



Tasmanian
Audit Office

Audit Practice Statement

WHO IS THE AUDITOR GENERAL?

The Auditor-General is an independent officer, established under the *Audit Act 2008* (Audit Act) to conduct, and report on, attest, performance and other audits and investigations in the Tasmanian public sector. The Auditor-General has complete discretion in the performance of his/ her duties, and is not subject to control or direction by either Parliament or the government.

The Audit Act governs the powers and functions of the Auditor-General, providing the legal basis for his/ her access to all government information and the freedom to report findings arising from audits or investigations to Parliament.

WHY WE AUDIT

In the Westminster system of government, all authority for government activity ultimately stems from Parliament. State entities, as defined in the Audit Act, are therefore accountable to Parliament for their use of public resources and the powers conferred on them by Parliament. The primary outcome of the audit function is independent assurance regarding the use of public resources and powers by State entities. This links directly with the Tasmanian Audit Office's (the Office) purpose which is to:

Provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public Sector.

In providing this function the Office provides reasonable, but not absolute, independent assurance.

Reasonable assurance aims at reducing the risk of an individual engagement to an acceptably low level that an inappropriate conclusion or opinion may be expressed.

THE AUDITOR-GENERAL'S OFFICE

The Office assists the Auditor-General to provide an independent view of the financial and operational performance of all State entities also referred to in this statement as clients.

OUR CLIENTS

Our primary client is the Parliament, secondary clients are Tasmanian State Entities and ultimately

the people of Tasmania. In its widest context the Office serves the public interest.

WHAT DO WE AUDIT?

The Auditor-General is statutorily responsible for the attest audit of the annual financial statements of approximately 182 State entities which include government departments, government business enterprises, state and council owned companies, public sector superannuation funds, universities, local government councils and their joint authorities, statutory authorities and their subsidiaries. The Auditor-General is also responsible for the audit of elements of the Treasurer's Annual Financial Report including the Public Account Statements.

In addition to financial statement audits, the Auditor-General also has the authority to perform audits by arrangement and conducts approximately 100 grant acquittal audits annually.

The Audit Act also provides the Auditor-General with the discretionary authority to undertake:

- performance audits examining the efficiency, effectiveness and economy of a State entity, a number of State entities, or a part of a State entity or a subsidiary of a State entity
- examinations or investigations into any matter relating to the accounts of the Treasurer, a State entity or a subsidiary of a State entity
- examinations or investigations into any matter relating to public money, other money or to public property or other property
- compliance audits examining the compliance by a State entity, or a subsidiary of a State entity, with written laws or its own internal policies
- audits or reviews of the Employer functions under the *State Service Act 2000*.

PRINCIPLES AND ELEMENTS ESSENTIAL TO AUDITING

Although different types of audits are undertaken by the Auditor-General, they share general principles and elements. The Australian Audit and Assurance Standards Board's Framework for Assurance Engagements provides guidance on

elements of an assurance engagement, the first of which is relevant to a discussion about independence – an assurance engagement (including financial and performance audits) must involve a three party relationship being an assurance practitioner, a responsible party, and intended user. In the public sector context these parties are the Auditor-General, the State entity being audited and the Parliament.

Compliance with these principles will assure users of reports prepared by an auditor that he/she is:

- ethical
- independent from any influence, including influence by his/her client
- competent.

Elements essential to auditing which must be complied with include:

Independence

The cornerstone of auditing is independence. Accordingly, auditors must avoid situations where their objectivity could be compromised or where bias could influence their judgement. In the public sector, auditors must be independent from executive government. This independence is enshrined in the Audit Act, which gives the Auditor-General complete discretion when deciding whether to conduct an audit, how to carry it out and how to prioritise any particular matters.

Ethical behaviour

Auditors must behave ethically. Relevant ethical requirements include the fundamental principles of professional ethics including:

1. Integrity
2. Objectivity
3. Professional competence and duty of care
4. Confidentiality
5. Professional behaviour.

Quality control

A system of quality control is required to be established and is required to include the following elements:

1. Leadership responsibilities for quality within the Office
2. Relevant ethical requirements
3. Acceptance and continuance of client relationships and specific engagements
4. Human resources
5. Engagement performance
6. Monitoring.

