Northern Territory of Australia

Strategic Review of Auditor General’s Office

2015

Des Pearson
10 November 2015
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1 Executive Summary

1.1 Foreword

The Auditor General and her staff are held in high regard by all stakeholders interviewed and all indications are that they are operating efficiently and effectively in accordance with the provisions of the Audit Act.

It was evident from my review that the current and previous Auditor-General have discharged their responsibilities diligently and conscientiously and have responded constructively to the recommendations of successive Strategic Reviews of the Office. The cumulative effect is that the Office is, within the resources available, operating efficiently and effectively in delivering on the mandate provided by the NT Audit Act.

1.2 Key findings

Overview

The NTAGO is a very small Office comprising five staff including the Auditor-General. The Office however operates an outsourced model to deliver audit services to the Northern Territory public sector.

The small number of staff brings advantages and disadvantages. Advantages include shorter lines of communication and higher levels of staff identification with the Office’s Mission, Vision, Values and Objectives. On the other hand such a small scale operation poses challenges as there are a significant range of functions in any Audit office that must be undertaken irrespective of the size of the Office. These include development and maintenance of policy and procedures manuals, data bases and corporate publications.

The mandate of the Office is to audit the Public Account and other accounts of Territory controlled entities (financial statement audits) annually and there is provision that the Auditor-General may also conduct an audit of performance management systems of any Agency or other organisation which the Auditor-General audits. In addition the Auditor-General may at the direction of the Minister be required to carry out Special Audits. There was one Special Audit request in the period under review. This was for an audit of the Special Purpose Financial Report on the completion accounts following the sale of the Banking and Insurance businesses of TIO.

Separate from the Audit Act provisions, Section 6 (1) of the Public Information Act provides that at the written request of a Member of the Legislative Assembly, the Auditor-General must conduct a review of that information and determine whether this Act has been contravened.

There is a broad and heavy workload to be acquitted by a small and tightly resourced Office. In recent years effectively all resources have been committed on discharging the core obligatory annual financial statement and directly related compliance audits and certifications, as well as acquitting Public Information Act responsibilities.

There are clear challenges arising from the small scale of the Office which give rise to heightened ‘key’ personnel related risks.
Turning to the Terms of Reference for this Strategic Review, all recommendations of the 2012 review and the subsequent 2013-14 annual audit recommendations are considered to have been satisfactorily considered and reasonably resolved. (ToR 1 (a))

Operationally for the period under review I consider the NTAGO has been cost effectively delivering on its mandate consistent with auditing standards. The resourcing situation leading to only the minimum mandated responsibilities being discharged has however been reasonably addressed in the 2015-16 budget. The scene is now set for the full mandate, beyond the obligatory annual financial statement remit, to be addressed. The challenge will be to do this in a balanced manner when opportunities will significantly exceed available resources. (ToR 1 (b))

I consider there is relative efficiency in the contract audit service provider approach and that the respective authorised auditor audit methodologies used are robust. This is further assured by direct NTAGO review and the systemic surveillance by both the relevant professional body quality assurance program and ASIC oversight of registered company auditors processes. (ToR 1 (b))

In all material respects I consider the NTAGO has reliably assisted the Auditor-General to meet the legislative obligations of the position. (ToR 1 (c))

My review of the structure of the NTAGO, its staffing, methodologies and systems employed and training provision indicates an overall satisfactory situation consistent with the Northern Territory environmental context and the principles of satisfying public sector accountability obligations and responsibilities. (ToR 1 (c))

Understandably NTAGO structures and processes work more predictably with the more routine annual financial statement program. Continued attention and further development is however required for the less routine PMS and other audits.

More education of and purposeful engagement with audited agencies is recommended in these areas to improve agency understanding of the process and approach being used. The need to apply a greater degree of subjectivity in evaluation and assessment should be fully explained in the context that there are fewer authoritative standards and established criteria when compared with the situation in relation to annual financial statement audits. In this latter respect there are comprehensive accounting standards, Treasurer’s Directions and established precedents available.

Notable achievements by the NTAGO over the past three years include the development of the 2014-2017 NTAGO Strategic Plan which serves to guide the further development and integration of subordinate work and personnel plans. Of particular priority now should be the establishment of an effective performance management framework to better integrate, support and guide personnel, respective output group operations and future iterations of the strategic plan.

While capable of further development, an appropriate balance has been achieved in developing and formalising documentation of frameworks and plans, commensurate with the scale of NTAGO operations and staff numbers.

A comprehensive communications framework has been developed. This now needs to be implemented and its effectiveness in operation monitored to inform further revision.

The other very notable development from the recommendations of the 2012 review has been addressing the problematic budgetary situation and implementing a partial cost recovery model. This promises to facilitate more structured and purposeful planning and operations for the immediate future.
This review has identified a range of operational, medium term and strategic opportunities for consideration to further develop the capacity and capability of NTAGO. These are set out in more detail below.

Operational opportunities

Planning and scheduling of financial statement and related compliance audits is well established and reliable in operation. In the context that in all material respects the conduct of these interrelated compliance and financial statement audit programs are being delivered professionally, cost effectively and in a timely manner, the focus of this review has been on identifying opportunities to better leverage this work.

Identification and initiation of performance management system (PMS) audits and other reviews however is not as established. Recognising there are opportunities to undertake such audits which are far in excess of available resources, it would be beneficial to develop a framework for structured identification of potential topics and criteria for prioritisation of such audits. This would better facilitate demonstrating which potential topics represent the higher risk and more material areas of audit interest which should be afforded priority for conduct.

