

annual

report
1995

Year ended 30 November



Profile of The Audit Office

Charter

The statutory office of New South Wales Auditor-General is established by the Public Finance and Audit Act 1983. The Audit Office supports the Auditor-General in meeting statutory requirements under this Act. They are part of the accountability mechanism whereby the Parliament holds the Government accountable for fulfilling its responsibilities. The Audit Office assists the Auditor-General to provide advice to Parliament, Government and the government agencies which are audited.

Legislation

The Auditor-General is responsible for audits under the Public Finance and Audit Act 1983, other New South Wales Acts and Australia's Corporations Law. The Auditor-General also has responsibilities in respect of Commonwealth grants and payments to the State under Commonwealth legislation. As a consequence, that legislation is relevant to The Audit Office.

Outline of Operations

The Audit Office is staffed mainly by people who are qualified in accounting and are skilled in auditing. Private sector audit firms also have been engaged as agents of the Auditor-General and they provide about 14% of the resources. Audits of New South Wales government agencies are conducted to form an opinion on financial reports. Also, since 1992 a modest capacity has existed to determine whether an agency is carrying out its activities effectively, economically and efficiently and in compliance with all relevant laws.

Mission

We see our mission as improving public sector performance by providing the best audit service.

Access

Addresses, telephone and facsimile numbers, and business hours of The Audit Office:

Location

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Office Hours

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Postal Address

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BOX 12 GPO
SYDNEY NSW 2001

The Honourable the Speaker
Legislative Assembly
Parliament House
SYDNEY NSW 2000

Dear Mr Speaker

Pursuant to Section 12A of the Annual Reports (Statutory Bodies) Act 1984, I have pleasure in submitting for presentation to the Legislative Assembly the Report of the activities of The Audit Office of New South Wales for the year ended 30 November 1995.

Yours faithfully

A handwritten signature in black ink, appearing to read 'A C Harris'.

A C Harris
27 March 1996

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Note: Apart from the Financial Statements 1994-95, all other financial information in this report is unaudited.

Foreword by the Auditor General

We have been able, cautiously, to celebrate results this year; in particular, the culmination of our three year program to make the Office a more client-oriented and efficient provider of high quality audit services to the public sector.

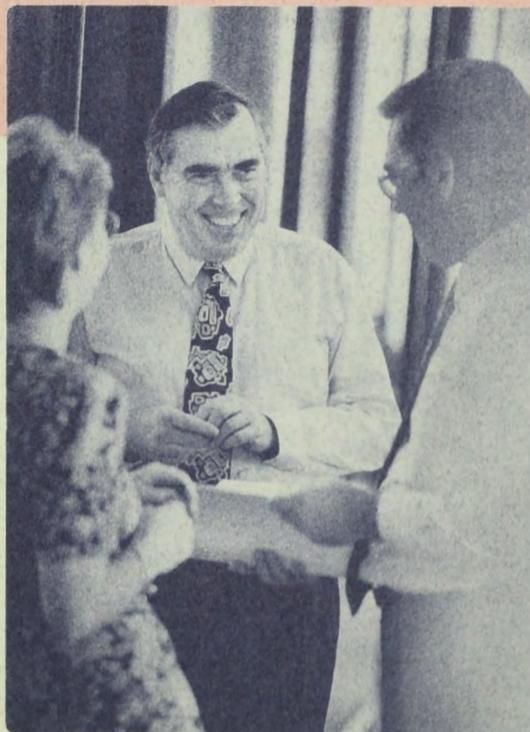
The Office has advanced since we conducted our first client survey in 1992, when it was seen as performing well short of internal and external expectations. Our efforts in the intervening years have been directed to being the auditor of choice for New South Wales public sector agencies.

The dedication and professionalism of staff in striving towards this goal has been acknowledged. When asked in June 1995 an overwhelming majority of our clients acknowledged the Office as their public sector "Auditor of Choice". This is a significant achievement, for in the end it is not what we say or declare about ourselves but what others, particularly our audit clients, say about us and the quality of our work and service.

This Annual Report also acknowledges that the effort to improve does not end with one corporate plan. The Office wishes to be recognised as a quality provider of audit services; it wishes to adopt new work conditions that better reward achievement and to implement an assessment process to help non-performing staff. It also looks forward to the finalisation of the legislated review of the Office that commenced in late 1994 so that the results can play their part in the setting of the future direction of the Office.

I am proud of the Office and the effort and professionalism with which staff have embraced Office initiatives and goals. Without this effort, none of the achievements could have taken place. The report that follows is a representation of the staff and their achievements during the year, in particular the way in which they have dedicated themselves to the tasks at hand. I congratulate each one for the contribution each has made.

“An overwhelming majority of our clients acknowledged the Office as their public sector “Auditor of Choice”



Tony Harris, the Auditor-General, with Rochelle Bradley and Geoff Oliver from the Policy, Research and Management Branch

Highlights

Background

Just over three years ago we commissioned our first audit client survey. The results were less than flattering and suggested that The Audit Office was perceived by clients to be only an average performer that did not provide the range or depth of advice that audit clients wished. Many who were critical of the Office were critical of its overall performance, both technical and non-technical. The relatively low fee rates charged by the Office were not seen as offering good value for money, or as being particularly competitive.

Overlaying these findings was the belief of audit clients - and at least some audit staff - that the Office had not had to face those pressures for change with which the public service was grappling. And even though most clients were natural or legislated monopolies, it was suggested that if freedom of choice was available to them, few of those agencies would choose The Audit Office to be the external auditor.

We then set a goal to be recognised by December 1995 as the public sector auditor of choice. In each of the intervening years, staff teams were formed to deal with key issues and to take the Office towards that goal.

The Year in Review

- In June of 1995 nearly all audit clients were asked for their views as to the ability of The Audit Office to meet their needs and whether they considered their needs would be better met if a private sector auditor was appointed as agent of the Auditor-General. In response, clients overwhelmingly acknowledged The Audit Office as the public sector auditor of choice with only 2 clients expressing a preference for the engagement of a private sector audit firm. Those 2 clients have been accommodated.
- This auditor of choice result has been confirmed by the 1995 audit client survey. About 78% of survey respondents indicated they would choose the Office as their external auditor.
- One of our audit managers, Andrew Grice, was named the Young Accountant of the Year, Government and Academia, by the New Accountant newspaper. We have long recognised the exceptional quality of our younger staff members and it is gratifying to have this acknowledged externally.
- The emphasis given to our staff training program is starting to pay dividends. Staff who studied for the Society of Certified Practising Accountants' CPA Program achieved a higher pass rate than the average for that program.
- As an organisation which is part of the accountability and reporting processes we believe that The Audit Office should lead by example. Our annual report received a bronze award in the 1994 Annual Reports Award scheme which is designed to encourage excellence in annual reporting.
- During the year the audit work load increased (due to a substantial reorganisation of government agencies) but a staff freeze prevented the employment of adequate audit staff numbers. The efficient completion of audit work was compromised as a consequence.

- A major disappointment has been the delay in finalising negotiations on an enterprise agreement which would assist the Office to adopt a more flexible approach to employment and work practices and provide its staff with incentives which would ensure the efficient, effective and economical operation of the Office.
- The financial results continue to be significantly affected by movements in the Superannuation Fund balances held in the Office's name. An increase in the assessed superannuation liability resulted in an abnormal charge of \$811,537 to the income and expenditure account.

Key Operating Statistics

	1994	1995
Organisations and activities audited	468	452
Qualified audit opinions issued	35	64
Number of reports to Parliament	11	10
Employment, and equivalent, numbers	279	278
Chargeable time	56%	54%

Key Financial Statistics

	\$'000	\$'000
Total Income	20,186	19,712
Total Expenditure	19,978	19,776
Operating Surplus/(Deficiency) after abnormals	2,077	(875)
Total Assets	11,239	13,611

Outlook

The Office will be seeking ways to better help staff so that they can more closely meet clients' expectations.

The 1995-96 year will see the report arising from the first statutory "peer review" of the Office arranged by the Public Accounts Committee.

It will also see the development of a four-year plan to deal with recommendations arising from that report and other issues facing The Audit Office so that it is well placed to face the challenges of the next century.

Performance

Key Statistics

	1994	1995
Effectiveness		
Audit client satisfaction index	66%	65%
Efficiency		
Audit costs to State public sector expenditure (cents per \$'000)	69	64
Economy		
Major cost items:		
- average staff salary & allowances per week	\$937	\$987
- average hourly cost of contract auditors	\$66	n/a

Mission

The Auditor-General is part of the public sector accountability regime under which government agencies are accountable to Ministers and Ministers are accountable to Parliament.

But that accountability does not exist merely for its own sake. Accordingly, The Audit Office has agreed its mission as:

Improving public sector performance by providing the best audit service.

The Auditor-General is independent of the Executive and is not part of Parliament. The Office provides support to the Auditor-General to assist him to fulfill his mandate under the *Public Finance and Audit Act*. It does this through tabling of reports and recommendations to Parliament, to Ministers and to the management of the government agencies.

Work is performed in 2 main streams, these being:

- financial audits, which provide an independent opinion on the financial reports of government agencies, and
- performance audits, which provide an independent report on selected government programs or activities in terms of their economy, efficiency, effectiveness and compliance with all relevant laws.

Operating Environment

In the past the public sector was seen by many as a large, specialised field, with organisations ranging from extremely large enterprises with complex infrastructures and operations to very small organisations. It had been thought that the myriad of peculiarities across government required a specialised knowledge and considerable length of experience on the part of the public sector auditor.

That has changed. Privatisation, corporatisation, commercialisation and the introduction of accrual accounting mean that government entities are increasingly trying to operate more like businesses. Our annual client survey tells us that clients' needs are changing and they require an auditor who has up-to-date knowledge and can assist in agencies' adoption of best practice.

Our audit clients, particularly those with commercial goals, have high expectations. Overall, The Audit Office has come under increasing

pressure from the clients to be more cost effective and provide higher value for money. Clients have growing expectations for better response time, cost and quality. They would like to see The Audit Office deliver a better level of service, and some would like more specialised services such as tax advice and business consultancy.

At the same time, there is an emerging understanding that the public sector audit is not equivalent to an audit undertaken in the private sector. Those differences stem from the more onerous accountability requirements in the public sector. They reflect Parliament's desire that Government agencies account for the same financial relationships in a consistent way. Similarly, Parliament would wish that financial information is reported in a manner that most accurately captures the substance of the arrangements. Public sector audits also have an emphasis on probity and compliance issues that is not present in private sector audits.

Another difference between public and private sector audits lies in the responsibility that the Auditor-General has to report to Parliament on matters that Parliament ought to know. This requirement for public reporting can - and does - mean that the relationship between the audit client and the public sector auditor need not be the same as that enjoyed in the private sector between the auditor and the auditee.

Of course, private sector auditors can efficiently audit in the public sector - but not in the same way that they operate in the private sector.

To some extent, the performance of the Office can be judged by the impact of its reports. Often that impact can be measured only in the longer term, since the recommendations in major reports are usually of a long term nature.

Such difficulty aside, the following indicators provide an assessment of our performance:

<i>Area of Performance</i>	<i>Indicator Used</i>
Effectiveness (outcomes)	<ul style="list-style-type: none"> ● Extent of client satisfaction with The Audit Office ● Financial audits - improvements in financial reporting by clients ● Performance audits - action taken by clients
Efficiency (cost of outputs)	<ul style="list-style-type: none"> ● Audit costs in relation to the value of transactions audited ● Percentage of staff time spent on audits ("chargeable time") ● Charge-out rates for audit staff
Economy (cost of inputs)	<ul style="list-style-type: none"> ● Major cost items: <ul style="list-style-type: none"> - salaries - contract auditors' costs - office rental
Compliance (with all relevant laws)	<ul style="list-style-type: none"> ● Known breaches of legislation by the Office

Performance Indicators

Effectiveness (Outcomes)

Extent of Client Satisfaction

At year-end as part of our independently-conducted client survey, a small number of Parliamentarians were interviewed and all expressed positive opinions on the performance of The Audit Office over the last twelve months.

In addition, a selection of our audit clients (that is, the agencies which we audit) were asked to rate our performance on certain criteria (see section titled *Corporate Plan and Progress*) and the rating was then converted to an overall measure of our performance. While most audit clients acknowledged that they had perceived improvement in the Office, this did not translate into an increase in the overall audit client satisfaction index, as shown in the following table:

Audit Client Satisfaction Index

	1993	1994	1995
Result	63%	66%	65%
Target	70%	75%	80%

Within this year's overall rating of 65%, clients rated the private contractors who work for the Auditor-General slightly lower than they rated Audit Office teams. The former were rated at 62.7% and the latter, 65.1%. This represented a significant change from the previous year when the private contractors were rated at 82% and our own teams at 65%.

Effectiveness of Financial Audits

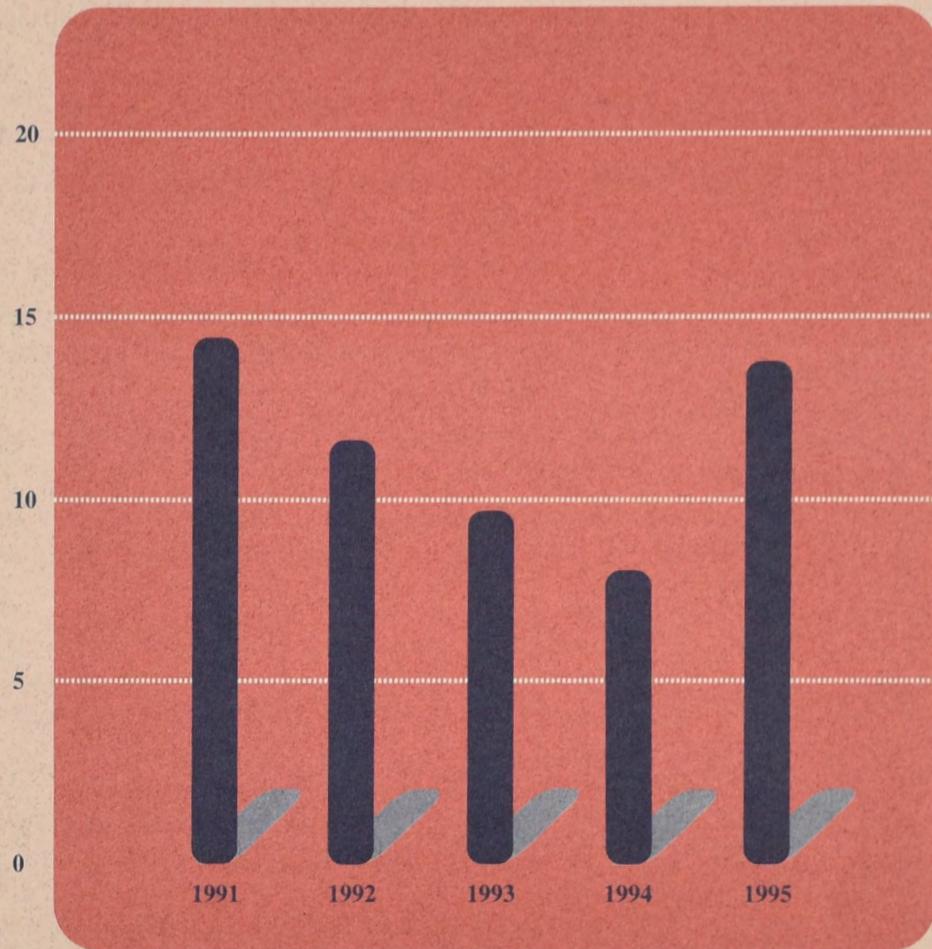
Quality of Reporting by Clients

Over time the Office can influence and encourage improved financial reporting, and the percentage of reporting entities receiving a qualified audit opinion can be considered, in part, an indicator of the influence which the Office has on public sector accountability. (An audit opinion is qualified when The Audit Office has identified a deficiency in an entity's financial statements which is of significant magnitude or nature.)

During the past year 64 qualified audit opinions were issued representing 13.7% of all opinions issued. In 1994 the figure was 35. The increase this year can be attributed mainly to 30 opinions which were qualified on a common basis, namely the uncertainty regarding the taxation of the Government superannuation fund. If these 30 were excluded (on the basis of being an exceptional and non-recurring qualification) the percentage of qualified opinions in 1995 would be 7.2% (compared to 7.8% in 1994).

The report "Who Audits Australia?" (Interim Report 1995) shows that 13.8% of the private sector companies included in that report received qualified audit opinions from their private sector auditors.

Percentage of Financial Reports Requiring A Qualified Audit Opinion



Timeliness of Reporting

Another factor affecting the usefulness of financial information is its timeliness. That timeliness, in turn, is generally a function of how soon after year-end the client presents the financial statements for audit. Again, the Office can influence and encourage timely submission of financial statements for audit. The speed with which the audit is then completed and the opinion issued is more directly (but not completely) under our control.

The following table shows the percentage of financial statements submitted for audit by the due date for submission and the percentage of audits completed by the due date for completion.

Timeliness of Financial Reporting

	1993	1994	1995
Percentage of financial statements submitted by due date	95.6%	92.4%	82%
Percentage of audit opinions issued by due date	85.3%	93.0%	83%

Reasons for Delays

Delays in submitting financial statements for audit in 1995 can be attributed to:

- the issuing to agencies very late in their accounting cycle of central government accounting instructions, and
- inadequate planning by some agencies for timely production of financial statements.

Delays in issuing audit opinions were due mainly to:

- a Government-wide staff freeze which prevented The Audit Office from employing the staff numbers required for a significant period during the year,
- the poor quality of some financial statements or supporting records, and
- delays by some client officers in signing the financial statements (which must occur before the audit opinion can be issued).

Effectiveness of Performance Audits

During 1994-95 the Government acted on most of the performance audits tabled during the year. The responses included:

- acceptance of the findings in the report concerning the Proposed Sale of the State Bank of NSW, which Parliament had required as a precondition to finalising the sale;
- acceptance of the findings in the report on the M2 Motorway, which Parliament had also required be carried out before action proceeded further;
- acceptance of the findings and recommendations in the report concerning Joint Operations in the Education Sector, including adoption by the agencies concerned of The Guide to Best Practice developed as part of the report;
- acceptance by the Department of School Education of the findings and recommendations in the report concerning Effective Utilisation of School Facilities, leading to the development of a detailed plan of action to address the issues raised; and
- acceptance of the findings and recommendations in the reports on Luna Park and on Government Advertising, with significant action on the latter expected during 1995-96.

Potential for achieving improved value-for-money results of nearly \$8 million per annum were identified in the audit which examined the effective use of school facilities.

Not all performance audit reports are designed to produce quantifiable monetary savings or improvements in value-for-money. Reports can give assurance to Parliament on the "due process" of decision making in key areas and indicate whether officials have acted in the best interests of the State.

Such reports were a feature of performance audit operations during 1994-95, with the Office meeting requests from Parliament and the Government, often with a very short turnaround (just one week in the case of the M2 Report).

Efficiency (Cost of Outputs)

Audit Costs

A common indicator of audit efficiency is the relationship of audit costs to the value of transactions audited. In normal terms the lower the audit costs per dollar audited, the more efficient is the audit. Of course, relatively high costs may not reflect adversely on audit efficiency. The higher costs may reflect the quality or complexity of client accounting and financial systems.

Possibly the most meaningful overall indicator of this type is the comparison of total Audit Office costs with total NSW State Public Sector Expenditure (as per the State Consolidated Financial Statements). Both sets of cost figures are compiled using the accrual method, which is generally preferred to a cash basis.

Audit Costs to Public Sector Expenditure

	1993	1994	1995
Total NSW State Public Sector Expenditure (\$billions)	29.0	28.9	30.7
Audit Office Operating Expenditure (\$millions)	15.2	20.0	19.8
Cost of Audit (cents per \$'000)	52.4	69.2	64.4

The sharp increase in the cost of audit in 1994 can be attributed largely to the (permanent) cost of increasing staff numbers in our Performance Audit Branch and a (one-off) cost in connection with the review of the sale of the State Bank.

Costs of the two audit programs are compared with Total NSW State Public Sector Expenditure in the following table:

Program Costs to Public Sector Expenditure

	1993	1994	1995
Cost of Attest Audit (cents per \$'000)	44.7	50.9	48.7
Cost of Performance Audit (cents per \$'000)	n/a	7.9	5.9

In respect of other Australian public sectors there is no published material showing both State expenditure and Audit Office expenditure on an accrual basis. However, a comparison with 2 other offices can be made using published material compiled on a different basis.

Audit Costs to State Transactions

	Northern Territory ⁽²⁾	Western Australia ⁽³⁾	NSW
State or Territory Transactions ⁽¹⁾ (\$billions)	3.0	14.9	49.0
Audit Costs (\$millions)	2.2	8.6	19.8
Cost of Audit (cents per \$'000)	74.6	57.5	40.4

Note (1): The value of State Transactions (outlays and revenue) for the year ended June 1995 as per Australian Bureau of Statistics

(2): As per page 26 of 1995 Annual Report of Territory Audit Office

(3): As per page 89 of 1995 Annual Report of State Audit Office

The table should be viewed with an appreciation that differences in size and differences in audit mandate will affect the cost of audit.

Private Sector Comparisons

A comparison with the private sector is possible using an audit fee analysis which appeared in the December 1993 issue of Chartac Accountancy News. That analysis examined five diversified industrial companies in respect of certain key audit cost ratios, of which the ratio of audit fees to client revenue is a convenient basis for comparison with The Audit Office.