Evidence

Audits rely on sufficient and appropriate evidence to form conclusions. Audit staff gather information and evidence from a wide range of sources, including client records, data analysis, interviews with relevant officials, on occasions interviews with members of the public and surveys.

Standards

The Audit Act requires the Auditor-General to have regard to Australian Auditing and Assurance Standards when conducting audits or investigations. The Office has introduced methodologies aimed at ensuring compliance with these standards. They cover planning, communication, conduct, evidence, quality assurance, delegations and reporting aspects of an audit.

Access to information

The Audit Act provides the Auditor-General and staff with wide-ranging powers to access information needed during the course of an audit, irrespective of any restrictions on disclosure imposed by other legislation. This includes statutory secrecy provisions and Cabinet or commercial-in-confidence information. The Auditor-General can search the premises of a public sector entity and compel individuals to provide information. Balancing these powers, the Auditor-General and staff are required to maintain the confidentiality of any information gathered in an audit, or as part of deciding whether or not an investigation is warranted.

Accountability

With independence and wide-ranging powers comes the responsibility to undertake audits efficiently, effectively, in compliance with legislation and to high standards. A number of internal and external quality and accountability mechanisms are in place to ensure the Auditor-General and his/her Office are accountable. These include reviews of audits and reports by peers and experts, self-assessment of the Office and its audit processes against a framework developed by the Australasian Council of Auditors-General (ACAG) and independently run surveys of Parliamentarians and clients. In addition, the Office:

- must prepare annual financial statements in accordance with Australian Accounting Standards and have these audited by an auditor appointed by the Governor
- must prepare an annual report in accordance with the *State Service Act 2000* and table this in the Parliament
- is, under section 44 of the Audit Act, subject to an independent performance audit every five years the outcomes of which are submitted to the Public Accounts Committee.

Communication

Effective, regular and timely communication with clients is a vital part of the audit process. Entry interviews are held to clarify audit scope and decide communication protocols. Significant findings and emerging issues are shared with clients throughout the audit. Heads of clients and those with special interests are invited to provide comments for inclusion in any final audit report.

Professional Judgment

Professional judgment is a process used to reach a well-reasoned conclusion that is based on the relevant facts and circumstances available at the time. It is critical to efficient and effective planning, performing, and concluding an audit. We use professional judgment to objectively focus on the most important aspects of an audit; to determine the nature, timing, and extent of audit procedures; and to appropriately challenge the accounting, reporting, and other conclusions reached and assertions made by management.

Professional scepticism

In planning and performing audits, auditors exercise professional judgment and maintain an attitude of professional scepticism, recognising that circumstances may exist which cause a financial report or information examined when conducting performance or other audits to be materially misstated.

Probity

In undertaking audits in the public sector, consideration is had to matters of public interest and the framework in place for the use of public resources. The Audit Act also provides additional powers enhancing this probity aspect by providing the Auditor-General the mandate to “follow the dollar” should it be deemed necessary.

REPORTING TO PARLIAMENT

Reports to Parliament highlight issues regarded as important to Parliament and often generate considerable Parliamentary and community debate. Reports may include any information or recommendations related to an audit, but must set out the reasons for opinions and conclusions reached. Those charged with governance and other interested parties, are afforded natural justice and procedural fairness as reports are finalised by allowing them to comment on draft versions of the report and for their comments to be included in the final version. On the day a report is tabled a presentation is usually held to brief Parliamentarians.

In addition to reporting to Parliament, the Auditor-General where he or she deems appropriate, may release reports to the Public Accounts Committee or to the Joint Committee on Integrity. Also, should the Auditor-General conclude that it would be against the public interest to disclose sensitive information in a report, the Audit Act provides alternative guidance, including the option not to report.

Outcomes from financial audits

Under Division 2 of the Audit Act, the Auditor General is required to report to Parliament at least once annually on the results of attest audits that in his or her opinion are of such significance as to require reporting. These reports may include:

- matters of significance arising from audits of financial statements or
- information following completion of any compliance or performance audits.

