

President  
Legislative Council  
Hobart

Speaker  
House of Assembly  
Hobart

Dear President  
Dear Speaker

In my June 2006 Report No 1 I included as an appendix an engagement letter between myself and the Parliament. The commencement of the *Audit Act 2008* (the Audit Act) on 1 March 2009 requires me to update that engagement letter which is the purpose for this appendix.

This engagement letter details the approach that I will follow in the conduct of audits required to be performed by me under the Audit Act. As noted in my June 2006 Report, it is not a requirement that I detail this information but I regard it as good practice to do so and it should provide the President, the Speaker and Members of the Legislative Council and the House of Assembly with an understanding on how audit work is conducted by my Office. This letter also details my responses to other provisions in the Audit Act. In addition to preparing this engagement letter, on 2 March 2009 I wrote to all State entities advising them of the implications of the Audit Act as it impacts them.

## **Our Purpose**

My Office has determined its 'purpose' as being:

“To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public Sector.”

In so doing, we aim to Strive, Lead and Excel: To Make a Difference. We strive to achieve our purpose by conducting, in accordance with Australian Auditing Standards, four categories of audit work: financial attest, performance and compliance audits and investigations.

## **Financial Statement (or attest) Audits**

An attest audit is one where an auditor reports on assertions prepared by an accountable authority on a set of financial statements. For example, an accountable authority would assert that financial statements were prepared in accordance with Australian Accounting standards and relevant legislation. The auditor attests to the assertion made.

My financial statement audits are conducted in accordance with the provisions of the Audit Act and other relevant Tasmanian legislation with the objective of auditing the Whole of Government Financial Report, the General Government Financial Report, the Public Account Statements, and the annual financial statements of all State entities. The Audit Act defines a “State entity” as being an agency, council, Government Business Enterprise, State-owned Company, State Authority,

Corporations established by the *Water and Sewerage Corporations Act 2008* and the governing body of any corporation, body of persons or institution that are appointed by a Minister or by the Governor.

### ***Financial reporting arrangements***

The Audit Act requires accountable authorities to submit financial statements for their State entity to me as soon as possible and within 45 days of the end of the financial year and that the financial statements be “complete in all material respects”. This section also provides for me to determine whether the financial statements submitted are complete in all material respects. I have determined that “complete in all material respects” means that the financial statements must:

1. Be signed by the accountable authority at the time they are submitted.
2. Comply with relevant legislative requirements governing the State entity being audited.
3. Comply with Australian Accounting Standards. In the case of government departments, compliance with the Department of Treasury and Finance’s model financial statements will satisfy this requirement.

Where a State entity, for example a subsidiary of a State-owned Company, wishes to prepare a special purpose financial report, this will be acceptable subject to appropriate disclosures in the report and the lack of users of the financial report who cannot demand information normally made available in a general purpose financial report.

However, I note the Audit Act provides for transitional arrangements for those State entities not currently required to submit statements within 45 days. These State entities will not be bound by the 45 day submission requirement until the financial year commencing after 30 June 2010. In the main these transitional arrangements apply to Local Government Councils and any joint authorities or companies established by them, State-owned companies, the University of Tasmania and some Statutory Authorities.

### ***Financial auditing arrangements***

Having carried out an audit of the financial statements of a State entity I am required to prepare and sign an opinion based on that audit and provide it to the State entity’s responsible Minister with a copy to the relevant accountable authority. Where the Australian Auditing and Assurance Standards also require the preparation of a formal communication of audit findings (such as a Management Letter), a copy of that communication is to accompany the opinion.

I am required to finalise my audit opinions within 45 days of receiving the financial statements from the accountable authority. This 45 day period commences if I am satisfied that the financial statements submitted are “complete in all material respects”.

There are two new requirements here:

- Firstly, I will now be forwarding my signed audit opinion to the responsible Minister as well as, which I do currently, to the accountable authority and I will also forward to this Minister my management letter. Where there is an interim management letter, this will also be forwarded to the Minister as well as to the accountable authority.
- Secondly, the timeframes for me to complete my audits of financial statements has been brought forward such that, for State entities with a 30 June balance date, from 30 June 2011, every financial statement audit of every State entity must be completed by 30 September. Due to the transitional arrangements already referred to, for 30 June 2009, this will only impact those State entities that are currently required to submit financial statements to my Office within 45 days of balance date (mainly government departments, Government Business Enterprises and some Statutory Authorities).

