



# Parliament

## **Regularly seeks and uses our advice**

The Auditor-General and the Audit Office of New South Wales provide assurance on the performance and accountability of NSW Government entities, universities and local government by:

- reporting to the Parliament of New South Wales on our audits
- working closely with parliamentary committees

# Satisfaction

## Parliamentarians satisfied overall with our reports and services

92% satisfied with our reports and services

94% agreed we operate independently from government

### Surveying our parliamentarians

Our mission is to help parliament hold the NSW Government accountable for its use of public resources, and it is critical that we understand parliamentarians' views on our performance through their direct feedback on our reports and services.

We continually strive to ensure parliamentarians value our work and that we meet their expectations. We are committed to enhancing our public sector knowledge to ensure our work is relevant and impactful. This was driven by our 'Influencing for Impact' strategic initiative in 2016–17 (see page 56).

In the 2017 survey, of the 135 parliamentarians invited to complete the survey, 28 per cent responded, compared to 33 per cent in 2016.

### Overall satisfaction remains high

Parliamentarians continue to have high overall satisfaction with the Audit Office's reports and services. Ninety-two per cent were satisfied in 2017, a slight increase from 90 per cent in 2016. Parliamentarians were particularly positive about:

- the Audit Office's reports and services providing valuable information on public sector performance, with 96 per cent in agreement, similar to last year's 95 per cent result

- the Audit Office's reports and services helping to improve public sector administration, with 96 per cent agreeing, up from 94 per cent in 2016
- in general, the Audit Office providing high quality reports and services, 100 per cent agreeing, consistent with 2016
- the Audit Office performing audits with integrity, with 94 per cent agreeing, the same result achieved in 2016
- the Audit Office operating independently from government, with 94 per cent agreeing, slightly down on 97 per cent in 2016.

These survey results also provide us with clear areas for improvement. Only 72 per cent of parliamentarians rated the responsiveness of the Audit Office as good or very good, a significant drop from 100 per cent in 2016. Our 'Influencing for Impact' strategic initiative will be developing a stakeholder engagement strategy in 2017–18 to improve the consistency of our responsiveness to key stakeholders such as parliamentarians, and ensure they are getting the most value from our reports as possible.

### Satisfaction with financial audit reports declined

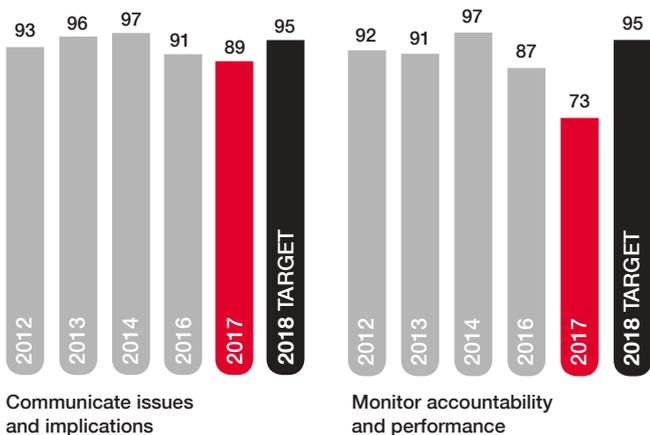
Although overall parliamentarian satisfaction with the Audit Office's reports and services remains high, satisfaction with financial audit reports specifically has declined. The percentage of parliamentarians who agreed our financial audit reports clearly communicated the significant issues and their implications remained high, although there was a slight fall to 89 per cent from 91 per cent in 2016. There was a significant drop in the number who agreed that the reports were effectively presented in terms of layout and design, from 95 per cent in 2016 to 85 per cent.

There is also potential to improve how the reports help parliamentarians monitor the accountability and financial performance of the NSW public sector, as 73 per cent agreed with the proposition, compared to 87 per cent in 2016. This is a five-year low for this measure. The number of parliamentarians who agreed our reports are easy to understand remained the same at 89 per cent.

Our 'Reporting Process' strategic initiative will be implementing a new, more modern and accessible design for our reports in 2017–18 which aims to improve parliamentarians' satisfaction with the layout and design of these reports, as well as how easy they are to understand.

