LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

REVIEW OF AUDITOR-GENERAL'S REPORT NO 3, 1999

Annual Management report for the Year Ended 30 June 1999

STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION (INCORPORATING THE PUBLIC ACCOUNTS COMMITTEE)

Public Accounts Committee Report Number 25

August 2001

RESOLUTION OF APPOINTMENT

The Standing Committee for the Chief Minister's Portfolio was appointed by the Legislative Assembly on 28 April 1998 to examine any matter under the responsibility of the Chief Minister's portfolio. The Assembly also resolved that the committee perform the duties of a public accounts committee, specifically:

(a) to examine:

- (i) the accounts of the receipts and expenditure of the Australian Capital Territory;
- (ii) the financial affairs of authorities of the Australian Capital Territory; and
- (iii) all reports of the Auditor-General which have been laid before the Assembly;

(b) to report to the Assembly, with such comments as it thinks fit, on any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Assembly should be directed; and

(c) to inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question.

On 26 November 1999, the Assembly retitled the committee as the Standing Committee on Finance and Public Administration (Incorporating the Public Accounts Committee), omitted reference to matters under the responsibility of the Chief Minister's portfolio and included reference to women's affairs, Aboriginal and Torres Strait Islander issues, asset management, gaming and racing and any other related matter.

MEMBERSHIP OF THE COMMITTEE

Mr Ted Quinlan MLA Committee Chair

Mr Trevor Kaine MLA Deputy Committee Chair

Mr Greg Cornwell MLA

Secretary: Maureen Weeks

1. INTRODUCTION

1.1. The annual report for the Auditor-General is traditionally presented in the form of an Auditor-General's report. As such, it does not form part of the committee's deliberations on annual reports but is reviewed by the committee in accordance with the requirements of its terms of reference (see paragraph (a) (iii)). The committee's examination of the Auditor-General's management report is one means by which the Audit Office's work is assessed by the Legislative Assembly – it is a means of accountability.

1.2. Auditor-General's Report No 3 of 1999 entitled *Annual Management Report for the Year Ended 30 June 1999* was presented to the Assembly on 2 September 1999. A major part of the report deals with the Auditor's response to the performance audit by Audit Victoria (the Independent Auditor). The performance audit was undertaken after the Assembly had passed a motion calling on this committee to request the Independent Auditor to conduct the performance audit. The terms of reference were set by this committee.[1] (see Attachment A).

1.3. Audit Victoria were appointed as the independent auditor under Part 5 of the *Auditor-General Act 1996* (the Act). Their report was provided to the Speaker of the Legislative Assembly on 27 August 1999 who, in accordance with the statutory requirements, presented that report to the Assembly on 31 August 1999.

1.4. The committee was consulted by the Independent Auditor during the course of the performance audit and, subsequently, the committee had detailed discussions with the Auditor-General on the performance audit findings and his responses to those findings.

1.5. In this report the committee notes the principal performance audit outcomes and the Auditor-General's responses where relevant.

2. PERFORMANCE AUDIT OUTCOME

2.1. The Independent Auditor noted that the Auditor-General operated in an environment of both constraint and challenge where the Government sector has undergone significant financial management reform including the introduction of accrual accounting, output based budgeting and reporting of performance in delivering outputs, all of which have involved the Auditor-General. Apart from the Northern Territory, the ACT Audit Office is the smallest of the States and Territories but has a significantly high output in terms of numbers of performance audits compared with larger state offices.

2.2. Measured against economy and efficiency in its outputs, promotion of public accountability, compliance with statutory responsibilities and applicability of competition principles and national competition policy, the Independent Auditor considered the Auditor-General to be operating economically, efficiently and effectively. Nevertheless, the Independent Auditor considered there was scope for the Auditor-General's Office to improve its performance so as to further enhance effectiveness. These matters have been addressed in the Auditor-General's annual management report.