There would be merit in further developing parliamentary reports to improve their timeliness, accessibility and relevance to Parliament, audited agencies and the community. In addition to a review of presentational approaches and scope for greater use of ‘plain english’ to highlight key messages and findings, the following aspects are raised for consideration:

(i) provide ‘continuity’ from each report to subsequent reports to more overtly acquit outstanding aspects of the previous report and make more transparent rationale for changes and other exceptions reported.

(ii) complement coverage in reports of financial statement and related compliance audits to provide insight to sector level audit planning considerations and issues and to also provide commentary on recurring findings and emerging trends.

(iii) expand commentary on individual entities to include relevant financial sustainability ratios and trends.

(iv) more definitively categorise reported audit activities and findings to assist reader understanding, eg. Results of Financial Statement Audits, Results of Compliance Audits, Results of Other Audits and Assessments, etc.

(v) explore means of bringing forward reporting timelines so reports are more contemporaneous with the period of audit.

(vi) develop the use of Reports in providing notice of planned audits by extending the timeline for proposed audit activity and providing a very concise explanation of intended scope of planned audits. An approach such as a rolling 18 month program or a 12 month program supplemented by an ‘under consideration’ category could be considered.

The NTAGO website could also be further developed to provide a central and readily accessible reference point for principle and policy statements such as the NTAGO Strategic Plan, Overviews of the approach to auditing the public account and other accounts and auditing performance
management systems, etc. This would also reduce repetition in annual and audit reports which can unnecessarily distract readers from other important messages in these reports.

To build on the introduction of a partial audit fee regime for financial statement audits, a post implementation review of the costing formula for these fees is suggested to confirm appropriate levels of fees are being recovered. At the same time there appears merit in now also exploring the introduction of universal charging for Financial statement and related compliance audits as is the norm in most other Australian jurisdictions. Raising of fees, in addition to making the cost of audit transparent, also provides a discipline and an incentive for both the auditor and the audited entity to appropriately plan for and participate in the audit.

To provide added assurance as to appropriateness of the scope and scale of financial statement audits, consideration of benchmarking with other jurisdictions selected audits, on a cyclical basis via the ACAG network is also suggested.

Medium term opportunities

In the medium term further development work on integrating the business, work and personnel plans commensurate with the nature and scale of the NTAGO would be worthwhile. This should enable more systematic documentation of the establishment of and delivery against NTAGO priorities. As the scope of operations extends beyond the minimum obligatory financial statement and compliance audits of recent years this will become a more important consideration.

For organisational sustainability consideration should be given to identifying ‘means’ of providing a level of in-house back up and a degree of succession planning for the professional staff of the NTAGO. In addition there would be benefit in obtaining a level of project capacity through options such as secondments and graduate and student intern placements to enable more timely addressing of development opportunities and initiatives.

Longer term considerations

NTAGO's mandate for performance management systems audits is now an exception in the Australian, NZ, UK and Canadian public sector audit approach. Effectively all jurisdictions now include performance audits in the mandate. This recognises that Auditing and Assurance Standards now extend to performance audits and that these audits provide a more reliable approach to assessing economy, efficiency and effectiveness in program delivery.

Another consideration is the frequency of the required Strategic Review of the NTAGO. Requiring such a review to be conducted 'not less than once every 3 years' is with one other jurisdiction, the most frequent incidence in Australia. The prevalent frequency in other jurisdictions is now every four or five years with the 'determinant' being either the parliamentary term of the relevant jurisdiction or the term of appointment of the Auditor-General.

A further suggestion in the context of any future consideration of amendments to the Audit Act would be to reconcile the Northern Territory legislation with the eight principles of independence as promulgated by the International Organisation of Supreme Audit Institutions (Mexico Declaration on the Independence of Supreme Audit Institutions).
1.3 Recommendations

1. Develop a framework for structured identification of potential topics and criteria for selection of performance management system audits and other reviews.

2. Adopt a longer timeframe for indicating proposed audit activity.

3. Further develop the format, structure, content and timing of reports on audit activities to improve their readability, relevance and messaging for the intended parliamentary, agency and community use.

4. Further develop the NTAGO website to provide a more comprehensive central and readily accessible reference point for NTAGO plans, policies, guidance and approaches to audits.

5. Undertake a post implementation review of the introduction of partial fee recovery for financial statement audits and explore the merits of now moving to a universal fee regime for financial statement and related compliance audits.

6. Consider benchmarking with other jurisdictions the scope and scale of selected financial statement audits via the ACAG network.

7. Continue the development and integration of business and personnel plans to more systematically document the establishment of plans and the monitoring of delivery against NTAGO priorities.

8. Explore means of providing a level of in-house back up and a degree of succession planning for the Principal Auditor positions and options for accessing project capacity to enable more timely addressing of development opportunities and initiatives.

9. Explore having the performance management systems audit mandate upgraded to the Australian norm of a full performance audit mandate to provide a more reliable approach for assessing the economy, efficiency and effectiveness of program delivery.

