



AUSTRALIAN
CAPITAL TERRITORY

SPECIAL

GAZETTE

No. S61, Wednesday 12 September 1990

Government Audit Office Auditing Standards

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**NOTICE BY AUDITOR-GENERAL SETTING
AUDITING STANDARDS**

The auditing standards in this notice, entitled "Government Audit Office Auditing Standards", are set pursuant to subsection 99(1) of the Audit Act 1989

J.S. O'Neill
Auditor-General

**GOVERNMENT AUDIT OFFICE AUDITING
STANDARDS**

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**GOVERNMENT AUDIT OFFICE AUDITING
STANDARDS****1. Basic Postulates**

1. These Standards may be referred to, in abbreviated form, as the GAO Auditing Standards The

GAO Auditing Standards have been established by the Auditor-General for observance in the conduct of audits by contract auditors for the Government Audit Office (GAO).

Structure and scope of the standards

2. The structure of the GAO Auditing Standards reflects the structure adopted by the Committee on Auditing Standards established in 1984 by the International Organisation of Supreme Audit Institutions (INTOSAI) It also takes into account recommendations made in 1985 by the Expert Group on Public Sector Audit Standards convened jointly by the United Nations and INTOSAI. The standards are being reviewed by Australian Area Auditors-General and may be amended as a result.

3. The basic postulates represent the general framework for the auditing standards. They describe the public accountability milieu and the audit mandate, and they summarise the assumptions, premises and logical principles which underlie the standards. They also serve as benchmarks for audit personnel in forming judgments, particularly in cases where no specific standards apply.

4. The scope of the Sections entitled 'General Standards', 'Examination and Evaluation (Field Audit) Standards' and 'Reporting Standards' (Sections 2, 3 and 4) may be compared with the scope of the statements on auditing standards and practices issued by the Auditing Standards Board (AuSB) of the Australian Accounting Research Foundation (AARF). However, reflecting the broader audit mandate, they include additional material dealing with aspects of regularity auditing and they provide for performance auditing (see paragraph 30). At some points, explanatory material is included in order to bring out the significance for auditing standards of particular characteristics of the Australian public sector.

5. The development of audit standards and practices, whether in relation to public or private sectors, owes a great deal to the work of the professional accountancy institutes. In Australia these are the Institute of Chartered Accountants in Australia and the Australian Society of Accountants, which have jointly sponsored the AARF. In their development work these bodies take account of the International Auditing Guidelines issued by the International Federation of Accountants.

6. There are large areas of commonality in standards and practices appropriate to the respective sectors, but there are also important differences of principle and practice. The most important of these stem from public accountability requirements and differences in the scope of the audit mandate.

7. The GAO Auditing Standards have been developed, taking into account the work of other bodies in formulating audit standards and practices. For field audit standards and reporting standards they draw heavily on Statement of Auditing Standards (AUS1) and relevant Statements of Auditing Practice issued by the AuSB.

8. In these standards the term 'audit institution' refers to the GAO and the term 'audit personnel' refers

The term Supreme Audit Institution (SAI) relates to the public body in each country which exercises, by virtue of law, the highest public audit function in that country. In Australia, the SAI is the Australian National Audit Office but State and Territory Auditors-General and their offices are completely independent of the Federal body.

to GAO staff. The terms also apply to partners and staff of a contract auditor engaged by the GAO

9. These standards will be revised from time to time by further notice published in the Gazette Interpretation, amendment or explanation of the GAO Auditing Standards is the Auditor-General's responsibility.

Requirements of public accountability

General Obligations

10. An essential function of public audit is to provide assurance to the executive government, the Assembly and the community regarding the exercise of public accountability obligations. This function must be a central focus of public sector auditing standards.

11. In the public sector, public accountability obligations extend to all bodies created for public purposes. Irrespective of their constitution, functions, degree of autonomy or funding arrangements, governmental bodies and public enterprises are accountable to the Assembly for the effective performance of their functions. Public enterprises include departmental commercial undertakings, bodies established by statute or executive order and companies in which the government has a controlling interest. Subsidiary companies of such bodies likewise are accountable, through them, to the Assembly

12. Public sector auditees are expected to be conscious of the importance of maintaining and improving the efficiency and effectiveness of their administration and operation and of the part played in this process by the observance of public accountability responsibilities

13. In broad terms, auditee managements are obliged by law to report on the management of the resources with which they have been entrusted, and are expected to answer for the financial, managerial and program responsibilities that have been conferred on them. Adequate information, control, evaluation and reporting systems are important elements in the accountability process, as is the need for cost consciousness and efficiency and efficacy in the utilisation of resources.