Outcomes from performance audits, examinations or reviews

Under Division 2 of the Audit Act, the Auditor-General may submit completed reports to both Houses of Parliament, or the Public Accounts Committee, or the Joint Committee, or not at all.

TYPES OF AUDITS

Financial Audits



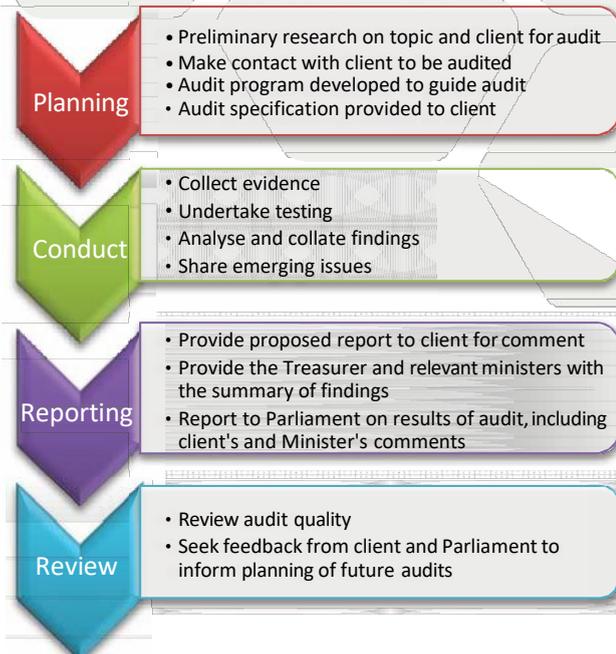
Financial audits provide independent assurance to Parliament and the public that the information contained in financial reports of State entities is presented fairly, in accordance with Australian Accounting Standards and applicable legislation. Whilst not a legislative requirement, when conducting annual financial audits, we give regard to whether there has been any waste of public resources or any lack of probity or prudence in the management or application of public resources.

Methodology

Financial audits are conducted in accordance with Australian auditing standards using a risk-based audit methodology developed in partnership with other Australian public sector audit offices. Under this methodology, an audit strategy is developed for each client, based on an assessment of existing management controls and organisational and environmental risks. This methodology guides auditors through the financial audit process. The methodology was specifically designed for the management of audits in the Australian public sector and can include:

- reviewing the probity and propriety of matters associated with the management of public resources
- assessing compliance with relevant acts, regulations, Government policies and other prescribed requirements
- reporting to Parliament on matters arising from audits.

Performance Audits



A performance audit evaluates whether an organisation or government program is achieving its objectives effectively, economically and efficiently, and in compliance with relevant legislation. Performance audits extend beyond the examination of the financial affairs and transactions of a State entity encompassing wider management issues considered to be of significance to the community.

The Audit Act provides the Auditor-General with the authority to undertake:

- performance audits examining the efficiency, effectiveness and economy of a State entity, a number of State entities, or a part of a State entity or a subsidiary of a State entity
- compliance audits examining the compliance by a State entity, with written laws or its own internal policies.

Audit Activity – Examinations and investigations

The Audit Act provides the Auditor-General with the authority to undertake:

- examinations or investigations into any matter relating to the accounting and financial management of the Treasurer, a State entity or a subsidiary of a State entity
- examinations or investigations into any matter relating to public money, other money or to public property or other property.

Examinations and investigations can be assigned by the Auditor-General to either of the Financial or Performance audit units. The authority to investigate any matter relating to public money or property provides the mandate for the Auditor-

General to “follow the dollar” and access the financial records of private entities in receipt of public monies or property. While the provision of services may be at arm’s length, this does not diminish accountability for good, efficient service delivery.

Methodology

All audits are conducted using the Office’s internally developed performance audit manual which complies with relevant Australian auditing standards.

Topic selection

The Auditor-General considers many potential performance audit topics annually, with a focus on service delivery and the effective use of resources. A selection of these topics is included in an Annual Plan of Work, outlining the proposed work program of the Office for the coming year. The Office uses a series of steps and principles to help the Auditor-General

determine which performance audits to undertake, including consultation with the Public Accounts Committee. Factors taken into account when choosing topics include:

- potential benefits
- financial materiality
- risk to service delivery
- extent of previous audit and review coverage.