10. When the Audit Act is next reviewed, revisit the frequency of the required Strategic Review of the NTAGO and reconcile the provisions of the NT Audit Act with the INTOSAI principles for independence of Auditors-General.
1.4 Submissions and comments by the Auditor-General

Overall Response to the Report

The Auditor-General would like to thank Mr Des Pearson for the comprehensive approach to the triennial strategic review and the constructive report documenting the outcomes of the review. The recommended actions are considered valuable and pragmatic. Each recommendation will be considered and action to satisfactorily address each recommendation will commence prior to 30 June 2016.
2 Background and terms of reference

2.1 Background

The Northern Territory Audit Act (section 26) requires that a strategic review of the Auditor-General's Office be conducted not less than once every three years. The Audit Act also requires that, before a person is appointed to undertake the review, the Minister must consult the NT Legislative Assembly's Public Accounts Committee and the Auditor-General about the appointment. Once this is done, the Northern Territory Administrator appoints the reviewer and determines the terms and conditions of the appointment.

The Audit Act requires the Auditor-General to conduct audits of performance management systems and requires the Auditor-General to carry out audits as may be directed by the Minister, whether generally or specifically, by an instrument in writing.

The Northern Territory Auditor-General's Office (NTAGO) is established as an Agency under the NT Government's Administrative Arrangements Order and, as an Agency, it is subject to the same legislative requirements that apply to other Agencies. Thus while the Auditor-General may be independent in terms of performing the functions set down under the Audit Act, he or she is answerable to the Chief Minister for the stewardship of the public resources provided to the NTAGO.

The Audit Act requires the Auditor-General to provide a report to the Legislative Assembly at least once a year on those matters arising from the performance of his or her function or the exercise of his or her powers. In addition, the Auditor-General may, at any time, make a special report to the Legislative Assembly on any matter or thing arising out of an audit which, in his or her opinion, attention should be drawn.

The NTAGO is a small office comprising five full-time positions. The Auditor-General is supported by two Principal Auditors, who are responsible for the high level planning and the oversight of specific Agencies and audits. In addition to the Office's internal resources, the NTAGO works closely with five private sector firms, from which typically 125-150 authorised auditors are drawn, to deliver on the Auditor-General's mandate. Authorised Auditors are persons who are appointed, in writing, by the Auditor-General pursuant to section 17 of the Audit Act.

2.2 Terms of reference

The Administrator has determined the following terms of reference for this review:

“(a) evaluate the implementation of the recommendations of the 2012 strategic review of the NT Auditor-General's Office (NTAGO); and
(b) assess the effectiveness of the NTAGO audit methodology, the relative efficiency of contract audit service provision and the extent to which the NTAGO has assisted the Auditor-General to meet the legislative obligations of the position; and

(c) consider the following matters, with a view to enabling the Auditor-General to discharge the Auditor-General's responsibilities under the Audit Act both in the immediate and longer term, taking into account the amendments to the Act in 2011:

(i) the structure of the NTAGO;
(ii) the staffing of the NTAGO;
(iii) training required for both NTAGO staff and for authorised auditors;
(iv) methodologies employed;
(v) systems;

(vi) emerging issues.

In conducting the strategic review, the reviewer is to have regard to:

(a) the NT Auditor-General's role and responsibilities; and
(b) the requirements of public sector agencies and public sector organisational structures; and
(c) the requirements of the various stakeholders of the NT Auditor-General's Office; and
(d) the Northern Territory environmental context for the NTAGO; and
(e) comparative models, practices and procedures used by the equivalent to the NTAGO in other jurisdictions.

The reviewer is encouraged to consult with the Public Accounts Committee of the Legislative Assembly, key NT Government agencies and other stakeholders, including authorised auditors.

The reviewer is expected to provide a report, including recommendations as applicable, on the above matters no later than 20 November 2015."

2.3 Approach to review

The Review was conducted in accordance with the Terms of Reference and the relevant provisions of the Act.

It was undertaken using a combination of interviews with key stakeholders of the Office, reviews of Audit office documentation and numerous meetings and discussions with the Auditor General and
her staff. Face to face interviews were also held with a sample of the key stakeholders of the Office, including a representative Member and staff member of the Public Account Committee, Agency heads and senior executives, CFOs, and Authorised Auditors.

Documentation reviewed included:

- audit planning and conduct information
- documentation relating to systems and methodologies used by the Office in undertaking audits
- documentation relating to the internal management of the office
- Audit Reports and Annual Reports for 2012 - 2015
- Reports of the 2009 and 2012 Strategic Reviews of the Office
- Strategic Review Reports of comparable Offices

The review took into account the Northern Territory context and circumstance, the requirements of Australian auditing and assurance standards, the Westminster approach to public sector audit and accountability. Regard was paid to approaches and precedent in smaller Australian and Canadian jurisdictions via consultation and website searches.

Prior to finalisation of this report, a draft was provided to the Auditor General for comment, to enable provision of any further information relevant to the draft findings for me to consider and to avoid any misunderstandings.

This report is structured broadly along the lines of the Terms of Reference

**Acknowledgement**

I acknowledge the willing cooperation and assistance received from the Auditor-General and staff of the Office as I undertook this assignment. Similarly I am indebted to the Members and staff member of the Public Accounts Committee, Agency Executives, and Authorised Auditors with whom I had dealings. Without exception they gave readily of their time and were prepared to discuss their views of the Office frankly and honestly.
3 Findings and recommendations

3.1 Implementation of recommendations from 2012 review

Appendix 4.2 provides a detailed overview of the 14 recommendations arising from the 2012 Strategic Review (11) and the June 2014 financial statement audit (three) of the NTAGO. There were no 'open' recommendations arising from the 2014-15 financial statement audit.