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[1] *Legislative Assembly for the Australian Capital Territory Minutes of Proceedings* No. 7, 1998, p. 55

2.3. The Auditor-General agreed without qualification to 15 of the 44 recommendations made by the Independent Auditor. Those that were agreed to include that:

(i) satisfaction surveys of selected auditees be conducted on an annual basis (Recommendations 1 and 9);
(ii) there be an annual independent review of selected financial audits (Recommendation 2)*;
(iii) contracted audits be formal in character (Recommendation 3)*;
(iv) quality assurance processes be formally documented (Recommendations 4 and 22)*;
(v) subject to efficiency gains, the use of computer analysis of agency data be re-assessed (Recommendation 6);
(vi) details be provided of the experience of specialists engaged for audits (Recommendation13)*;
(vii) there be training for contract management and performance monitoring for auditors (Recommendation 30);
(viii) the annual management report include benchmarking data related to the costs of audits and productivity levels (Recommendation 43)[2].

2.4. The Auditor-General noted that a number of these recommendations dealt with matters of minor significance.[3]

2.5. With regard to more significant observations by the Independent Auditor, the Auditor-General advised as follows:

(i) very occasionally, for various reasons, auditees do not wish their responses or parts of their responses to be published in audit reports and such wishes are respected (Recommendation 12)[4];
(ii) a concise statement of principles in relation to performance audit methodology will be documented and made available to staff (Recommendation 14)[5];
(iii) implementing a system of engaging industry specialists to assist in focussing audits and seeking public input in identifying potential audit issues would be costly and time consuming and have little benefit (Recommendation 16)[6];
(iv) continuation of the current triennial survey of Members would be appropriate, although discussions will be initiated with the Public Accounts Committee to ascertain whether the committee would agree to complete a formal assessment in those years when the whole Assembly is not surveyed (Recommendation 35)[7];
(v) the next round of performance audits will include consideration of the resources required for follow-up on key issues arising from audits (Recommendation 37)[8];
(vi) it would be desirable to amend the *Auditor-General Act 1996* to enable the Auditor-General to audit whether public grants to non-government agencies have been applied

[2] The Auditor-General agreed to consider implementing this recommendation. The benefits were acknowledged.
[3] * denotes the recommendations that the Auditor-General noted to be of minor significance.
[4] Audit report page 23
[5] ibid p24
[6] ibid pp24/25
[7] ibid p29
[8] ibid p30

to the purposes for which the grants were made and whether funding has been used economically, efficiently and effectively (Recommendation 39)[9];

(vii) although a solution may be difficult to find, the Audit Office will examine a risk based approach in auditing statements of performance (Recommendation 41)[10];

(viii) Auditor-General's reports audits and departmental statements of performance would not carry an audit qualification rather than audit comment (Recommendation 42)[11].

2.6. The committee discussed these and related matters with the Auditor-General and, arising from that discussion, it was agreed that:

(i) the Auditor-General advise the committee further on compliance with Australian Auditing Standards (AAS) in relation to the auditing of performance statements;

(ii) the Auditor-General advise the committee on what would need to be done to amend the *Auditor-General Act 1996* to provide for selective auditing of grants to non-government organisations; and

(iii) in consultation with the Auditor-General the committee develop a program for reviewing Audit Office activity on an annual selective basis.

Application of Australian Auditing Standards to performance statements

2.7. The Auditor-General subsequently advised the committee[12] that AAS AUS 702 Audit Report on a General Purpose Financial Statement applies to the audit of ACT performance audits. The issue which had arisen was whether the Statement of Performance should be qualified for a limitation of scope in relation to the exclusion from the scope of an audit of:

(a) explanations for variations between actual and budgeted performance; and

(b) an assessment of the relevance or appropriateness of the reported measures for evaluating the efficiency or effectiveness of a particular agency.

2.8. With regard to (a), the Auditor-General advised that limitations in the scope of of an audit usually cover situations where the audit is hampered or impeded by the circumstances of the audit and the auditor is not able to collect sufficient, appropriate evidence in order to support an unqualified audit opinion. Neither the AAS nor the *Financial Management Act 1996* (FMA) require the reporting of reasons for variations between budget and actual.

