



# Governance

**We have a sound governance framework which guides us to achieve our purpose**

At the Audit Office we:

- have a governance framework that reflects the eight core principles of good corporate governance
- are committed to legislative compliance and ethical behaviour
- meet public expectations of probity, accountability and transparency
- have a dedicated governance unit to administer, support and guide our governance processes

# Strong governance foundations

*Driven by the eight core Australian Securities Exchange (ASX) corporate governance principles*

## Our governance processes leading the way

Our governance processes and behaviours guide us to achieve our purpose, conform to all relevant laws, standards and directions and meet public expectations of probity, accountability and transparency. They provide our employees with a clear sense of purpose and focus, guiding their behaviour when dealing with each other, parliamentarians, our audit clients and other stakeholders.

## ASX Corporate Governance Principles and Recommendations

Our governance framework, the Governance Lighthouse, reflects the eight core Australian Securities Exchange (ASX) Corporate Governance Principles. Under these eight core principles, the Audit Office has developed 17 major points of good governance. We use the Governance Lighthouse as a way to develop, manage and report on our governance arrangements.

## Continuous enhancement

In 2016–17, we continued to strengthen our governance framework by:

- developing a new long term Strategic Plan including a new vision for the organisation
- releasing our updated Gifts and Benefits Policy
- releasing a new standard risk assessment template to capture operational risks across the business
- undertaking an extensive program of stakeholder engagement with our new local government clients.

## The year ahead

In 2017–18, we will:

- release our new Strategic Plan taking us to 2020
- review our Risk Management Framework including a reassessment of our risk appetite statement, review of our strategic risks and Risk Management Policy, and develop risk tolerances
- develop our performance reporting systems to provide timely, accurate reports on the performance of our organisation
- Under our 'Influencing for Impact' strategic initiative, develop an overarching stakeholder engagement strategy to ensure we take a co-ordinated and strategic approach to stakeholder engagement (see page 9 for more information on our strategic initiatives)
- undertake our biennial fraud control health check
- revise our Complaints Policy and Public Interest Disclosure Policy to reflect the evolving nature of our work following the change to our mandate to include local government audits (see page 53 for more details on our expanded mandate).



# Setting direction

## *We have a strong commitment to strategic planning*

### LIGHTHOUSE PRINCIPLE: MANAGEMENT AND OVERSIGHT

(based on ASX Principle 1)

#### Lay solid foundations

The Audit Office of New South Wales is a statutory authority established under the *Public Finance and Audit Act 1983* to conduct audits for the Auditor-General. The Auditor-General is accountable to the NSW Parliament and is responsible for the Audit Office and its activities.

#### Our strategic plan

Our 2016–19 strategic plan was developed by the Office Executive and the Leadership Team to meet the strategic priorities of the Audit Office.

The four focus areas for 2016–17 were:

#### Products

Our quality products and services have impact, relevance and value.

#### Systems and Processes

Our contemporary systems and processes are integrated, efficient and fit for purpose.

#### People

Our people are engaged, confident, capable and adaptable, working together in a constructive environment.

#### Finances

Our financial frameworks are fiscally responsible, future-focused, and ensure our sustainability.

The strategic initiatives that underpinned our four focus areas are outlined below.

#### Local Government

##### Goal for 2016–17:

Understand the reform agenda, articulate our value proposition, prepare for expectation gaps, and build required capability.

##### Key achievements include:

- put in place audit arrangements for 140 councils across New South Wales
- completed an auditor accreditation process resulting in new firms joining us as accredited audit providers
- conducted both whole-of-office and specialist training, and released a staff local government resource centre
- launched a local government information site on our external website
- completed recruitment for additional resources

- updated our audit methodology and developed templates for local government audits
- secured funding for three annual performance audits of local government
- conducted extensive stakeholder engagement including State-wide information sessions, held numerous workshops, including for audit and risk committee chairs and contract audit agents, attended relevant conferences and forums, and consulted with key stakeholders
- identified council expectation gaps and strategies to address them.

#### Influencing for Impact

##### Goal for 2016–17:

Better engage with our external stakeholders, ensure our products meet their needs, and maximise engagement channels.

##### Key achievements include:

- identified priority stakeholders and obtained greater awareness of stakeholder engagement opportunities
- mapped our current engagement with external stakeholders
- explored both the internal and external view of what 'impact' means
- hosted stakeholder workshops such as the Program Evaluation industry briefing and ARC Chair events.

#### Data Analytics

##### Goal for 2016–17:

Develop a Data Analytics Strategy aimed at improving the relevance, value and impact of both the Audit Office's performance audit and financial audit products and services.

##### Key achievements include:

- identified data champions to share ideas on the use of data across the organisation and identified potential audit processes that could be automated
- identified potential areas to pilot data analytics in financial and performance audits
- conducted a pilot with the NSW Data Analytics Centre in scoping the performance audit Efficiency of NSW Ambulance Services
- Auditor-General presentation delivered at the Certified Practising Accountants Congress 'Innovation in auditing using data analytics'
- communicated with and collaborated across other audit offices, NSW Government agencies and private accounting firms.