14. It is incumbent upon the management of governmental bodies to co-operate with audit personnel to permit them to attain auditing goals with reasonable efficiency and effectiveness. Similarly it is the duty of officials of such bodies to co-operate with audit personnel by giving assistance or information that may help them accomplish their task. The general duty of auditees to co-operate with the audit institution is supported by legislation requiring provision of access to all relevant data necessary for a comprehensive assessment of the activities under examination.

Accounting standards, controls and performance measures

15. It is primarily the responsibility of governments to determine accounting standards, and the form and presentation of accounts, for the public sector. In Australia, such determination should have regard to the work of the Accounting Standards Board and the Public Sector Accounting Standards Board established

under the auspices of the AARF

16. In the public sector, accounting standards are primarily the responsibility of the Treasurer who sets out relevant guidelines. The Treasurer also approves the specific form of the financial statements of statutory authorities, e.g., in accordance with provisions in the legislation establishing those authorities. He also determines which departmental commercial undertakings are required to furnish audited financial statements, and the form of these financial statements

17. The responsibility for developing an auditee's internal accounting and administrative system and protecting its resources lies first and foremost with the auditee.

18. The primary responsibility for correctness and sufficiency of the form and content of the financial reports and other information rests with auditee management, since these are the auditee's assertion of its financial position and the results of its operations

19. Consistent application of the appropriate accounting standards is a pre-requisite to the fair presentation of the financial position and the results of operations. The financial statements and other information submitted for verification should be free from irregularities

20. Similarly, it is the primary obligation of management to ensure that applicable statutes and regulations are complied with and that adequate internal controls and internal audit arrangements are in place, and to observe probity and propriety in decision-making

21. In relation to performance auditing it is the primary responsibility of auditee management, within the bounds of practicability, to develop measurable program objectives, performance indicators, controls and arrangements for assessing achievement.

22. It is in the interest of the auditee, and it is the auditee's administrative obligation, to design practical systems which will make available the information required for auditing. The auditee is responsible for having systems which are capable of providing useable, objective, and accurate information. Without these, of course, how can it expect to properly manage its affairs?

23. To the extent practicable the provision of statements indicating in detail the government's goals in establishing individual programs and the development by administrators of specific and measurable objectives and target is supported by the GAO

24. It is for the auditor's judgment whether the accounting standards, control systems and performance indicators adopted by the auditee are satisfactory, and applied consistently. In performance auditing, in cases where adequate specification of program objectives and performance indicators is lacking, audit personnel have to develop their own criteria and indicators, taking management advice into account.

25. The GAO has a responsibility to assist work aimed at improving techniques for reviewing the validity of performance measures.

The audit mandate

26. An adequate understanding of the audit mandate is a pre-requisite to effective auditing in the

public sector.

27. The primary responsibility for audit of the public sector is vested in the statutory office of Auditor-General, established by the Act. The Act sets out the terms and conditions of incumbency, tenure, powers, duties, functions, and general responsibilities and other matters governing the holding of office and the discharge of the functions and duties to be performed.

28. The Auditor-General's mandate specified in the Act is supplemented by audit provisions in other enactments relating to establishment of individual bodies. The Act permits appointment of the Auditor-General as external auditor of all government controlled companies.

29. The statutory basis of the audit mandate mean that the Auditor-General has a paramount responsibility to exercise his or her own judgment as to the audit approaches to be applied in the diverse situations that arise in the course of government auditing. As the General Statement of XII INCOSAI observes.²

"It is the primary responsibility of the SAIs to develop and apply auditing standards and procedures which they judge as appropriate to their mandate "

30 The Auditor-General's comprehensive audit mandate encompasses the following functions:

- (1) Regularity auditing:
 - (i) attestation of financial accountability of the Government's administration, involving examination and evaluation of accounting records of departments and expression of opinions on financial statements;
 - (ii) attestation of financial accountability of other Government bodies, involving examination and evaluation of accounting records and expression of opinions on financial statements;
 - (iii) other regularity audits of departments and other bodies involving:
 - (a) examination of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations,
 - (b) review of internal control and internal audit arrangements;
 - (c) examination of the probity and propriety of decisions taken with respect to all aspects of the administration of the auditee; and
 - (d) reporting of any other matters arising from or relating to the Auditor-General's activities that the Auditor-General considers should be brought to attention.
- (2) Performance auditing:
 - (i) valuation of economy, efficiency and effectiveness of management of departments and other bodies, including review of:

- . utilisation of human, financial and other resources;
- . information systems, performance measures and monitoring arrangements; and
- . procedures followed by auditees for remedying identified deficiencies.

31. In general terms, the Auditor-General's mandate provides for him or her to conduct, or direct the conduct of, comprehensive auditing of departmental administration and of most public enterprises.

32. Where a company auditor has been appointed under contract by the Auditor-General as external auditor the Auditor-General's mandate in relation to that authority is not changed.