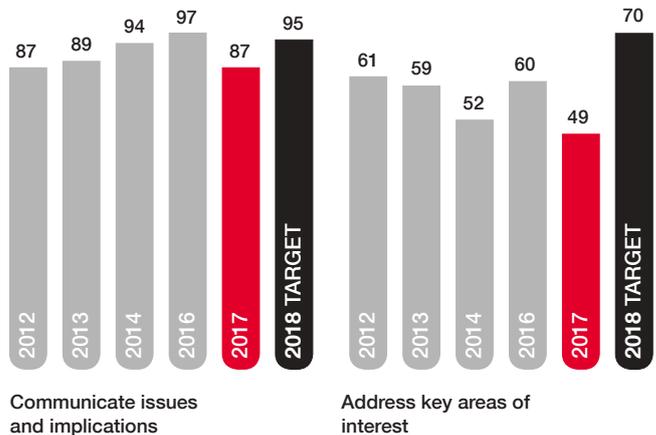
### Satisfaction with financial audit reports %

Survey not conducted in 2015 due to election year.



### Satisfaction with performance audit reports %

Survey not conducted in 2015 due to election year.



## Performance audit satisfaction declined

Similar to satisfaction with our financial audit reports, parliamentarians have rated the Auditor-General's Reports to Parliament for performance audits lower, with results generally declined on 2016. Eighty-four per cent agreed the reports were easy to understand, down from 94 per cent in 2016. Similarly, 87 per cent of parliamentarians agreed the reports clearly communicated significant issues and their implications, down from 97 per cent in the previous survey. Agreement that the reports were effectively presented in terms of layout and design remained steady, with 87 per cent agreeing compared with 88 per cent in 2016.

Forty-nine per cent of parliamentarians felt the performance audits addressed their key areas of interest to a high or very high extent, down from 60 per cent in 2016. This is a five-year low for this measure. Seventy-six per cent of parliamentarians agreed our reports helped them monitor the performance of the area being audited, down from 94 per cent in 2016.

Our 'Influencing for Impact' strategic initiative will be focused on developing strategies in 2017–18 to ensure we better meet the needs of parliamentarians through our reporting.

## Our reports and services rate above other audit offices

Since 2005, we have been comparing our parliamentary survey results against results from other participating Australian audit offices. In 2017, our results have been benchmarked against the Australian National Audit Office and the audit offices in Queensland, Victoria, Western Australia and Tasmania.

On an overall measure of satisfaction with reports and services, 92 per cent of parliamentarians were satisfied. This is a slight increase from 90 per cent in 2016 and slightly above the 90 per cent average of participating audit offices.

We rated above the average of the other audit offices on three key areas. Ninety-six per cent of parliamentarians agreed that our reports provide valuable information on public sector performance, compared to the 93 per cent average. Ninety-four per cent agreed that our reports communicate issues clearly, above the 91 per cent average. Ninety-six per cent agreed that our reports help improve public sector administration, well above the average of 88 per cent.

## The year ahead

In 2017–18, through our 'Influencing for Impact' strategic initiative, we will:

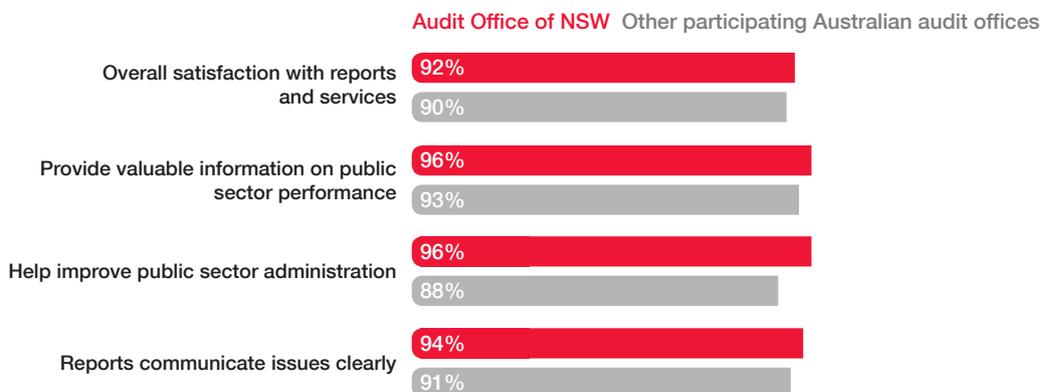
- develop a stakeholder engagement strategy that enables us to better engage with parliamentarians and ensure our reports are impactful and relevant
- build a new website to ensure our reports are delivered in a way that meets the needs of varied audiences
- strengthen government accountability through our collaborative relationship with the Public Accounts Committee (PAC) (see page 17 for further details on our relationship with the PAC)
- continue to ensure we live up to stakeholder expectations and fulfil our mandate.