#### Reporting Process

##### Goal for 2016–17:

Implement systems, tools and processes that support efficient and effective report development and publishing, and that meet the objectives of the 'Influencing for Impact' strategy.

##### Key achievements include:

- identified best practice by examining public websites and publications, and interviewing other audit offices about their experiences, processes and systems
- aligned financial and performance audit reporting processes and timetable
- streamlined financial audit reports and engaged an external expert to guide the design of a new volume on 'Financial Governance and Internal Controls'
- explored more dynamic reporting options using our existing website.

#### Working Better, Working Together

##### Goal for 2016–17:

Bring our people closer together across teams and branches to improve communication and collaboration, development opportunities, resourcing, and staff engagement.

##### Key achievements include:

- researched and identified a desired view of the future in the areas of work, worker and workplace
- developed pilot initiatives to improve collaboration
- developed a Diversity Inclusion and Accessibility Framework with initiatives implemented such as the Indigenous Internship Program and International Women's Day event.

#### The year ahead

Our 2017–20 Strategic Plan builds on the explorative and transitional work achieved in 2016–17, having identified a new vision and desired future state. This future state will be achieved by building organisational capabilities through continued work on the five strategic initiatives established in 2016–17.

See page 9 for full details on our strategic initiatives for 2017–18.



# Structured to add value

## Key committees provide leadership and guidance

### LIGHTHOUSE PRINCIPLE: STRUCTURE

(based on ASX Principle 2)

The Audit Office has a well-defined governance structure consisting of the Office Executive, independent Audit and Risk Committee and Remuneration Committee, as well as an external audit function and an internal audit function (see page 61).

#### Office Executive

The Office Executive, with the Auditor-General as Chair, directs the affairs of the Audit Office and is responsible for:

- setting and monitoring progress against the Audit Office's vision, values, mission and strategic goals
- setting direction on key changes to standards, legislation and machinery of government change that have a whole-of-office consequence
- ensuring the Audit Office is compliant with relevant laws, directions, codes

and practices, ensuring key policies are regularly reviewed, up-to-date and relevant, as well as role-modelling and embedding a culture of ethical and lawful behaviour

- operating in accordance with the Audit Office's values
- overseeing the Audit Office's financial performance and sustainability.

In 2016–17, the structure of the Office Executive and frequency of meetings was reassessed. This resulted in the Auditor-General joining the committee and becoming Chair, and the Executive Manager Governance and Chief Financial Officer permanent attendees at each monthly meeting. The Office Executive also includes the Deputy Auditor-General, Assistant Auditors-General from Financial Audit and Performance Audit, and the Executive Director Corporate Services.

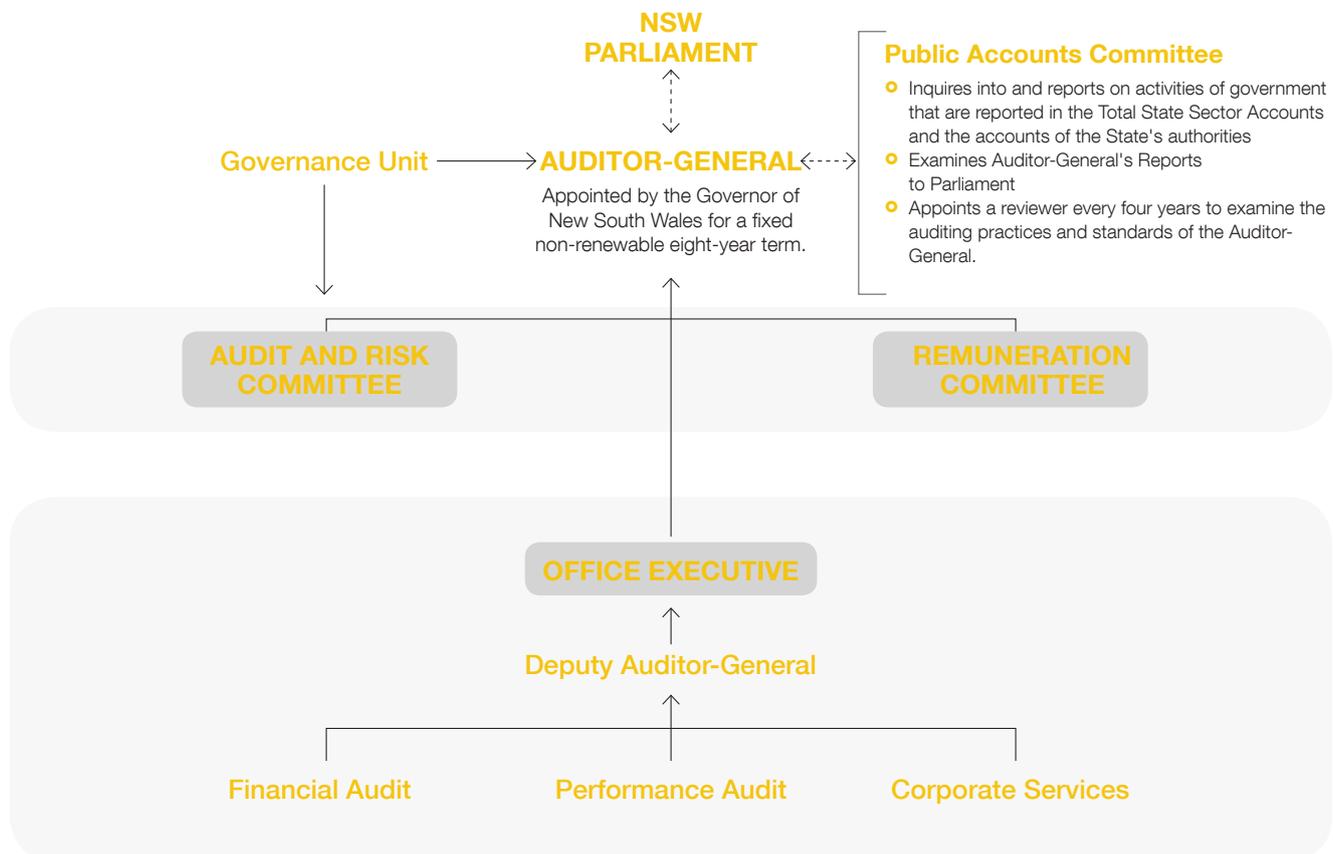
The Office Executive has a broad level of experience, skills, and diversity to fulfil its oversight role. This includes disciplines in economics, accounting, law and business