Taking from that analysis the 2 companies with the largest revenue, the comparison is shown in the following table. Again, substantial differences in size will affect the cost of the audit.

Private Sector vs Public Sector Audit Costs

	CSR ⁽¹⁾	Pacific Dunlop ⁽¹⁾	NSW Public Sector ⁽²⁾
Trading/Operating Revenue (\$billions)	4.6	6.3	31.3
Auditors' Fees (\$millions)	3.7	6.0	14.0
Cost of Audit (cents per \$'000)	80.4	95.2	44.7

Note (1): Information taken from the latest accounts available as at December 1993

(2): Information taken from the State Consolidated Financial Statements for the year ended June 1995

Chartac Accountancy News magazine of October 1995 provided information on partner numbers, staff numbers and fee revenue for a number of Australian accounting firms. Taking the average of the 5 firms closest in size to The Audit Office (in terms of staff numbers and fee revenue) the following comparisons could be drawn.

Private Sector vs Public Sector Staff Numbers and Fee Earnings

	Total Personnel	Fee Income (\$million)	Staff/Partner Ratio ⁽¹⁾	Fees Earned Per Person (\$'000)
Average of 5 private firms	193	17.7	5.4	91.7
The Audit Office	239	15.2	8.9	63.6

Note (1): Members of the Senior Executive Service in The Audit Office were taken as the equivalent of partners in the private firms

The previous table indicates that the Senior Executive level in The Audit Office manage a larger number of staff than their private sector counterparts.

In terms of fees earned per person the private firms earned considerably more than The Audit Office (adjusting for 18 performance audit staff who do not, generally, contribute to fees earned). The main reason for the difference is that The Audit Office is restricted by legislation to providing audit services but private firms are not so restricted and a considerable part of their revenue comes from higher-priced services.

Chargeable Time

Another indicator of the efficiency of an audit organisation is the percentage of staff time charged to audits (as opposed to time spent on administrative and other tasks). The maximum achievable chargeable time percentage will depend upon a number of factors including the staff structure, time devoted to training and the like. Generally, the higher the percentage of chargeable time, the better in terms of efficiency.

Chargeable Time Percentage⁽¹⁾

	1993	1994	1995
Actual	58%	56%	54%
Target	58%	60%	60%

Note (1): Total days charged to audits as a percentage of total week days in the year (260) for all staff

The table shows a declining chargeable time percentage which is mainly due to the increased administrative effort associated with establishing an expanded performance audit and information systems audit capability and increased training.

Charge-out Rate

The charge-out rate for audit staff can be yet another indicator of efficiency.

Movement in Audit Office Charge-out Rates

	1993	1994	1995
Effective hourly charge-out rates	\$70	\$67	\$72

Our client survey continues to show that clients do not believe that the Office is cost-competitive or that it gives particularly good value for money. In light of the private firms' audit pricing policy, which in the past has seen audit services as a loss leader, it is unlikely that The Audit Office will be able to price its audit work considerably cheaper than the firms but the issue of providing value for money is one where some improvement should be possible.

Economy (Cost of Inputs)

Major Cost Items

The most significant individual expense items incurred by The Audit Office are salaries, office rental and contract auditors' costs. In 1995, these expense items amounted to \$11.8 million, \$0.7 million and \$2.2 million respectively.

Contractors are chosen by a selective tendering process which includes price as one criterion.

The other 2 major cost items are analysed in the tables following.

Audit Office Average Salary and Allowances

	1993	1994	1995
Average weekly salary and allowances	\$902	\$937	\$987
% increase over previous year	0.4%	4.0%	5.4%
Average Weekly Earnings - NSW ⁽¹⁾	\$541	\$549	\$573
% increase over previous year	3.0%	1.6%	4.6%

Note (1): Average Weekly Earnings - NSW as per Australian Bureau of Statistics catalogue 6302.0

The increase in the average weekly salary of Audit Office staff during the period reflects changes to award/agreement conditions. It also matches the percentage changes received in the broader community.

Office Rental and Cleaning Expense

	1993	1994	1995
Average cost per metre	\$267	\$243	\$249
% Increase (decrease) over previous year	(17%)	(9%)	2%

The reduction in average cost in the years prior to 1995 was due to extra office space acquired in each year at a lower cost per metre. No extra space was acquired in 1995.

Compliance

The Public Finance and Audit Act 1983 generally requires that audit opinions be issued within 10 weeks of receipt of the financial statements by The Audit Office. The requirement was met during the year in 83% of cases. The Office also conducts audits under the Companies and Superannuation legislation of the Commonwealth and under the New South Wales State Owned Corporations Act 1989. Breaches of the Companies Legislation occurred when officers signed audit opinions on company accounts without authority.

The Office is also subject to the range of Commonwealth and State legislation and State directions affecting other government agencies (concerning taxation, annual reports, accounting practices, etc). No known breach of these laws and regulations occurred during the year.

Accountability of the Office

The Office is accountable to Parliament. Our various reports are presented to Parliament and can be debated. This annual report is a part of the accountability arrangement. It contains the financial statements of the Office which are subject to independent audit by an external chartered accountant whose report appears with those statements.

The Office is also accountable through reviews conducted by the Public Accounts Committee of the Parliament. As part of its oversight role the Public Accounts Committee appointed a peer reviewer of the Office in November 1994. The final report is not yet available.

During the past year there were no requests under the Freedom of Information (Amendment) Act 1992.

Complaints

The Office is subject to investigation by the Ombudsman of any referred complaints. We received no notice of any such complaints.

During the year The Audit Office itself received a number of complaints about the Office switchboard and advice has been taken to rectify the problem.

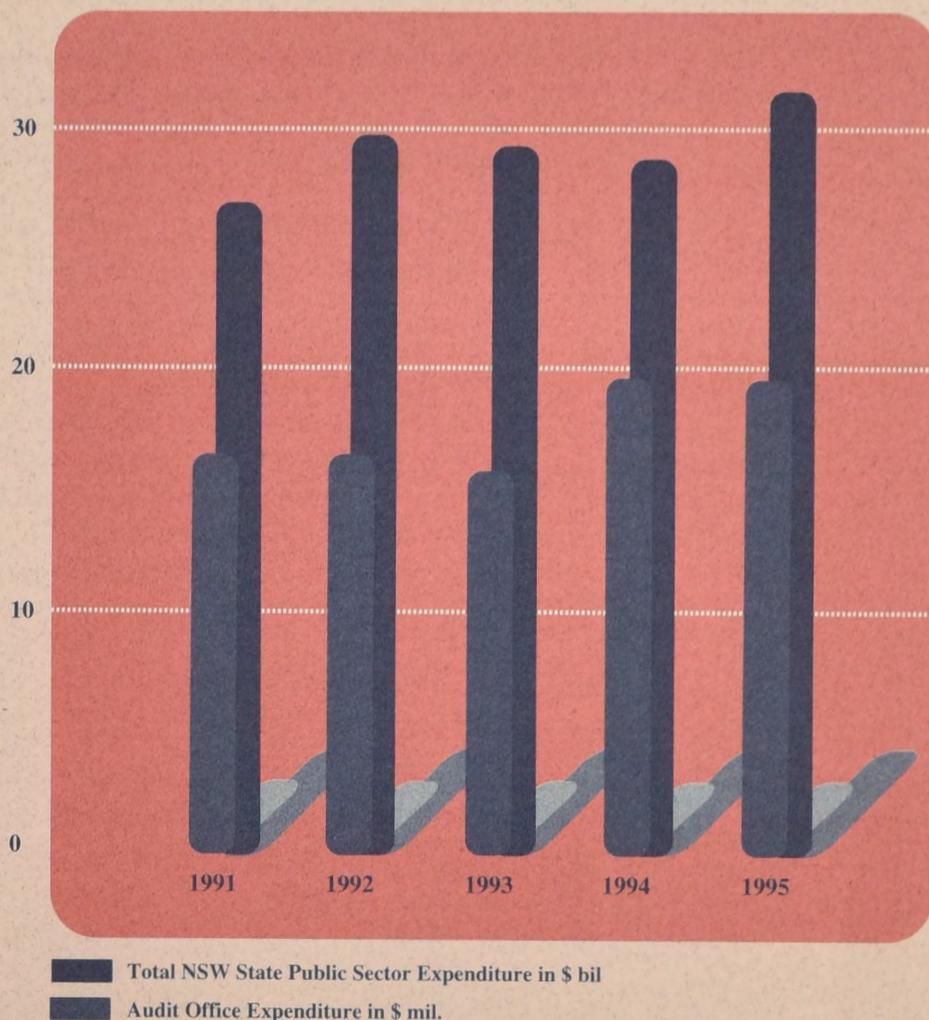
Other complaints which have indicated the need for action have been the subject of examination by audit officers where the matter falls within the responsibility of the Auditor-General.

Five Year Summary

	1991	1992	1993	1994	EST 1995	Actual 1995	EST 1996
Effectiveness							
Audit client satisfaction index ⁽¹⁾	n/a	64%	63%	66%	80%	65%	70%
Financial statements receiving unqualified audit opinion	86%	88%	90%	92%	95%	86%	96%
Timeliness (audit reports issued within time limit):							
- audit opinions ⁽²⁾	99%	98%	85%	93%	99%	83%	95%
- reports to Ministers ⁽³⁾	49%	48%	85%	90%	95%	95%	99%
- reports to management ⁽⁴⁾	n/a	n/a	n/a	14%	80%	58%	80%
Efficiency							
Audit costs to State public sector expenditure (cents per \$'000)	58	51	52	69	n/a	64	n/a
Chargeable time %	53%	56%	58%	56%	60%	54%	56%
Effective hourly charge-out rate	n/a	\$72	\$70	\$67	\$67	\$72	\$70
Economy							
Major cost items:							
- average weekly salary and allowances	\$850	\$898	\$902	\$937	\$950	\$987	\$975
- average hourly cost of contract auditors	n/a	n/a	n/a	\$66	\$68	n/a	\$70
- office rental and cleaning expense: average cost per metre	\$323	\$323	\$267	\$243	\$245	\$249	\$249
Workload							
Number of organisations and activities audited	454	435	438	468	440	452	450
Number of performance audits and special reports	5	14	23	28	23	17	20
Number of Reports to Parliament ⁽⁵⁾	2	5	5	11	16	10	13
Employment							
Average staff for the year	192	184	193	206	220	222	240
Sub-contractors, temporary and consultant staff in full-time equivalents ⁽⁶⁾	36	43	52	72	59	56	42
Financial							
Total income - \$'000	\$15,457	\$17,114	\$17,512	\$20,186	\$18,650	\$19,712	\$20,730
Operating surplus/ (deficiency) - \$'000	(601)	1,842	2,864	2,077	(475)	(875)	5
Asset turnover - times per annum ⁽⁷⁾	6.6	6.2	5.2	4.7	4.8	4.4	4.5

(Superscript numerals refer to Notes on opposite page)

Five-Year Comparative Expenditure



Notes

n/a Not available.

- (1) This is a measure of how satisfied audit clients are with The Audit Office and has been derived from a survey discussed elsewhere in this report. No quantitative measurement is available in respect of Parliament or other client groups.
- (2) The time within which audit opinions must be issued is set by law and is, generally, within ten weeks of receipt of the financial statements by The Audit Office.
- (3) There is no statutory time limit for the issue of reports to Ministers. Until 1992 the time period used for measuring performance was two months after the related audit opinion. In August 1993 this was changed to ten weeks after the related audit opinion. In October 1994 this was revised and the report to the Minister will now be issued at the same time as the related audit opinion.
- (4) There is no statutory time limit for the issue of reports to management. The Guarantee of Service originally set a period of three weeks after completion of the interim audit field work and ten weeks after year end for the final audit management letter. In October 1994 the period for the final audit management letter was changed to four weeks after audit completion as a more appropriate target.
- (5) Does not include the Annual Report on the activities of The Audit Office.
- (6) Equivalent of staff numbers required to replace sub-contract, temporary and consultant staff based on average cost per staff member.
- (7) This is calculated as revenue from fees and contributions divided by average receivables and work in progress for the year.

Corporate Plan and Progress

Corporate Goals

In recent years The Audit Office has been undergoing substantial changes to respond to the challenges facing it.

At the beginning of 1993 a three-year plan was developed. Our vision for The Audit Office was that, by December 1995, it would be recognised as the centre of excellence for the provision of public sector auditing and related services and advice.

Our broad goals, to underpin our vision, were to:

- be recognised in the market as the public sector auditor of choice;
- implement the best technical products/services and methodologies;
- earn sufficient revenue to ensure sustainable self-sufficiency and to underwrite required investment;
- develop internal systems to ensure the effective overall operation of The Audit Office;
- attract and retain highest quality staff who are supported by training and development programs and career opportunities; and
- build an organisational culture that embraces quality as a core value, and promotes commitment to excellence and client service.

Key Issues and Implications

In 1993 our three-year plan detailed a number of key issues and implications for The Audit Office drawn from a survey of our clients and a series of management and staff workshops. These were:

- the role of The Audit Office was often a source of confusion, representing different meanings for different parties;
- it was seen as out of step with its audit clients who were under increased pressure in terms of their own management and accountability;
- there was a view that The Audit Office was less skilled in the newer and growing areas of need such as EDP auditing, performance auditing and commercial accounting practices; and
- there was a need to develop and apply a client service philosophy.

Subsequent client surveys together with general feedback and discussions with various Audit Office personnel brought to light the following additional issues and implications:

- Audit Office staff required leadership and motivation to commit to the Office's future direction;
- Audit Office stakeholders were uncertain about the quality and skill levels of audit staff;
- there was continued uncertainty in relation to The Audit Office audit philosophy and the balance (and possible conflict) between financial and performance auditing;
- clients needed reassurance that they were receiving value for money and also needed information on The Audit Office service capability; and

- client service was improving but was still not at an acceptable level.

At the beginning of each year, staff teams were formed to deal with the key issues arising and to take the Office towards its goals. Progress over the past years has been as follows.

Auditor of Choice

Clients' Views

The first goal we set for the Office was to be recognised in the market as the public sector auditor of choice. The ultimate aim of whether this goal has been realised is Parliament's judgement on the matter, but audit clients also have a role to assess our efforts to be the public sector auditor of choice.

In June of 1995 a letter was sent to all the audit clients except those where the audit is conducted by a private sector agent on behalf of the Auditor-General. That letter asked clients for their views as to the ability of The Audit Office to meet their needs. Most clients were also asked whether they considered their needs would be better met if a private sector auditor was appointed as an agent of the Auditor-General. (This latter question was not asked of about thirty clients whose functions were considered to be core government and lent themselves less to audit by a private sector agent.)

Only 2 clients expressed a preference for the engagement of a private sector audit firm and those clients have been accommodated. A number of respondents spoke positively of The Audit Office while the remainder were accepting of existing arrangements.

Annual Survey

At the end of 1995 we conducted our annual client survey. As in previous years, we used that independently-conducted survey to identify the needs and expectations of Audit Office clients and to monitor The Audit Office's level of performance in the delivery of its services. The audit client satisfaction rating arising from this year's survey was 65%. (This compares to the rating in the previous three years of 64%, 63% and then 66% in 1994.) This survey also indicates that 78% of audit clients would choose the Office to be the external auditor.

Other conclusions from the survey were:

- Parliamentarians, stakeholders and clients perceived that The Audit Office had improved its performance in recent years as well as during the past year.
- Overall, The Audit Office is meeting its audit clients' needs well, with 89% commenting that they were "satisfied" that it met their needs.
- The satisfaction index of those clients whose audits are performed by private sector firms on behalf of the Auditor-General fell significantly, while the index of the non-contracted clients increased marginally.

- Although the Office is now over-whelmingly acknowledged as the public sector “auditor of choice” there is a need to communicate more strongly some of the particular improvements which have occurred and focus on specific areas of underperformance.

Performance on Key Criteria

A summary of the survey results showing how clients have rated the Office's own audit teams (as distinct from our contract auditors) on certain criteria over the last 4 years is shown in the accompanying figure.

High ratings were achieved in respect of audit skills and Audit Office staff availability to clients. Notable improvements were indicated in clients' responses to The Audit Office providing value for money, and auditing skills. There is also a good indication from clients that The Audit Office is taking additional time and making considerable effort to understand clients' business needs.

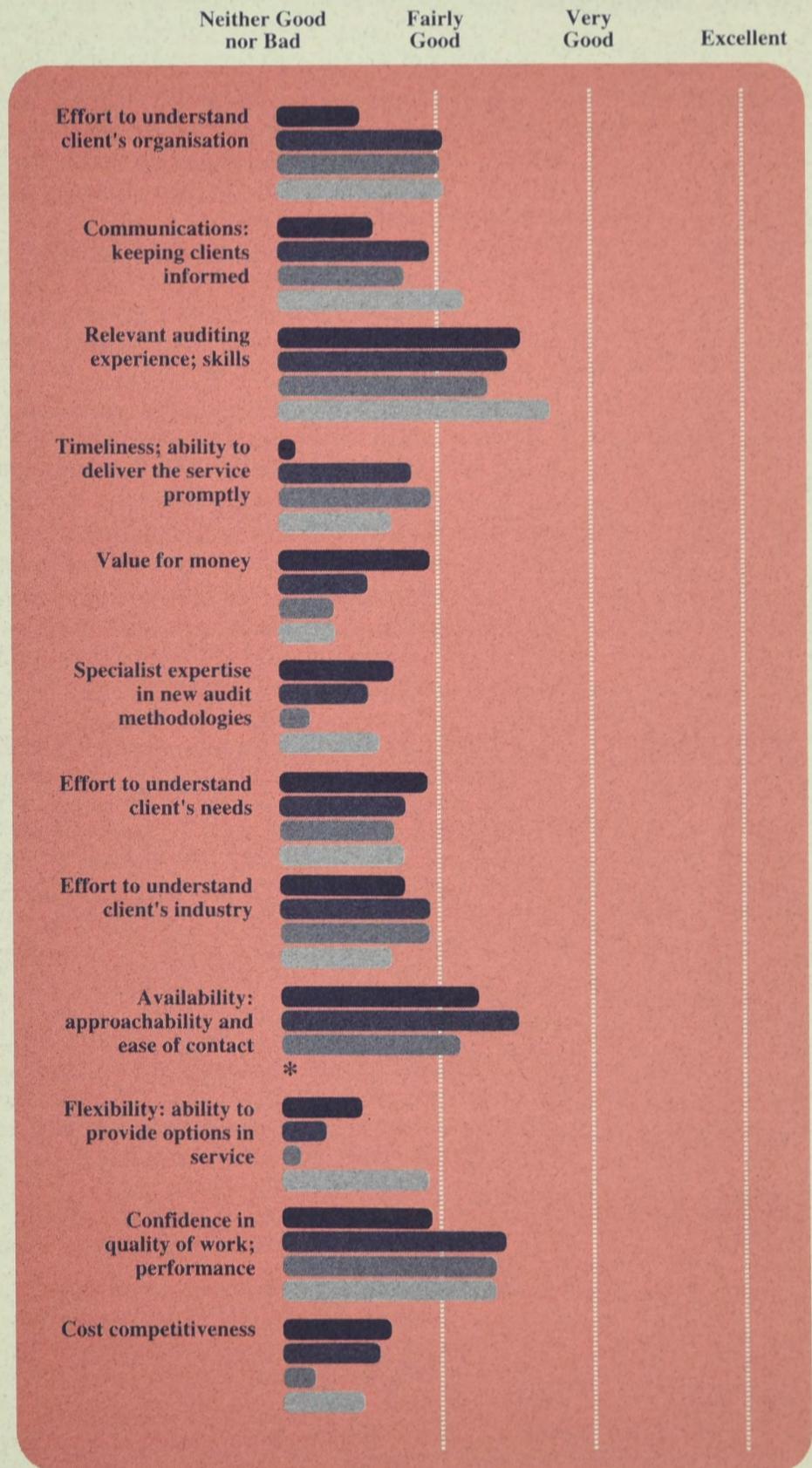
The survey tabulated separate results for those clients whose audits were conducted by contracted private sector firms on behalf of the Auditor-General. Overall, these clients are least satisfied with The Audit Office's “performance”. Their main concerns are with timeliness (the extra time taken to complete the audit due to the three party relationship) and effort to understand the client's business (due to the arms length relationship The Audit Office has with these clients).

Staff Views

As part of the survey process, Audit Office staff were asked for their views. Their main comments were as follows:

- Staff believed that The Audit Office was generally meeting its clients' needs fairly well, given the legislative and budgetary constraints within which it was required to operate.
- Main areas where improvement was noted included an increased ability to meet deadlines, increasing responsiveness, better understanding of their client's business and improvements in the quality of the audit being performed.
- Staff nominated several areas which required attention to improve the operations and performance of The Audit Office. These included low staff morale due to limited career opportunities above the Grade 8 level, concerns that the audit methodology may not be the best and concerns about lack of resources or the wrong staff mix.

Performance on Key Criteria



Client's 1995 Rating of Audit Office
 Client's 1994 Rating of Audit Office
 Client's 1993 Rating of Audit Office
 Client's 1992 Rating of Audit Office
 * 1992 rating not available

Products, Services and Methodologies

The second goal of the Office concerned technical products, services and methodologies.