A summary of the NTAGO response to each recommendation and my assessment of whether the recommendations have been appropriately addressed is also provided in this appendix.

I consider all 14 recommendations have been responsibly addressed and appropriately implemented.

Notable achievements since the 2012 Review include the development of the 2014-2017 NTAGO Strategic Plan which now serves to guide the further development and integration of subordinate work and personnel plans.

While capable of further development, an appropriate balance and satisfactory progress has been achieved in developing and formalising documentation of frameworks and plans commensurate with the scale of NTAGO operations and staff numbers.

The other notable development from the recommendations of the 2012 review has been addressing the problematic budgetary situation then emerging with a budget supplementation in the 2015-16 budget and the implementation of a partial cost recovery model.
3.2 Effectiveness of audit approach

3.2.1 Methodology

There are four categories of audit and review undertaken by NTAGO.

Foremost of these is the core obligatory mandated audit category of financial statement audits. For these audits the fieldwork is contracted out to audit service providers who use their respective firm's financial statement audit methodology. These firm's methodologies are proven and have associated quality assurance procedures in place consistent with AUASB standards.

The NTAGO assigns audits consistent with the capability and experience of the authorised auditors. The audit work submitted by Authorised Auditors is reviewed within NTAGO prior to the Auditor-General issuing the audit opinion.

The authorised auditors hold public practice certificates from their professional accounting body and are registered company auditors under Corporations Law. The professional accounting bodies apply systemic quality assurance procedures to their members in public practice and ASIC surveils the performance of registered company auditors.

Collectively I consider these complementary checks, review, oversight and surveillance procedures provide reasonable assurance regarding the quality and reliability of the professional audit services provided by Authorised Auditors (AAs) in relation to financial statement audits.

Complementing the core financial statement audits are compliance audits (which also include IT), performance management systems audits and Public Information Act reviews.

For the audit of the public account and other accounts and for performance management system audits, audits overview approaches have been developed and reported to the Legislative Assembly, most recently in the August 2014 Report.

Underpinning these approaches and also for Public Information Act reviews supporting frameworks, task assignments, service plans and workbooks have been developed. These have proven reliable and been progressively developed over time. There is a notable progression in comprehensiveness when current versions are compared with previous versions.

I am satisfied that a sound basis has been established for reliably managing and monitoring audits and reviews undertaken by NTAGO.

3.2.2 Contract audit service provision

In the context of public sector audit offices in Australia, NZ, the UK and Canada the NTAGO is unique in operating a fully outsourced model using contracted audit service providers (Authorised Auditors or AAs) to undertake the fieldwork necessary to support the issue of an opinion on the financial statements of Northern Territory public sector reporting entities.
A strict policy is applied to managing potential conflicts of interest. This policy is consistent with that applied by other State and Territory Audit Offices.

This model has proven effective in practice since its inception in 1982. It has been successful not only in making a core contribution to enabling the Auditor-General to cost effectively discharge obligations to conduct the annual financial statement audit of NT public sector entities but has also served to support a strong auditing profession being available for the benefit of the wider economy.

The cost of this approach compares reasonably with the cost of comparator offices across Australia, notwithstanding they maintain a significant in-house capability. This outsourced approach also avoids for the NTAGO the overheads and risks associated with recruiting, retention and development of specialist professional staff in the challenging Darwin employment market.

Overall therefore I consider there is relative efficiency in the contract audit service provider approach and that the respective authorised auditor audit methodology used is inherently robust. The further assurance provided by direct NTAGO review of Authorised Auditor work also serves to achieve a reasonably seamless provision of audit services for the audited agencies.

3.2.3 NTAGO assistance in meeting legislative obligations

The mandate of the Office is to audit the Public Account and other accounts of Territory controlled entities (financial statement audits) annually and also provides that the Auditor-General may conduct an audit of performance management systems of any Agency or other organisation which the Auditor-General audits. In addition the Auditor-General may at the direction of the Minister be required to carry out Special Audits.

There was one Special Audit request in the period under review. This was for an audit of the Special Purpose Financial Report on the completion accounts following the sale of the Banking and Insurance businesses of TIO, which was reported to the Legislative Assembly in the August 2015 Report.

Separate from the Audit Act provisions, Section 6 (1) of the Public Information Act provides that at the written request of a Member of the Legislative Assembly, the Auditor-General must conduct a review of that information and determine whether this Act has been contravened.

The ultimate measure of the effectiveness of the NTAGO in assisting the Auditor-General to meet the NT Audit Act and Public Information Act obligations is that these obligations are met and that the Auditor-General is satisfied with the support received.

There are reasonable delegations and procedures in place which are serving the needs of the Auditor-General in practice. The core obligations are being discharged and done so in a timely manner. Further the Auditor-General is satisfied with the support received.

Operationally for the period under review I consider the NTAGO has been cost effectively delivering on its mandate consistent with auditing standards. The resourcing situation leading to only the minimum mandated responsibilities being discharged has however been reasonably addressed in the 2015-16 budget. The scene is now set for the full mandate, beyond the obligatory annual financial statement remit, to be addressed. The challenge will be to do this in a more substantive and structured manner.
In all material respects therefore I consider the NTAGO has reliably assisted the Auditor-General to meet the legislative obligations of the position.
3.3 Discharge of responsibilities under the Audit Act

3.3.1 Structure of the NTAGO

The structure of the NTAGO remains stable and has served the needs of the Office over time. While a very small Office with the inherent risks related to the continuity of key personnel and related access to corporate memory, the structure is robust and fit for purpose. Significant additional budget would be required to further mitigate these risks.