administration, experience in local and State government and the private sector, and diversity in gender and age consisting of four women and three men (at 30 June 2017) within a diverse age range. For further details on the skills and experience of members of the Office Executive see page 7.

Key focus areas for the Office Executive during 2016–17 included:

- standing up our new mandate to audit local government (see page 53)
- reassessing and tracking progress against the Audit Office strategy and vision (see page 56)
- overseeing the Audit Office's strategic initiatives including Local Government, Influencing for Impact, Reporting Process, Working Better, Working Together, and Data Analytics (see page 56)
- reviewing the Audit Office's strategic risks and monitoring actions to mitigate each strategic risk to an acceptable level (see page 63).

## Our governance framework



## Audit and Risk Committee

The Audit and Risk Committee assisted the Auditor-General in 2016–17 by providing oversight and review of:

- the risk management framework including review of our strategic risk register, project risk management, fraud framework, and business continuity and disaster recovery plans
- the internal audit plan, and internal and external audit reports
- Audit Office annual financial statements
- compliance with relevant applicable laws and regulations, relevant government policies and directions, and Audit Office policies
- the internal control framework.

The Governance Unit assessed the committee's activities in 2016–17 to confirm compliance with Treasury Policy Paper 1503 Internal Audit and Risk Management Policy for the NSW Public Sector (TPP 15-03). For a copy of the attestation statement see page 119. The committee's charter is also in line with the requirements of TPP 15-03 and can be found on our website.

The Audit and Risk Committee consists of three independent members – Dianne Hill (Chair), Greg Fletcher and new member Bruce Turner AM who joined on 17

February 2017. Brian Suttor completed his term as Chair on 27 November 2016. Brian made a strong contribution to the ARC and we are thankful for all his excellent work on this committee. The independence, integrity, and experience of the Audit and Risk Committee members are key strengths, providing insight and enhancing our operations.

Dianne Hill was appointed on 12 December 2016 as Chair for a final term until 28 August 2021. Dianne brings considerable experience having been an independent non-executive director for over 20 years at several organisations, and currently sits on several boards and audit and risk committees for both NSW public sector agencies and public companies. Her background is in chartered accounting, financial services and project management.

Greg Fletcher was reappointed on 4 December 2013 for a second and final four-year term. Greg brings considerable experience as a former partner in a major accounting firm where he specialised in external audit, internal audit and risk management. He is an audit and risk committee Chair for several NSW public sector agencies and a director of several publicly listed companies.

Bruce Turner AM was appointed on 17 February 2017 for a four-year term. Bruce brings extensive experience sitting on audit and risk committees within the State government and not-for-profit sectors, as well as governance committees in the local government sector. Bruce has also been involved through Chief Audit Executive roles in large and diverse state and federal government agencies. He sits on several Boards, including that of the Institute of Internal Auditors (Australia).

The Auditor-General, Chief Audit Executive, internal and external auditors, and management representatives attend committee meetings. The committee also met independently, without management, with the internal and external auditors, Chief Audit Executive and Auditor-General. Committee members also provided annual written conflict of interest declarations to the Auditor-General which were verbally confirmed at the start of each meeting. There were no conflicts of interest declared that prohibited the continuing engagement of the members of the Audit and Risk Committee.