### ***Compliance with auditing standards***

The Audit Act requires that, that in the conduct of financial statement audits, I do so in accordance with Australian Auditing Standards. As a result, my audit opinion on every set of financial statements will make clear, within the scope and opinion sections, the following:

1. The scope of my audit and of my opinion – which will specify the:
  - financial period covered
  - components of the statements being audited
  - fact that it is management’s, or if there is a board of directors, the directors’, responsibility to prepare the financial statements being audited. I will also note that, for for-profit entities, it is the responsibility of the directors to confirm that the financial statements comply with International Financial Reporting Standards where such standards have in fact been complied with
  - fact that I have conducted an independent audit of the financial statements with the purpose of expressing an opinion thereon to the Parliament, Shareholders, Council, Board or Public Body that may be nominated in relevant legislation
  - fact that I am independent of the entity whose financial statements are being audited.

I will also note that my independent opinion is based on the facts that:

- my audit was conducted in accordance with Australian Auditing Standards
  - the audit procedures conducted were designed to:
    - o provide me with reasonable assurance that the financial statements are free of material misstatement
    - o examine, on a test basis, evidence supporting the amounts and other disclosures in the financial statements
    - o evaluate accounting policies and significant accounting estimates
    - o enable me to form an opinion whether, in all material respects, the financial statements are presented fairly, in all material respects, in accordance with Australian Accounting Standards and the requirements of the relevant legislation (normally the *Financial Management Act 1990*) and
    - o enable me to form an opinion whether the financial statements present a view which is consistent with my understanding of the entity’s financial position, financial performance, changes in equity and its cash flows.
2. Opinion – I shall report in accordance with Australian Auditing Standard 700 *The Auditor’s Report on a General Purpose Financial Report* whether or not the financial statements present fairly, in all material respects:
    - the entity’s financial position at a point in time and
    - its financial performance, changes in equity and cash flows for the specified period for which the financial statements were prepared in accordance with Australian Accounting Standards and in compliance with the requirements of the relevant legislation.

It will be clear whether or not my opinion is qualified or unqualified. In addition, the following will also be clear:

- to whom my opinion is addressed
- the particular financial statements encompassed by my opinion and
- the date of my opinion.

If during the course of financial statement audits any of the following are detected:

- material aspects of non-compliance with Australian Accounting Standards and financial irregularity (including internal control weaknesses); or
- any other specific matters required to be addressed by the Audit Act and other relevant legislation,

these matters will be reported, as appropriate, to the management or those charged with governance of the entity, the relevant Minister and, where significant, to both houses of Parliament. However, my audit procedures are not specifically designed to identify matters such as these.

In conducting audits of financial statements, my Office applies an integrated public sector audit methodology called IPSAM. This methodology complies with all Australian Auditing Standards. In addition, it includes audit procedures relating to the appropriateness of use of public resources that are not required by the standards but which I consider important in a public sector context. Where relevant, these procedures examine probity, propriety and compliance matters.

The Audit Act requires that my Reports to Parliament on the outcomes from financial statement audit work conducted include particulars of any major change of approach made by me in relation to the extent or character of the audit function which I will do when any change occurs.

### ***Inherent Limitations of any financial statement audit***

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any system of internal control, there is an unavoidable risk that even some material misstatements; fraud or irregularity may remain undiscovered.

### ***Acquittances***

The Audit Act authorises me to audit acquittance statements. These are normally prepared by State entities under agreements with the Commonwealth where they are required to prepare financial reports acquitting funding received and how it was spent. Another example is audits of acquittances prepared Australian Financial Services licenses. Such audits are completed in accordance with the appropriate Australian Auditing or Assurance Standards.

## **Performance audits, compliance audits and investigations**

The Audit Act gives me the authority to conduct performance audits, compliance audits and investigations.

Such audits are normally “Direct Reporting Engagement”. In the case of a performance audit, this means an engagement where the auditor directly undertakes the evaluation or measurement of an activity to report on the economy, efficiency or effectiveness of that activity.

In the case of a compliance audit, this means an engagement where the auditor directly evaluates an entity’s compliance with requirements as measured by the suitable criteria and expresses a conclusion to the intended users in a compliance report.

In the case of an investigation, the nature of the engagement will determine whether or not it is an assertion based engagement or a direct reporting engagement.