Progress to date can be summarised:

- The emerging view is that our attest audit methodology is adequate but would produce more relevant results if it focussed greater attention on the clients' business risks. There is also scope for further efficiency gains through improvement to the methodology.
- The task of integrating our information systems audit work with financial audit has had a somewhat delayed start but considerable progress has been made in the past year. It will not be complete for some years due primarily to the difficulties in hiring and holding staff.
- Our performance audit reports are generally seen as fair and accurate although their quality has sometimes been clouded by arguments as to whether they comment upon government policy.
- Extra audit concentration ought to be accorded to probity and compliance issues but present funding does not allow it.
- The formation of industry and other specialisation groups within the Office has been well received by clients. Other attempts to add value through additional services to clients is restricted by legislation.

Self-Sufficiency

The Office operates on a break-even philosophy and has gone very close to achieving this in recent years (when any abnormal credits or charges are left aside). Clients pay a fee for attest audit work which is designed to recover slightly more than cost. Performance audits are funded to the extent of \$500,000 per annum by Government although normal operating costs for the performance audit branch amount to approximately \$1.5 million. The shortfall is subsidised by fees from attest audit clients as the Office's contribution to the Government.

Effective hourly charge rates for attest audit work have varied little over time. When comparative information was last available (in 1994) our rates were slightly below the rates tendered by the larger city accounting firms. Despite this, our clients do not believe that the Office is cost-competitive.

Internal Systems

Our fourth goal was to develop internal systems to ensure the effective overall operation of the Office. Progress has been as follows:

- The area of human resource management is governed by public service regulations which are not always conducive to private sector levels of efficiency. Even given that limitation there are areas where our progress over the last three years has been slow:
 - the implementation of appropriate executive level and staff level performance management processes is taking considerable time, and
 - the development of a workable staff scheduling system is not yet complete, at some cost to our efficiency.

- Basic financial and management reporting systems are almost in place but a limiting factor on further development is the availability of skilled staff.
- Although some progress has been made with internal support functions, staff consider that the Computer Services, Administration and Finance sections are not as customer-focussed as they might be.

Slow progress in some of the areas mentioned above is, perhaps, related to the relatively low numbers of staff engaged in human resource, financial and administration activities.

Staff

Our goal has been to attract and retain the highest quality staff who are supported by training and development programs and career opportunities. In terms of progress:

- We have been able to attract excellent quality graduates in recent years but the retention rate is low.
- Our ability to place high quality staff in adequate numbers at the upper levels is restricted by the remuneration we can offer (which is considerably less than the private sector).
- The lack of career opportunities continues to be a frequently-stated reason for staff departures and is a matter which requires further attention.
- At the executive level we have been successful in attracting a small number of high quality recruits from the private sector.
- For the last two years nominees from The Audit Office for the Young Accountant of the Year Awards have done well.
- Our training program has received increased approval from staff in the last two years. Staff who are studying for the Society of Certified Practising Accountants' CPA Program are given considerable support by the Office and achieve a higher pass rate than the average for that program.

Quality

We aimed to build an organisational culture that embraces quality as a core value, and promotes commitment to excellence and client service. Progress can be summarised as follows:

- Our plans to achieve certification under Australian Quality Standards are underway, however the deadline of 30 November 1995 has been put back to the second half of 1996.
- Internal reviews indicate that the technical quality of our audit work has improved over the last three years although there is still room for further improvement.
- During 1995 the Office was awarded for excellence in annual reporting.
- While our standard of client service is improving overall, there is still a considerable variance in the standard delivered by different audit teams.

Review of Operations

Key Statistics

	1994	1995
Audit Clients		
Number of organisations and activities audited	468	452
Outputs		
Number of financial audit opinions	446	466
Number of performance audits and special reports	28	17
Number of reports to Parliament	11	10

Clients

Our clients include:

- Parliament, representing the people of New South Wales
- The Executive Government
- NSW State public sector organisations
- Other people, groups and stakeholders who may use The Audit Office's reports or otherwise have an interest in the work performed (analysts, investors, media, etc).

The number of organisations and activities we audit decreased from 468 in 1994 to 452 in 1995. Classification of these audits was:

	1994	1995
Parliament and related entities	3	3
Departments and Ministries and related entities	135	132
Government trading enterprises, corporations and related entities	177	157
Universities and related entities	56	63
Other	97	97
Total	468	452

The main change was a decrease in government trading enterprises, etc due to the major reforms and restructures carried out in early 1995 in response to the new Government's administrative arrangements order.

Services

The principal services which we provide are:

- Financial report audits
- Performance audits
- Special reviews/investigations
- Reports to Parliament
- Advice on accounting standards/practices

In addition, we provide assistance in audit related areas such as financial management, staff and contractor selection, staff training, information technology and data processing.

All Parliamentarians and the agencies we audit are provided with our Guarantee of Service. This sets out our policy on client service and outlines what clients can expect from us in terms of the type and level of service to be provided. How we performed during the year against those standards is set out in Appendix 9.



Gary Beer and Alan Soriano from the Administration & Finance Section

**“Overall The Audit Office
is meeting its clients’
needs well
with 89% indicating they were
satisfied that The Audit Office
met their needs”**



Wendy Egenes from the Administration & Finance Section

Description of Types of Audit

Financial report audits are conducted for the primary purpose of providing an independent opinion on the financial report prepared by each government agency. Usually the financial report and the audit opinion are required to be included in the agency's annual report which is presented to Parliament. The Office also audits the Government Finance Statistics report, the Treasurer's Public Accounts and the State's Consolidated Financial Statements each year and the resulting audit opinion is published with those documents.

A second objective of the financial report audit is to report to agency management on observations and recommendations arising from the examination. Information gathered during the audit often enables us to identify opportunities for improving the methods and processes used by management to safeguard resources and provide useful financial information.

A report on the results of each financial audit is usually provided to the Minister responsible for the agency concerned. Finally, the results of each financial audit is reported to Parliament.

Performance audits aim to determine whether an agency is carrying out activities effectively, economically and efficiently and in compliance with all relevant laws. A performance audit may examine all or part of an agency's operations. Some audits consider particular issues across a number of agencies or on a service-wide basis.

The results of the performance audit are reported to the agency head, the responsible Minister and the Treasurer. The response from the agency is incorporated into the final report before it goes to Parliament.

The Audit Office also undertakes investigations of allegations of serious and substantial waste in terms of the Protected Disclosures Act 1994 (the Act took effect from 1 March 1995). Under the Act, a public official may make a disclosure to the Auditor-General, orally or in writing, of serious and substantial waste of public money by an authority or an officer of an authority. Under section 38B of the Public Finance and Audit Act, the Auditor-General may conduct an audit of the allegation (but not if it concerns local councils).

At the time of preparation of this report, The Audit Office has received 10 disclosures pursuant to the Protected Disclosures Act 1994.

A summary of the results of each financial report audit is included in one of the standard three volumes of the Auditor-General's Annual Report to Parliament.

Of the performance audits there were major reports on:

- Government Advertising - which concluded that in the run-up to the March 1995 election there had been a significant increase in the level of expenditure on publicity campaigns and that a number of agencies had breached existing Government advertising guidelines. In some cases campaigns

Reports Tabled in Parliament

could have been interpreted as "political" advertising. Greater clarity in the advertising guidelines was recommended together with the establishment of an agency advertising code as a means of improving the transparency and advertising practices of future advertising campaigns. The Government is currently examining these recommendations.

- Effective Utilisation of School Facilities - which, while pointing to a number of worthwhile initiatives in different parts of the State, highlighted significant scope for better utilisation of school premises. The report noted that, if surplus facilities could be eliminated, annual savings in running costs alone could exceed \$7.8 million a year. Improved community use of schools was a key theme of the report.
- Joint Operations in the Education Sector - which highlighted the potential savings from joint operational arrangements but stressed the need for adequate reporting of the financial and operational performance of all joint operations and made a number of recommendations for improvements to the management and accountability of joint operations. The report included a Guide to Best Practice, which has been well received.
- Luna Park - which reported that commitments entered into and for which the Government is ultimately liable were likely to significantly exceed the \$44.3 million already incurred by the time the report was tabled. The report also exposed a number of breakdowns, or circumventions, of basic procedures such as the failure to undertake a full Environmental Impact Study when preparing the Plan of Management for the Park.

A preliminary report on Management of the Courts was also tabled during the year, as were significant reports on the Proposed Sale of the State Bank and the M2 Motorway.

Special reviews or reports concern matters that have arisen in the course of our financial audits which are important enough to be drawn to the attention of Parliament. For the year ended 30 November 1995, special reports were made on:

- (a) Access to Information
- (b) Victims Compensation Fund
- (c) Accountability and Appropriation of Revenue
- (d) Parliamentary Contributory Superannuation Fund
- (e) Ministerial Involvement in Political Party Fund Raising
- (f) Expenditure Incurred by the former Minister for the Environment
- (g) Special Expenses Allowances for Parliamentary Members etc
- (h) Expenditure on Research into Community Concerns
- (i) Qualified Audit Reports
- (j) Pre-payments to Computer Supplier

Note: (a), (b): *Annual Report to Parliament 1994 Volume 3*
(c), (d): *Annual Report to Parliament 1995 Volume 1*
(e) - (j): *Annual Report to Parliament 1995 Volume 2*

Some of these matters had been raised in earlier reports and some important matters are, regrettably, still not satisfactorily resolved. For example, the Auditor-General still does not have an entitlement to access Cabinet documents or certain legal documents that are relevant to audits. Parliament still does not have effective control over the expenditure by Government of taxpayers' funds. (Indeed, in 1994-95, the Treasury expended \$15 million without any legal authority.)

The special report on Ministerial Involvement in Political Party Fund Raising shows that there continues to be a need for the Parliament - or Government - to establish a legally valid code of conduct to guide Ministers in this activity.

A new review (f) indicates that the current checks and balances relating to Ministers' own expenditures appear to be inadequate.

The report on Expenditure on Research into Community Concerns (h), together with the 1995 Special Audit on Government Advertising discussed above, identifies expenditures which are of a party political nature and which were thus inappropriately borne by the taxpayer.

With respect to past special reports, the former Government and the current Government responded to concerns raised in the 1994 special report about Government Financing Schemes with High Audit Risk. And the Government is examining ways to address difficulties identified this year affecting the Victims Compensation Fund.

Assistance to Parliament

In addition to meeting obligations to report to Parliament, The Audit Office assisted Parliament by making submissions to and appearing before Parliamentary Committees. During the year such assistance was provided to the following:

- Public Accounts Committee
 - Inquiry into Annual Reporting
 - Inquiry into the Peer Review of the Auditor-General's Office
- Public Bodies Review Committee Inquiry into Annual Reporting
- Legislative Council Standing Committee on Parliamentary Privilege and Ethics Inquiry into a Draft Code of Conduct for Members of the Legislative Council.

Professional Representation

In terms of staff numbers, or audit clients or total revenues audited, The Audit Office is a large audit practice. It is natural, therefore, that individual staff participate in the development of the accounting/auditing profession. During the year, the Office was represented on a number of committees. (See Appendix 6.)

The Audit Office assisted the New South Wales Government through participation in the Treasury review of the Public Finance and Audit Act 1983, in the Treasurer's Advisory Panel meetings and in ad hoc consultation and working parties established by Treasury.



Lisa Myers, Jonathan Whitfield and Rahoul Ray from the Structured Finance and Treasury Audit Group

“We aim to build an organisational culture that embraces quality as a core value, and promotes commitment to excellence and client service”



Andrew Grice our winner of the 'Young Accountant of the Year' Award - Government and Academia

Appendix 7 details the external presentations made by staff during the year. The Office appreciates the opportunities to promote a greater understanding of accountability issues and the accountability roles and responsibilities of the New South Wales public service.

In 1993 Australasian Auditors-General agreed to establish the Australasian Council of Auditors-General. This is an important step in the development of closer professional links between Australasian Audit Offices. Its formation was associated with agreements to benchmark activities of Audit Offices, to establish several centres of excellence in specified Offices and to prepare authoritative papers on the role of Auditors-General and their relationships with their Parliaments. The Council met in March and August 1995 to progress those issues.

The closer collaboration between Audit Offices should provide significant benefit to The Audit Office of New South Wales and to its audit clients and to the Parliament. It will, when fully developed, allow staff of this Office to access efficiently and economically expertise and skills available in any of the seven other Audit Offices in Australia and New Zealand.

During the year the Deputy Auditor-General, Mr Jim Mitchell, took part in the peer review of the Western Australian Audit Office with a partner from Deloitte Touche Tohmatsu.

Finally, the Office continued to respond to material from the Accounting Standards Board and to make submissions to the Australian Accounting Research Foundation.

External and Internal Reviews

A number of reviews were undertaken of the Office's operations. The following were the major ones:

- Review of the audit of Sydney University.
- Internal review of financial audit quality.
- Review of support functions.
- Internal audit.
- Client survey.

Coopers & Lybrand were engaged to perform a quality review of The Audit Office's audit approach and working papers in respect of the audit of the University of Sydney for the year ended 31 December 1994. Their procedures included involvement with the client and The Audit Office at the planning stage to ensure timely identification of audit issues, and a review of audit files at the conclusion of the audit as a check of the quality and sufficiency of working papers and to ensure that all planning issues were adequately addressed during the course of the audit. Their review produced satisfactory conclusions.

Our regular cycle of internal reviews of selected financial audits indicated continued improvements in nearly all areas. One unsatisfactory feature was that none of the operational branches had undertaken quality assurance reviews of the selected audits.

Other aspects of concern related to non-compliance with some matters of Office policy or lateness in undertaking some actions. Additional written guidance has been arranged together with an opportunity for staff to discuss the findings.

In April 1995 a consultant was engaged to review the support functions within the Office to identify areas where it might be possible to achieve better service delivery. The review indicated a need to put in place a programme of service improvement throughout the Office to ensure that operational units are effectively serviced. As a result, internal service units prepared internal client service plans setting out the service standards which they would meet.

The report on the internal audit of the Office is reproduced in full as Appendix 10. It encompasses all of the matters recommended for inclusion by the Public Accounts Committee in their report on Internal Audit in the New South Wales Public Sector.

As in past years, the Office commissioned a client survey, the results of which are detailed earlier.

In addition, in November 1994 the Public Accounts Committee commenced the review of The Audit Office to be conducted every three years pursuant to section 48A of the Public Finance and Audit Act 1983 by appointing the reviewer. At the date of this report the results of the peer review have not been tabled in Parliament.

Changes in Legislation and Judicial Decisions

On 1 March 1995 the Protected Disclosures Act 1994 amended the Public Finance and Audit Act 1983 by allowing a public official within this Act to complain to the Auditor-General (whether orally or in writing) that public money has been seriously and substantially wasted by an authority or an officer of an authority not being a local government body. When a public official makes such a complaint the Auditor-General may conduct an audit.

On 1 September 1995 the Public Finance and Audit Regulation 1994 was repealed and the Public Finance and Audit (General) Regulation 1995 came into effect. The new regulation contained only minor changes and consequently had little impact on the office. The change was made in connection with the staged repeal of subordinate legislation under the Subordinate Legislation Act 1989.

In addition, a number of agencies were added to Schedules 2 and 3 of the Public Finance and Audit Act 1983, enabling the Auditor-General to inspect and audit their records and accounts.

Important legal opinions affecting the operation of the Office are reproduced in appendices to the Auditor-General's annual report to Parliament.

Office Visitors

During the year the Office was visited by delegations representing public service organisations from the Philippines, Taiwan, United Kingdom, Republic of South Africa and the Republic of Korea.

Overseas Visits

No overseas trips were undertaken during the year by officers or employees.

Risk and Risk Management

In terms of financial risk the greatest danger is that the Office may err by issuing an unqualified audit opinion thus misleading Parliament and others about the affairs of the entity. It might also lead to a successful claim for damages brought by a party which relied on that opinion. While it is Government policy that one government organisation shall not sue another, that course of action may still be open to a non-government organisation.

The Office attempts to moderate the risk by using a program of internal and external quality reviews mentioned earlier. The Office carries no professional liability insurance but officers are covered by a State indemnity against claims not involving negligence.

Other risks against which the Office does insure include workers compensation, motor vehicles, property and public liability.

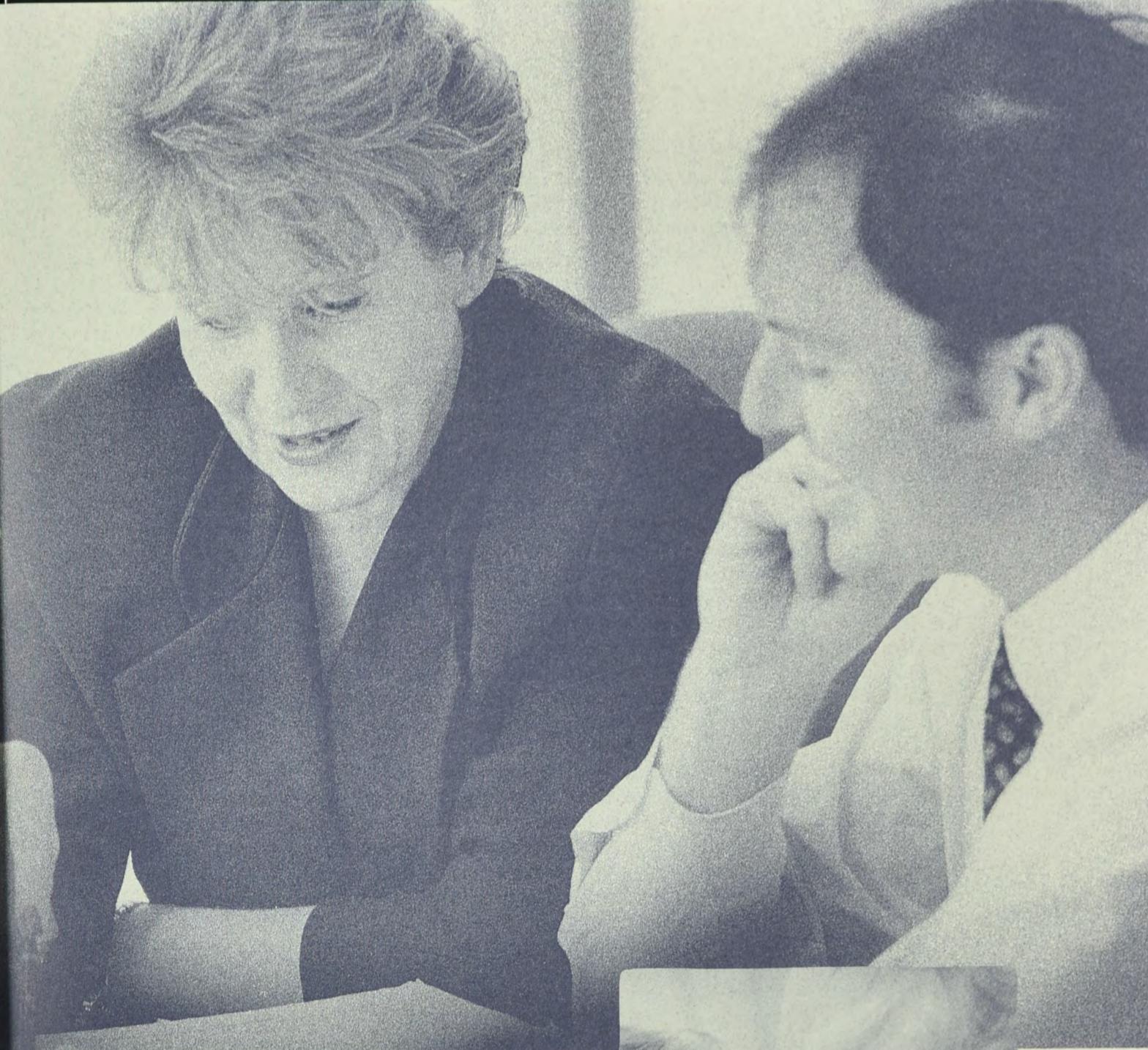
Consultants Engaged

During 1994-95 The Audit Office engaged 10 consultants at a total cost of \$187,182. There were no consultancies in excess of \$30,000 for a single project.

Recycling

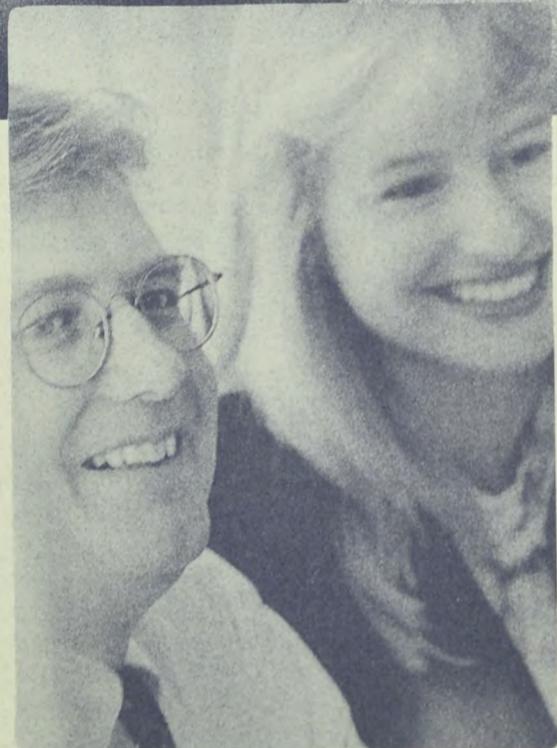
The Office continued to promote the use of recycling bins through Aspex Australia Pty Ltd which makes a donation to the Westmead Children's Hospital for each tonne of paper collected. The separation of waste into paper and other "wet waste" assists in maintaining a cleaner environment, but also results in reduced waste disposal costs and consequently lower operating costs to the Office.