## Remuneration Committee

Please see page 60 for more information on the Remuneration Committee.

### Formal Office Executive meetings attended

A total of 18 formal meetings held (fortnightly until April 2017 and thereafter informally each week and formally each month)

Margaret Crawford 17

Tony Whitfield 9

Departed the Audit Office 29 December 2016

Ian Goodwin 8

Kathrina Lo 15

Departed the Audit Office 13 April 2017

Claudia Migotto 3

Steven Martin 17

John Viljoen 13

Departed the Audit Office 6 April 2017

Scott Stanton 16

Alison Gatt 3

Lyndal Hayward 4

### Audit and Risk Committee meetings attended

A total of five meetings held\*

Dianne Hill 5

Independent Chair

Greg Fletcher 5

Independent Member

Brian Suttor 4

Term ended 27 November 2016

Bruce Turner 1

Independent Member appointed 17 February 2017

\*Including one special meeting to review the annual financial statements



# Ethical and responsible decision-making

## *We are driven by strong values and ethical behaviour*

### LIGHTHOUSE PRINCIPLE:

#### ETHICS

(based on ASX Principle 3)

#### High standards of conduct are instilled

Protecting the reputation of the Audit Office is vital to ensure our credibility and to maintain public trust in what we do. To do this we foster a culture that instils ethical behaviour, integrity, independence and respect, which are embedded in our core values of purpose, people and professionalism. These core values, and the NSW Public Sector values of integrity, trust, service and accountability, are the foundation of our Code of Conduct.

In support of our Code of Conduct, the Audit Office's ethical framework includes policies covering conflicts of interest, gifts and benefits, diversity and inclusion, a respectful workplace, compliance, performance management, and privacy management.

During induction, all new staff are trained on the Audit Office's ethical framework before signing the Code of Conduct and completing a Conflict of Interest declaration. These sign-offs are completed annually thereafter.

As part of post induction training, and to support the annual sign-off, all staff are required to complete an online training module before signing the Code of Conduct. We also have a Statement of Business Ethics which provides guidance for third parties when doing business with the Audit Office. The statement is available on our website and is included in our contract audit agents manual.

In 2016–17, we:

- reviewed and updated our Gifts and Benefits Policy
- reviewed and updated our Performance Management Policy
- updated our staff guidance material and on-line training for implications of our new local government mandate
- migrated the Conflict of Interest Declaration Form and Secondary Employment Form to our online system to improve tracking and monitoring
- streamlined the process for approval of secondary employment declarations.

#### Protecting privacy

The Audit Office is committed to protecting individual privacy and managing personal information in accordance with the *Privacy and Personal Information Protection Act 1998* (Privacy Act). As required by the Privacy Act, the Audit Office has a Privacy Management Plan that sets out how we manage personal information in line with the Privacy Act and health information under the *Health Records and Information Privacy Act 2002*. This plan can be accessed on our website.

#### Prevent, detect and respond to fraud

The Audit Office has a zero tolerance for fraud and is committed to minimising the incidence of fraud by implementing and regularly reviewing strategies that prevent, detect and respond to fraud.

During 2016–17, we analysed the results of the biennial fraud control health check conducted in 2015–16. These results showed a positive response with 94 per cent of staff agreeing or strongly agreeing that the Audit Office has ethical policies in place. A further 90 per cent of staff agreed or strongly agreed that our fraud control policies and procedures tell our staff how to effectively deal with fraud risk.

Also in 2016–17, we commenced the biennial fraud risk assessment using a newly developed standard template used across the organisation to capture both operational and strategic risks.

No instances of suspected fraud against the Audit Office were detected during 2016–17.

#### Compliance management

The Audit Office has many compliance obligations including legislation, central agency directions, standards and codes. To meet these obligations, our compliance program promotes the importance of compliance to all staff, identifies obligations and responds to noncompliance.

The Audit Office's compliance framework is based on International Standard ISO 19600-2014 Compliance Management Systems – Guidelines, and includes:

- a Compliance Policy
- a Register of Compliance Obligations that includes a risk assessment formally reviewed by the Office Executive

- annual verification of compliance through the Management Internal Control Sign-Off (see page 61)
- financial and performance audit methodologies mapped to professional standards and legislation
- regular management reviews and reporting to the Office Executive and Audit and Risk Committee.

In 2016–17, we continued to maintain our centralised policy register which captures key internal policies and ensures policies are up-to-date and remain relevant. The register was updated in 2016–17 for the new local government mandate. Audit Office policies were also updated to reflect any potential impact of this new mandate (see page 53 for more details on our expanded mandate).

#### The year ahead

In 2017–18, we will:

- analyse the results of our biennial fraud control risk assessment and action any areas for improvement
- complete the biennial fraud control health check
- develop a central conflicts of interest register to capture staff conflicts across the organisation
- review our policies covering media and consolidate into one policy
- review our Statement of Business Ethics.