33. Performance audits carried out by the GAO comprise efficiency audits carried out under the Act and the making of a report thereon.

34. The mandate for performance auditing stops short of review of government policy decisions. It is, however, as the General Statement of XII INCOSAI puts it, 'acceptable for performance audit to incorporate the audit of information leading to policy decisions and the determination of whether policy objectives have been met'

35 By convention the Auditor-General provides audit services which, although not specified in the statutory mandate, are customarily provided by the external auditor. Examples are provision of audit certificates in borrowing prospectuses and provision of letters of comfort to lending consortiums.

Audit Objectives

36. The general objective of audit in the public sector, including the ACT, has been indicated in broad terms by the Commonwealth Joint Parliamentary Committee of Public Accounts (ICPA) as follows.

" The role of the Auditor-General, and by extension his office, is to improve the economy, efficiency and accountability of the Commonwealth Public Sector by comprehensive auditing of Commonwealth departments and agencies, and by reporting on these audits to the Parliament. "

37. The soundness of administration and results of operations are rendered more credible when verified by an audit institution. When administration and operations attract the criticism of the audit institution, there is a presumption that they should be changed

38. A corollary of the general objective is the objective of identifying, and reporting to the Assembly, irregularities and deficiencies in performance. It is important that this be done in timely fashion to make it possible for corrective measures to be taken in individual cases, to make accountable parties accept responsibility and to allow steps to be taken to prevent or deter recurrence.

39. For some elements of the Auditor-General's

2. General Statement on Performance Audit, Audit of Public Enterprises and Audit Quality, Twelfth International Congress of SAIs, Sydney, 1986, paragraph 63.

mandate, particularly in regard to the audit of financial statements of public enterprises, the Auditor-General's audit objectives are akin to the objectives of commercial audits in the private sector.

40. A further objective is to inform the Assembly of any significant impacts on audit effectiveness arising from refusal or reluctance of an addressee to co-operate with the audit institution. It is the audit institution's duty to evaluate the causes, circumstances and nature of such reluctance, and its effect on the thoroughness and effectiveness of audit procedures, and include any significant findings from that evaluation in the audit report.

41. The outcome of an audit is the expression of an opinion, and sufficient valid evidence must be gathered to permit a sound opinion to be formed.

42. The audit process itself acts as a catalyst for review by management and has the constructive objective of guiding and encouraging improvement. The audit institution has the duty to bring to the attention of the appropriate level of management all results, irregularities or shortcomings that audit personnel may discover. Management has the obligation to provide the auditor with explanations regarding the audit findings and advice of remedial action taken or proposed.

43. It is implicit in these objectives that the GAO maintain high standards of professional performance. When performing audits and reporting thereon, the GAO acts exclusively in the capacity of an auditor. The professional status of the public sector auditor imposes commensurate professional obligations. Within the Auditor-General's mandate, the application of pronouncements of the professional institutes is subject to the GAO Auditing Standards.

2. General Auditing Standards

Application of the GAO Auditing Standards

44. The GAO Auditing Standards over-ride any non-statutory auditing conventions or standards prescribed by bodies, other than the GAO, with which the GAO Auditing Standards conflict.

45. The Auditing Standards constitute the criteria against which the quality of audit results is evaluated. They also provide minimum guidance for audit personnel, which can help determine the extent of auditing steps and procedures that should be applied in the audit. Application of the standards by GAO staff is assisted by supplementary instructions, procedural statements and action packages.

46. For the purpose of any report to a Minister relating to the work of a contract auditor, the Auditor-General will examine and evaluate that auditor's work against the GAO Auditing Standards.

Independence and objectivity

Relationship with the Assembly

47. The committees empowered by the Assembly to examine the reports of the Auditor-General play a central role in ensuring that public accountability obligations are properly exercised. It is accordingly incumbent upon the Auditor-General and the GAO to

work closely with those committees.

48. The Auditor-General and GAO audit personnel may give members of the Assembly briefing of a factual nature on audit reports, but it is important that the Auditor-General and GAO audit personnel maintain independence from political influence, in order to preserve an impartial approach to audit responsibilities. Thus the Auditor-General and the GAO should not be responsive, nor give the appearance of being responsive, to the wishes of particular political interests. And auditors contracted by the GAO are to clear any public comments beforehand with the Auditor-General.

49. The Auditor-General will program the work of the GAO in accordance with the audit mandate, and adopt methodologies appropriate to the audits to be undertaken. While having appropriate regard to recommendations of committees of the Assembly, and being accountable to it for the exercise of the audit mandate, the Auditor-General would not look to it for specific guidance in the programming, planning and execution of audits.