STATE SERVICE AUDITS

The Audit Act provides the Auditor-General with the authority to examine the performance and exercise of the Employer's functions and powers under the *State Service Act 2000*. This provision was introduced on 4 February 2013 and provides the Auditor-General with the discretionary mandate to respond to requests from the Employer and/or to initiate audits or investigations.

The Auditor-General has decided to initiate audits or reviews of relevant aspects of the annual report to be prepared by the Employer under section 19 of the *State Service Act 2000* and has developed a program of audits or investigations of relevant areas of public sector employment, administration or practice.

INQUIRIES FROM THE PUBLIC

Members of the public sometimes write to the Auditor-General requesting areas for investigation and audit, often regarding specific actions taken by public sector agencies. While these requests can be crucial 'early warnings' of issues related to the performance, probity and compliance of the sector, these matters do not always lead directly to performance audits or investigations as they may not meet the Auditor-General's criteria of materiality and risk.

Nevertheless, the Office tries to assist persons who have written to the Office by finding the right channel for their concerns. Specific requests about public sector agencies are directed initially to the agency concerned, and sometimes referred to other accountability authorities that may be better placed to deal with the matter.

In some cases audits are initiated.

MATTERS REFERRED FOR AUDIT OR INVESTIGATION BY PARLIAMENTARIANS OR BY OTHER INTEGRITY ENTITIES

The Audit Act also includes provisions whereby at the request of certain other parties, the Auditor-General may, at his or her discretion, carry out an audit or investigate any matter. The Treasurer, Public Accounts Committee, Ombudsman, Employer, Integrity Commission or an Integrity Tribunal of the Integrity Commission, can all refer matters for consideration. Any resulting audit or investigation is carried out in accordance with the Audit Act.

COLLABORATIVE AUDITS

The Auditor-General may carry out an audit on behalf of or in collaboration with the Auditor-General of the Commonwealth or another State or Territory if the Auditor-General reasonably believes the Commonwealth or that other State or Territory has an interest in the audit.

FOLLOWING UP AUDITS

Follow-up audits on specific performance audits are considered as part of the annual performance audit program. These audits focus on the more significant projects or recommendations, assess the overall impact of the audit and are undertaken in coordination with any proposed Public Accounts Committee follow-ups.

MUTUAL OBLIGATIONS

Understanding the needs, expectations and priorities of State entities is important and the Office works in a constructive and consultative manner with these entities to identify areas where improvements can be made in public administration and service delivery. The success of an audit in achieving positive outcomes relies, in large part, on the degree to which entities and the Office meet their mutual obligations.

Key obligations are discussed below.

WHAT WE WILL DO

Knowledge of the business

We will have, or obtain, sufficient knowledge of each client to enable us to identify and understand issues that impact on the performance of the entity, financial statements, program or activity being audited.

No surprises

We work on a 'no surprises' basis with respect to audit findings so that clients are provided opportunities to discuss these findings, and to improve processes where this is warranted. We do this by engaging in ongoing dialogue during an audit. This dialogue also contributes to reports that are accurate, evidenced based, balanced and fair.

Confidentiality of information

All audit and related information is 'in-confidence' and we are bound by the Audit Act not to disclose information obtained to any other party, except as part of the Office's normal reporting arrangements. Sensitive information that is not in the public interest will not be included in public reports.

Security

We take reasonable steps to ensure that all information provided is stored securely and is only used for audit purposes.