There would be benefit in augmenting the current structure to provide additional professional support and by obtaining a level of project support via avenues such as secondments and graduate and student intern placements for example. This is an option which is recommended for exploration.

The small Office staff brings advantages and disadvantages. Advantages include shorter lines of communication and higher levels of staff identification with the Office’s Mission, Vision, Values and Objectives. On the other hand such a small scale poses challenges as there are a number of functions in any Audit office that must be undertaken irrespective of the size of the Office such as development and maintenance of policy and procedures manuals, data bases and corporate publications.

3.3.2 Staffing of the NTAGO

Staffing of the Office is stable, with appropriately skilled and qualified staff.

There is a broad and heavy workload to be acquitted by a small and tightly resourced Office. In recent years effectively all resources have been committed on discharging the core obligatory annual financial statement and directly related compliance audits and certifications as well as acquitting Public Information Act responsibilities. There are clear challenges arising from the small scale of the Office which give rise to heightened ‘key’ personnel related risks.

3.3.3 Training of staff and authorised auditors

Based on comparison with peer Offices and the wider NT public sector, adequate training and development opportunities are being provided to NTAGO staff.

My review of training provision to staff and AAs indicates an overall satisfactory situation. Consistent with the Northern Territory environmental context, a heavier reliance is placed on webinars and personal reading that would be expected in a larger Office. Enquiry of staff indicated reasonable satisfaction with access and while modest the reported direct expenditure on training and development appears adequate.
Consistent with the scale of operations, induction and ongoing briefing of Authorised Auditors is occurring and appears appropriate to the circumstances.

A standard induction presentation has been developed and is generally delivered by the Auditor-General. The Office also has issued two manuals, the Audit Contract Manual and the Audit Handbook, which define the relationship, standard operating procedures and standards to be applied when conducting audits.

Consideration might be given to a cyclical 'newsletter' type update on contemporary considerations to complement issue of updated audit task assignments, revision of Treasurer’s Directions, etc in recognition of the variability in the availability of Authorised Auditors for face to face presentations.

3.3.4 Methodologies employed

Adequate and reasonable methodologies are being applied appropriate to the type of audits and reviews being undertaken. As discussed at 3.2.1 above a robust and defensible approach is being applied to the core financial statement obligation, consistent with the risk and complexity assessment of audits and the related appointment of an appropriately skilled and experienced Authorised Auditor.

For Compliance and Performance Management Systems Audits appropriate frameworks, policies, procedures and workbooks have been developed to guide the conduct of these audits. While these are still evolving and being adapted to differing contexts and circumstances, I consider them reasonable in the context of the Northern Territory environment. Appropriate attention is being paid to evaluating their effectiveness in practice and purposeful progressive development is being pursued.

3.3.5 Systems

Adequate fit for purpose systems are in use to support NTAGO operations. Core corporate support services are provided by a shared service provider which is reliable. Core financial statement audit operations are well supported by a relatively sophisticated data base, AUDTAS, which has been designed and purposefully developed in-house. This data base is very functional and provides a single source of information for use in managing and monitoring delivery of the audit program. This audit support system is being progressively developed to increasingly automate the information gathering needs of the Office for operational management and annual reporting purposes.

With current plans to expand the number of performance management system audits, it is now timely to consider options for a system to support non financial statement audits.

3.3.6 Emerging issues

Arising from the review, the following emerging issues were identified for consideration.

(i) Managing audited agency expectations

Understandably NTAGO approaches and processes work more predictably with the more routine annual financial statement program. Some agencies raised reservations and indicated they had not anticipated some approaches to parliamentary reporting when performance management system audits and other reviews were conducted. This indicates that continued attention and further development is required for the less routine PMS audits and other reviews.
More education of and more structured engagement with audited agencies is therefore suggested when these audits and reviews are being conducted to improve agency understanding of the process and approach being used.

The need to apply a greater degree of subjectivity in evaluation and assessment should be fully explained in the context that there are fewer authoritative standards and established criteria when compared with the situation in relation to financial statement audits. In this latter respect there are comprehensive accounting standards, Treasurer’s Directions and directly applicable precedents available.

(ii) Strategic and operational planning

Notable achievements by the NTAGO over the past three years include the development of the 2014-2017 NTAGO Strategic Plan which serves to guide the further development and integration of subordinate work and personnel plans. Of particular priority now should be the establishment of an effective performance management framework to support and guide personnel, respective operational output groups, monitoring achievement against plans and using this information to inform management decisions and the setting of priorities.

This should lead to more systematic documentation of the establishment of and delivery against NTAGO plans which will become more important as the scope of operations extends beyond the minimum obligatory financial statement and compliance audits of recent years.

(iii) Communications framework

A comprehensive communications framework has been developed. This now needs to be implemented and its effectiveness in operation monitored to inform further revision.

(iv) PMS audits and other reviews

Planning and scheduling of financial statement and related compliance audits is well established and reliable in operation. Identification and initiation of performance management system (PMS) audits and other reviews however is not as established.

Recognising there are more opportunities to undertake such audits than there ever will be available resources, it would be beneficial to develop a framework to provide a more structured process of identification of potential topics and criteria for prioritisation of such audits.