Through our 'Reporting Process' strategic initiative, we will:

- redesign our Auditor-General's Reports to Parliament to improve the look, layout and readability of our reports and better meet the needs of our stakeholders, including parliamentarians.

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

## Satisfaction compared with other participating Australian audit offices



# Assurance

## Our financial audits provide assurance to parliament

426 financial audits and 79 other assurance audits and reviews completed

16 new modified audit opinions issued

### Providing an independent opinion

Parliament requires reliable information on the operation of NSW government entities. We provide parliament with independent audit opinions on entities' financial statements, increasing their reliability and credibility. Our audits comply with professional quality and independence requirements as parliament needs to be assured our audits are independent. Our mandate further assures our independence by restricting us from providing non-audit services that other accounting firms provide. We completed 426 financial audits this year compared to 419 last year.

In addition to audits of individual entities, we audit the financial statements at the whole-of-government level, the Total State Sector Accounts. These accounts provide financial information to parliament on a State-wide basis, for example total State borrowings. We also provided 79 other assurance audits and reviews (98 last year) to help entities attest compliance or acquit their grant revenues.

### Number of audited entities



### Modified auditor's opinions and conclusions

During 2016–17, we issued 20 modified audit opinions and conclusions in our Independent Auditor's Reports (for details see pages 24–26). This represented four per cent of the 505 assurance engagements we conducted. Modified opinions and conclusions included:

- 1 disclaimed opinion on an entity's financial statements
- 1 qualified opinion on an entity's financial statements
- 1 qualified opinion on a special purpose financial statement to acquit funds received from the Commonwealth
- 16 qualified conclusions on reviews of compliance with requirements
- 1 qualified conclusion on a review of financial information.

Modifications of audit opinions or review conclusions can be qualified, adverse or disclaimed:

- Qualified opinions and conclusions are issued when financial statements contain material misstatements or sufficient appropriate audit evidence is not available; and the impact is material but not pervasive
- Adverse opinions and conclusions are issued when misstatements in the financial statements are material and pervasive
- Disclaimed opinions and conclusions are issued where sufficient appropriate audit evidence is not available and the effects may be material and pervasive.

### Repeat modifications

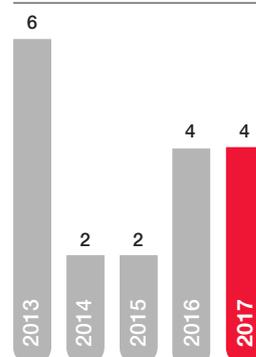
During 2016–17, we repeated four modifications, one fewer than last year. We continue to notify parliament of these

modifications and encourage the entities concerned to act on our recommendations to address the underlying causes.

### New modifications

We issued 16 new modified opinions and conclusions in 2016–17.

### Modified audit opinions and conclusions as a % of total assurance engagements

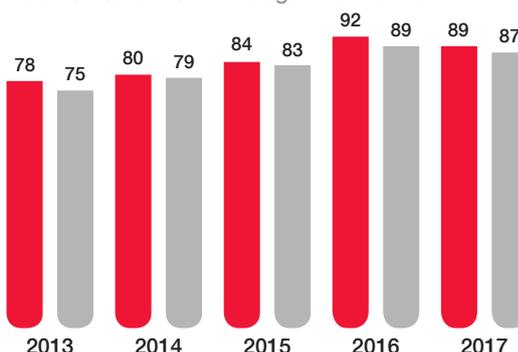


### Comparing costs with other audit offices

We compare our financial audit costs with other Australian audit offices. In 2016–17, our cost per financial audit opinion was \$88,699, three per cent less than last year. Our cost per financial audit opinion was two per cent more than the average of other Australian audit offices.

### Cost per financial audit opinion (\$'000)

Audit Office of NSW Average of all Australian audit offices



### Our financial audit volumes

The results of our 2016 financial statement audits were reported to parliament in 13 volumes of the Auditor-General's Reports to Parliament in 2016–17.

All volumes focus on particular cluster industries, except for one special report which provided an overview of 2016, and one volume which focused on members of parliament and their entitlements. All volumes included audit insights broadly classified into four areas: financial and performance reporting, financial controls, governance, and service delivery.

The industry-based volumes covered:

- Education
- Finance, Services and Innovation (including Insurance)
- Family and Community Services
- Health
- Law and Order, Emergency Services and the Arts
- Planning and Environment
- Premier and Cabinet
- Industry, Skills, Electricity and Water
- Transport
- State Finances
- Universities.