50. Generally legislation specifies reporting requirements that the Auditor-General must observe, including the matters subject of an audit certificate or opinion. Subject to those requirements the Auditor-General will maintain flexible arrangements for reporting to the Assembly, and determine the content and timing of reports having regard to the particular circumstances of the case.

51. The Auditor-General is accountable to the Assembly for his or her use of resources and the effective performance of the audit mandate.

Relationships with the executive government

52. While the Auditor-General has a common interest with the executive government, in relation to the promotion of public accountability, the Auditor-General's essential relationship with the government is that of external auditor. As such the Auditor-General's reports to Ministers and to the Assembly assist the executive by drawing attention to deficiencies in administration and recommending improvements. On the other hand, the Auditor-General and the GAO should not participate in the executive government's functions, or act as an agency of the executive, since that would militate against the Auditor-General's independence and objectivity.

53. As an essential element in the independence of the Auditor-General is the absence of any direction by the executive government in relation to the Auditor-General's performance of his or her mandate. Another essential element is the complete freedom of the Auditor-General to select private audit firms, or his/her own officers to perform audits of the government. The Auditor-General should not carry out, modify or refrain from carrying out an audit, or suppress or modify audit findings, at the direction of a Minister or the government or its servants. Nor should he/she be prevented from selecting officers to be employed in his/her office to conduct public sector audits.

54. While it is appropriate for the Auditor-General to consider requests by the executive proposing matters for audit examination, the Auditor-General must exercise a discretion to decline any such request that is inconsistent with independent exercise of the audit mandate, e.g. if it would require participation in a management or executive function or would displace

audits the Auditor-General considers to be of higher priority in achieving effective exercise of the audit mandate.

55. A sensitive area in relationships between the Auditor-General and the executive concerns provision of resources to the GAO. In some degree, arrangements for the Auditor-General's resource provision may be related to the executive government's financial situation and general expenditure policies. As against that, effective promotion of public accountability requires that the GAO be provided with sufficient resources to enable the Auditor-General to discharge his or her responsibilities in a reasonable manner.

56. Arrangements for provision of resources to the GAO which did not recognise this requirement could compromise the Auditor-General's independence. It would be appropriate for the Auditor-General to report to the Assembly any imposition of resource or other restraints by the executive or its servants which would constrain the Auditor-General's independent exercise of the audit mandate.

57. By legal provision or convention, the executive government permits reasonable access by the Auditor-General to sensitive information, such as collective ministerial decisions, which is necessary and relevant to the discharge of the Auditor-General's responsibility. The Auditor-General must take adequate steps to protect information of this kind provided to him or her in confidence by the executive.

58. In order that the Auditor-General not only exercise his or her functions independently of the executive but be seen to do so, it is important that the audit mandate and the Auditor-General's independent status be well understood in the community. The Auditor-General has an obligation to undertake an educational role in that regard.

59. Collaboration between the Auditor-General and the executive is desirable in some areas. For instance, when the executive proposes legislation affecting the Auditor-General's mandate, or contemplates putting forward legislative or administrative provisions regulating the financial management of public bodies, it is appropriate for the Auditor-General to be asked for advice and to make known his or her views on the public accountability implications of the proposals. Similarly, the Auditor-General should be ready to advise the executive in such matters as accounting standards and accounting policies appropriate in the public sector, or the form of financial statements. The Auditor-General must be careful in tendering advice to the executive to avoid any express or implied commitment that would impair the Auditor-General's independent exercise of the audit mandate.

60. The Auditor-General's functional independence need not preclude arrangements with executive agencies or statutory bodies in regard to the administration of the GAO in matters such as industrial relations, personnel management, property management or common purchasing of equipment and stores, with the proviso that executive agencies or statutory bodies not be in a position to take decisions that would endanger the Auditor-General's independence in discharging the audit mandate.

Relationship with auditees

61. The Auditor-General and as applicable a

contract auditor must be, and be seen to be, objective in the auditing of departments, public enterprises and other bodies. The audit institution should be fair in its evaluations and in its reporting of the outcomes of audits.

62. The public sector auditee is not in a client relationship with the Auditor-General. A Minister, department, or board of a statutory authority cannot influence the scope of the audit or its findings against the professional judgment of the Auditor-General. The audit institution has to discharge the audit mandate freely and impartially, taking management views into consideration in forming audit opinions, but owing no responsibility to the management to the auditee body for the audits undertaken.

63. The audit institution must not participate in the management or operations of an auditee body in any way that could prejudice an objective and impartial approach to future audits. Audit personnel must not become members of management committees and, if audit advice is to be given, it should be conveyed as audit advice and acknowledged clearly as such.