Empty toner cartridges from the Office's laser printers and facsimile machines are also recycled through Canon Australia in an attempt to reduce environmental hazards.



Jane Tebbatt and Mark Birkinshaw from the Performance Audit Branch

**“It is not what we
say or declare
about ourselves,
but what others, particularly our
clients, say about us and the quality
of our work and service”**



Chris Bowdler and Lisa Pawlicka from the Performance Audit Branch

The Future

Review of the Office

In November 1994 the Public Accounts Committee appointed the reviewer which, under the Public Finance and Audit Act 1983 is to examine the auditing practices and standards of the Auditor-General. As mentioned last year, a provision of \$350,000 was made to Parliament to fund the review.

The reviewer is a panel of persons, and to assist them, a number of accounting firms and a former Auditor-General for South Australia were asked to examine particular matters which, together, covered most of the operations of the Office.

On 1 March 1996, the reviewer provided a copy of its intended report but it is not yet available for tabling. It should be tabled before May 1996.

This is the first time that the Auditor-General's standards and the Office has been reviewed under this legislation, and some lessons for future reviews can be learned from it.

Review of Legislation

The review of the Public Finance and Audit Act that commenced some time ago continues. The intention of this review is to ensure that the Act reflects the significant practical advances in financial accountability and reporting that have occurred under past and present Governments and Treasurers.

Performance Indicators

In presentations at occasions organised by the Public Accounts Committee, in evidence to other relevant Parliamentary Committees, in submissions to the Government (in the context of its review of legislation) and in occasional addresses, the Auditor-General has argued the case that agencies should be encouraged to use performance indicators to report their achievements - and their mistakes. The same issue has been raised with the reviewer which is reviewing The Audit Office.

Although accrual, consolidated accounting is an achievement of some importance, accounting for money and assets does not make agencies accountable for their outputs and outcomes, in terms of better policing, education, health and so on.

There is some sign that others share the view that performance reporting is important, but at this stage there is insufficient momentum to cause Government to initiate a program requiring agencies to improve their reporting on performance. The area thus remains as offering the most important means available to improve accountability in the public sector.

Client Relationships

The three year corporate plan ending in 1995 was based on a theme of improving public sector performance by making the audit more relevant to the clients' responsibilities.

Earlier in this annual report, the details of clients' assessment of the Office is provided. Clients take the view that the Office has improved over the last triennium. Nearly 95% of surveyed clients would seek Office advice on public sector accounting and reporting and nearly 78% would choose the Office as their auditor.

On the other hand, the lowest 4 deciles of clients surveyed last year gave the Office a bare pass/failure in its work. Much remains to lift our performance so that more of our audit clients share the view of the upper 4 deciles which assess the Office's work as excellent.

Focus on Staff

A new corporate plan for the Office, to cover the period from end 1995 to end 1999, is being developed. One of its emphases will be the need for the Office better to help its staff so that they can more closely meet the expectations of our clients. Essential issues such as more accurate staff assessment, improved capacity to reward achievement and an enterprise agreement, if the union movement allows, are planned to be completed by 1996.

Office Funding

There is still no view on the appropriate long-term level of funding for performance audits. The previous Government indicated that it would examine this when the review of the Office (discussed above) was completed.

Performance audits continue to provide annual opportunities for savings which, on conservative estimates, equate to several times annual costs of performance audits. Although savings are only one factor to assess performance audits, they are more than paying for their costs on this single criterion.

Public Sector Restructuring

The Administrative Arrangements changes made by the Government following its appointment in 1995 were accommodated in the 1994-95 audits although these changes did inevitably add to the costs incurred by agencies in completing their financial statements and by the Office. They also led to delays in the process such that the Public Accounts and Consolidated Financial Statements were released later than had been planned.

The Office is continuing to liaise with Government agencies on the further changes expected in 1996 for the Government's electricity and rail transport entities. These changes increase audit risk - sometimes significantly - because of disruptions to existing systems of control and because agencies' experienced personnel tend to seek other employment when there is uncertainty about their future positions.

Structured Financing

Since 1992 this Office has had to grapple with a large number of "structured financing arrangements", often related to infrastructure deals. The Office has been working with accounting firms in developing its approach on these structured financing deals and has been working with the accounting profession on new accounting standards that allow more certain treatment of these arrangements.

Organisation and Management

Key Statistics

	1994	1995
Branch Sizes		
Financial audit staff	143	158
Performance audit staff	16	19
Information systems audit staff	11	10
Planning research and management staff	35	38
	205	225
Employment of Women		
Grade 10 and above	3.0%	1.8%
All positions	28.2%	32.0%
Employee Relations		
Days lost due to industrial disputes	Nil	Nil

Operational (Financial) Audit Branches

The three Operational Audit Branches employed 158 people as at 30 November 1995. The primary functions of these branches are:

- Undertaking financial report audits of government agencies
- Provision of advice to clients on audit related matters
- Assisting with performance audits

More than 85% of branch staff are professionally qualified or undertaking studies, and all have been trained in the use of the latest audit methodology and related technology.

Performance Audit Branch

Following a period of fairly rapid expansion in 1994, the past year has been one of continued moderate growth with the Branch expanding its staffing base from 16 to 19. The Branch has also continued its practice of making use of consultants in specialised areas to supplement its base of knowledge and expertise.

Size of Performance Audit Projects

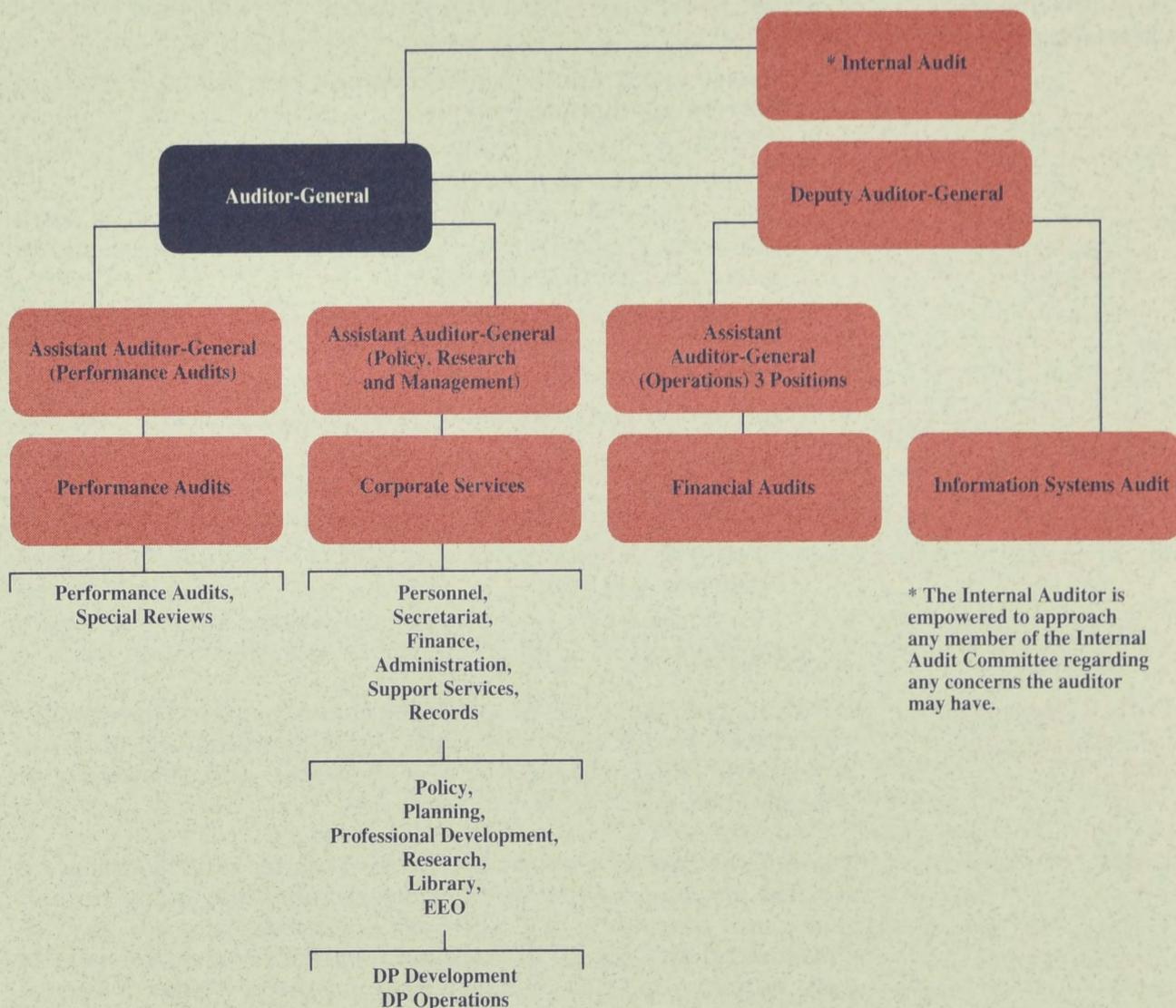
	NSW AO	Australian Average	Total Average
Average (Months)	10.26	13.92	13.22
Average Costs (\$)	150,730	234,585	221,799

The table above has been compiled using statistics from 3 Australian audit offices and 5 international audit offices. These figures give a comparison of average number of months taken per performance audit and the average costs per audit. It indicates, in general, that our performance audits take less time and are lower in cost.

Following the success of the Guide to Effective Fraud Control which the Branch published during 1994, the Branch has introduced an initiative to produce similar types of "best practice" material as part of, or as a corollary to, other performance audits.

The past year saw a Guide to Best Practice included as part of the performance audit on Joint Operations in the Education Sector. It is expected that guides in several other areas will be produced during 1996.

Structure



Members of the Executive

Auditor-General
TONY HARRIS BA B.Ec MBA FCPA FAIM

Assistant Auditor-General
(Policy, Research and Management)
GEOFF OLIVER FCPA

Assistant Auditor-General
(Performance Audits)
TOM JAMBRICH B.Ec FCPA ARMIT ACA

Deputy Auditor-General
JIM MITCHELL FCPA

Assistant Auditors-General
(Operations)
ERIC LUMLEY FCPA
PHIL THOMAS B.Comm ACA
TONY WHITFIELD B.Comm FCA

Key to Post Nominals

ACA	Associate of the Institute of Chartered Accountants in Australia
ARMIT	Associate of the Royal Melbourne Institute of Technology
BA	Bachelor of Arts
B.Ec	Bachelor of Economics
B.Comm	Bachelor of Commerce
FAIM	Fellow of the Australian Institute of Management
FCA	Fellow of the Institute of Chartered Accountants in Australia
FCPA	Fellow of the Australian Society of Certified Practising Accountants
MBA	Master of Business Administration

Information Systems Audit Branch

The Information Systems Audit Branch employed 10 Information Systems Auditors at year end and has the following primary functions:

- Assist attest audit to identify computer related risks and develop appropriate responses.
- Evaluate relevant computer controls to assess overall reliability of computer processing environments.
- Evaluate relevant computer controls to assess overall reliability of the transactions and balances processed and maintained by the applications.
- Develop appropriate computer assisted audit techniques to ensure audit procedures are conducted in the most efficient and effective manner.
- Advise clients on information systems controls related matters.

During 1995 the Information Systems Audit Branch:

- Adopted a new Information Systems Audit Methodology.
- Upgraded the technical training program for all Information Systems Audit staff.
- Introduced a part-time program for selected attest auditors to integrate attest audit and information systems audit work.

Policy, Research and Management Branch

The Branch employed 38 people at the end of the year. This number was spread across four basic units: Administration and Finance, Policy and Research, Computer Services and Professional Development.

The Administration and Finance Section carries out the corporate services function of the Office. This includes the many human resource management activities, financial and payroll administration, records management, purchasing, motor vehicle fleet, property and risk management, and the provision of clerical support and secretarial services.

The Branch plays an advisory and development role through its Policy and Research Section. This Section has a role in improving public sector accountability by making pro-active recommendations based on research and by responding to Government initiatives. The Section also facilitates the provision of high-quality, cost-effective audit services by keeping staff aware of trends in accounting and auditing practices, through the development of audit methodologies, strategic planning and by seeking ways of improving the auditing service.

The Computer Services Section is responsible for the overall delivery of a range of computing services and systems support, including the management and maintenance of the Office's in-house computer systems, portable computers and associated networks and the provision of technical and user support. The Section also includes a Systems Development area which is responsible for the development and maintenance of application systems for the Office, the training of staff in the use of these systems, and the provision of a consultancy service to external clients.

The Professional Development Unit reviews the skill needs across the Office and develops, conducts and evaluates a wide range of professional development courses covering both the management and auditing skills of staff.

Industrial Relations

Considerable effort was expended by the Enterprise Agreement Committee during the year to develop a draft document for presentation to staff. Meetings were held regularly during the year and most of the key issues affecting working conditions were discussed and appropriate clauses prepared. The change in government and the impact of the Crown Employees (Public Sector Salaries 1995) Award combined to preclude the finalisation of negotiations by the end of the reporting period. The Committee will continue to meet in 1996 and it is hoped that a formula can be reached within the next few months that will permit the Office to adopt more flexible conditions and to provide staff with some of the necessary incentives to help ensure the efficient, effective and economical operation of the Office.

Management Improvement

A number of significant initiatives were commenced or continued during the past year, including:

- To make the new performance management system effective (introduced late in 1994) all Office staff underwent training during 1995.
- Work continued during the year on evaluating how the Office was perceived by its clients, and the design of specific policies and practices which would effect an improvement in this area.
- During the year a new financial management information system (FMIS) was fully implemented, with both invoice and cheque generation running live by year's end.
- A computerised human resource management information system was partly implemented. It is to provide management with personnel data in a cost-effective manner.

Equal Employment Opportunity

Equal Employment Opportunity (EEO) at The Audit Office is aimed at improving the opportunities of all employees. A key ongoing objective is to ensure that EEO responsibilities are accepted by all managers and that EEO becomes part of management culture rather than being seen as a centralised function.

Key achievements in 1995 were:

- The implementation of the Disability Plan:
 - People with disabilities expressed 100% satisfaction with the majority of outcomes from the Plan;
 - The Office created a 12 month probationary position for a person with disability, and provided a three week work experience placement for a person with a disability.
 - Projects outlined in Appendix 13 were completed.
- Continued employment of a significant proportion of people from non-English speaking background (NESB) at all levels of the organisation, and support to NESB staff in undertaking extensive training in communication skills to improve both their promotional opportunities and their contribution to the Office.

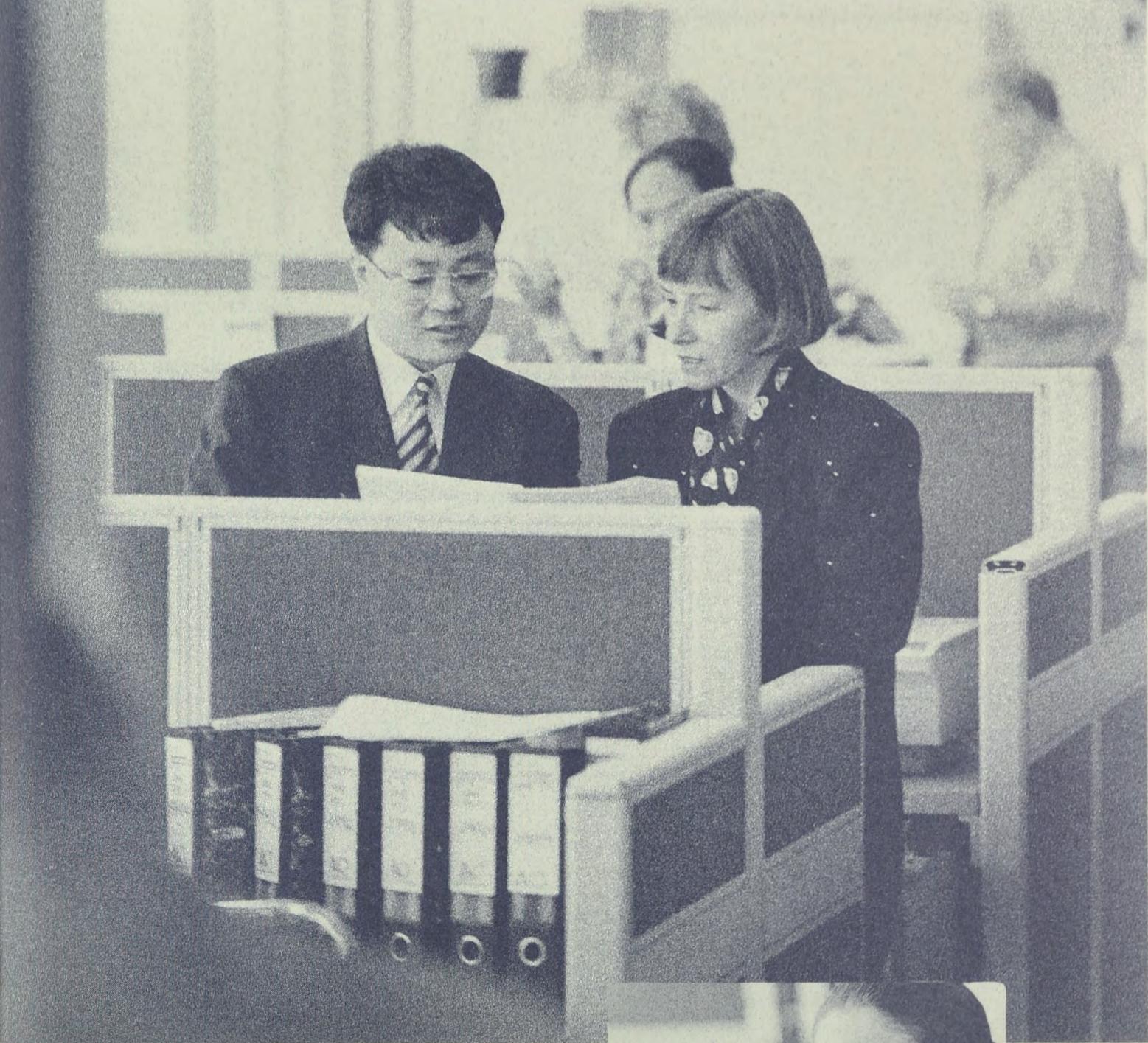
Progress on key strategies from the previous year were:

- Ensuring EEO issues are addressed in the ongoing enterprise agreement process.
- Introducing flexible work practice and family-friendly initiatives - staff awareness raised by distribution of brochures, publication of articles in EEO newsletter and addressing issue in SES meeting; bulk of project commenced in November 1995.
- Ensuring women are attracted to and retained at higher grades - project not commenced until October 1995; a woman has been appointed to the Office's SES.
- Preventing age discrimination - awareness raising sessions offered to staff and articles included in EEO newsletter, but age discrimination has not yet been identified as a major area of concern by central policy-making government bodies.

Key strategies in 1996 include:

- Implementing flexible work practices and family friendly initiatives under the new Framework Agreement with more proactive assistance from the Public Employment Office.
- Introducing a comprehensive Women's Development Strategy.
- Addressing the fact that Aboriginal and Torres Strait Islander people are seemingly not represented at the Office by implementing a comprehensive Aboriginal Employment Strategy which aims to employ 2% Aboriginal staff by the year 2000.
- Inclusion of EEO into the corporate plan.

The introduction of key EEO accountabilities into SES performance agreements will provide the framework for achieving all the above strategies.



Maria Spriggins discussing Information Systems Audit requirements with Philip Poon

“Our clients’ needs are changing and they require an auditor who has up-to-date knowledge and can assist them in adopting best practices”



Tiana Legge from the Information Systems Audit Branch

Personnel

Key Statistics

	1994	1995
Employees		
Total staff at year end	205	225
Senior Executive staff at year end	21	26
Employee cost as % total operating expenditure	65.4%	69.3%
Staff turnover	13.8%	15.5%
Training		
Average days per employee	10	14

Staffing Levels

The table below (Table of Staff Numbers, Gains and Losses) shows a 9.75% increase in staff numbers at year end over the previous year. This is largely attributable to the continued growth of the Operational (Financial) Audit Branches. This increase is aimed at minimising the need for temporary staff during future busy periods.

Staff turnover (see graph) increased over this period from 13.8% to 15.5%. This increase can be attributed to the growth in job opportunities available to qualified accountants during the past 12 months.

In addition to the permanent staff, it was also necessary in 1995 to hire over 40 temporary staff at peak work times to undertake short-term audit projects.

Total salaries and allowances paid to staff during the year was \$11.8 million (\$10.9m in 1993-94).

The effort to attract female applicants to vacancies for Senior Management positions continued and was rewarded with the first female appointment to the Office's Senior Executive Service.