# Disclosure – timely and balanced

*We are committed to fair and responsible disclosure and remuneration*

## LIGHTHOUSE PRINCIPLE: DISCLOSURE

*(based on ASX Principle 5)*

### Accountability and transparency

The Audit Office supports the principle of accountability and transparency to the public. Information we proactively release on our website includes our planned audit programs, corporate and auditing policies, Professional Update newsletters, client service resources, presentations and better practice guides.

In 2016–17, in compliance with section 7(3) of the *Government Information (Public Access) Act 2009* (the GIPA Act), a review of proactive release of information was undertaken and reported to the Office Executive including information proposed for publication. Items proposed for proactive release, and subsequently published on the website, included information associated with our new mandate to audit local government, including:

- client service resources (for councils)
- resources for contract audit service providers
- a list of Audit Office directors allocated to councils
- information session presentation packs
- a performance audit guide for local government
- Memorandum of Understanding between the Audit Office and the Office of Local Government concerning the sharing of information and referral of complaints relating to local government (see page 53 for more information on our expanded mandate).

### Open access information

The Audit Office holds a significant amount of government information, mostly used for our audit services. We also hold a smaller amount of information dealing with administrative matters. Certain government information is made available to the public under the 'open access' provisions of the GIPA Act. The Audit Office's 'open access' information includes:

- Information Guide – explains who we are, what we do and how to interact with us
- policy and charter documents
- disclosure log of access applications

- disclosure register
- register of government contracts.

Information held by us which relates to our auditing, investigative and reporting functions is classed as 'excluded information' under the GIPA Act and is not released to the public.

### Access applications and informal release

The Audit Office welcomes requests for government information from the public and will, unless the request refers to excluded information, make every effort to make information readily available without charge.

During 2016–17, we received one formal GIPA access application which was deemed to be partially invalid as it was seeking access to excluded information. We also received a request from another government agency for our consent to release information. This was not approved as it related to excluded information. Statistical information about access applications can be found in Appendix Twelve.

We undertook a review of our compliance with the GIPA Act for 2016–17 using the standard checklist provided by the Information and Privacy Commission. Overall, the review found we are compliant with the GIPA Act.

### Award-winning annual report

Our annual report is a key part of our commitment to continuous disclosure and we voluntarily adopt full and open reporting on our performance. The report contains extensive comment on what our key stakeholders, parliament and our audit clients think of our services, and whether agencies have accepted and acted on our recommendations.

In recognition of our high standard in annual reporting, in June 2017 we were awarded 'Report of the Year' by the Australasian Reporting Awards (ARA) for our 2015–16 Annual Report. We also received a Gold Award for the eighth consecutive year, and were a finalist for special awards in the 'Online Reporting' and 'Workplace Health and Safety' categories.

## LIGHTHOUSE PRINCIPLE: REMUNERATION

*(based on ASX Principle 8)*

### Remuneration Committee

The Audit Office's Remuneration Committee consists of two members – an independent Chair, Dianne Hill and the Executive Manager Governance, Barry Underwood. The committee is directly responsible and accountable to the Auditor-General and provides independent advice on the appropriateness and application of the Audit Office's remuneration policies and procedures.

In 2016–17, the committee met twice and:

- endorsed the committee's charter
- reviewed management reports and made recommendations on the appropriateness and application of remuneration policies and procedures
- reviewed management sign-offs, including validating the financial impact of the recommended annual remuneration determination
- reviewed the remuneration risk assessment including associated controls.

See Appendix One for details of our executive remuneration.

### The year ahead

In 2017–18, we will:

- update our Agency Information Guide
- undertake our annual review of compliance with the GIPA Act.



# Independent assurance and corporate reporting

## Sound financial and corporate reporting structure

### LIGHTHOUSE PRINCIPLE: CORPORATE REPORTING (based on ASX Principle 4)

The integrity of our financial information is safeguarded by a number of key mechanisms.

#### Audit and Risk Committee

The Audit and Risk Committee independently reviews the objectivity and reliability of the Audit Office's financial information, and ensures the financial statements are supported by appropriate management sign-off on the adequacy of internal controls. At each meeting, financial reports and budgets are presented to the committee for review. A special meeting is also held annually to review the annual financial statements (see page 58).

#### Internal audit

Our internal auditors add value and improve our operations by monitoring and providing independent and objective assurance to the Audit and Risk Committee, and ultimately the Auditor-General. The internal audit function brings a systematic, disciplined approach to evaluate and improve organisational systems, processes and reporting. The internal auditors attend each quarterly Audit and Risk Committee meeting to report on the progress of the Internal Audit Plan and present the findings of their reviews. Our internal audit function is externally resourced.

In 2016–17, the internal auditors reviewed:

- procurement and contract management
- systems and processes supporting the development of our Auditor-General's Reports to Parliament
- performance management framework
- recruitment and retention
- Audit Office readiness for the Public Accounts Committee quadrennial review
- follow up of previous internal audit findings and recommendations.