### ***Performance Audits***

A performance audit examines the economy, efficiency or effectiveness of a State entity, a number of State entities, a part of a State entity or a subsidiary of a State entity. These audits extend beyond the examination of the financial affairs and transactions of an entity to encompass issues considered of significance to the Parliament.

Note also that my Office may carry out an examination or investigation examining the efficiency, effectiveness and economy within which a related entity of a State entity performs functions on behalf of the State entity in partnership, or jointly with the State entity; or as a delegate or agent of the State entity.

Performance audits are conducted in accordance with Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements*.

### ***Compliance Audits***

Compliance audits examine the compliance of a State entity, or a subsidiary of a State entity, with written laws or its own internal policies. The process normally involves testing a representative sample of compliance matters across public sector entities and our recommendations often highlight solutions that can be applied across the public sector.

Compliance audits are conducted in accordance with Australian Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*.

### ***Other investigations or audits***

The Audit Act also provides the authority for me to:

- examine the accounting and financial management information systems of the Treasurer, a State entity or a subsidiary of a State entity to determine their effectiveness in achieving or monitoring program results
- investigate any matter relating to the accounts of the Treasurer, a State entity or a subsidiary of a State entity and
- investigate any matter relating to public money or other money, or to public property or other property.

This includes the ability of my Office to, what I refer to as, “follow the dollar”, i.e., my Office is able to investigate State entities or private sector entities relating to the expenditure of public money, other money or to the management of public property or other property.

I may also carry out any audit that the Treasurer requests me to carry out and, where a grant or advance of money is made by the Government to a person for a specific purpose, the Treasurer may request me to audit the accounts of that person to ascertain whether the money granted or advanced was expended in accordance with the purposes of the grant or advance.

These audits or investigations will be conducted in accordance with which ever Australian auditing or assurance standard is relevant to the particular assignment.

### **Conducting audits**

The Audit Act establishes authority for me to employ staff in the Tasmanian Audit Office and for me to engage other suitable persons to carry out the whole or a part of an audit or investigation. In most cases my Office conducts audits although contractors perform some audits, or parts of audits.

For each performance audit I establish an advisory committee to assist me and my staff in performing the particular project. Members of the advisory committee are drawn from my staff, entity representatives and independent experts in the matter being audited.

## **Reporting to the Parliament**

### ***Audits of financial statements***

The Audit Act requires me to report annually to the Parliament on the outcomes of financial statement audits completed. It is my current practice to report twice per annum, in May/June and in November.

These reports will also include, where I consider a matter of sufficient importance to have attention drawn to it, any case in which the functions of an accountable authority were not adequately and properly performed.

In addition to commenting on matters identified and recommendations arising from audits, I plan to continue the practice of providing independent analysis of entity performance, primarily of financial performance, in these reports to the Parliament.

I must, in writing, notify the Treasurer and any Minister responsible for the activity to which the report relates, of my intention to submit the report to Parliament, at least 5 days before the report is to be submitted.

It is my practice to include in its entirety, or in an agreed summary form, any comments provided by the Secretary, Mayor or Chief Executive Officer of a State entity on the report when still in draft form.

The Audit Act requires that I describe the basis on which audit fees charged for conducting audits of financial statements are calculated. This will be done annually.

The Audit Act permits me to table a report when Parliament is not sitting. It is my intention to try to always report when at least one of the two houses is sitting.

### ***Performance and Compliance Audits and Investigations (examinations)***

Under the Audit Act I may prepare and sign a report on an examination carried out. It will only be in exceptional circumstances where I conduct an examination and then not publicly report the outcome. Having completed an examination, I may submit the resulting report to both Houses of Parliament or to the Public Accounts Committee. It will normally be my practice to report to both Houses of Parliament.

Before signing a report proposed to be tabled, I must –

- give a summary of findings to the Treasurer, accountable authority or related entity of a State entity, as the case may require, and any other person who, in my opinion, has a special interest in the report and
- by written notice, invite the Treasurer, accountable authority or related entity of a State entity or that other person, as the case may require, to make submissions or comments on the content of the summary of findings before a specified day, being a day not less than 3 working days after the summary of findings is given to the Treasurer, accountable authority, related entity of a State entity or person.

In addition, I must include in the report any submissions or comments made before the specified day, or a fair summary of them.

The Audit Act permits me to table a report when Parliament is not sitting. It is my intention to try to always report when at least one of the two houses is sitting.