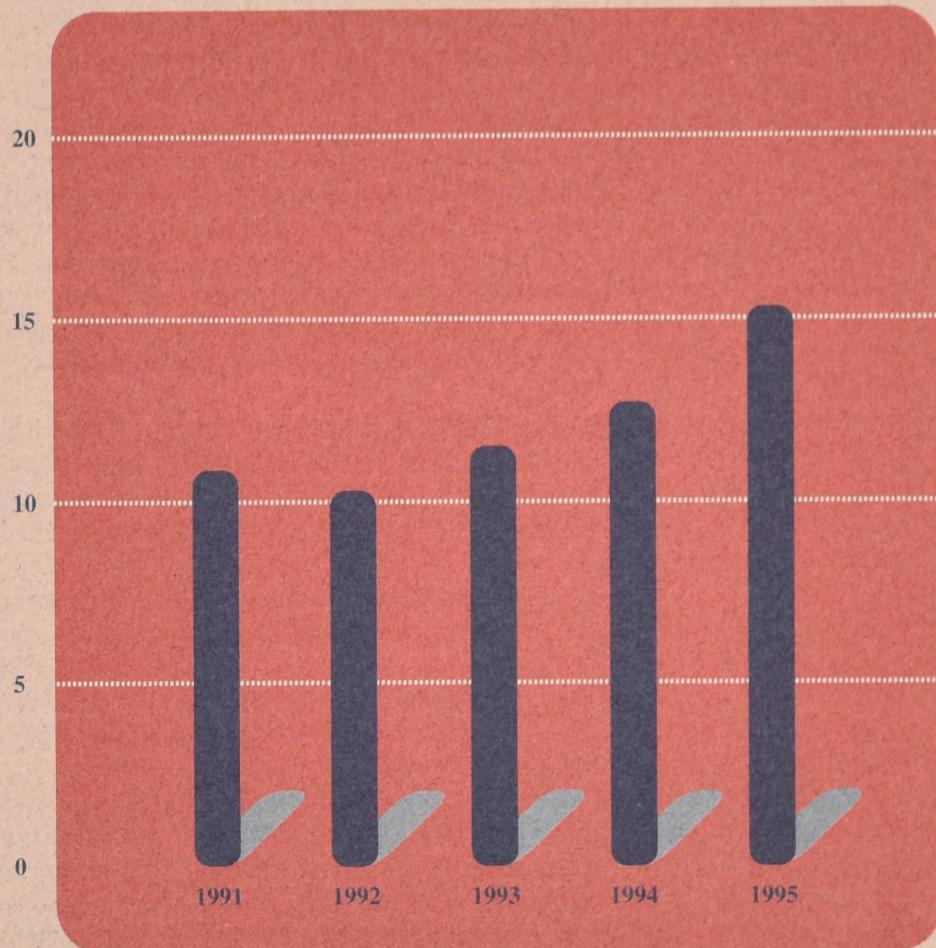
Table of Staff Numbers, Gains and Losses

Staff *	1990 -91**	1991 -92	1992 -93	1993 -94	1994 -95
Number employed:					
as at 1 July	194				
as at 1 December		189	179	192	205
Losses:					
Retirements	4	1	5	5	Nil
Resignations	21	15	15	18	22
Moves to other departments	9	5	5	5	11
Deceased					1
Redundancies					1
Gains:					
Public Service (other departments)	3	1	2	7	11
Outside Public Service	26	10	36	34	44
Number employed:					
as at 30 November	189	179	192	205	225

Notes: * Excludes Auditor-General

** These figures are for the 17 months from 1 July 1990 to 30 November 1991.

Staff Turnover (staff losses as % of staff numbers at year end)



Note: * The 1991 reporting period covered 17 months. The percentage shown above represents a 12 month equivalent of staff turnover during that period.

Staff by Category at Year End

	1990 -91**	1991 -92	1992 -93	1993 -94	1994 -95
Senior Executives*	22	21	24	21	26
Audit Staff	140	133	138	155	168
DP Support Staff	8	8	11	10	9
Administrative Staff	19	17	19	19	22
Total Staff * as at 30 November	189	179	192	205	225

Notes: * Excludes Auditor-General.

** These figures are for the 17 months from 1 July 1990 to 30 November 1991.

Recruitment and Selection

The Office continued its successful graduate recruitment campaign. University campuses throughout New South Wales were visited by Office representatives and this resulted in the recruitment of 14 quality accounting graduates in January 1995. Following a cost benefit analysis, management decided not to pursue the recruitment of school leavers during the year.

The practice of using specifically trained selection panels to conduct interviews for promotional positions continued. These panels continued to place increased emphasis on work performance by utilising written work reports (internal referee reports) and oral reports from managers and supervisors to support information gleaned from the selection interview.

During the year 18 promotional audit positions (most with multiple vacancies) were advertised throughout the Public Service and the press. The subsequent selection action resulted in 63 promotional positions being filled, of which 38 were from within the Office.

Four Senior Executive Service (SES) positions were advertised resulting in 3 external and 1 internal appointments.

Nine promotional non-audit positions were also filled during the year of which 3 were from within the Office.

Training and Professional Development

During 1995 the Structured Training Program was reviewed and revised following consultation with management and staff. The program includes technical, management development and computer courses. The courses were planned to give staff the skills and expertise required to provide professional service and advice to our clients.

The training program for audit staff recruited at the graduate level was revised and implemented. Relevant and timely training was provided by this varied program.

Training during the year came from internal and external courses. Consultants were used where appropriate to provide in house training as subject matter experts.

Expenditure on external and consultant run courses and specialist training support was \$163,980.

Training amounted to 2,962 days, an average of 14 days per person.

Study Assistance

The Office continued to support staff undertaking professional studies. The support provided was in the form of time off to attend lectures, study and to sit for examinations. Full financial assistance for first degree, CPA and PY studies and up to 75% reimbursement for relevant second and higher degree studies was provided.

During the year, staff undertaking these studies were reimbursed a total of \$29,754. In addition to the 2,962 training days, study time and special leave totalling 437.5 days was provided to staff for attendance at lectures, private study and for undertaking examinations.

Performance Management

The Office introduced a new performance management system for staff below SES level late in 1994.

The initial results from training in the new system were highly encouraging. Workplans were generally completed in accordance with the guidelines and positive feedback was obtained from staff. This training was followed-up with further skills training in counselling techniques which will continue early in the new year.

Management of Leave

An average of 5.0 days sick leave per staff member was taken during the year compared to 4.7 days for the previous year. This marginal increase can be mainly attributed to the severe 'flu virus that hit Sydney during the year.

Leave without pay was approved for a variety of reasons including full-time study and travel.

Secondments and Staff Exchanges

One secondment of an operational staff member to another State Government agency was terminated late in the year with the officer returning to his former position.

One officer who had been on exchange with the Audit Commission for Local Authorities and National Health Service for England and Wales ended his two-year secondment during the year and returned to a new position with the Office. An officer from the UK Audit Commission commenced a 15-month secondment with the Performance Audit Branch of the Office early in the year.

Occupational Health and Safety

The promotion of health and safety issues at work continued in 1995, with regular publication in staff newsletters of articles on eye care, avoiding back pain, dietary habits and coping with stress, together with the inclusion of sessions on these issues in induction courses. The success of this program was in part reflected in no time being lost due to accidents at work during the year. In addition a comprehensive medical examination/executive fitness program for selected staff, as undertaken in previous years, has been scheduled for 1996.

Specific training in emergency/evacuation procedures for nominated staff at one location was undertaken during the year. Officers at the other two sites are to be trained early in the new year.

Social and Sporting Activities

The Audit Office Recreation Club continued to promote interaction amongst staff by organising a wide range of social, sporting and recreational activities throughout the year. The Office also fielded teams in the Summer Touch at Lunch touch football competition and the Corporate Cup running competition.

Commentary on Financial Results

Key Statistics

	1994	1995
Operating Results	(\$'000)	(\$'000)
Total income	20,186	19,712
Operating surplus/(deficiency)	2,077	(875)
Balance Sheet		
Total Assets	11,239	13,611
Accumulated funds	8,383	7,438
Analytics		
Operating result to total income	10.3%	(4.4%)
Current ratio	3.3	3.0
Asset turnover	4.7	4.4

Operating Result

The Office follows a policy aimed at achieving a "break-even" position over the medium term. The operating deficiency this year needs to be reviewed with the following in mind:

- The significant abnormal item from superannuation brought about by a similar reduction in the reserve account of the State Superannuation Fund accounted for \$0.8 million (92%) of the operating deficit. Without this abnormal item, the operating deficiency would have been \$0.1 million.
- Charge out rates for audit fees were not increased for 1994-95 and cost increases in the main were able to be absorbed. It is not expected that charge out rates can be kept at the same levels for 1995-96 because substantial cost increases have now been absorbed since 1992.
- The expanded level of the performance audit function during 1994-95 was funded within the existing financial capacity. This is equivalent of a dividend to the Government of some \$1 million per year.
- The completion of an internal computer network within the Office and upgrading of notebook computers during the year required increased expenditure on hardware, software and training costs. The additional network equipment and notebook computers increased depreciation costs by \$0.2 million.

Income

The main income of the Office is audit fees earned. Overall, income from audit fees increased over 1993-94 by 5.2% or \$0.85 million to \$17.1 million. Included was \$0.7 million for time spent on audits with a financial year end after 30 November 1995. In addition, audit fees of \$0.8 million were recovered for audits relating to the previous year.

The increase in audit fee income was mainly due to new audits and changes to audits following the administrative restructuring with the change in Government in March 1995.

Contributions by Government decreased by \$0.75 million due mainly to the non-recurring cost of the review of the sale of the State Bank in the previous year. The contribution towards costs associated with the Report to Parliament increased by \$0.3 million.

Other major items of income were \$0.4 million from Treasury for "Acceptance of Departmental Liability by the Crown" of the long service leave liability for the Office and \$0.4 million relating to the

recovery of costs associated with staff on secondment together with fees for information system audits and other reviews.

The item of abnormal expense \$0.8 million in 1994-95 reflects the increase in the superannuation liability following the latest Triennial Review and represents a reduction in the surplus in the reserve account for the State Superannuation Fund held at the State Authorities Superannuation Board.

Expenditure

The largest expenditure item is salaries and related expenses. During the year salary costs increased by 3% from July 1995 together with a full year effect of the 3% from November 1994 for staff covered by Public Sector Awards. For Senior Executive Staff, award increases of 4% were paid from October 1995. Additional costs relating to the employment of temporary staff, especially during the June to November work peak, were also met during the year.

Contract audit fee payments decreased by \$0.4 million to \$2.2 million. The loss of the State Bank Audit which was partially contracted plus the decision to withdraw two Area Health Service audits from contract were the main reasons for the decrease.

The other major item of expense in 1994-95 related to fees for services rendered of \$1.5 million, including \$0.5 million for temporary staff to meet peak work commitments.

Balance Sheet Position

The operating deficiency of \$0.9 million after an abnormal adjustment for superannuation, is mainly reflected in the balance sheet by a reduction in the Overfunded Superannuation item in Non-Current Assets.

In compliance with Accounting Standard AAS30 a provision of \$3.6 million has been established for long service leave due to Office staff. Because the liability is assumed by the Crown, an offsetting asset of \$3.6 million has also been raised.

Plant, Equipment and Furniture increased by \$0.6 million following the acquisition of computer equipment and was offset partly by the disposal of obsolete equipment \$0.3 million and additional depreciation of \$0.2 million.

Accounts payable and accruals decreased by \$0.4 million while the provision for annual leave increased by \$0.2 million. There was also a reduction of \$0.2 million in provisions for superannuation.

Future Operating Results

Preliminary financial projections for the next 4 years are, at this stage, affected by the following:

- The proposed restructuring of the Electricity generation and distribution agencies and the as yet unknown effects on audit requirements.
- The possible restructure of other government statutory authorities which may result in additional audit responsibilities.

- The status of school audits is still unresolved and this could have an overwhelming impact on future resource requirements of the Office.
- On the cost side there has been additional staff resource requirements involved in expanding the performance audit operations without compensating revenues at this stage.

Performance Against Budget

The following table covers the financial year to 30 November each year. The 1994-95 budget was the first budget approved for that year and there were no subsequent material adjustments.

	1994-95 Budget \$'000	1994-95 Actual \$'000	1995-96 Budget \$'000
Income			
Audit Fees	16,890	17,089	18,150
Contributions by Government:			
- Costs of Reports to Parliament	750	1,042	1,000
- Special Audits	500	550	500
- Review of Annual Reports	30	30	30
Interest Income	120	179	180
Other Income	360	822	870
	18,650	19,712	20,730
Expenditure			
Salaries, Allowances	11,680	11,764	12,960
Payroll Tax	720	748	820
Staff Training (excluding salaries)	550	311	370
Employees Leave and Retirement	340	682	600
Superannuation	250	119	200
Contract Audit Fees	2,480	2,231	2,260
Fees for Services Rendered	575	1,458	840
Rent and Cleaning	725	720	730
Travelling	300	188	250
Depreciation	545	567	635
Other Expenses	960	992	1,060
	19,125	19,780	20,725
Operating Surplus/(Deficiency)			
before Abnormal Item	(475)	(68)	5
Abnormal Item - Superannuation Funding	—	(811)	—
	Operating Surplus/(Deficiency)	(475)	(879)
			5

Financial Statements

for the year ended 30 November 1995

The financial statements which follow consist of:

Independent Auditor's Opinion

Statement by Auditor-General

Income and Expenditure Statement

Balance Sheet

Statement of Cash Flows

Notes to Financial Statements

The Audit Office of New South Wales

Independent Audit Report

To the New South Wales Legislative Assembly - For the year ended 30 November 1995

Scope

I have audited the financial statements of The Audit Office of New South Wales for the year ended 30 November 1995 as set out on pages 53 - 64 of the Annual Report. Officers of The Audit Office of New South Wales are responsible for the preparation and presentation of the financial statements and the information contained therein. I have conducted an independent audit of these financial statements, as required by section 48(1) of the Public Finance and Audit Act 1983, in order to express an opinion on them to the New South Wales Legislative Assembly.

My audit has been conducted in accordance with the Australian auditing standards to provide reasonable assurance as to whether or not the financial statements are free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether or not, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and statutory requirements so as to present a view of The Audit Office of New South Wales which is consistent with my understanding of its financial position and the results of its operations and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the financial statements of The Audit Office of New South Wales are properly drawn up:

- (a) so as to present fairly the state of affairs of The Audit Office of New South Wales as at the end of the financial year and of its results for the financial year;
- (b) in accordance with the provisions of the Public Finance and Audit Act 1983; and
- (c) in accordance with applicable Accounting Standards and other mandatory reporting requirements.

Emphasis of Matter

Without qualification to the opinion expressed above, attention is drawn to Note 15 (c) to the financial statements where it is disclosed that uncertainty currently exists concerning certain taxation allocations that may impact on the individual employer reserve balances of the State Authorities Superannuation Board - Pooled Fund. Until resolution of this uncertainty, the quantum of the financial effect on the individual employer reserves cannot be accurately assessed.



Donald F Bell
Chartered Accountant

Sydney
21 February 1996



BOX 12 GPO
SYDNEY NSW 2001

Start of Audited Financial Statements
The Audit Office of New South Wales

Statement by Auditor-General of New South Wales

for the year ended 30 November 1995

In accordance with Section 41C of the Public Finance and Audit Act 1983 I state that, in my opinion, the accompanying financial statements exhibit a true and fair view of the financial position of The Audit Office of New South Wales as at 30 November 1995 and transactions for the year then ended.

I further state:

- (a) that the financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit (General) Regulation 1995, and the Treasurer's directions; and
- (b) that I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

A handwritten signature in black ink, appearing to read "A.C. Harris".

A.C. Harris

Sydney
21 February 1996

Income and Expenditure Statement*for the year ended 30 November 1995*

	Note	Year Ended 30.11.95 \$'000	Year Ended 30.11.94 \$'000
<i>Income</i>			
Audit Fees	4(a)	17,089	16,243
Contributions by Government:			
Costs of Reports to Parliament		1,042	698
Special Audits	4(b)	550	1,634
Review of Annual Reports		30	38
Acceptance by Crown of Long Service Leave Liability		411	847
Interest Income		179	116
Other Income	4(c)	411	610
		19,712	20,186
<i>Expenditure</i>			
Salaries and Related Expenses	6	13,695	13,060
Maintenance and Working Expenses	7	3,283	3,899
Contract Auditing	8	2,231	2,612
Depreciation		567	407
		19,776	19,978
<i>Operating (Deficiency)/Surplus before Abnormal Item</i>		(64)	208
Abnormal Item - Superannuation Funding	15(d)	(811)	1,869
<i>Operating (Deficiency)/Surplus</i>		(875)	2,077
<i>Accumulated Funds at the Beginning of the Financial Period</i>		8,383	6,306
Adjustment to Accumulated Funds due to change in accounting policy	3	(70)	—
<i>Accumulated Funds at the End of the Financial Period</i>		7,438	8,383

Balance Sheet

as at 30 November 1995

	Note	As at 30.11.95 \$'000	As at 30.11.94 \$'000
<i>Current Assets</i>			
Cash at Bank		2,741	3,425
Receivables and Work in Progress	9	4,366	4,393
Prepayments and Accrued Income	10	621	426
Acceptance by Crown of Long Service Leave Liability	15(b)	151	—
Total Current Assets		7,879	8,244
<i>Non-Current Assets</i>			
Plant, Equipment, Furniture	11	1,050	994
Leasehold Improvements	12	151	132
Acceptance by Crown of Long Service Leave Liability	15(b)	3,439	—
Overfunded Superannuation	15(c)	1,092	1,869
Total Non-Current Assets		5,732	2,995
Total Assets		13,611	11,239
<i>Current Liabilities</i>			
Fees in Advance		68	65
Accounts Payable and Accruals	13	1,154	1,491
Provisions	15	1,357	927
Total Current Liabilities		2,579	2,483
<i>Non-Current Liabilities</i>			
Provisions	15	3,594	373
Total Non-Current Liabilities		3,594	373
Total Liabilities		6,173	2,856
Net Assets		7,438	8,383
<i>Retained Earnings</i>			
Accumulated Funds		7,438	8,383

Statement of Cash Flows

for the year ended 30 November 1995

	Year Ended 30.11.95 \$'000	Year Ended 30.11.94 \$'000
	Inflows (Outflows)	Inflows (Outflows)
<i>Cash Flows from Operating activities</i>		
Receipts from Operations	19,029	20,035
Payments to Suppliers and Employees	(19,247)	(19,591)
Interest Received	161	145
<i>Net Cash (Used In)/ Provided by Operating Activities</i>	(57)	589
<i>Cash Flows from Investing Activities</i>		
Purchase of Plant and Equipment	(589)	(797)
Leasehold Improvements	(53)	—
Proceeds from Sale of Equipment	15	—
<i>Net Cash used in investing activities</i>	(627)	(797)
<i>Net Decrease in Cash held</i>	(684)	(208)
Cash at the beginning of the Financial Year	3,425	3,633
<i>Cash at the end of the Financial Year (Note 19)</i>	2,741	3,425

Notes to and Forming Part of the Financial Statements

for the year ended 30 November 1995

1 Financial Period

The Audit Office of New South Wales has been designated as a statutory body by Schedule 2 of the Public Finance and Audit Act 1983. The Treasurer has approved of the financial year of the Office being from 1 December to 30 November to match the Office's planning and costing year.

2 Statement of Accounting Policies

(a) Basis of Financial Statements

The accompanying financial statements have been drawn up in accordance with applicable Australian Accounting Standards and other professional reporting requirements (Urgent Issues Group Consensus Views), the requirements of the Public Finance and Audit Act 1983 and the Public Finance and Audit (General) Regulation 1995. The statements have been prepared in accordance with the historical cost convention using accrual accounting and do not take into account changing money values or, except where stated, current valuations of non-current assets.

(b) Summary of Accounting Policies and Procedures

i) Non-Current Assets

Furniture and fittings are valued at estimated cost as at July 1990 plus historic cost since then less accumulated depreciation. Computer and general office equipment are shown at historical cost less accumulated depreciation.

ii) Depreciation

Non-current assets are depreciated on a straight line basis over their estimated useful lives. The rates of depreciation are: computer equipment 33.3%; office equipment 20% and furniture and fittings 10%.

iii) Revenue Recognition

Fees are charged for audits. Fees in respect of audit work performed during the accounting period are treated as income and the majority of audit work is completed by 30 November each year. For incomplete audits at this date, the value of work completed is determined from the Office's management information system. For audits with a financial year end after 30 November, planning and interim work is recognised as work in progress (See note 4(a)). Other Income includes fees for Information Systems Audit and other audit reviews and the recovery of salary costs for staff on secondment (See Note 4 (c)).

iv) Operating Expenditure

Operating expenditure for the year is allocated on a program basis between the three sub-programs of the Office: Attest Audit Services; Special Audit Services and Administrative Support Services (See Note 5). Attest Audit Services relate to the independent conduct of financial audits as required or authorised by statute, reporting to Parliament, to the Treasurer and to other Ministers, and to the organisation concerned, as appropriate. Special Audit Services relate to the independent conduct of audits of all or any particular activities of an authority to determine whether the authority is carrying out those activities effectively and doing so economically and efficiently and in compliance with relevant laws, and reporting to Parliament and to the Treasurer or organisation concerned. Administrative Support Services comprise general administration, research and staff development and training.

v) Employee Benefits

The Audit Office is responsible as the employing agency for the liability for all untaken Annual Leave. A Provision has been established for the full liability at 30 November 1995. Details are shown in Note 15(a). A liability for non-vested sick leave entitlement is not recognised as it is estimated that, on average, the sick leave taken in each year is less than the entitlement accruing in that year.

Notes continued...

Because The Audit Office contributes to a Treasury Special Deposits Account "Extended Leave and Leave on Termination Pool Account" the liability for long service leave is assumed by the Crown. The Treasury "pool" account meets payments for long service leave taken during service and on termination of employment. Payments made to Treasury are included in Salaries and Related Expenses. In accordance with AAS30 "Accounting for Employee Entitlements" and Treasury Circular 95/10 the total liability has been recognised as a provision and an offsetting asset has been recognised as "Acceptance by Crown of Long Service Leave Liability". The nominal valuation method has been used to assess the liability because it would not result in material variance to the present value method. Oncosts have been applied in calculating the liability. Details are shown in Note 15(b).

