for monitoring and implementing performance audit recommendations.

Audit scope and focus

The audit sought to answer the following questions:

- do agencies have adequate processes for ensuring that performance audit recommendations are implemented?
- do agencies have adequate oversight processes in place to monitor and report on implementation?

For the first question, the activities audited were agency processes for implementing recommendations. This means those functions in agencies responsible for managing the activities subject to audit.

For the second question, the activities audited were agency arrangements for monitoring and reporting implementation. This means those functions within agencies responsible for overseeing the implementation of external recommendations. This may include governance units, internal audit, working groups, steering committees, and Audit and Risk Committees.

By 'recommendations' we mean recommendations that are accepted, accepted in principle or accepted in part.

By 'agencies' we mean NSW public sector agencies subject to performance audits tabled between October 2009 and July 2013, that is, those which were followed up by the Public Accounts Committee during the 55th parliament (2010 to 2015).

The audit focused in detail on six agencies and surveyed remaining agencies to gather baseline data on the monitoring and implementation frameworks in place. The six agencies included both central and line agencies:

- Department of Premier and Cabinet
- The Treasury
- Transport for NSW
- Department of Education and Communities
- Ministry of Health
- NSW Police Force.

These agencies were all subject to at least three performance audits which were followed up by the Public Accounts Committee in the last (55th) parliament. The Department of Premier and Cabinet and The Treasury are frequently the subject of recommendations made in cross-agency audits and, as central agencies, also have an important coordinating role.

The audit team also reviewed processes used by the Audit Office and the Public Accounts Committee for following up recommendations, and considered other possible models for following up performance audits.

Audit exclusions

We did not attempt to assess whether all recommendations have been satisfactorily implemented. Particular recommendations were considered only as case studies.

Audit criteria

The key focus area of **implementation** was addressed with the following criteria:

- 1.1 Agencies assign responsibility for implementation to a single person or unit.
- 1.2 Agencies develop an implementation plan which outlines key responsibilities and timeframes for each recommendation.
- 1.3 Agencies incorporate implementation into other planning documents as appropriate.
- 1.4 Agency heads and/or senior management endorse the implementation plan.
- 1.5 Agencies review the implementation plan, adjust it as necessary, and follow up outstanding matters.

The key focus area of **monitoring** was addressed with the following criteria:

- 2.1 Agencies nominate or establish a committee or unit to monitor and report on progress.
- 2.2 Senior management receives timely and accurate reports of progress against the implementation plan.
- 2.3 Senior management acquits or finalises recommendations once they are implemented.
- 2.4 Agencies report progress on implementation in their annual report.

Audit approach

The audit team conducted the audit in accordance with ASAE 3500 Performance Engagements and ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. 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 team collected evidence by:

- interviewing staff within the case study agencies responsible for:
 - implementing recommendations of reports
 - monitoring and reporting the status of recommendations.
- reviewing policies and procedures for monitoring and implementing recommendations
- interviewing key stakeholders eg current and former Public Accounts Committee chairs
- analysing any available agency data on:
 - proportion of recommendations implemented
 - status of implementation ie new, ongoing, complete
- analysing any Audit Office data on the level of implementation by agency
- reviewing Audit Office and Public Accounts Committee processes for following up recommendations.

Surveyed agencies

The following agencies responded to our survey:

- Department of Trade and Investment, Regional Infrastructure and Services
- Barangaroo Delivery Authority
- Corrective Services NSW
- Safety, Return to Work and Support Division – WorkCover Authority
- Roads and Maritime Services
- Sydney Trains
- Australian Museum
- Multicultural NSW
- Office of Environment and Heritage.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by the Department of Premier and Cabinet, The Treasury, NSW Ministry of Health, Transport for NSW, Department of Education and Communities, and the NSW Police Force. In particular we wish to thank our liaison officers and staff who participated in interviews and provided material relevant to the audit.

Audit team

Tiffany Blackett and Abigail Groves conducted the performance audit. Chris Allen acted as Engagement Reviewer.

Audit cost

Including staff costs, printing costs and overheads, the estimated cost of the audit is \$171,430

Appendix 4: Performance audits reviewed by the Public Accounts Committee

During the 55th parliament (2011 to 2015), the Public Accounts Committee considered the following performance audits:

Handback of the M4 Tollway
Government Advertising
Managing Forensic Analysis: Fingerprints and DNA
Working with Children Check
Improving Road Safety: School Zones
Improving the Performance of Metropolitan Bus Services
Injury Management in the NSW Public Sector
Access to Overnight Centre-Based Disability Respite
Severance Payments to Special Temporary Employees
Knowing the Collections
Home Detention
Protecting the Environment: Pollution Incidents
Helicopter Emergency Medical Service Contract
Electronic Information Security
Coal Mining Royalties
Sick Leave
NSW Lotteries Sale Transaction
Mental Health Workforce
The Effectiveness of Cautioning for Minor Cannabis Offences
Transport of Dangerous Goods
Two Ways Together – NSW Aboriginal Affairs Plan
Government Expenditure and Transport Planning in relation to Implementing Barangaroo
Improving Road Safety: Speed Cameras
Pre-qualification Scheme: Performance and Management Services
Improving Road Safety: Young Drivers
Responding to Domestic and Family Violence
Visiting Medical Officers and Staff Specialists
Managing IT Services Contracts
Settling Humanitarian Entrants in NSW
Physical Activity in Government Primary Schools
Managing Overtime: Railcorp and Roads and Maritime Services
Improving the Literacy of Aboriginal Students in NSW Public Schools
Monitoring Local Government
The Impact of the Raised School Leaving Age
Managing Drug Exhibits and Other High Profile Goods
Managing Gifts and Benefits
Management of the ClubGRANTS Scheme
Management of Historic Heritage in National Parks and Reserves
Building Energy Use in NSW Public Hospitals
Managing Operating Theatre Efficiency for Elective Surgery
Reducing Ambulance Turnaround Time at Hospitals
Making the Best Use of Public Housing.

Appendix 5: Template for Public Accounts Committee follow-up

Template for submissions to the Public Accounts Committee’s performance audit examinations

PERFORMANCE AUDIT – TITLE OF REPORT
IMPLEMENTATION OF RECOMMENDATIONS

	Recommendation	Accepted or Rejected	Actions to be taken	Due Date	Status Comment (completed, on-track, delayed)	Responsibility
1			a)			
			b)			
			c)			
2						
3						
4						
5						
6						
7						
8						
9						
10						

Performance auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

Why do we conduct performance audits?

Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

Do we check to see if recommendations have been implemented?

Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every four years. The review's report is tabled in parliament and available on its website.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100

Our vision

Making a difference through audit excellence.

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.

Professional people with purpose

Making a difference through audit excellence.

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