### Timeliness of reporting to parliament

We recognise parliament and other stakeholders need timely reports to allow prompt scrutiny of NSW Government entities' financial position and performance. For entities with a 30 June balance date (most of our clients) our internal benchmark is to report to parliament before the end of the calendar year. Our other financial audits (mainly universities) have a 31 December balance date and our reporting to parliament benchmark is by the end of May each year.

Although we reported 98 per cent of our State Government entities' audits to parliament by our end of calendar year internal benchmark, we did not report on our university audits until 6 June 2017, after our end of May internal benchmark. Overall, this resulted in 79 per cent of our financial audits being reported to parliament on time.

### The year ahead

In 2017–18, we will continue to provide assurance to parliament. In addition, we will strive to provide greater insights to increase our impact on agencies.

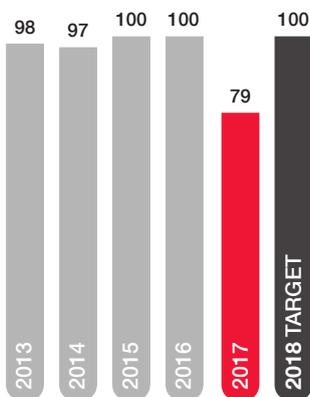
Under our strategic initiative 'Influencing for Impact' we will:

- improve engagement with our external stakeholders
- explore alternate audit approaches that improve the relevance, value and impact of our financial and performance audits.

Under our 'Local Government' strategic initiative we will be releasing our first Auditor-General's Reports to Parliament on the local government sector, including one financial audit report and three performance audit reports. These reports will strengthen assurance to parliament on the local government sector in New South Wales.

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

### Financial audits reported to parliament on time



# Effectiveness, efficiency and economy

## Our performance audits help parliament assess entity performance

17 performance audits completed

### Helping to improve public administration

We reported on 17 performance audits in 2016–17, one more than last year. This is the most performance audit reports the Audit Office has produced in a single financial year. In these 17 reports, we made 102 recommendations to improve public administration.

Performance audits aim to inform parliament and the public about how well government programs are delivered and ultimately improve public administration. They examine whether taxpayers' money is spent efficiently, effectively, economically and in accordance with the law.

These audits may review all or part of an entity's operations. Some audits consider particular issues across a number of entities. Where we find performance gaps, we make practical recommendations.

The extracts in the box below from published responses to our reports indicate the value the entities we audit attach to our recommendations in improving public administration, and the collaborative approach we adopt.

### Opportunities to improve value to parliament

Parliament is our primary stakeholder and our work supports its role in holding the government to account. Our reports are frequently referred to in parliamentary debates and in budget estimates hearings.

Parliament is an important source of suggestions for performance audit topics and audits required by specific legislation.

Although we add value to the parliamentary process, there are always areas to improve in as illustrated by the comments made by parliamentarians in a recent survey:

'There is lots of valuable information in those reports but it takes time to look for specific information.'

'Could be promoted more. Also, Parliamentary briefings have fallen away in the past year. PAC needs to work with the Audit Office to reinstate these.'

## Published agency responses to our reports

I thank the Audit Office for this [Red Tape Reduction] report which will help inform the future of policy in this area.

### Department of Premier and Cabinet

Treasury welcomes the contribution from the Audit Office towards further strengthening evaluation in New South Wales and broadly supports the directions of the recommendations. Stronger evaluation informs resource allocation and regulatory decisions and leads to improved outcomes for citizens.

### The Treasury

I would like to thank the review team of the Audit Office for working with the officers of the department to make this [Planning for School Infrastructure] audit a worthwhile and constructive exercise.

### Department of Education



### Average cost of performance audits was below target

The average cost of performance audits published in 2016–17 was \$272,166. This was below the target of \$308,000 and two per cent higher than the 2015–16 result of \$266,726.

The slight cost increase of our performance audit work can be attributed to loss of team members where remaining work was completed by more senior staff, as well as several complex topics requiring increased involvement of senior staff.

Our cost target for performance audits in 2017–18 is higher than last year due to an expectation that our first performance audits of local government will be more expensive than our State government audits, given this is a new sector for us.

### Choosing performance audit topics

Our three-year performance audit program focuses on the NSW Government’s ‘NSW – Making it Happen’ priority areas and contemporary public sector risks and opportunities. Alongside this program, we continue to work with parliament’s Public Accounts Committee and other key stakeholders (see page 17), to focus on important issues. We also ensure our program is sufficiently flexible to allow us to respond to emerging priority issues.