The Superannuation Schemes relating to employees of The Audit Office are: the State Superannuation Fund, the State Authorities Superannuation Scheme, the Basic Benefits Scheme (these funds are now closed to new entrants), the First State Super Scheme and the Public Sector Executives Superannuation Scheme. Details of the reserves, assessed liabilities and provisions are shown in Note 15(c).

vi) Comparative Figures

Comparative figures have been adjusted to reflect a change in disclosure of superannuation expense. The Treasury policy requiring normal and abnormal items of superannuation expense to be aggregated has been withdrawn and these items are now shown separately.

vii) Segment Reporting

The Audit Office operated in one geographical segment being New South Wales and in one industry, the principal activity being the provision of External Audit Services to public sector organisations.

3 Change in Accounting Policy

The only change in accounting policy during the year was the application of AAS30 for Employee Entitlements. An adjustment was made against Accumulated Funds of \$69,558 to reflect the additional liability for Annual Leave as at 1 December 1994 after applying oncosts. The financial effect for 94/95 was \$14,580. There is no financial effect for The Audit Office for Long Service Leave because the liability is assumed by the Crown.

4(a) Audit Fees

Audit Fee income comprised:

	1995	1994
	\$'000	\$'000
Approved Audit Fees	16,689	16,049
Less:		
Audits Incomplete or uncommenced	576	166
Work in Progress recognised in prior year	453	424
	1,029	590
	15,660	15,459
Plus:		
Work in Progress - Future years audits	672	453
Audit Fees - Previous Years	757	331
	17,089	16,243

4(b) Contribution by Government - Special Audits

This item comprises a contribution from Consolidated Fund of \$500,000 (\$500,000 in 1994) towards the costs of Special Audits and \$50,000 (\$1,134,000) for the balance of the cost of the Review of the sale of the State Bank.

	Year Ended 30.11.95 \$'000	Year Ended 30.11.94 \$'000
4(c) Other Income		
Recoup of Salaries	97	290
Information Systems and Other Audit Reviews	242	284
Sale of Equipment	15	—
Other Miscellaneous Income	57	36
	411	610

5 Expenditure by Program

Attest Audit Services:

Salaries and Related Expenses	10,211	10,137
Maintenance and Working Expenses	2,049	1,590
Contract Auditing	2,231	2,612
Depreciation	489	354
	14,980	14,693

Special Audit Services:

Salaries and Related Expenses	1,446	1,016
Maintenance and Working Expenses	344	1,234
Depreciation	34	21
	1,824	2,271

Administrative Support Services:

Salaries and Related Expenses	2,038	1,907
Maintenance and Working Expenses	890	1,075
Depreciation	44	32
	2,972	3,014
	19,776	19,978

6 Salaries and Related Expenses

Salaries and Allowances	11,767	10,871
Payroll Tax	748	638
Workers' Compensation	53	43
Staff Development and Training (Excluding Salaries)	326	253
Superannuation - (Net of transfers from Provisions)	119	228
Employees' Leave and Retirement	682	1,027
	13,695	13,060

	Year Ended 30.11.95 \$'000	Year Ended 30.11.94 \$'000
7 Maintenance and Working Expenses		
Fees for Services Rendered	1,458	2,084
Rent and Cleaning	720	702
Electricity	24	29
Telephone and Postage	88	88
Printing	152	124
Travelling	206	275
Maintenance Contracts	54	101
Stores	112	102
Motor Vehicle Running	36	54
Other General Expenses	433	340
	3,283	3,899

8 Contract Auditing

Fees were paid to contract audit agents for:

Electricity Distribution Clients	751	645
Area Health Services Clients	426	652
District Health Services Clients	660	552
Other Audit Office Clients	348	596
Information Systems Audit	46	167
	2,231	2,612

9 Receivables and Work in Progress

	At 30.11.95 \$'000	At 30.11.94 \$'000
Comprised:		
Debtors (less provision \$15,200)	2,959	3,463
Work in Progress	1,407	930
	4,366	4,393

At 30 November 1995 audit fee \$2,855,782 (\$2,646,957) and miscellaneous \$117,672 (\$832,197) accounts outstanding were aged as follows:

	At 30.11.95		At 30.11.94	
	\$'000	%	\$'000	%
Less than 30 days	2,690	90.5	2,629	75.6
Between 30 and 60 days	218	7.3	644	18.5
Over 60 days	65	2.2	206	5.9
	2,973	100.0	3,479	100.0

The assessed value of audit work in progress not billed at 30 November 1995 for audits with financial years ended up to that date was \$734,602 (\$476,673). Work in progress on audits with financial years ended after 30 November 1995 totalled \$671,998 (\$452,987).

10 Prepayments and Accrued Income

	At 30.11.95 \$'000	At 30.11.94 \$'000
Comprised:		
Prepayments	140	220
Accrued Income	481	206
	621	426

Accrued Income included interest accrued of \$69,864 (\$52,831) and \$411,600 for costs associated with the Volume Three of the Report to Parliament.

11 Plant, Equipment, Furniture

	Cost or Valuation		Accumulated Depreciation		Written Down Value	
	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000
Office Equipment - at cost	110	97	74	55	36	42
Computer and Related Equipment - at cost	2,268	2,001	1,351	1,165	917	836
Furniture and Fittings - at estimated cost July 1990 plus actual cost since	202	201	105	85	97	116
	2,580	2,299	1,530	1,305	1,050	994

	1995 \$'000	1994 \$'000
Market values of non-current assets are estimated to be:		
Office Equipment	20	30
Computer and Related Equipment	850	800
Furniture and Fittings	50	70
	920	900

12 Leasehold Improvements

The fitout costs of \$184,250 in 1992-93 associated with leased accommodation for part of the Office has been capitalised and is being depreciated over the seven year term of the lease. During the year an additional \$53,382 was spent on leasehold improvements. Depreciation for 1994-95 was \$34,388 (\$26,321).

13 Accounts Payable and Accruals

	At 30.11.95 \$'000	At 30.11.94 \$'000
Comprised:		
Salaries	88	333
Payroll Tax	91	56
Unremitted Taxation	402	374
Contract Auditing	131	215
Other Creditors	442	513
	1,154	1,491

14 Auditor's Remuneration

The fee charged by a Chartered Accounting firm for auditing the accounts for the year ended 30 November 1995 is \$6,000. The auditor received no other remuneration.

15 Provisions

(a) Annual Leave - Current

A provision has been established for the total liability at 30 November 1995 of \$1,205,988. The 1993/94 liability was increased to \$996,997 following the application of AAS30. (See Note 3).

(b) Long Service Leave - Current and Non Current

The total liability at 30 November 1995 was \$3,590,287 and is shown as current (\$151,000) and non current (\$3,439,287). The liability comprises:

	At 30.11.95 \$'000	At 30.11.94 \$'000
Unconditional leave (Over 10 years service)	3,232	2,895
Conditional Leave (Between 5 and 10 years service)	228	180
Pre-conditional leave (Less than 5 years service)	130	104
	3,590	3,179

(c) Superannuation

The assessed liability for The Audit Office at 30 November 1995 and funds held in the reserve accounts at the State Authorities Superannuation Board (including accrued interest) and superannuation provision are:

	Assessed Liability		Reserve Account		Provision Required	
	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000
State Superannuation Fund	25,736	22,901	26,794	24,770	(1,058)	(1,869)
State Authorities Super Scheme	810	727	844	644	(34)	83
Basic Benefits Scheme	757	763	602	473	155	290
	27,303	24,391	28,240	25,887	(937)	(1,496)

The liability for the State Superannuation Fund (SSF) has been determined by the Government Actuary as at 30 November 1995 based on economic assumptions included in the Triennial Review as at 30 June 1994. These assumptions are as follows:

	94/95 % pa	95/96 % pa	96/97 % pa	Thereafter % pa
• Valuation Interest Rate	6.0	9.0	9.0	8.0
• Salary Growth Rate	4.5	5.0	3.0	6.0
• C.P.I. Rate	3.0	3.5	4.0	4.5

Arising from the Triennial Actuarial Review as at 30 June 1994 of the State Authorities Superannuation Board - Pooled Fund, it has been identified that uncertainty exists in respect of virtually all of the individual employer reserve balances within the Pooled Fund. Until resolution of this uncertainty, which relates to taxation allocations at the employer level, the quantum of the financial effect on individual employer reserves is unclear. This uncertainty has not arisen from inaccuracies in the maintenance of the accounting records by The Audit Office.

(d) Overfunded Superannuation

The SSF and SASS reserve accounts now exceed the respective Fund liability. Due to an increase in the assessed liability, mainly attributable to the change in the actuarial basis of valuation, the surplus of the SSF has been reduced by \$811,537 which has been treated as an Abnormal item in the Income and Expenditure Statement. The surplus of \$34,583 for SASS is included as a non-current asset - Overfunded Superannuation.

Further funding contributions for the SSF Scheme have been suspended with approval of the Board. The effect of this will be that no further contribution will need to be made for this Scheme until the balance of the Reserve Account is less than the assessed liability of members. The non-current asset Overfunded Superannuation is dependent upon annual reviews of the superannuation liability for the schemes and the effect of investment earnings of the Fund.

As at 30 November 1995 the liability in respect of the Basic Benefits Scheme is also fully provided and has been calculated according to Board formulas which take into account amounts held by the Board in the reserve account.

The Basic Benefits Scheme has been closed following the establishment of the First State Super Scheme. Employee entitlements were preserved as at 1 July 1992 as a consequence of the introduction of the Commonwealth Superannuation Guarantee Charge (SGC). First State Super (FSS) has established superannuation cover for employees who are not contributing to any other scheme and employer contributions were 5% of such employees' salaries up to 30 June 1995 and 6% thereafter. Payments for staff covered by the FSS totalled \$210,395 in 1994-95. For the FSS and PSESS Schemes The Audit Office has no outstanding employer liability as the contributions are fully funded and vested to individual officers.

16 Commitments

Commitments for leased Office accommodation are:

	At 30.11.95	At 30.11.94
	\$'000	\$'000
Lease commitments:		
not later than one year	560	560
later than one year and not later than two years	614	560
later than two years and not later than five years	1,171	1,228
later than five years	—	557
	2,345	2,905

17 Material Assistance Provided at No or Nominal Cost

Audit clients provide, at no cost, accommodation and facilities at their premises for staff of this Office during the course of the audit. It is not possible to quantify the cost of such facilities.

18 Consultants Engaged

During 1994-95 The Audit Office engaged 10 consultants at a total cost of \$187,182. There were no consultancies in excess of \$30,000 for a single project.

19 Notes to the Statement of Cash Flows

(a) Reconciliation of Cash

For the purposes of the statement of cash flows, The Audit Office of New South Wales considers cash to include cash on hand and in the bank. At 30 November 1995, cash as shown in the statement of cash flows of \$2,741,326 (\$3,425,141) is equal to the amount shown in the Balance Sheet.

(b) Reconciliation of Net Cash used in Operating Activities to Operating Result

	Year Ended 30.11.95 \$'000	Year Ended 30.11.94 \$'000
Operating Surplus/(Deficiency)	(875)	2,077
Abnormal Item - Overfunded Superannuation	777	(1,869)
Depreciation	567	407
(Increase)/Decrease in Receivables and Work in Progress	28	(448)
(Increase)/Decrease in Prepayments and Accrued Income	(195)	307
Increase/(Decrease) in Fees in Advance	2	—
Increase/(Decrease) in Creditors and Accruals	(337)	164
(Decrease) in Provisions	(9)	(49)
	(42)	589
Plus - Proceeds of Sale of Equipment	(15)	—
Net Cash (Used In)/Provided by Operating Activities	(57)	589

End of Audited Financial Statements

- 1** Senior Executive Service (SES) Profile
- 2** SES Performance Statements
- 3** Internal Committees
- 4** Organisations and Activities Audited
- 5** Audits Conducted Under Section 45(1)
- 6** Work Undertaken for External Committees, Panels, etc.
- 7** External Presentations
- 8** Publications During the Year
- 9** Performance Against Service Standards
- 10** Internal Audit Report
- 11** Report on Investment Performance
- 12** Equal Employment Opportunity Statistics
- 13** Progress with Disability Plan
- 14** Compliance Index to Disclosure Requirements

Appendix 1

Senior Executive Service (SES) Profile

(The following information is provided in accordance with Clause 14 of the Annual Reports (Statutory Bodies) Regulation 1995.)

Number of CES/SES Positions	Former Level to 30/9/95	New Band From 1/10/95	Income Band For Position \$'000	Total	Total
				CES/SES End of Current Year	CES/SES End of Previous Year
	8	4 upper	-	-	-
	7	4 lower	-	-	-
	6	3 upper	-	-	-
	5	3 lower	149-170	1	1
	4	2 upper	137-148	5	5
	3	2 lower	-	-	-
	2	1 upper	110-119	12	12
	1	1 lower	102-109	8	8
		CEO under S.11A*	190-218	1	1
		Total		27	27

* CEO positions listed under S.11A of the Statutory and Other Offices Remuneration Act 1975, not included in Schedule 3A of the Public Sector Management Act 1988.

Number of Positions Filled by Women

Number of Positions:

- in the current year: One level 2 position
- in the previous year: Nil

Band 3 Positions or Above

Name, position held and level of each executive officer of or above Band 3 holding office at the end of the reporting year:

Mr Tony Harris, Auditor-General, CEO under S.11A

Mr Jim Mitchell, Deputy Auditor-General, Band 3.

Appendix 2

SES Performance Statements

(The following information is provided in accordance with Clause 11 of the Annual Reports (Statutory Bodies) Regulations 1995.)

Name Mr Tony Harris

Position and Level

Auditor-General, CEO under S.11A of the Statutory and Other Offices Remuneration Act 1975.

Period in the Position

Full year.

Comment

The Auditor-General is not appointed under the Public Sector Management Act. The Auditor-General is responsible to Parliament and there is no annual performance review under the Public Sector Management Act.

Name Mr James Mitchell

Position and Level

Deputy Auditor-General, Band 3 lower.

Period in the Position

Full year.

Results

Mr Mitchell advises and assists the Auditor-General in fulfilling audit responsibilities. During the year, Mr Mitchell gave particular emphasis: to information systems audit; to the introduction of structured quality management; to ensuring EEO principles are "part and parcel" of the Office's operations; to the Auditor-General's Annual Report to Parliament; and to the staffing regime of the Office.

In each of these areas discernable improvements were made during the year and Mr Mitchell's contribution to these and other areas has been most satisfactory.

Appendix 3

Internal Committees

The following committees are those which have had a significant impact on the operations of the Office and include representation by senior management. The names of executive staff who are members of the following committees are shown earlier on the organisation chart.

Board of Management

To provide strategic direction, help formulate corporate policy and monitor operations and finances of the Office.

Composition: Deputy Auditor-General
Assistant Auditors-General

Planning Review Committee

For review of strategic audit plans and forward resource planning.

Composition: Deputy Auditor-General
Assistant Auditors-General

Senior Management Committee

To inform and to provide advice to senior executives on audit operations, coverage requirements, resource needs and development initiatives on audit policies and practice.

Composition: Auditor-General
Deputy Auditor-General
Assistant Auditors-General
Directors of Audit:
Peter Carr; Ron Hegarty; Roger Henderson; Stephen Horne; Sam Kalagurjevic; Jack Kheir; Steve McLeod; Denis Streater; Lee White; Maria Spriggins; Jon Tyers.
Principal Auditors:
Mark Abood; Keith Brown; Greg Gibson; David Jones; Bill McBeath; Jim Papandreas; Peter Boulous; Rob Mathie.

Internal Audit Committee

Review internal accounting and management functions of the Office.

Composition: Auditor-General
Deputy Auditor-General
Representative of Assistant Auditors-General:
Tom Jambrich

Assistant Auditor-General (Policy, Research and Management), internal audit staff and the external auditor participate in the committee's work as invitees.

Joint Consultative Committee

Review of work practices and employment conditions under the Structural Efficiency Principle (SEP).

Composition: Three representatives of management:
Geoff Allen; Bill McBeath; Geoff Oliver
Two representatives of unions:
Peter Armstrong; Geoff White
EEO Co-ordinator:
Glenda Sladen

Workplace Committee

To develop an enterprise agreement.

Composition: Four representatives of management:
Tony Harris; Geoff Oliver; Lee White; Geoff Allen
Four representatives of staff:
Len Stafford; John Hailwood; Olwen Paul; Peter Armstrong
EEO Co-ordinator:
Glenda Sladen

Job Evaluation Committee

Review recommendations for reclassification and regrading of positions in the Office.

Composition: **Geoff Allen, Geoff White, Bill McBeath, Peter Armstrong** and two vacant positions.

EEO Implementation Committee

Review Equal Employment Opportunity (EEO) Management Plan and participate in projects to ensure effective implementation of strategies and formulation of policies.

Composition: Director of Employment Equity:

Jim Mitchell (Deputy Auditor-General)

Assistant Auditor-General (Policy, Research and Management):

Geoff Oliver

EEO Co-ordinator:

Glenda Sladen

Representative from Personnel:

Gary Beer

Representative of Directors:

Sam Kalagurgevic

Spokeswoman:

Neelam Bhalla

Representatives of people of non-English speaking background:

Lynda Paju; Tony Viegas

Representative of men of English speaking background:

Paul Fitzgerald

Union representative:

Peter Armstrong

Disability Committee

Review Disability Plan and participate in projects to ensure effective implementation and policy formulation.

Composition: EEO Co-ordinator:

Glenda Sladen

Administration Manager:

Geoff Allen

Staff representatives:

Linda Nicholas; John Hailwood; Ken Davidson;

Grant Donohue; Steve Hrdina; David O'Brien;

Corona Thompson

Quality Audit Committee

To review the quality of audit work and ensure that all audits are being conducted in accordance with the guidelines laid down in the policy and procedures manual and that the attest audit process is being applied uniformly across all audits.

Composition: Director of Audit (Policy, Research and Management):

Jack Kheir

Senior Audit Manager (Policy, Research and Management):

Steve Fryer

Committees Established or Abolished During the Year

The only significant committee established during the year was the Workplace Committee and relevant details are given above.

There were no significant committees abolished during the year.

Appendix 4 Organisations and Activities Audited

(Excluding organisations audited under Section 45(1) of the Public Finance and Audit Act 1983 - listed in Appendix 5).