WHAT DO CLIENTS NEED TO DO

Full and free access

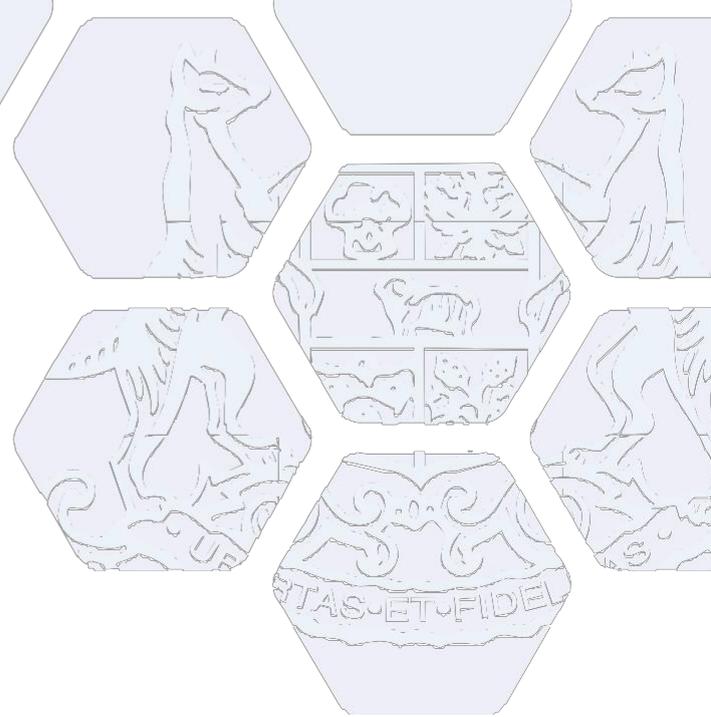
Each client is required to provide us with full and free access at all reasonable times to any premises, documents or other property we may wish to examine and make copies of or take extracts from.

Reasonable facilities

Each client is also expected to provide us with reasonable facilities to aid the conduct of an audit. This will generally include a secure office, computer terminal, telephone with external access and access to printing and photocopying facilities.

Feedback

Any feedback to inform the audit or concerns that the Office is not meeting its obligations should be raised with relevant senior staff of the Office, so the issue can be resolved promptly. Each client will also be provided with an opportunity to provide independent feedback on the conduct of audits through the Office's client surveys.



DEFINITIONS

Acquittal audit – an audit that certifies to the true and fair presentation of a report on financial transactions relating to a grant.

Attest audit – an audit of financial statements of an entity culminating in the issue of an independent auditor's reports outlining their compliance with relevant legislation and accounting standards.

Compliance audits - audits aimed at assessing compliance by State entities with laws, regulations or internal policies.

Direct audit – a performance audit engagement on any matter assigned by the Auditor-General to examine, investigate, inspect, review and report. These audits often express more than just an opinion. These audits describes conditions within the audited entity, draws conclusions about those conditions, and makes recommendations designed to improve the administration of the program or activity examined. These audits may consider the operations of an entity in total, the operations of a particular program within an entity, or they may look at a particular activity across a range of similar entities with the aim of identifying and reporting best practice.

Economy - the acquisition of the appropriate quality and quantity of financial, human, physical and information resources at the appropriate times and at the lowest cost.

Efficiency - the use of financial, human, physical and information resources such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

Effectiveness - the achievement of the objectives or other intended effects of activities.

Employer – means the Minister administering the *State Service Act 2000*.

Examination – a review of any matter assessing the efficiency, effectiveness, economy or compliance with written laws or regulations.

Follow-the-Dollar – the Audit Act provides a mandate for the Auditor-General to investigate any matter relating to public money or property. This includes access to financial records of any entity, public or private. The “follow the dollar” mandate aims to ensure accountability for good and efficient usage of all public sector resources.

Investigation – a review of any matter relating to the accounts of a State entity or a review of any matter relating to public money or other money or to public property or other property.

Performance Audit – (Also referred to as a Direct Audit), an audit of all or a part of an entity or entities' activities to assess economy and/or efficiency and/or effectiveness.

Probity – means integrity, uprightness and honesty. It involves applying and complying with public sector values and duties such as impartiality, accountability and transparency. In auditing the probity role is one of both advising and auditing. Ensuring probity in public sector activities is part of every public official's duty to adopt processes, practices and behaviour that enhances and promotes public sector values and interests.

Reporting Framework – the underlying concepts for the preparation and presentation of financial information for external users. For State entities this includes compliance with relevant legislation and Australian Accounting Standards.