This would facilitate better demonstrating which potential topics represent the higher risk and more material areas of audit interest and which should be afforded priority for conduct.

(v) Parliamentary reporting

There is the opportunity to further develop the format, structure and content of parliamentary reports to improve their timeliness, accessibility and relevance to Parliament, audited agencies and the community.

In addition to a review of presentational approaches and scope for greater use of ‘plain english’ to highlight key messages and findings, the following are raised for consideration:
(i) provide 'continuity' from each report to subsequent reports to more overtly acquit outstanding aspects of the previous report and make more transparent rationale for changes and other exceptions reported.

(ii) complement coverage in reports on financial statement and related compliance audits to provide insight to audit planning considerations and issues and to also provide commentary on recurring findings and emerging trends.

(iii) expand commentary on individual entities to include relevant financial sustainability ratios and trends.

(iv) more definitively categorise reported audit activities and findings to assist reader understanding, eg. Results of Financial Statement Audits, Results of Compliance Audits, Results of Other Audits and Assessments.

(v) explore means of bringing forward reporting timelines so reports are more contemporaneous with the period of audit.

(vi) develop the use of Reports in providing notice of planned audits by extending the timeline for proposed audit activity and providing a very concise explanation of intended scope of planned audits. An approach such as a rolling 18 month program or a 12 month program supplemented by an 'under consideration' category could be considered.

(vi) Website

The NTAGO website could also be further developed to provide a central and readily accessible reference point for principle and policy statements such as the NTAGO Strategic Plan, Overviews of the approach to auditing the public account and other accounts and the auditing performance management systems, etc. This would also serve to reduce repetition in annual and audit reports which can unnecessarily distract readers from other important messages in these reports.

(vii) Audit fees

To build on the introduction of the recently adopted partial audit fee regime for financial statement audits, a post implementation review of the costing formula for these fees is suggested to confirm appropriate levels of fees are being recovered.

At the same time there appears merit in now also exploring the introduction of universal charging for Financial statement and related compliance audits as is the norm in most other Australian jurisdictions. Raising of fees, in addition to making the cost of audit transparent, also provides an incentive for both the auditor and the audited entity to appropriately plan for and participate in the audit.

To provide added assurance as to the scope and scale of financial statement audits, consideration of benchmarking selected audits with other jurisdictions on a cyclical basis via the ACAG network is also suggested.

(viii) Organisational sustainability

For organisational sustainability, consideration should be given to identifying 'means' of providing a level of in-house back up and a degree of succession planning for the professional staff of the NTAGO.
In addition there would be benefit in obtaining a level of project capacity through options such as secondments and graduate and student intern placements to enable more timely addressing of development opportunities and initiatives.

(ix) Performance audit mandate

NTAGO’s mandate for performance management systems audits is now an exception in the Australian, NZ, UK and Canadian public sector audit approach. Effectively all jurisdictions now include performance audits in the mandate. This recognises that Auditing and Assurance Standards now extend to this form of audit and that it provides a more reliable approach to assessing economy, efficiency and effectiveness in program delivery.

(x) Review of Audit Act considerations

A final consideration is the frequency of the required Strategic Review of the NTAGO. Requiring such a review to be conducted ‘not less than once every 3 years’ represents the equal most frequent incidence in Australia. These reviews do impose additional burdens on the Office so should be purposefully used.

The prevalent frequency in other jurisdictions is now every four or five years with the ‘determinant’ being either the parliamentary term of the relevant jurisdiction or the term of appointment of the Auditor-General.

A further suggestion in the context of any future consideration of amendments to the Audit Act would be to reconcile the Northern Territory legislation with the eight principles of independence for Auditors-General as promulgated by the International Organisation of Supreme Audit Institutions (Mexico Declaration on the Independence of Supreme Audit Institutions).
4 Appendices

4.1 Stakeholders consulted

Public Accounts Committee

Members-Nathan Barrett
Natasha Fyles
Gerry Wood
Secretariat - Russell Keith

Departments and authorities (Audit clients)

Aboriginal Areas Protection Authority -
  Dr Ben Scambary & Maurice Sacilotto
Commissioner for Public Employment - Craig Allen
Department of the Chief Minister -
  John Coleman & Julie Nicholson
Department of Corporate and Information Services -
  David Keirs
Department of Education -
  Ken Davies & Jasmin Aldenhoven
Department of Health -
  Dr Len Notaras, Jan Currie, Tony Hendry & Lisa Watson
Department of Treasury and Finance -
  Jodie Ryan, David Braines-Mead & Dwayne McInnes
NT Build - Michael Martin & Theo Tsikouris
Power and Water Corporation - Djuna Pollard
Ombudsman - Peter Shoyer

Authorised auditors

Adam Dohnt, TDH Chartered Accountants
Clive Garland, KPMG
Matthew Kennon and MunLi Chee, Merit Partners
Hendri Mentz, Deloitte
Mal Sciacca, BDO
4.2 Evaluation of implementation of recommendations of previous audits and reviews

Findings from previous audits and reviews of the NTAGO:

<table>
<thead>
<tr>
<th>Finding</th>
<th>Respons</th>
<th>Action</th>
<th>2015 Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: Bentleys 2014 Financial Statement Audit</td>
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<td>The financial statements presented for audit excluded an expense for</td>
<td>This</td>
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<td>external audit fees and did not include a provision for the 2014 audit</td>
<td>matter</td>
<td>This policy paper has been completed and was used to support the preparation of the financial statements for the year ended 30 June 2015. The report to those charged with governance issued by the Independent Auditor (Bentleys) acknowledges that this issue has now been resolved</td>
<td></td>
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<td>cost. This appeared to be an accounting policy decision made by</td>
<td>will be</td>
<td></td>
<td>Agree issue resolved</td>
</tr>
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<td>management. Following discussions with management it was agreed to</td>
<td>brought</td>
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<td>recognise a provision and expense for audit cost in the 2014 financial</td>
<td>to the</td>
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<td>year. This was for the purpose of being consistent with prior years</td>
<td>attention of the incoming Auditor-General.</td>
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<td>and matching the cost with the year that the audit relates to.</td>
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<td>The NTAGO has historically disclosed a “forward estimate” of Authorised Auditors Expenditure in the table of Commitments (refer Note 14) and then narrated below the actual minimum legal commitment under the agreements with the contracted audit firms. In the prior years, commitments were also disclosed for NT Fleet and Data Centre Services even though there was no actual contracted commitment. The disclosure of commitments which are not contractually binding commitments may be misleading to users of the financial statements and may not comply with the Treasurers Directions. It was also agreed to leave the Authorised Auditors Expenditure disclosure the same as it had been done in previous years and then seek the input of the new Auditor-General with respect to the disclosure in future years.</td>
<td>This matter will be brought to the attention of the incoming Auditor-General. This policy paper has been completed and was used to support the preparation of the financial statements for the year ended 30 June 2015. Commitments are recognised for minimum contracted hours consistent with the contracts issued to Authorised Auditors over the three year contract period. The report to those charged with governance issued by the Independent Auditor (Bentleys) acknowledges that this issue has now been resolved.</td>
<td>Agree issue resolved</td>
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</table>
The NTAGO appears to have a good working relationship with the Authorised Audit Firms whereby each party understands their reliance on each other and a level of trust has been established.

One area where we believe the audit firms could abuse this trust, is on assignments where the budgeted hours are more than is actually needed to conduct the audit testing. The audit firm may therefore simply not spend the time, or may spend the hours for the sake of it, rather than reduce the fee due to them.

The NTAGO could request that the Audit Firms provide their time costing reports so that actual time spent, and in which areas, can be monitored.

Whilst in principle this is a reasonable recommendation, the firms are accountable for their time management in accordance with the Audit Task Assignments. In a number of instances, the firms have completed audits without using the full budget attributed to the Audit Task Assignments. The NTAGO acknowledges that the firms often discount their contractual rates in response to the Request for Tender and also waive standard overhead and other disbursement charges. Requiring submission of the time record would require a reconciliation to be prepared between the existing time report to the NTAGO and the firms' time recording systems for each Audit Task Assignment. The cost of the reconciliation would then be charged back to the NTAGO possibly eliminating any identified savings. It is equally possible that the firms could record hours in their own time systems that were not actually spent on the engagement in order to reach the budgeted hours and value so there is likely to be little, if any, benefit to implementing the recommendation. Where there is valid cause for concern about the time and cost associated with a particular audit task, the NTAGO can request, and has previously requested the time records from the firms as permitted under existing contractual arrangements.

Having regard to the periodic testing of the market and the close monitoring of Authorised Auditor (AA) performance against plans, including NTAGO accessing AA's time recording systems, the current approach is considered reasonable and not warranting additional measures.

2012 Strategic Review of the NTAGO
<table>
<thead>
<tr>
<th>Finding</th>
<th>Response</th>
<th>Action</th>
<th>2015 Assessment</th>
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<tbody>
<tr>
<td>Where the opportunity arises, the NTAGO should consider acquiring performance auditing skills through secondments and training opportunities with other Audit Offices, in order to boost the skills and experience available to the NTAGO (carried forward from 2009).</td>
<td>The Principal Auditor tasked with coordinating the performance management system audits is presently undertaking training specific to government performance auditing and is also a member of the Australasian Council of Auditors-General Performance Audit group. A performance management system methodology has been developed and is now being applied by the NTAGO. There has previously been insufficient funding for training in this area however provision for such training has now been included in the budget for the year ending 30 June 2016.</td>
<td>Issue considered reasonably resolved</td>
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<td>Encourage the NTAGO to work actively with Internal Audit within government to avoid duplication and work towards the common goal of improved controls and governance (carried forward from 2009).</td>
<td>A representative from the NTAGO is now attending each Audit Committee meeting held by each Agency that has a functioning internal audit capacity and has extended meeting invitations to the NTAGO. This is providing the NTAGO with increased visibility of issues arising and those that are being addressed through the internal audit processes within Agencies. It is fair to say that, in a number of Agencies, the internal audit frameworks and functions lack maturity and the risk of duplication is limited. The designated Internal Audit contacts within each Agency are aware of the planned NTAGO audits prior to the commencement of each 6 month period and, based on prior audit history, could reasonably be expected to predict the nature of compliance and financial audits that will be conducted by the NTAGO each year.</td>
<td>Issue considered reasonably resolved</td>
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<td>The NTAGO should implement some level of monitoring of firms’ quality assurance (carried forward from 2009).</td>
<td>From the year ended 30 June 2015, each authorised audit firm that is required to produce a Transparency report has been requested to provide copies of their Transparency reports to the NTAGO. These reports describe the quality procedures implemented within the firms to ensure compliance with internationally prescribed auditing and accounting standards. Due to size, two of the outsourced providers are not required to produce such a report. The quality, capacity and capability of the firms are assessed internally prior to allocation of work to ensure complex audits are managed appropriately.</td>
<td>Action taken combined with recommendation of current review to specifically enquire annually re any professional body or ASIC quality assurance activity in relation to each AA is considered to reasonably resolve this issue.</td>
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<td>Current funding arrangements should be reviewed with a view to implementing a full cost recovery model for all financial audits performed by the NTAGO (carried forward from 2009).</td>
<td>Cabinet approval has now been received to implement a full cost recovery model for all audits outside those directly related to the audit of the Treasurer’s Annual Financial Statement. Appropriation is still to be received for: audits contributing directly to the audit of the Treasurer’s Annual Financial Statement; reviews of matters referred under the Public Information Act; staffing and operational requirements, and other non-statutory audit requirements.</td>
<td>Action taken combined with recommendation of current review is considered to reasonably resolve this issue.</td>
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<td>The NTAGO needs to develop a strategy to mitigate independence and conflict of interest risks posed by the small number of professional accounting firms and partners within those firms in the Northern Territory (carried forward from 2009).</td>
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<td>This risk is included on the Strategic Risk Register and the mitigating strategy is:</td>
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<td>- Continue to update and monitor conflicts held by the firms on a six monthly basis;</td>
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<td>- Require firms to advise any services provided to Agencies for whom they are an Authorised Auditor;</td>
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<td>- Enable additional audit services to be procured from non-contracted firms or specialists in the event that Authorised Audit firms cannot meet capacity.</td>
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<td>Issue considered reasonably resolved</td>
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We recommend that the next outsourcing contract should include the right of the NTAGO to review timesheet records and billing records, and that a sample of "audits" should be conducted.