64. The audit institution may encounter a situation in which an auditee developing sophisticated and complex information and communications systems is not making adequate provision for incorporation of controls and audit trails. Failure to incorporate such features from the outset of system development can lead to intractable problems in auditing the systems and their outputs, when the systems have become operational. It would be appropriate in such a situation for the audit institution to draw the auditee's attention to matters that should be taken into account in developing the systems. The audit institution should, however, make it clear that decisions affecting the design and structure of systems remain the responsibility of the auditee.

65. In any case the audit institution should seek to examine in a timely manner the planning and development of information and communications systems by auditees.

66. It is the responsibility of a contract auditor to avoid arrangements or situations giving rise to a conflict of interest or appearance of such a conflict. It is not practicable to specify every kind of arrangement or situation that might give rise to such a conflict or appearance of conflict but, in general terms, it would be inappropriate for a firm to act as contract auditor where members or employees of the firm or of a closely associated firm

(1) are providing, or have recently provided professional services which would be seen as affecting matters subject to the audit;

(2) have recently advised the auditee regarding the selection or appointment of senior staff members who are still serving; or

(3) are providing or have recently provided professional services to a member of the agency/auditee or to an undertaking of which a member of the agency/auditee is a director or otherwise has a significant ownership or management interest.

67. Arrangements for setting fees to be charged by the Government to an auditee should embody sufficient flexibility to preclude any inhibition of the effective exercise by the Auditor-General of his/her statutory audit responsibilities. Fee paying bodies may be given an estimate of the fee likely to be payable in

respect of the audit, with the understanding that the actual fee payable may vary from the estimate depending on the amount of audit work considered necessary to discharge the audit obligation. Prompt advice should be given to the auditee should it become clear that the estimated fee will be substantially revised.

68. In exercising its powers of access to premises and records relevant to auditees and their operations, and of obtaining relevant information from persons possessing it, the audit institution should seek to maintain good relationships with auditees with a view to ensuring the free and frank flow of information and the conduct of discussions in an atmosphere of mutual respect and understanding. At the same time, relationships with auditees must not be so close as to inhibit effective and impartial planning, conduct and reporting of audits.

69. Audit personnel of the audit institution must not become involved in instructing personnel of auditee bodies as to their duties. Any audit personnel of the audit institution who have close affiliations with the management of an auditee body, such as social, kinship or other relationships conducive to lessening of objectivity, should not be assigned to audit that body.

Relationships with external bodies

70. The Auditor-General may enter formal relationships with professional bodies, provided the relationships do not inhibit the GAO's independence and objectivity, in order to avail himself or herself of the advice of experienced members of the profession at large.

71. In order to make the public audit mandate more widely understood the Auditor-General and the GAO may co-operate with academic institutions and professional bodies in their ongoing activities, including by way of contributions to proceedings of professional meetings and publication of reference material.

72. It is also appropriate for the GAO to co-operate with the media in relation to publicising the public audit mandate and the reports of audits by the Auditor-General but not to the extent of preempting the rights of the Assembly and/or its committees.

Competence

73. The GAO needs to command the range of professional skills and experience necessary for effective execution of the audit mandate. For all elements of that mandate the audit work should be carried out by persons whose education and professional experience as assessed by the Auditor-General is commensurate with the nature, scope and complexities of the audit task. The GAO should be equipped with a range of audit methodologies, including systems based techniques, analytical review methods, statistical sampling, and audit of automated information systems.

74. The GAO's personnel should have a good understanding of the public sector environment, including such aspects as the role of the Assembly, the legal and institutional arrangements governing the operations of departments and the charters of public enterprises. Likewise, trained audit personnel must possess an adequate knowledge of the Auditor-General's policies and auditing concepts, the GAO Auditing Standards, and GAO practices and methodologies.

75. It is desirable for the GAO audit personnel to become members of a professional body relevant to their work, and to participate in the body's activities.

76. It is open to the GAO to acquire specialised skills under short-term contract should the successful carrying out of an audit so require in order that the audit opinions, findings and recommendations are perceptive and soundly based and reflect an adequate understanding of the subject area of the audit. It is for the Auditor-General to judge, in the particular circumstances, to what extent the GAO's requirements are best met by in-house expertise or employment of outside experts.

77. The audit resources deployed on the audit of financial statements should unitarily undertake a coordinated evaluation of departmental accounting systems, as well as of central agency co-ordination arrangements and control systems, and have adequate expertise in the auditing systems and techniques used by the GAO in this audit.

78. Audit personnel assigned by a contract auditor should have a good understanding of the public sector environment in which the auditee operates and of the legal and institutional arrangements governing the auditee's operations.

79. Audit personnel should, as assessed by the Auditor-General, possess suitable academic qualifications and be equipped with appropriate training and experience. The GAO should also maintain standards for professional development of audit staff, having regard to the audit techniques and methodologies applicable to the range of audits undertaken.