2.9. The Auditor-General expressed concern that the auditor is required to obtain sufficient appropriate evidence as to a matter, generally evidence that an activity or an event occurred that an asset or liability exists, that certain documents or activities have certain qualities, and that these things have been correctly measured. The Auditor-General put the view that reasons for variations in performance measures are a good example of matters which will, on frequent occasions, not be auditable, the reasons for differences between budget and actual will often involve judgements of the relative impact of various events and factors on activities.

[9] ibid 31
[10] ibid
[11] ibid p32
[12] Letter to committee dated 20 December 1999

Assessment of the relevance or appropriateness of the reported measures for evaluating the efficiency or effectiveness of a particular agency

2.10. The Auditor-General advised that the performance measures in the financial statements are the same measures included in departmental budgets under the FMA. The Auditor-General's view is that the Assembly, by agreeing to the budget, approves the performance measures used, the auditor's responsibility being to take the performance measures as given and to report only on whether the results presented in the financial statements are materially correct or not. Subject to extreme exceptions, the Auditor-General does not consider it appropriate to report that measures are irrelevant or inappropriate. Apart from this consideration, the Auditor-General observed that reviewing the relevance and appropriateness of each performance measure, in addition to its correctness, would add greatly to the audit workload and timetable.

2.11. The Auditor-General noted, nevertheless, that the relevance and appropriateness of performance measures should be subject to audit, the correct context in which to do this being during performance audits. The Auditor-General advised that a performance audit has the advantage in that it allows a discussion of the background and issues, and allows the auditor to suggest alternative measures.

3. COMMITTEE COMMENT

3.1. The committee considers the majority of the Independent Auditor's recommendations and comments to be sound. The Auditor-General operates economically, efficiently and effectively. There are some areas in the current operation where changes could be made to increase the Auditor-General's performance. However, it also acknowledges that the size and resources available to the Auditor-General and his Office act as a constraint in implementing some of the recommendations.

Amendments of the *Auditor-General Act 1996*

3.2. The committee in examining the recommendation to amend the Act to "enable that the Auditor-General to audit whether public grants provided to non-government authorities … [were] applied for the purposes for which the grants were made and whether they … [were] applied economically, efficiently and effectively."[13] considered the available resources.

3.3. The committee noted that the matter of the accountability of expenditure of grants funds had been raised in the public hearings[14] held by the Select Committee on Estimates 2001-2002 and that clearly this is a matter that requires action. The committee therefore makes the following recommendation:

[13] Auditor-General's Report No 3, 1999, Op cit , p 31
[14] Uncorrected Proof Transcript, Select Committee on Estimates 2001-2002, 14 May 2001, p 166

Recommendation 1

Government agencies responsible for granting public monies should be responsible for auditing the public grants and that the *Auditor-General Act 1996* be amended to permit the Auditor-General conduct periodic performance audits of public grant expenditure.

Reviewing Audit Office Activity

3.4. On 8 June 2001 the Auditor-General wrote to the committee proposing an alternative to the Independent Auditor's recommendation 35 relating to the annual rather than triennial survey of Members of the Legislative Assembly. The Auditor argued that the recommendation would be time consuming for both Members and the Audit Office[15]. Instead, the Auditor proposed to continue to survey Members on a triennial basis and to survey the committee with the duties of a public accounts committee in the years that all Members were not surveyed.

3.5. The committee considered the Auditor-General's proposal and accepts his arguments against the Independent Auditor's recommendation. It responded to the Auditor-General on 28 June 2001 indicating that the committee would accept the task of completing the annual survey but requesting that the Auditor-General inform all Members in writing that the survey was to take place. This would enable any Member to make a comment or express any concerns to the members of the committee so that it might be incorporated in the survey.

Ted Quinlan MLA
Chair

3 August 2001

[15] Letter to committee dated 8 June 2001.