During the year an external quality assessment of our internal audit function confirmed that the Audit Office is generally conforming with TPP15-03 'Internal Audit and Risk Management Policy'.

#### External audit

Pursuant to Section 47 of the *Public Finance and Audit Act 1983*, the Governor of New South Wales appointed an independent audit practitioner to audit the Audit Office's financial statements. The external auditor, Nexia Australia, provides an independent opinion on whether the Audit Office's financial statements are true and fair and comply with applicable Australian Accounting Standards. The external auditor also attends all Audit and Risk Committee meetings.

#### Auditor-General and Management Internal Control Sign-Off

The Auditor-General certifies that the Audit Office's financial statements give a true and fair view and are prepared in accordance with applicable Australian Accounting Standards, the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2010, the Financial Reporting Code for NSW General Government Sector Entities and Treasurer's Directions.

This certification is supported by the Management Internal Control Sign-Off (see Appendix Nine for further information) and the Chief Financial Officer's sign-off as to the effectiveness of internal controls over financial information. The Chief Financial Officer's sign-off is supported by the completion of an internal control questionnaire.

#### Independent quality assurance program

The Audit Office has established a system of quality control designed to provide assurance that it complies with Australian Auditing Standards, relevant ethical requirements, and applicable laws and regulations. This is achieved through the Quality Audit Review Committee, which monitors the quality of financial audit engagements and provides the Auditor-General with reasonable assurance they comply with the requirements of ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Service Engagements, APES 320 Quality Control for Firms.

The Quality Audit Review Committee is accountable to the Auditor-General, is chaired by the Executive Manager Governance, and comprises at least four people who are:

- appropriately experienced and qualified
- drawn from our financial audit and performance audit branches, or external, independent members of the profession.

External reviews provide important scrutiny of the Audit Office's quality control systems and processes and help benchmark the effectiveness of the Audit Office's quality control systems and processes.

The Audit Office is subject to or has participated in the following external reviews:

- a quadrennial review by a person appointed by the Public Accounts Committee to examine the auditing practices and standards of the Auditor-General. The next review is scheduled for 2017–18
- periodic reviews of aspects of the Audit Office by peer reviewers arranged under a quality assurance framework sponsored by the Australasian Council of Auditors-General (ACAG). The most recent peer review was conducted in 2016–17 and was led by the Western Australian Office of the Auditor-General. The review confirmed that there is very sound governance and audit practice management in place at the Audit Office. Performance and financial audit engagement files reviewed were supported by sufficient and appropriate audit evidence and were rated either 'better practice' or 'good with limited improvement opportunities'.



## Quality assurance reviews

The Audit Office reviews the quality of its financial audits annually. The reviews may be coaching reviews, where files are reviewed in progress, or monitoring reviews, where files are reviewed on completion. The quality review program covers the audits the Audit Office conducts internally and those contracted to private sector firms (our contract audit agents).

The assurance review program for financial statement audits is managed by the Audit Support Team. During 2016–17, 12 financial statement audits were reviewed. The reviews consisted of six coaching reviews and six monitoring reviews.

The results of these reviews are reported to the Quality Audit Review Committee. The Quality Audit Review Committee is responsible for ensuring the process, conclusions and any remedial actions are communicated to the audit team, the Auditor-General, the Audit and Risk Committee, the Office Executive, and the Audit Office's contract audit agents.

The findings from the 2015–16 financial statement audit reviews related to the sufficiency and adequacy of audit documentation. Deficiencies identified included:

- insufficient documentation of the client's business and accounting processes and the related controls activities
- inappropriate and insufficient audit procedures to respond to the risk of management override through journals
- audit teams not assessing compliance with the Audit Office's rotation policies (which exceed mandatory requirements).

Despite these deficiencies, all assurance conclusions were found to be appropriate in the circumstances. The results of the quality reviews are communicated to staff at a debrief session highlighting the deficiencies identified. The results of quality reviews are communicated to contract audit agents individually and annually at the Contract Audit Agents Forum. Quality findings inform the learning and development program of the Audit Office to promote an environment of continuous improvement.

Based on the completed internal and external reviews, the Auditor-General is satisfied that the system of quality control functioned effectively in 2016–17.

### Independence practices

The Audit Office's commitment to high ethical and professional standards underpins the quality of our work.

The Audit Office's independence policy requires staff and contractors engaged in audits to comply with the relevant provisions of APES 110 Code of Ethics for Professional Accountants relating to independence so independence of mind and appearance is maintained throughout the audit.

### Performance reporting

In 2016–17, performance against the Audit Office's strategic plan was tracked and reported to staff. Lead managers and executive sponsors met quarterly to review milestones and key performance indicators and track progress towards achieving overall outcomes.

Regular financial and operational reports were presented to the Office Executive, Financial Audit Executive and Performance Audit Executive to monitor our audits and related reporting. These were also supported by regular reports on the performance of our Corporate Services function.