80. The extent to which academic attainment should be related specifically to the audit task varies with the type of auditing undertaken. It is not necessary that each auditor be expert in all aspects of the comprehensive audit mandate. However, policies and procedures governing the assignment of personnel to audit tasks should aim at deploying personnel, who in the judgement of the Auditor-General, have the auditing skills required by the nature of the audit task (while not neglecting the need to broaden the experience of staff to enhance their professional development). Audit personnel must attain an adequate knowledge of the GAO Auditing Standards insofar as they apply to the particular audit.

81. Policies and procedures governing supervision of audits should ensure that audits are planned and supervised by an auditor who is professionally competent, knowledgeable in the GAO Auditing Standards that pertain to the particular audit and in the audit institution's methodologies, and equipped with an understanding of special characteristics of the public sector environment that are relevant to the audit.

82. Audit of financial systems, accounting records and financial statements requires training in the accounting discipline as well as a knowledge of applicable legislation and executive orders relevant to the accountability of the auditee. In auditing financial statements of authorities referred to in Guidelines issued by the Government the audit institution should audit against those guidelines. Subject to that requirement, and unless otherwise decided by the Auditor-General in a particular instance, the financial accountability of public enterprises is audited against current Accounting Standards issued by the relevant authorities. Audit personnel should be well versed in the applicable

guidelines and accounting standards.

83. Audit of complex computer installations and systems should be undertaken by, or under supervision of, an audit specialist in data processing.

84. For audits focusing on the performance of management systems and processes, members of audit teams may have a background in management, accounting, data processing or other relevant disciplines. The audit team should be familiar with effective management techniques and methods of assessing performance. Investigative ability is a pre-requisite, including qualities such as alertness, persistence and, importantly, experience. The extent to which specialised technical expertise related to specific activities of the auditee should be deployed is a matter for the Auditor-General's judgment having regard to the audit mandate and the scope of the particular audit.

Due care

85. Audit personnel must exercise professional integrity and due professional care and concern in complying with the GAO Auditing Standards. This embraces care in specifying evidence required, in gathering and evaluating evidence, and in reporting findings.

86. Professional performance and exercise of technical skill should be of a quality appropriate to the complexities of particular audit assignments. Auditors need to be alert for conditions such as control weakness and inadequacies in record-keeping; and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorised operations, waste, inefficiency, or lack of probity.

87. The GAO should be satisfied that the audits its resources allow it to conduct are effective in detecting material errors or irregularities, while recognising that it is impossible for audit to guarantee freedom from all irregularities. Adequate evidence must be adduced of the existence of irregularities referred to in audit reports.

88. In determining which audit tests and procedures are to be applied to achieve due professional care, matters to be considered include the following.

- (1) requirements to meet audit objectives
- (2) materiality of matters to be investigated
- (3) administrative effectiveness of systems of accounting and internal control
- (4) estimates of costs of implementing audit plans in relation to likely benefits to be derived; and
- (5) the extent and quality of internal audit coverage

89. There should be adequate understanding of the auditee's circumstances. The GAO may explain to the auditee the scope of the audit and audit requirements, and should be ready to engage in senior-level discussion with the auditee in order to minimise misunderstandings and avoidable conflict.

90. Apart from exceptional circumstances (e.g. suspected major fraud, which generally would be a matter for law enforcement authorities) there must be adequate testing with the auditee of the GAO's perceptions of program objectives and assessment criteria, any irregularities or performance weaknesses, and possible avenues for improvement. Auditee responses should be documented and taken into account in audit reports.

91. If the audit institution employs external experts as consultants it must exercise due care to assure itself of the consultants' professional competence and aptitude for the particular tasks involved. Statement of Auditing Practice AUP22-Using the Work of an Expert, is relevant. Similar care is required if outside auditors are engaged by the Auditor-General on contract, in addition care would be necessary to ensure that audit contracts include adequate provision for the Auditor-General to determine audit scope and standards.

92. When the GAO uses the work of another auditor it must apply adequate procedures to provide assurance that the other auditor has exercised due professional care and complied with relevant audit standards, and must review the work of the other auditor to satisfy itself as to the quality of that work. Statement of Auditing Practice AUP11-Using the Work of Another Auditor, is relevant. In addition a contract auditor proposing to rely on the work of another auditor must first obtain the Auditor-General's concurrence in the use of that other auditor.

93. Except as may be required for the purposes of an Assembly inquiry or legal proceedings, information about an auditee acquired by audit personnel in the course of their work must not be used for purposes outside the scope of assessment and formation of an opinion and in reporting the results of the audit. It is essential that the audit institution maintain confidentiality regarding audit matters and information arising from audit tasks.