| The outsourcing contract applicable from 1 January 2015 to 31 December 2017 includes the following performance review requirements: |
| "the performance of the Contractor in providing the required services will be reviewed periodically during the term of the contract. Key performance indicators (KPIs) are: |
| • audit services provided within agreed timeframes and budget; |
| • Contractor maintained a satisfactory rate of progress and met the key milestones through provision of high quality audit services; |
| • Contractor delivered the services according to the Audit Task Assignment issued prior to the Contractor prior to the commencement of an audit; and |
| • competency of the Contractor/key personnel was satisfactory.” |

During the next audit contract tender process, the NTAGO will consider the inclusion of a specific provision in relation to review of time records however can, and does, already seek such information under the first KPI above.

Having regard to the periodic testing of the market and the close monitoring of Authorised Auditor (AA) performance against plans, including NTAGO accessing AA's time recording systems, this issue is considered satisfactorily resolved.
<table>
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<tr>
<th>We recommend that the NTAGO request from their external auditor a management letter that communicates whether any issues were identified and whether there are any weaknesses in internal control.</th>
<th>A management letter was requested and received for the years ended 30 June 2014 and 30 June 2015 and will continue to be an expectation from the external auditor. All matters arising from the audit for the year ended 30 June 2014 have been addressed to the satisfaction of the external auditor and no new matters were raised at the conclusion of the audit for the year ended 30 June 2015.</th>
<th>Issue considered resolved</th>
</tr>
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<tbody>
<tr>
<td>Where a firm has audited the same agency or corporation for more than 5 years, we recommend that the familiarity threat and the ways in which this threat has been mitigated (i.e through rotation of senior audit personnel within the firm) should be documented.</td>
<td>The audits assigned to each firm are evaluated for potential conflicts of interest every six months prior to biannual allocation of work. In addition to evaluation of conflicts, the NTAGO also considers any familiarity threat associated with allocated tasks and believe there to be limited instances where senior audit personnel for each audit have not been rotated during a five year period either by re-allocations between different firms or changes to audit staffing within the firms.</td>
<td>Based on enquiry which disclosed no instances of more than five years assignment, no further action required</td>
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<td>We recommend that NTAGO provide annual training and/or briefings to the authorised audit personnel at the private firms to ensure they have adequate background of the NT public sector and the audit approach and emphasis of the NTAGO, as well as any specific issue for the current year.</td>
<td>A stakeholder communication plan has been developed which requires annual training/refreshers to all authorised audit staff and specific briefings to be held with senior personnel within the Authorised Audit firms. Presentations have been developed for delivery to the firms in accordance with their timetables.</td>
<td>Issue considered resolved</td>
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<td>We believe the concept of a Strategic Plan is worth considering by the NTAGO to document and formalise the agreed strategic direction. This could also be extended to incorporate a risk matrix to identify the risks, assess their likelihood and impact, and develop plans to mitigate the risks.</td>
<td>A Strategic Plan effective for the years 2015 to 2017 has been developed using the output from a strategic planning workshop held with all staff in November 2014. A risk register has also been developed together with a risk mitigation plan for each strategic risk.</td>
<td>Issue considered resolved</td>
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<td>We recommend that the NTAGO consider using the framework developed by the ACAG to conduct some level of Quality Assurance assessment on the NTAGO.</td>
<td>The conduct of a quality assurance assessment using the framework developed by the Australasian Council of Auditors-General has been discussed with the appropriate contact officer and the intent is for a Quality Assurance assessment to be undertaken during the 2016 calendar year.</td>
<td>Issue considered resolved</td>
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