### Transparency reporting

The *Corporations Act 2001* includes requirements for annual transparency reporting by auditors.

Although the Audit Office is not subject to the requirements, the Audit Office has embraced the principles of transparency reporting. Appendix Eleven summarises the requirements that are relevant to the Audit Office and shows where the required information is presented in this annual report.

## The year ahead

In 2017–18, our internal auditors will focus on key areas of risk in our audit practices and corporate systems.

We will also in 2017–18:

- review the governance arrangements of our strategic initiatives and planning process
- ensure our performance reporting is based on our revised strategic and branch business plans
- include progress in our performance reporting against our strategic initiatives and revised key performance and branch business plan indicators.

See page 9 for further details on our 2017–18 strategic initiatives.



# Risks – recognised and managed

## *Our risk management and strategic planning are integrated*

### LIGHTHOUSE PRINCIPLE:

#### RISK MANAGEMENT

(based on ASX Principle 7)

### Recognising and managing risk

Our risk management and strategic planning are integrated. The Auditor-General assumes ultimate responsibility for our Risk Management Framework. The Office Executive sets the organisation's Risk Appetite Statement (RAS) and ensures strategic risks are identified, assessed and treated in accordance with the agreed RAS.

The Office Executive regularly reviews the enterprise risk register which is supported by detailed analysis of each strategic risk, taking into account the underlying business risks. The Audit and Risk Committee provides independent advice to the Auditor-General on the risk and internal control frameworks.

### Our Risk Management Framework

Our Risk Management Framework is developed in line with NSW Treasury's Internal Audit and Risk Management Policy for the NSW Public Sector (TPP 15-03), the Risk Management Toolkit (TPP 12-03), the Australian/New Zealand Risk Management Standard (AS/ NZS ISO 31000:2009), and the Accounting Professional and Ethical Standards Board's professional risk management standard (APES 325 Risk Management for Firms).

During 2016–17, we

- reassessed our strategic risks in line with our revised strategic plan and new mandate (see page 53 for more details on our expanded mandate)
- better integrated risk management with our strategic and business planning processes, including incorporating risk identification in the annual strategic planning process
- rolled out an operational risk register template to ensure consistency in approach within the business, and that feeds into our strategic risk register.

### Insurance

Our insurance cover is provided by the Treasury Managed Fund in respect of:

- workers' compensation according to NSW statute
- property (full replacement, new for old, consequential loss, and business continuity costs or losses of revenue)
- liability, including but not limited to public liability, professional indemnity and directors and officers liability
- motor vehicles
- miscellaneous losses including those due to staff dishonesty, personal accident, and protection for local and overseas travel.

Exposures not included are:

- illegal activities
- wear and tear and inherent vice
- pollution (not being sudden and accidental pollution).

### Strategic risks

In 2016–17, our six key strategic risks remained unchanged and were:

- failure to anticipate, manage and live up to stakeholder expectations and to fulfil our mandate
- failure to achieve efficiencies and demonstrate value for money
- our audit opinions and reports do not meet our quality standards
- internal governance failure
- failure to effectively manage our workforce
- inability to adapt to and influence changes in audit mandate.

### Risk management and internal control attestation

To provide additional assurance that the Audit Office's Risk Management Framework and related controls are operating properly, two attestations are completed each year.

The first is an annual attestation by the Auditor-General on the quality of the Audit Office's risk management and internal audit processes. This is based on our compliance with the core requirements of NSW Treasury Policy 15-03 Internal Audit and Risk Management Policy (see our Internal Audit and Risk Management Attestation statement in Appendix Nine).

The second is a Management Internal Control Sign-Off which is completed annually in line with the Audit Office's financial statements and covers the financial year. Managers sign off on the implementation of internal controls as they relate to their business area and staff compliance with our policies (see page 61).

### The year ahead

In 2017–18, we will:

- establish clear processes to elevate new significant and emerging business risks to strategic risks on a timely basis
- reassess our Risk Appetite Statement including reviewing our audit risk appetite
- clarify what our risk appetite looks like on a day to day basis by developing risk tolerances
- look at ways to improve staff engagement with risk and embed a mature risk culture
- review our risk management policies
- finalise our enterprise risk management framework.

# Stakeholder engagement

## We regularly connect with our stakeholders

**LIGHTHOUSE PRINCIPLE:**  
**KEY STAKEHOLDER RIGHTS**  
(based on ASX Principle 6)

### Building effective relationships

In 2016–17, we maintained our focus on building effective relationships with our key stakeholders:

- NSW Parliament
- NSW Government entities
- NSW universities
- NSW councils.

Our 2016–17 strategic initiatives 'Influencing for Impact' and 'Local Government' (see page 56) were key contributors to achieving effective stakeholder relations through:

- mapping our current engagement with external stakeholders
- identifying key stakeholders
- hosting workshops with stakeholders such as our Program Evaluation industry briefing and Audit and Risk Committee Chair meetings (see page 52 for more details).