Quality of audit performance

94. The Auditor-General's mandate imposes on the Auditor-General the duty of forming audit opinions and of reporting those opinions to the Minister or to the Assembly. While there exists provision for the delegation to senior audit personnel of authority to sign reports and certificates in relation to certain auditees, ultimate responsibility cannot be delegated and is borne personally by the Auditor-General.

95. Accordingly, the Auditor-General's arrangements for management of audit activities must embody adequate processes of co-ordination and review to rely on senior staff that he/she alone must be able to appoint and, as well, enable the Auditor-General and his or her delegates to be satisfied there are adequate bases for the opinions formed and the reports signed.

96. The duties and responsibilities thus borne by the Auditor-General are crucial to the concept of public accountability, and hence the GAO must apply to its audits soundly based methodologies and practices. It is incumbent upon it to formulate procedures to secure effective exercise of its responsibilities for audit reports and certificates, unimpaired by less than full adherence by personnel or agents to its standards, planning procedures, methodology and supervision.

97. The wider and more discretionary in nature the audit mandate, the more complex becomes the task of ensuring quality of performance across the whole mandate. To a considerable extent the Auditor-General's comprehensive mandate leaves to the Auditor-General's discretion the frequency of audits to be carried out and the nature of reports or certificates to be provided. Quality assurance in this context demands a high standard of corporate management within the GAO.

98. In considering the question of the length of

the comprehensive audit cycle, i.e. the period within which comprehensive audit coverage of each auditee should be achieved, weight has to be given on the one hand to the need for assurance that auditees are properly exercising their public accountability responsibilities, and on the other to the GAO's capabilities, mainly its limited resources. Since the GAO is not equipped to undertake, within a moderate time-scale, all relevant audits including performance audits covering the whole of every auditee's operations, it is necessary to determine the range of audit activities which, within the comprehensive audit cycle, will give the maximum assurance, for the resources provided, regarding performance of public accountability obligations by each auditee.

99. In determining the allocation of the GAO resources among different audit activities the Auditor-General gives priority to audit tasks which must by law be completed and to those which meet that criteria and by law are also required to be completed within a specified time frame. Assessment of priorities within the discretionary areas of the comprehensive mandate calls for careful consideration of potential subjects for audit and definition of the scope and objectives of proposed audits. The processes followed are designed to lead to the identification of an appropriate order of priority for audits to be undertaken, having regard to:

- audit activities necessary to meet the objectives of the comprehensive audit cycle, and
- identification of potential audits which, if carefully planned and skilfully performed, would produce positive and valuable audit findings which lead to improved administration

100. Assignment of priorities compatible with maintaining quality of performance across the mandate involves exercise of the Auditor-General's judgment in the light of available information. A portfolio of data and intelligence pertaining to the structure, functions and operations of auditee bodies has to be maintained to assist in identifying areas of materiality and vulnerability and areas holding potential for improvements in administration. Preliminary or diagnostic studies of specific auditable areas can be a useful aid to decisions regarding commitment of resources to potentially large-scale audits in those areas.

101. Resources required to undertake each audit need to be assessed so that suitably skilled staff may be assigned to the work and a control placed on the staff resources to be applied to the audit.

102. Adherence to the competence standards set out in paragraphs 73-84 inclusive is a pre-requisite to the maintenance of the quality of audit performance. Maintenance of an inventory of skills of personnel and contractors can assist in the planning of audits as well as identifying deficiencies. The GAO has to take adequate steps to provide for continuing professional development of its personnel, including, as appropriate, provision of in-house training and external courses.

103. If the GAO, in the performance of its functions, seeks advice from external specialists, the standards for exercise of due care in such arrangements have a bearing also on the maintenance of quality of performance. Advice, when obtained, should be evaluated and a considered decision taken about adopting it. The obtaining of advice from an external expert does not relieve the GAO of responsibility for the opinions formed or conclusions reached on the audit task.

104. Quality assurance arrangements based on peer reviews provide a further means of ensuring quality of performance, additional to review of audit activity by personnel having line responsibility for the audits concerned. The GAO should establish appropriate arrangements for review of the depth of planning, conduct and reporting in relation to an audit or a sample of audits by suitably qualified personnel of an audit institution not involved in those audits. The reviewers should consult the relevant line management regarding the outcome of the reviews, and report periodically to top management.

105. The GAO's aim is to arrange a peer review over a wide charter with its central objective being the provision of assistance in achieving effective management of the GAO's operations and sustaining the quality of its professional performance.

106. A contract auditor should observe applicable elements of the GAO Auditing Standards and Statement of Auditing Practice AUP 13-Control of the Quality of Audit Work.