### **Commenting on Government Policy**

It is a convention of my Office that I will not comment on Government policy in reports to Parliament nor in any other manner. However, circumstances may arise where an audit examines and comments on the application of, or the outcomes of, Government policy.

### **Adding Value**

I will also seek to maximise the value to the State entity, the Government and the Parliament of all audit work including where appropriate the framing of recommendations to address:

- improvements in the framework of accountability including internal controls
- opportunities for cost savings and efficiency gains and
- recognition of good practice in use by State entities.

### **Power to dispense with audits of certain public bodies**

In consultation with the Treasurer, I may dispense with all, or any part of, the audit of the financial statements of a particular State entity or of State entities included in a category or class specified by me. I can only do so if I consider that it is appropriate in the circumstances. Such dispensation of an audit may be in respect of a particular financial year and subject to any conditions determined by me. The decision to dispense with an audit is only made where I am satisfied that existing financial reporting arrangements are satisfactory and that the alternative auditing arrangements are appropriate.

I am required to detail in a report to Parliament those State entities or categories of State entities the audits of which I have dispensed with.

### **Independence**

Professional independence is a concept fundamental to the conduct of an audit requiring me to approach my work with integrity and objectivity. I must both be, and be seen to be, free of any interest that is incompatible with objectivity. It is essential therefore that I be independent of the State entities being audited and free of interest that could be incompatible with integrity and objectivity.

The independence of the Auditor-General is directly addressed in the Audit Act which authorises and requires me to act independently in relation to the performance of my functions. The Audit Act also provides that I am not subject to direction from anyone in relation to my audit functions, including any decision as to whether or not an audit is to be conducted, how an audit is to be conducted or in relation to the content of any report arising from an audit.

### **Confidentiality**

The Audit Act places confidentiality requirements on a person who is, or who has been: the Auditor General, a person employed in the Tasmanian Audit Office, a person appointed to assist the Auditor General in a particular matter, an authorised person, the independent auditor of the Tasmanian Audit Office or an auditor engaged to conduct a review of efficiency and effectiveness of the Tasmanian Audit Office.

It requires that these persons are to maintain confidentiality with respect to all matters that come to their knowledge during the course of their employment or duties under the Audit Act or any other written law and that those persons must not communicate any of these matters to anyone except when required under the administration of the Audit Act or another written law or required under any proceedings of the Audit Act, other written Law or the Criminal Code.

However, this does not apply to the communication of information to the Public Accounts Committee, the House of Assembly or Legislative Council, or any other body established by the House of Assembly or Legislative Council to investigate the activities of one or more State entities or subsidiaries of State entities.

The Audit Act also provides that a person who receives a summary of audit findings on an audit of a State entity must maintain confidentiality regarding all matters within the summary and must not: communicate any of the information within the summary to anyone; copy or reproduce any of the information within the summary unless it is in connection with making submissions or comments to me or in connection with obtaining legal advice on those matters.

## **Annual work plan**

The Audit Act requires me to consult with the Public Accounts Committee in relation to my annual work plan with the plan to ultimately be transmitted to the Speaker of the House of Assembly and to the President of the Legislative Council by no later than 30 June each financial year.

The plan will include details of the financial, performance and compliance audit work planned for the following 12 month period commencing 1 July. Once I know that the plan has been tabled, I will be placing the plan on my Office's website.

## ***Relationship with the Public Accounts Committee***

Section 6 of the *Public Accounts Committee Act 1970* details the functions of the PAC as being:

1. The Committee must inquire into, consider and report to the Parliament on any matter referred to the Committee by either House relating to –
  - a) The management, administration or use of public sector finances; or
  - b) The accounts of any public authority or other organisation controlled by the State or in which the State has an interest.
2. The Committee may inquire into, consider and report to the Parliament on –
  - a) Any matter arising in connection with public sector finances that the Committee considers appropriate; and
  - b) Any matter referred to the Committee by the Auditor-General.

The PAC has objectives similar to those of my Office as a result of which I meet with it from time to time to discuss its activities and projects, my reports, my planned projects, the operations of my Office and related matters. This as a healthy relationship aimed at effective public sector management. The requirement in the Audit Act for me to consult with the PAC regarding my work plan reinforces this relationship.

I trust this “engagement letter” provides each Member of Parliament with information to assist them to understand my role and how audits are conducted. Members are encouraged to contact me or my Office on 6226 0100 if further information is required.

Yours sincerely



H M Blake  
Auditor-General