Aboriginal Affairs, Office of	Dams Safety Committee
Aboriginal Land Council, New South Wales -	Darling Harbour Authority
Aboriginal Land Council Investment Fund,	Department for Women (previously Ministry for the
New South Wales	Status and Advancement of Women)
Yrimbirra Pty Ltd	Department of Gaming and Racing (previously Chief
Aging and Disability Department (previously Social	Secretaries Department)
Policy Directorate)	Dried Fruits Board, New South Wales
Agriculture, Department of	Drug Offensive Foundation, New South Wales
Air Transport Council	Electricity Council of NSW
ANZAC Health and Medical Research Foundation	Electricity Distributors -
ANZAC Memorial Building, Trustees of the	Broken Hill Ophir
Architects, Board of, New South Wales	Central West Orion Energy (previously Shortland)
Archives Authority of New South Wales	Illawarra Peel-Cunningham
Art Gallery of New South Wales Trust	Monaro Prospect
Attorney General's Department -	Murray River Southern Mitchell
Compensation Court of New South Wales	Murrumbidgee Southern Tablelands
Crown Solicitors Office	Namoi Valley South West Slopes
Crown Solicitors Trust Account	New England Tumut River
Protective Commissioner	Northern Rivers Western Power
Registry of Births, Deaths and Marriages	North West Ulan
Suitors Fund	Electricity Transmission Authority
Victims Compensation Fund	Energy, Department of/Energy Corporation of NSW
Australian Museum Trust	Environment Protection Authority
Australian Water and Coastal Studies Pty Limited	Environmental Education Trust
Banana Industry Committee	Environmental Research Trust
Bicentennial Park Trust	Environmental Restoration & Rehabilitation Trust
Board of Vocational Education and Training	Ethnic Affairs Commission of New South Wales
Brett Whiteley Foundation	Film and Television Office, New South Wales
Broken Hill Water Board	Financial Institutions Commission, New South Wales
Building and Construction Industry Long Service	Financial Counselling Trust Fund
Payments Corporation	Fire Brigades, New South Wales
Building Services Corporation	First State Superannuation Fund
Business and Regional Development, Department of	Fisheries, NSW
Bush Fire Services, Department of	Fish River Water Supply
Cabinet Office -	Forestry Commission of New South Wales
Parliamentary Counsel's Office	Gaming and Racing, Department of
Cancer Council, New South Wales State	Gas Council of NSW
Casino Control Authority	Geological and Mining Museum Trust -
Centennial Park and Moore Park Trust	Earth Exchange Limited
Charles Sturt University -	Government Pricing Tribunal
Mitchell Service Ltd	Government Telecommunications Authority,
Olive Street Services Ltd	New South Wales
Rivservices Ltd	Grains Board, New South Wales
Chipping Norton Lake Authority	Greyhound Racing Control Board
CityWest Development Corporation	Harness Racing Authority of New South Wales
CityWest Housing Pty Ltd	Hawkesbury/Nepean Catchment Management Trust
Coal Compensation Board, New South Wales	Health Care Complaints Commission of NSW
Cobar Water Board	Health, Department of -
Community Services Commission	Royal Alexandra Hospital for Children
Community Services, Department of	Sydney Home Nursing Service
Consumer Affairs, Department of	Area Health Services -
Financial Counselling Trust Fund	Central Coast Northern Sydney
Corrective Services, Department of	Central Sydney South Western
Courts Administration, Department of	Eastern Sydney Southern Sydney
Cowra Japanese Garden Maintenance Foundation Ltd	Hunter Wentworth
Crime Commission, New South Wales	Illawarra Western Sydney
Dairy Corporation, New South Wales	District Health Services -
	Barwon Monaro
	Castlereagh Murray
	Central West Murrumbidgee
	Clarence New England

Evans	North West	Irrigation Areas and Districts -
Far West	Orana	Colleambally
Hume	Richmond	Lachlan Region
Lachlan	Riverina	Lower Murray/Darling
Lower North Coast	South Coast	Murray Region
Macleay-Hastings	Southern Tablelands	Murrumbidgee Region
Macquarie	Tweed	Land Titles Office
Mid North Coast		Soil Conservation Business Operations
Health Professional Registrations Boards -		Valuer Generals Office
Chiropractors & Osteopaths Registration Board		Water Services Policy Division
Dental Board of New South Wales		Landcom - Crown Lands Homesite Program
Dental Technicians Registration Board		Law Courts Ltd.
Nurses Registration Board		Legal Aid Commission of New South Wales
Optical Dispensers Licensing Board		Legal Practitioners Admissions Board (previously
Optometrical Registration, Board of		Barristers/Solicitors Admission Boards)
Physiotherapists Registration Board		Legislature -
Podiatrists Registration Board		Legislative House Committee
Psychologists Registration Board		Public Accounts Committee
Health Foundation NSW		Library Council of New South Wales -
Heritage Council of NSW -		Asia Focus Pty Ltd
Historic Houses Trust of NSW Foundation		State Library of NSW Foundation
Homebush Bay Development Corporation		Liquor Administration Board
Homefund Commissioner		Local Government, Department of
Home Care Service of New South Wales		Lord Howe Island Board
Home Purchase Assistance Authority		Lotteries, NSW -
Honeysuckle Development Corporation		Lottery Ballots
HPAA/FANMAC Trusts -		Oz Lotto Prize Fund
HPAA/Fanmac Trust (Australia) No. 2		Luna Park Amusements Pty Ltd
HPAA/Fanmac Trust (Australia) No. 3		Luna Park Reserve Trust
HPAA/Fanmac Trust No. 6		Macquarie University -
HPAA/Fanmac Trust No. 7		CMBF Limited
HPAA/Fanmac Trust No. 8		Macquarie Convocation Pty Limited
HPAA/Fanmac Trust No. 9		Macquarie Foundation, The
HPAA/Fanmac Trust No. 10		Macquarie Graduate School of Management Pty Ltd
Hunter Catchment Management Trust		Macquarie Research Limited
Hunter Water Corporation Ltd -		Macquarie University Staff Superannuation Scheme
Hunter Watertech Ltd.		Statistical Computing Laboratory Pty Limited
Independent Commission Against Corruption		Maritime Services Board of New South Wales
Industrial Relations, Department of (previously		Meat Industry Authority, New South Wales
Industrial Relations, Employment, Training and		Medical Board, New South Wales
Further Education)		M.I.A. Citrus Fruit Marketing Committee
Education and Training Foundation Pty Ltd, NSW		M.I.A. Citrus Fruit Promotion Marketing Committee
Information Edge Pty Ltd		Mine Subsidence Board
Institute of Psychiatry, New South Wales		Mineral Resources, Department of
Internal Audit Bureau of New South Wales		Mines Rescue Board
Judicial Commission of NSW		Ministry for the Arts
Juvenile Justice, Department of		Ministry for Housing, Planning and Urban Affairs
Koala and Endangered Species Trust Fund		Ministry for Police and Emergency Services
Lake Illawarra Authority		Ministry of Public Works (previously Office of
Land and Housing Corporation, NSW -		Minister for Public Works and Minister for Ports)
Bligh Park Estate Joint Venture		Ministerial Development Corporation
Housco Pty Ltd		Motor Accidents Authority of New South Wales
Housco R&JV (No.1) Pty Ltd		Murray-Darling Basin Commission
Land and Housing Corporation, NSW and Elders		Murray Valley (NSW) Citrus Marketing Board
Finance Limited (Glenmore Park) Joint Development		Museum of Applied Arts and Sciences, Trustees of the
Land Development Working Account		National Exchange of Police Information
Rental Housing Assistance Fund		National Parks and Wildlife Service
Land and Housing Corporation and Rental Bond		Newcastle International Sports Centre Trust
Board Joint Venture		Newcastle Showground and Exhibition Centre Trust
Land and Water Conservation, Department of		Office of the Board of Studies
Austinfo Pty Ltd		Olympic Co-ordination Agency

Ombudsman's Office
 Opera House Trust, Sydney -
 Opera House Appeal Fund
 Pacific Power (previously Electricity Commission of
 New South Wales) -
 Collieries Superannuation Pty Limited
 Elcom Collieries Pty Ltd
 Energy Efficient Research Centre Ltd, The
 Eraring Holdings Pty Limited
 Huntly Collier Pty Limited
 Mount Arthur South Joint Venture
 Mt Arthur South Coal Pty Ltd
 M.A.S Coal Marketing and Finance Pty Limited
 Newcom Collieries Pty Limited
 Pacificgrid Pty Limited
 Pacific Power Corporation of NSW Limited, The
 Pacific Power (International) Pty Limited
 Pacific Solar Pty Limited
 Powercoal Pty Ltd
 Powercoal Superannuation Pty Ltd
 Parliamentary Counsel's Office
 Parliamentary Contributory Superannuation Fund
 Parramatta Stadium Trust
 Pharmacy Board of New South Wales
 Police Service, NSW -
 Commercial Services Unit
 Poultry Meat Industry Authority
 Premier's Department
 Processing Tomato Marketing Committee of NSW
 Public Prosecutions, Office of the Director of
 Public Sector Executives Superannuation Board
 Public Trustee -
 Commissioner of Dormant Funds
 Public Works and Services, Department of -
 Commercial Services Group -
 Commercial Services Group Head Office
 Government Advertising Agency
 Government Cleaning Service
 Government Information Service
 Government Printing Service
 NSW Supply Service
 Q Stores
 State Fleet Services
 State Mail Services
 Real Estate Services Council
 Rental Bond Board
 Rice Marketing Board for the State of New South Wales
 Roads and Traffic Authority of NSW
 Royal Botanic Gardens and Domain Trust
 Rural Assistance Authority, New South Wales
 School Education, Department of -
 Schools Audit - Education Department
 Science and Technology Council, The New South Wales
 Small Business Development Corporation
 Somersby Park Pty Ltd
 South-West Tablelands Water Supply
 Sport and Recreation, Department of -
 Eastern Creek Raceway
 Sporting Injuries Committee
 State Authorities Superannuation Board -
 Pooled Fund -
 Gila Pty Ltd
 Hadenis Pty Ltd
 Mayfair Trust Joint Venture
 State Super Financial Services Limited -
 State Super ADF
 State Super Allocated Pension Fund
 State Super Investment Fund
 Vistajura Pty Ltd
 State Authorities Superannuation Board Trustees
 State Electoral Office -
 Election Funding Authority of New South Wales
 State Emergency Service
 State Rail Authority of New South Wales -
 Motive Power Company Pty Limited
 Wyndoe Pty Limited
 State Sports Centre Trust
 State Superannuation Investment and Management
 Corporation
 State Transit Authority
 Surveyors, Board of
 Sydney City Council
 Sydney Cove Redevelopment Authority
 Sydney Cricket and Sports Ground Trust
 Sydney Electricity -
 Australian Energy Solutions Partnership
 Energy Australia Venture Holdings
 Energy Management International Pty Limited
 SEFTECH
 Sydney Electricity Enterprises Pty Ltd
 Sydney Market Authority
 Sydney Organising Committee for the Olympic Games
 Sydney Paralympic Organisation Committee Limited
 Sydney Water Corporation Limited (previously Water
 Board) -
 Australian Water Technologies Pty Ltd
 Special Environment Levy
 Special Environment (SEL) Unit Trust
 Teacher Housing Authority of New South Wales
 Technical and Further Education Commission -
 TAFE Statutory Trust Funds
 Tobacco Leaf Marketing Board for the State of New
 South Wales
 Totalizator Agency Board
 Tourism, New South Wales
 Tow Truck Industry Council of New South Wales
 Training and Education Co-ordination, Department
 of (previously part of the Department of
 Industrial Relations, Employment, Training and
 Further Education) -
 Adult Migrant English Service
 Transport, Department of
 Treasury, The -
 Consolidated Financial Statements, NSW State
 Public Sector
 Crown Long Service Leave Pool
 Crown Property Portfolio
 New South Wales Structured Finance Activities
 Office of Financial Management
 Office of State Revenue
 Treasury Corporation of NSW -
 TCorp Nominees Pty Limited

University of Newcastle -
 University of Newcastle Flying School Ltd
 University of Newcastle Research Associates Limited

University of New England -
 Agriculture Business Research Institute
 University of New England Professorial Superannuation Scheme
 University Partnerships Pty Ltd
 Wirraburn Pty Ltd and Shannon Robertson Unit Trust

University of New South Wales -
 AGSM Limited
 Building Research Centre Trust Limited, The Kensington Colleges, The
 New South Wales University Press Limited
 Unisearch Limited
 University of New South Wales Ben Lexcen Sports Association Endowment Fund Limited
 University of New South Wales Ben Lexcen Sports Association Scholarship Trust Limited
 University of New South Wales Foundation
 University of New South Wales Foundation Limited
 University of New South Wales International House Limited
 University of NSW Professorial Superannuation Scheme

University of Sydney -
 Centre to Agricultural Risk Management Pty Ltd
 Museum of Contemporary Art Limited
 Rural Australia Foundation Limited
 University of Sydney Professorial Superannuation System
 University of Sydney Short Term Academic and other Special Appointments Superannuation Scheme
 Wentworth Annexe Limited

University of Technology, Sydney -
 Insearch Limited
 Insearch Language Centre Partnership
 Sydney Educational Broadcasting Limited

University of Western Sydney, Board of Governors -
 Hawkesbury Technologies Pty Ltd (previously Hawkaid Research and Development Company Ltd.)
 Macsearch Limited
 Nepean Foundation Limited
 University of Western Sydney Foundation Limited
 University of Western Sydney Foundation Trust

University of Wollongong -
 Illawarra Technology Corporation Limited
 University of Wollongong Child Care Centre
 University of Wollongong Foundation Limited
 University of Wollongong Professorial Superannuation Scheme
 University of Wollongong Recreation and Sports Association
 University of Wollongong Union

University, Southern Cross -
 Norsearch Limited
 Upper Parramatta River Catchment Trust

Urban Affairs and Planning, Department of (previously Department of Planning)
 Urban Catchment Management Trust
 Urban Parks Agency
 Veterinary Surgeons of New South Wales, Board of
 Waste Recycling and Processing Service of New South Wales
 Wild Dog Destruction Board
 Wine Grapes Marketing Board for the City of Griffith and the Shires of Leeton, Carrathool and Murrumbidgee -
 WGMB Holding Pty Ltd
 Wollongong Sportsground Trust
 WorkCover Authority -
 Fund Created By The Associated General Contractors Insurance Company Limited Act 1980
 Fund Created By The Bishopsgate Insurance Australia Limited Act 1983
 Fund Created By The Northumberland Insurance Company Limited Act 1975
 Fund Created By The Riverina Insurance Company Limited and Another Insurance Company Act 1971
 WorkCover Scheme and Statutory Funds
 Workers' Compensation (Dust Diseases) Board
 Workmen's Compensation (Broken Hill) Joint Committee
 Zoological Parks Board of New South Wales

Appendix 5

Audits Conducted Under Section 45(1)

The following information is provided in accordance with recommendation No. 33 in the Public Accounts Committee Report No. 49 which stated:

Particular Audits

- 10.19 Section 45 of the Public Finance and Audit Act 1983 provides that the Auditor-General shall conduct audits at the request of the Treasurer, a Minister or a prescribed person under the Act.
- 10.20 The Act also makes provision for the Treasurer to decide whether the costs and expenses of any such inspection and audit are recouped from the statutory body subject to the audit.
- 10.21 As indicated in Chapter 7, the Premier and Treasurer has asked Ministers to ensure that formal agreement is reached with the Auditor-General on the payment of fees.
- 10.22 The Committee holds the view that details of particular audits should be provided to Parliament.

Recommendation 33

It is recommended that the Auditor-General list in the appendices to his office report those audits which he has conducted under S45(1) of the Public Finance and Audit Act including the objectives of the Audit, a summary of the results, the cost of the audit and whether the cost was recovered.

These audits are undertaken with the objective of determining whether, in all material respects, the financial statements are presented fairly in accordance with the requirements of the Public Finance and Audit Act 1983, and Australian accounting concepts and applicable standards. In all instances the result of audit was satisfactory.

Audit	Financial Year End	Audit Fee	
		\$	
Art Gallery of NSW Foundation	30.06.95	4,000	C R
Agricultural Scientific Collections Trust	30.06.95	1,120	C N F R
Australia Day Council	30.06.95	4,000	C N F R
C.B. Alexander Foundation	30.06.95	3,300	C N F R
Dumaresq-Barwon Borders River Commission	30.06.95	(a)	
Farrer Memorial Research Scholarship Fund	31.12.94	1,720	C R
Home Purchase Assistance Fund	30.06.95	18,800	C R
Minister Administering the Environmental Planning and Assessment Act 1979	30.06.95	74,000	C R
Minister Administering the Heritage Act 1977	30.06.95	9,500	C N F
Lotto Prize Fund	30.06.95	1,050	C R
Ambulance Service of NSW	30.06.95	72,850	C R
UNILINC Limited	31.12.94	7,000	C N F R
Northern Riverina Electricity	30.06.95	36,010	C R
NorthPower	30.06.95	40,000	C R
Southern Riverina Electricity	30.06.95	48,000	C R
Office of the Minister for Public Works & Services	30.06.95	8,100	C R
NSW Insurance Ministerial Corp.	30.06.95	(b)	C R
NSW Treasury Managed Fund	30.06.95	(b)	C R
University of Newcastle	30.06.93	5,200	C R
Staff Superannuation Scheme	30.06.94	5,400	C N F R
Macquarie University Professional Superannuation Scheme	30.06.91	to	
	30.06.95	(c)	C N F R

- Note: (a) Audit undertaken this financial year by the Auditor-General of Queensland.
 (b) The total fee (\$87,700) is the consolidation of fees for four Government Managed Funds, inclusive of the Treasury Managed Fund.
 (c) The total fee for 5 years was \$27,500.

C R = Costs recovered C N F R = Costs not fully recovered

Appendix 6

Work Undertaken for External Committees, Panels, etc

A. Service on Committees

During the year Audit Office staff were members of the following committees, panels or working parties:

Representative Member of

- | | |
|------------------------|---|
| <i>Peter Auld</i> | <ul style="list-style-type: none">• Department of Public Works & Services - Commercial Services Group - ITS2028 Contract Management Committee• United Unisys Users Executive Committee |
| <i>Mark Burkinshaw</i> | <ul style="list-style-type: none">• Australia Quality Council Public Sector Quality Network |
| <i>Norm Bishop</i> | <ul style="list-style-type: none">• Electronic Data Interchange Consultative Committee - Audit Working Party |
| <i>Steven Fryer</i> | <ul style="list-style-type: none">• Australian Society of CPAs External Reporting Committee |
| <i>Greg Gibson</i> | <ul style="list-style-type: none">• Australian Society of CPAs NSW Audit Cell for the Auditing Centre of Excellence |
| <i>Andrew Grice</i> | <ul style="list-style-type: none">• Three month secondment to Council on the Cost of Government |
| <i>Tony Harris</i> | <ul style="list-style-type: none">• Treasurer's Accounting Advisory Panel• Working Party on the Rewrite of Public Finance and Audit Act |
| <i>Roger Henderson</i> | <ul style="list-style-type: none">• Electricity Distribution Industry Asset Valuation Working Group• Accounting Policy Committee -Electricity Council |
| <i>Stephen Horne</i> | <ul style="list-style-type: none">• Treasury Internal Audit Guidelines Steering Committee• NSW Public Sector Corruption Prevention Committee• Public Sector Mediation Guidelines Working Committee |
| <i>David Jones</i> | <ul style="list-style-type: none">• External selection panel |
| <i>Peter Kerr</i> | <ul style="list-style-type: none">• External selection panel for Department of Sport, Recreation and Racing |
| <i>Julie King</i> | <ul style="list-style-type: none">• External selection panel for Dairy Corporation |
| <i>John Lynas</i> | <ul style="list-style-type: none">• Australian Society of CPAs Education & Membership Policy Committee• Convenor, Australian Society of CPAs Auditing Discussion Group• Institute of Internal Auditors - Australia - National Auditing Standards Committee• University of Western Sydney - Faculty of Law Advisory Board |
| <i>Jim Mitchell</i> | <ul style="list-style-type: none">• Institute of Chartered Accountants in Australia Audit Advisory Panel• Industry Advisory Group to the Departmental Head on Local Government Accounting and Financial Reporting |
| <i>Geoff Oliver</i> | <ul style="list-style-type: none">• Land Tax Hardship Board - Boards of Review for Stamp Duties and Payroll Tax• Australian Society of CPAs - NSW Cell on Public Sector Accounting• Working Party on the Rewrite of Public Finance and Audit Act |
| <i>Lynda Paju</i> | <ul style="list-style-type: none">• Australian Society of CPAs Education and Membership Policy Committee• Vocational Education Training Accreditation Board (VETAB) - Associate Diploma in Accounting Course Accreditation Panel |
| <i>John Rosier</i> | <ul style="list-style-type: none">• Annual Report Awards Australia - Adjudicators' Panel• Australian Society of CPA's CPA Program Auditing Advisory Board |
| <i>Lee White</i> | <ul style="list-style-type: none">• Securities Institute of Australia Superannuation Taskforce |

The total time involvement during the year amounted to approx. 71 days.

B. Appearances Before Committees

During the year Audit Office staff appeared before the following:

Name of Committee, etc

Commonwealth of Australia Joint Committee of Public Accounts

- Inquiry into the Administration of Commonwealth-State Agreements for Specific Purpose Payments
- Inquiries into Fiscal Responsibility and Whole of Government Reporting
- Review of Accrual Reporting in Commonwealth Agencies

Parliament of New South Wales, Legislative Assembly, Public Accounts Committee

- Inquiry into Annual Reporting
- Inquiry into the Review of the Auditor-General's Office

Parliament of New South Wales, Legislative Assembly and Legislative Council, Standing Committee on Parliamentary Privilege & Ethics

Parliament of New South Wales, Legislative Assembly, Public Bodies Review Committee

- Inquiry into Annual Reporting

Parliament of New South Wales, Legislative Council, Standing Committee on Parliamentary Privilege & Ethics

- Inquiry into a Draft Code of Conduct for Members of the Legislative Council

Parliament of Western Australia, Legislative Council, Standing Committee on Estimates and Financial Operations

Professional Standards Committee of the Institute of Chartered Accountants in Australia

C. Work Performed for Committees

During the year Audit Office staff performed work for the following Committees:

<i>Name of Committee, etc</i>	<i>General Nature of Work</i>	<i>Approximate time involved</i>
Australian Accounting Research Foundation	Comments on exposure drafts	5 days
New South Wales Public Accounts Committee	Prepare submissions	3 days
NSW Treasury	Prepare comments on draft Treasury papers	9 days

Appendix 7 External Presentations

In Chronological Order

Subject	Presenter	Date	Organisation
Public Sector Ethics and Accountability	A C Harris	6.12.94	Premier's Department SES Orientation Program
Recent Developments in Accrual Accounting: The Scorecard to Date	A C Harris	13.12.94	Public Accounts Committee Seminar
Parliament's Right to Know	A C Harris	31.1.95	9th Biennial Conference of the Australasian Council of Public Accounts Committees
Public Sector Accountability	A C Harris	23.2.95	District Health Service Directors of Finance
Public Sector Accountability	A C Harris	24.2.95	Area Health Service Directors of Finance
Privatisation - Another View	A C Harris	6.4.95	Australian Water & Wastewater Association Conference (workshop panel member)
The Audit Office & OPM Fraud Control Guidelines: 12 Months On	S Horne	6.4.95	NSW Public Sector Corruption Prevention Committee
Co-operation Between Internal Audit & External Audit	P Thomas	7.4.95	Australasian Council of Auditors-General
Accountability and Risk-Taking in the NSW Public Sector	A C Harris	13.4.96	Australian Society Corporate Treasurers Workshop on Privatisation
Performance Auditing	D Streater	10.5.95	Local Government Internal Auditors Group Meeting
Performance Auditing and Health	A C Harris	17.5.95	Australian College of Health Services Executive Forum
Accrual Accounting and Whole of Government Financial Statements	A C Harris	18.5.95	Audit Panel of the Australian Society of CPA's
A New Strategic Approach to Fraud Control	S Horne	26.5.95	Institute of Internal Auditors: Parramatta Regional Discussion Group
The Audit Methodology of The Audit Office of NSW	S Fryer	1.6.95	Health Internal Audit Conference
Briefing for Ministerial Office Staff	A C Harris	3.6.95	Presentation at Ministerial Staff Induction Day
Quality Management of Audit	S Horne	16.6.95	Australasian Senior Audit Executives Conference
Whole of Government Reporting	G Gibson	20.6.95	Australian Society of CPAs Government Accountants Group
Private Sector Infrastructure	R Ray	4.7.95	Independent Commission Against Corruption
Private Provision of Public Infrastructure: Private Money - Public Risk	A C Harris	25.7.95	AIC Conferences Private Infrastructure Investment Forum
Reporting on Performance, Financial & Non-Financial Information	A C Harris	9.8.95	Public Accounts Committee Annual Reports in NSW Public Sector Seminar
Quality Management & ISO Certification for Performance Audit; and Marketing and Communicating Performance Audits	S Horne	10-11.8.95	Office of the Auditor-General, Western Australia
Auditors, Leaders & Contemporary Government	A C Harris	11.8.95	Australian Institute of Police Management 1995 Police Executive Leadership Program
Probity	S McLeod	22.8.95	NSW Police Service

Performance Auditing	R Mathie	28.8.95	Internal Audit NSW Department of Health
IT Audit Needs Assessment - Determining Which IT Activities Should be Audited	P Poon	30.8.95	IES Conference on EDP Audit & IT Security
The Flawed State Revenue Tax Base: How Do We Move Forward?	A C Harris	19.9.95	Australian Taxation Studies Program University of NSW
Governance in the Public Sector: Some Comments	A C Harris	11.10.95	Chartered Institute of Company Secretaries in Australia Ltd
How True and How Fair - Insights of an Auditor	A C Harris	16.10.95	Government Pricing Tribunal Conference
New Directions in Corporate Governance for GBE's and GTE's	A C Harris	16.10.95	IIR Conferences' Annual Company Secretaries (panel discussion)
The Changing Role of the Auditor in the Public Sector	A C Harris	25.10.95	Australian Society CPA's Congress
Address to Final Year Students, Bachelor of Business	A C Harris	6.11.95	School of Business, Australian Catholic University

Appendix 8 Publications During the Year

(The following information is provided in accordance with Clause 15 and Schedule 1 to the Annual Reports (Statutory Bodies) Regulation 1995.)