### Stronger audit client engagement

The Auditor-General has recently completed meetings with all the Secretaries of the clusters that make up the NSW public sector. This is part of a stronger focus on promoting audit client engagement while still maintaining our independence. The meetings provided an opportunity to review the proposed Performance Audit Program and to check on the status of our relationships with our clients.

As part of our commitment to engaging more effectively with parliamentarians, the Auditor-General also extended an invitation to meet with new Ministers in 2017 and to date has met with eleven. The Auditor-General is also meeting regularly with the Public Accounts Committee.

The Auditor-General and Deputy Auditor-General are continuing to meet regularly with NSW Treasury and the Department of Premier and Cabinet as well as having regular meetings with Local Government NSW and the Office for Local Government.

Engaging with our local government stakeholders was a key focus during 2016–17, with extensive work undertaken to get to know our new audit clients and their business. Activities included:

- 11 Audit Office information sessions held across the State in November and December 2016
- presentations at a number of different local government sector conferences
- workshops for contract audit agents and Audit and Risk Committee Chairs
- developing a local government brochure and dedicated page on our website
- internal newsletter for Audit Office staff.

In addition, we engaged an external consultant to conduct a survey to help us engage more effectively with the local government sector (see page 53 for more details on our new local government mandate).

### Broader stakeholder engagement

As in previous years, we consulted our stakeholders widely when developing our performance audit three-year plan and the final plan will be published on our website in the second half of 2017 to promote ongoing comment and feedback.

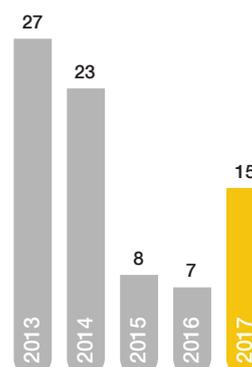
We conducted our annual survey of parliamentarians, audit clients and Audit and Risk Committee Chairs, to gain their feedback on our performance and target areas where we can improve (see pages 11–12 and 19–20).

### Public interest disclosures

The Auditor-General has the power to examine allegations of serious and substantial waste of public money under the *Public Interest Disclosures Act 1994*. This Act protects public officials who make such public interest disclosures in good faith. We examined 15 public interest disclosures in 2016–17, none of which demonstrated serious and substantial financial waste. Fourteen of them concerned NSW Government agencies and one related to a local council.

The Audit Office has an internal and external Public Interest Disclosures Policy establishing a reporting system for staff and public officials to report allegations of serious and substantial waste. These policies are consistent with the NSW Ombudsman's model policy and the requirements of the Act. The policies also outline our public interest disclosures officers.

Number of public interest disclosures



## *We regularly connect with our stakeholders*

### Complaints management

We are committed to actively seeking and using feedback to improve our performance and services. We report bi-annually to the Office Executive on complaints received.

In 2016–17, we received 120 complaints (just over three times the number received in the previous year). Of these:

- 21 (18 per cent) were about local councils
- 82 (68 per cent) were about State Government agencies
- 13 complaints were outside our mandate
- 4 complaints were made about the Audit Office.

The 82 complaints about other NSW Government agencies were varied in nature and across the ten government clusters. Twenty-two per cent of complaints related to the NSW Transport cluster and included complaints about large infrastructure projects such as the City and South East Light Rail, WestConnex and Newcastle Light Rail.

Of the four complaints about the Audit Office, two related to our audits of local councils, one to a performance audit report and one to our complaints management system. With the latter complaint, we have implemented a new process to address the issue raised about our complaints system.

The vast majority of these complaints were referred to our financial audit and/or performance audit branches for information and/or action. In addition, we commenced what will become an annual process of collating complaints information at the end of each year to provide an overview to the Auditor-General of complaints received by our audit teams.

### Working with the public and other watchdog agencies

We work closely with other independent agencies in New South Wales and audit offices in other jurisdictions to improve our services and increase the impact of our work. This includes our important work in responding to public complaints and public interest disclosures where serious and substantial waste is involved. We refer complaints involving allegations of corruption, maladministration or privacy to the Independent Commission Against Corruption, the NSW Ombudsman, the Information and Privacy Commission or to other independent agencies.

In 2016–17, we entered into a Memorandum of Understanding with the Office of Local Government for the referral of complaints and public interest disclosures.

### The year ahead

In 2017–18, we will:

- build on our work from 2016–17 and under our 'Influencing for Impact' strategic initiative develop a new stakeholder engagement strategy to ensure we take a co-ordinated and strategic approach to stakeholder engagement (see page 9 for further details on our strategic initiatives for 2017–18)
- continue to develop our program of stakeholder engagement with local councils
- update our complaints and public interest disclosures policy to reflect the increasing number of complaints the Audit Office is receiving due to its expanded mandate to audit local government (see page 53 for more details on our expanded mandate).