### Leveraging internal and external expertise

In more complex audits, Performance Audit draws on support from senior management and expertise from across our organisation. This provides industry knowledge, agency liaison and data analysis. Performance audits also use specialist advisers for cultural advice, survey design, industry expertise, research and analysis. Five performance audits completed in 2016–17 used external advisors.

### The year ahead

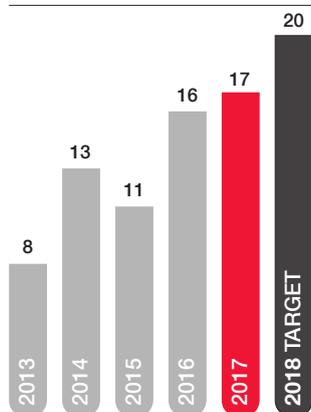
In 2017–18, we will focus on further improving our performance audit topic selection process and better communicating to stakeholders how we choose performance audit topics.

We will continue to improve how we engage with our external stakeholders, including parliamentarians, in an effort to improve the impact and relevance of our audits and increase the value we deliver to the public sector. This is core to our ‘Influencing for Impact’ strategic initiative for 2017–18 (see page 9 for further details on our strategic initiatives for 2017–18).

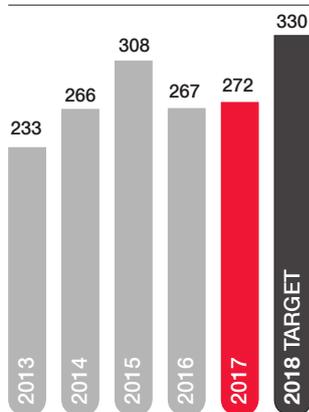
Also in 2017–18, we will deliver our first local government performance audits. We received the mandate to undertake such audits in October 2016 (see page 53 for more details on our expanded mandate). We expect these audits to include substantial stakeholder consultation given the local government sector will be learning about performance audits and we will be learning about the local government sector.

In 2017–18, we will work with the NSW Data Analytics Centre (DAC) on our performance audit of demand management at NSW Ambulance. Drawing on the DAC’s expertise will increase the depth of our insights into this audit topic, and help identify new ways data can be used to understand and improve performance.

Number of performance audits completed



Average cost of performance audits \$'000



# Parliamentary response to our work

## Promoting improvements

Supported the Public Accounts Committee in following up 19 earlier performance audits

### Parliament follows up on progress in implementing our recommendations

The Public Accounts Committee (PAC) holds the entities we audit to account for implementing the actions they agree in response to Auditor-General's report recommendations. It does so through follow-up inquiries conducted a year after the reports are tabled. The PAC makes further recommendations for action when it considers them necessary.

In 2016–17, the PAC followed-up on 19 performance audit reports. The PAC's first follow-up report was released in March 2017 and covered audit reports tabled from December 2014 to June 2015. The second report covered audit reports tabled from July 2015 to January 2016.

This follow-up includes asking entities about their response to our recommendations and the PAC may, if required, hold public hearings. We also provide comments on entities' submissions and appear at inquiries. The PAC held two public hearings covering eight of the 19 performance audit reports it followed-up this year.

The Chair of the PAC said in his foreword to its March 2017 report 'Examination of the Auditor-General's Performance Audit Reports December 2014 – June 2015':

'In accordance with its established performance review process, the Committee examines performance audits conducted by the Auditor-

General, in order to further investigate action taken by agencies in response to the Auditor-General's recommendations. As part of this follow up, the Committee questions agencies on measures they have taken and, if required, conducts public hearings to gather additional information from agency representatives.

The process has proven to be an effective means of testing action taken on performance audits and maintaining a high level of scrutiny of the agencies under review.

With some noted exceptions, the Committee is generally satisfied that the responsible agencies are now implementing the Auditor-General's recommendations.

I am pleased to present this Report and thank the Auditor-General and Audit Office staff for their assistance in this inquiry.'

This PAC report made six recommendations designed to improve the performance of government entities, building on matters already identified by the Auditor-General.

## The year ahead

In 2017–18, we plan to further strengthen our support to parliament and the PAC by:

- continuing our strong relationship with the Public Accounts Committee, led by the Auditor-General
- continuing to respond promptly and thoroughly to all requests from NSW Parliament for Audit Office support, including all audit suggestions
- producing 20 performance audit reports, including three under our new mandate to audit local government in New South Wales (see page 53 for more details on our expanded mandate)
- participating in the PAC's quadrennial review of the Audit Office. This is an independent review undertaken every four years of the auditing practices and standards of the Auditor-General under s.48A of the *Public Finance and Audit Act 1983*.