- Volume Three of the Auditor-General's Report for 1994 (December 1994).
- Proposed Sale of the State Bank of New South Wales (January 1995).
- Roads and Traffic Authority: The M2 Motorway (January 1995).
- Report on the Activities of the Auditor-General's Office of New South Wales for the year ended 30 November 1994 (March 1995).
- Department of Courts Administration: Management of the Courts (A Preliminary Report) (April 1995)
- Volume One of the Auditor-General's Report for 1995 (May 1995).
- Joint Operations in the Education Sector: A Review of Establishment, Management and Effectiveness Issues (September 1995).
- Department of School Education: Effective Utilisation of School Facilities (September 1995).
- Luna Park (October 1995).
- Volume Two of the Auditor-General's Report for 1995 (November 1995).
- Government Advertising (November 1995).

The Audit Office has produced an annual report under the Annual Reports legislation since the year ended 30 June 1986. Auditor-General's Reports to Parliament have been issued since before the turn of the century. The Office has limited copies of past reports available.

Appendix 9 Performance Against Service Standards

(The following information is provided in accordance with Clause 15 and Schedule 1 to the Annual Reports (Statutory Bodies) Regulation 1995.)

The Audit Office has issued a Guarantee of Service to its clients which sets out certain service standards which we undertake to meet. The results below show our performance against these standards for the year ended 30 November 1995. The Audit Office annual survey was used to gather measurement information.

<i>Service Standard</i>	<i>How Measured</i>	<i>Result</i>
Appropriateness		
We will provide all our audit clients with an Engagement Letter outlining the nature, scope, approach and specific details relating to the assignment, prior to its commencement.	Test check of correspondence.	100% of Engagement letters issued. Most issued after audit commenced.
Audit work will be performed by us with a thorough understanding of the client's industry and business	Clients asked to rate us on this.	Between "Neither good nor bad" & "Fairly good".
Our reports and opinions will be based on work undertaken in accordance with the Public Finance and Audit Act, other relevant legislation and Australian Auditing Standard and will be in the form required by the legislation and standards.	Internal and external reviews.	Satisfactory.
Accuracy		
When our clients request information from us, we will answer them directly whenever we can, or assist them to find the information from the appropriate source. The information provided will be professionally researched, gathered and reported.	Clients asked to rate us on "communication: keeping client informed".	Between "Neither good nor bad" & "Fairly good".
Availability		
Engagement Controllers and Managers will be in contact throughout the audit to ensure we are meeting client needs.	Clients asked to rate us on "availability".	Between "Fairly good" and "Very good".
We will include a contact name in all reports, correspondence and telephone conversations.	Test check of correspondence.	Contact name quoted 100% of the time.
Timeliness		
Letters and reports will be issued within following periods and sooner if possible:	Clients asked to rate us on "timeliness: ability to deliver the service promptly".	"Neither good nor bad".
· audit opinions - within statutory deadlines;	Review of records.	Deadline met 83% of the time
· reports to Ministers - at the same time as related opinion report;	Review of records.	Deadline met 95% of the time
· draft final management letters - within four weeks of audit completion;	Review of records.	Deadline met 58% of the time.
· responses to general correspondence - within four weeks.	Review of records.	Deadline met 89% of the time.
Value for Money		
Value for money will be provided by identifying those issues that are of greatest importance to our clients and tailoring a service that is responsive to those issues.	Clients asked to rate us on "value for money".	"Fairly good".
Courtesy and Sensitivity		
We will discuss audit results with our audit clients. Where significant or potentially sensitive matters are identified, a draft report, opinion or management letter will be discussed before being formally issued.	Review of complaints records and annual client survey.	Satisfactory.
Confidential and sensitive information will be managed with due consideration to the impact on individuals and all our clients.	Review of complaints records.	Satisfactory.

Appendix 10 Internal Audit Report

Internal Audit Program

For the year under review, areas examined by internal audit included:

- EDP general controls
- EDP application review of general ledger, including journals
- audit fees
- work in progress
- payroll
- non-payroll expenditure
- entertainment expenditure
- the Accounting and Procedures manual
- occupational health and safety

None of the above reviews were contracted out.

Major Findings 1994-95 Audit

A management letter was issued during the year in respect of the 1994-95 audit cycle. Matters brought to management's attention included the following:

- no formalised Disaster Recovery Plan
- no formalised Information Security Policy
- no formalised Information Technology Strategic Plan
- incomplete Accounting Manual
- improvements required in occupational health and safety procedures

Management Response to 1994-95 Audit

Management's response to the management letter stated that the elements of the Disaster Recovery Plan, Formalised Security Policy and Strategy Plan have been formulated and will be completed early next year.

Incomplete sections of the Accounting Manual will be completed early next year.

In respect of occupational health and safety, management will ensure that all relevant staff (e.g. floor fire wardens) are made fully aware of their responsibilities.

Administration of the Internal Audit

The Policy, Research and Management (PRM) Branch of the Office is responsible for performing the internal audit.

The Director PRM, in his role as internal auditor provides copies of all reports to the audit committee and attends all meetings of this Committee. (A separate Office unit, namely the Compliance and Internal Audit Unit, will perform future internal audit functions).

Audit Plan for 1995-96

The following areas are planned for review in 1995-96:

- Operational aspects of the General Ledger System
- Payroll
- Accounts Payable
- Accounts Receivable
- General Accounting
- Cash Management
- Budgets and Forecasts
- Overhead Cost Distribution
- Vehicle Fleet Management
- Insurance

Appendix 11 Report on Investment Performance

The information which follows is provided in accordance with Clause 12 of the Annual Reports (Statutory Bodies) Regulation 1995).

As The Audit Office is not an "authority" in terms of the Public Authorities (Financial Arrangements) Act 1987, it has no statutory investment powers. Funds of the Office are included in the Treasury set-off banking arrangements and interest on a daily basis is paid by the Treasury. Interest earnings for 1994-95 were \$178,545 compared to \$115,704 in the previous year.

Appendix 12 Equal Employment Opportunity Statistics

(The information which follows is provided in accordance with Clause 15 of the Annual Reports (Statutory Bodies) Regulation 1995).

Table 1: Representation and Recruitment of Aboriginal Employees and Employees with a Disability (a)

	1.7.94 - 30.6.95			1.7.93 - 30.6.94		
	Total Staff	Aboriginal People	PWD(b)	Total Staff	Aboriginal People	PWD
Total Employees (as at 31 March)	217	0 0.0%	10 4.6%	209	0 0.0%	8 3.8%
Recruited in the Year	49	0 0.0%	2 4.1%	45	0 0.0%	0 0.0%

Notes: (a) Includes permanent and temporary staff, SES staff, and staff on leave or secondment. Does not include casual staff (ie, auditing staff on fixed-period contracts), consultant staff, staff on secondment from other departments, and the Auditor-General.

(b) People with a disability.

Table 2: Representation of EEO Target Groups within Levels (a)

	As at 31.3.95			As at 31.3.94		
	Total Staff	Women	NESB(b)	Total Staff	Women	NESB(b)
Below CO1	-	-	-	-	-	-
CO1 - Below Grade 1	9	7 77.8%	3 33.3%	12	8 66.6%	1 8.3%
A & C Grades 1-2	30	12 40.0%	14 46.7%	29	15 51.7%	12 41.4%
A & C Grades 3-5	49	25 51.0%	24 49.0%	45	22 48.9%	18 40.0%
A & C Grades 6-9	67	17 25.4%	24 35.8%	57	12 21.1%	23 40.4%
A & C Grades 10-12	39	2 5.1%	7 17.9%	41	2 4.9%	8 19.5%
Above A & C Grade 12	23	0 0.0%	8 34.8%	25	0 0.0%	5 20.0%
TOTAL	217	63 29.0%	80 36.9%	209	59 28.2%	67 32.1%

Notes: (a) Includes permanent and temporary staff, SES staff, and staff on leave or secondment. Does not include casual staff (ie, auditing staff on fixed-period contracts), consultant staff, staff on secondment from other departments, and the Auditor-General.

(b) Non English Speaking Background, ie those who have English as a second language, or who have either of their parents with English as a second language.

Appendix 13 Progress with Disability Plan

(The information which follows is provided in accordance with the NSW Government Disability Strategic Plan's "Disability Direction: Tomorrow's Blueprint").

Process Items Report

<i>Process Item</i>	<i>Comment</i>
1. Stated commitment to disability planning by management which is communicated to staff.	Commitment was stated in: <ul style="list-style-type: none">• September 1994 Draft Disability Plan• Disability Survey to all staff January 1995• June 1995 Disability Plan
2. Establish and implement planning structure and processes with customer representation.	The Disability Committee was formed in October 1994. Five meetings were held over the next twelve months. The Office has little contact with the public, so with the concurrence of the Directorate on Disability, the Disability Plan covers matters relating to our existing and potential staff only, not to customers.
3. Establish staff disability awareness process/ program.	As outlined in the Disability Plan, awareness served by circulars, newsletter items, coverage in existing courses, SES sessions and separate information sessions.
4. Develop and refine data base - customer and staff.	A survey to identify staff with disabilities was conducted in January 1995. Database of organisation with clients with disabilities seeking employment was established in August 1995.
5. Review representation of people with a disability on consultation processes and advisory policy structures.	All staff with disabilities were invited to join the Disability Committee. Staff with disabilities are surveyed each six months to ensure they are satisfied with the Disability Committee's achievements, coverage in EEO newsletter, strategy to inform SES about disability, success of the Office in assisting them to maximise their productivity, career and training opportunities, the Enterprise Agreement and the Corporate Plan as they impact on their disabilities, and the application of principle of adjustment.
6. Develop accessible and appropriate complaints and appeals mechanism for people with a disability.	See previous point. The Office also has a formal grievance process which was updated in 1992.
7. Initiate evaluation and review process with customer representation. Link with broader standards and Quality Assurance process.	An intensive monitoring process, involving staff with disabilities and the Disability Process, is in place. Accountabilities are in appropriate officers' performance agreements. No link to broader standards and Quality Assurance yet.

Appendix 13 continued next page

Appendix 13 Progress with Disability Plan (continued)

Outcomes Report

Strategies and Actions Completed

- Draft circular to inform staff of their responsibilities under disability legislation, and of the principle of adjustment, approved by Directorate on Disability and Office of Equal Opportunity in Public Employment (ODEOPE).
- People with disabilities expressed 100% satisfaction rating with:
 - the usefulness of the Disability Committee in helping them achieve maximum productivity
 - coverage of disability in the EEO Newsletter
 - the strategy to inform SES staff about disability
 - their treatment by the Office in helping them achieve maximum productivity in their physical environment
 - career opportunities
 - training opportunities
 - the impact of the Enterprise Agreement on their disability*
 - the usefulness of the Corporate Plan in addressing their needs*
 - the application of the principle of adjustment
 - the application of a policy of non-segregation
- Disability Committee expressed 100% satisfaction rating with:
 - preparation and distribution of the Audit Office information kit to list of organisations with clients with disabilities seeking employment; handling of requests of placements or meetings with organisations.

In the year under review, the Audit Office created a permanent position for a person with a disability, and provided a three week work experience placement for a person with a disability. No requests for assistance or placements were refused.

The Committee completed many projects including: workplace modifications for an officer in a wheelchair, purchase of a luggage cart, publication of information sheets on assistance with parking and public transport, drafting of a policy on adjustment, organisation of eyecare lectures and discounted eyewear, provision to transfer software to home computers (to avoid the carrying of portables) and others.

* Subject to certain actions being taken in the next review period.

Strategies and Actions Not Completed

- Audit of physical access to premises leased by the Audit Office and development of Access Improvement Plan
 - awaiting guidelines from Directorate on Disability.
- Integration of Disability Plan actions and performance indicators into accountable officers' Work Plans and Performance Appraisals.
 - monitoring system introduced and all accountable officers provided accurate progress report; however, some officers have yet to develop a Work Plan and others did not have a Performance Appraisal during the period under review.
- Disability issues covered on Induction Course and Selection Techniques Course, to satisfaction of participants.
 - disability issues introduced on all courses from 1 July 1995, but performance indicator "to satisfaction of participants" not introduced until September 1995.
- EEOC to liaise with specific units to ensure principle of adjustment is understood to satisfaction of Disability Committee.
 - Disability Committee satisfied with progress made to date in planning stage; courses to be conducted in 1996.
- Disability Committee to express 100% satisfaction rating with treatment of people with a disability in the selection process.
 - While the Committee approved of the guidelines produced and the stringent monitoring process introduced, it was disappointing that two committees had failed to follow the procedures requested in the guidelines.
- Disability Committee to express 100% satisfaction rating with ensuring that external training venues had disability access.
 - project not completed by due date.

Appendix 14 Compliance Index to Disclosure Requirements

This index has been prepared to facilitate identification of compliance with statutory disclosure requirements (as per Treasurer's Memorandum TM92/9 Annual Reporting Requirements) and other disclosure requirements.

Act (Note 1)	Detail	Page
1 - 6A		
7(1)(a)(i)	Financial statements	51
7(1)(a)(ia)	Financial statements of controlled entities	n/a
7(1)(a)(ii)	Auditor-General's opinion	n/a
7(1)(a)(iia)	Response to Auditor-General's report ..	n/a
7(1)(a)(iii)	Current and next years' budgets	50
7(1)(a)(iv)	Report of operations..... (see Sched 1 below)	
7(1)(a)(v)	Other prescribed matters .. (see Reg 8 below)	
7(1)(b)	Report by prescribed person, group or body ..	n/a
7(2)	Dispensation by Treasurer	n/a
8	Report of operations prepared within 4 months	(complies)
9(1)	Report shall include:	
9(1)(a)	- charter	(inside front cover)
9(1)(b)	- aims and objectives	20
9(1)(c)	- access	(inside front cover)
9(1)(d)	- management and structure	39
9(1)(e)	- summary review of operations	6
9(1)(f)	- legal change	33
9(2)	Prescribed particulars (see Sched 1 below)	
9(3)	Prescribed form	n/a
9A - 12		n/a
12A	Annual Report of Auditor-General's Office	(complies)
13 - 17		n/a

Reg (Note 2)	Detail	Page
1 - 4		n/a
5	Start and finish of audited financial statements clearly indicated	51,64
6(a)	First budget approved for the year	50
6(b)	Other budget	n/a
7	Place for inclusion of budget	n/a
8	Additional matters for inclusion:	
8(1)	• significant events after year end	n/a
8(2)	• prescribed matters - amendment to code of conduct	n/a
	- annual report copies printed and cost	(inside back cover)
9	Unaudited information clearly indicated	(contents page)
10		n/a
11	Performance of executive officers	66
12	Investment performance	80
13	Liability management performance	n/a
14	Number of executive officers	66
15	Prescribed particulars (see Sched 1 below)	
16	Form of report - general:	
16(1)	• effective presentation and arrangement	(complies)
16(2)	• index and table of contents	(complies)
17	Form and presentation to Parliament:	
17(1)	• size	(complies)
17(2)	• number of copies for Parliament	(complies)

Reg (continued)	Detail	Page
17(3)	• copy in computer readable form	(complies)
18	Public availability of report	(complies)
19	Exemptions from provisions	n/a
20	Repeal	n/a

Schedule (Note 3)	Detail	Page
Column 1	Information required in report of operations:	
	Charter	
	• manner of establishment and purpose	(inside front cover)
	• principal legislation	(inside front cover)
	Aims and objectives	
	• aims	20
	• range of services	26
	• clientele served	26
	Access	
	• address	(inside front cover)
	• telephone number	(inside front cover)
	• business and service hours	(inside front cover)
	Management and structure:	
	• members of the body and meetings ..	n/a
	• significant committees	
	- names of	67
	- members of	67
	• senior offices	
	- titles	39
	- names of occupants	39
	- qualifications of occupants	39
	• significant committees established or abolished	
	- list names and functions	67
	• organisation chart indicating functional responsibilities	39
	Summary review of operations	
	• narrative summary of significant operations	6
	• financial and quantitative information about programs or operations	18, 59
	Funds granted to non-government organisations	n/a
	Social programs	n/a
	Legal change affecting the body	
	• Acts and subordinate legislation	33
	• significant judicial decisions	33
	Economic or other factors affecting achievement of operational objectives	8
	Management and activities	
	• nature and range of activities	26
	• measures and indicators of performance showing level of efficiency and effectiveness	10-16
	• nature and extent of internal and external performance review practices	32
Notes	(1) Refers to relevant section of Annual Reports (Statutory Bodies) Act 1984.	
	(2) Refers to relevant clause of Annual Reports (Statutory Bodies) Regulation 1995.	
	(3) Refers to matters described in Schedule 1 to the Annual Reports (Statutory Bodies) Regulation 1995.	
	n/a Not Applicable.	

Schedule (continued)	Detail	Page
	• improvements in organisational achievements	10-16
	• benefits from management and strategy reviews	32, 41
	• management improvement plans 36 achievements against previous targets	18, 20-25
	• major problems and issues	20
	• major works in progress	n/a
	• delays in major works or programs ... n/a research and development	
	• completed research	n/a
	• continuing research & development .. n/a human resources	
	• number of employees	44
	- by category	45
	- comparison to at least 3 prior years ..	45
	• exceptional movements in salaries	49
	• personnel policies and practices ..	46, 47
	• industrial relations policies & practices ..	41
	consultants	
	• costing more than \$30,000	n/a
	• costing less than \$30,000	34
	• no consultants	n/a
	equal employment opportunity	
	• achievements	41
	• strategies for the following year	42
	• statistics	80
	• progress with disability plan	81
	land disposal	n/a
	promotion	
	• types of publications and other information	77
	• overseas visits including purposes	33
	consumer response	
	• extent and main features of complaints	17
	• services improved or changed as a result	17
	guarantee of service	
	• standard for providing service	78
	• comment on variances from standard ..	78
	• comment on changes made to standard ..	78
	delay in payment of accounts	n/a
	risk management and insurance	34
	controlled entities	n/a

Requirements under Freedom of Information Act 1989 and regulations:

1. Information is to be provided in the required format
2. An assessment of that information is to be provided

Notes: (4) *The report complies with all requirements under Premier's Department Memorandum No. 91-27 except for that which requires inclusion on the front cover of the legend: "The New South Wales Government, Putting people first by managing better". The decision not to include this accords with the concept of The Audit Office being independent of Government.*

n/a *Not Applicable.*

Requirements under Government Pricing Tribunal Act 1992:

Agency to provide information regarding determination or recommendation of tribunal

Requirements under Treasury Circular No. G 1991/18

Equal employment opportunity disclosure requirements:

1. Commentary on Equal Employment Opportunity achievements
2. Statistical information in the required format ..

Requirements under Treasury Circular No.13 of 1995

Annual reports: Additional requirements

Developments in market testing and contracting ..

Requirement under Treasurer's Memorandum No. TM92/9

Annual reporting requirements:

- (a) Number of copies printed and cost
- (b) Index and table of contents
- (c) Provided to Parliament in computer-readable form

Requirements under Treasurer's Direction TD 900.01 General Insurance:

Report on risk management and insurance

activities

Requirements under Premier's Department Memorandum No 91-27

Requirements for all

NSW Government publications

Requirements under Premier's Department Circular No. 92/4

Senior Executive Service - Reporting in 1991/92 annual reports

1. Number and level of SES positions
2. Number of women in the SES
3. Performance of Chief Executives and SES officers Band 3 and above

Requirements under Premier's Department Memorandum No. 94-28

Changes to Procedures for Making Statutory Rules

1. Annual reports to detail any departures from Subordinate Legislation Act

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