3. Examination and Evaluation (Field Audit) Standards

Methodology and planning background

107. The general audit methodology applied by the GAO is systems based auditing. With appropriate modifications, systems based auditing concepts from the basis of audit techniques for both regularity (including attest) audits and performance audits

108. Systems based auditing rests on the concept of:

- direct examination of the system of control
- control analysis - the evaluation of the effectiveness of the system of control against a desirable control model, and
- limited or sample compliance and substantive testing to confirm the evaluation of the effectiveness of the system of control

109. The application of the systems based approach in the audit of the accounts and records of departments is based on a methodology developed by the Australian National Audit Office (ANAO) specifically for this purpose.

110. Systems based methodology is not wholly applicable to the audit of all statutory authorities, particularly authorities possessing most, if not all, of the following features:

- limited segregation of functions
- high potential for management to override established procedures
- informal determination of policy, particularly concerning accounting matters
- limited numbers of financial/accounting functions or activities
- relatively few accounting transactions, and
- the absence of internal audit.

111. A summary of the GAO's systems based auditing methodology is provided in the Appendix to the ANAO's publication: Elements of Efficiency Auditing - A Basic Guide, AGPS 1986.

112. Subject to relevant GAO Auditing Standards and agreement with the Auditor-General a contract auditor may apply audit methodology appropriate to the audit tasks undertaken.

Planning of audits

Planning of Audits

113. The comprehensive auditing approach involves the planning, programming and conduct of a cycle of audits encompassing the functions detailed in paragraph 30. The comprehensive approach underlies the development, each year, of a Strategic Audit Plan.

114. The Strategic Audit Plan (SAP) is developed from a portfolio of information about each auditee and identifies all the auditable activities for each organisation for which the Auditor-General has responsibility.

115. An objective is to plan audit tasks covering the full range of regularity audits over a three-year period. In principle, a similar objective could be considered appropriate for performance auditing but practical considerations, especially relating to staff limitations and the magnitude and complexity of formally designated efficiency audits, preclude that at present. Instead, the selection of performance auditing projects has regard to resource availability and the identification, from the auditee portfolio, of areas of major materiality and vulnerability and likely room for improvements in administration.

116. The first year of the SAP is developed having regard to the prospective availability of audit resources and specifies the:

- . nature of the audit task
- . estimated resources required, and
- . priority to be assigned to the audit

117. The planning of audits requires careful consideration of the need to cover the auditee's operations adequately, to conserve audit resources, to match audit skills to audit tasks, and ensure that the priority accorded audit tasks is observed.

118. Adequate planning of audits embraces consideration of:

- . the effectiveness of internal audit
- . the personnel requirements of the audit
- . all aspects of work to be performed, priorities for desirable further coverage, and inclusion of information from preliminary or diagnostic studies, and
- . the format and general content of the report to be prepared.

Effectiveness of internal audit

119. The planning of audits has regard to:

- . the independence of internal audit
- . the internal audit work program of the auditee
- . the quality of internal audit work undertaken, including capability of internal audit staff to perform competently internal audit duties, and
- . the notice taken by the auditee of internal audit reports.

120. An effective internal audit function, so far as it relates to reviewing the design and operation of

internal controls, can allow the GAO to reduce the extent of compliance and substantive procedures but not eliminate them.

121. Apart from reviewing specific audits undertaken by internal audit, discussions should take place at least once each year in order to maintain awareness of internal audit plans and related developments. Discussions should not extend to revealing to internal audit the scope of audits planned by the GAO or by one of its contract auditors

122. An essential distinction between the internal audit function and the external audit function should be kept in mind. Internal audit is an arm of auditee management and ultimately e.g. the Secretary of a department of chief executive of an agency or the audit committee operating on his/her behalf, determines the scope of internal audit's activities and the fate of its recommendations. By contrast, the audit institution is not responsible to management nor is its final report made to management. The Auditor-General's responsibility is to report to Ministers and the Assembly and those reports may include an assessment of the effectiveness of internal audit operations in auditees.

123. Audit by the Auditor-General or, where applicable by a contract auditor, of the performance of internal audit within a department or other Government body should take into account;

- (1) the charter given to internal audit by management (in case of an in-house unit) or the terms of the internal audit engagement (in the case of internal audit under contract); and
- (2) in the case of internal audit of departments and authorities staffed under the Public Service Act, any guidelines and standards issued by the Government or its authorities.

Field audit plans

124. Field audit plans identify the objectives, focus and resources for an audit and provide detailed guidance and steps for the field staff carrying out the audit.

125. These steps include the method of evaluation and testing to be done and refer, as appropriate, to the use of designated action packages.

126. The content of field audit plans will vary in accordance with the nature of the audit tasks. In general a field plan will

- . identify the auditee, the audit task and describe the audit to be undertaken
- . refer to the legal basis of the audit, materiality, known risks, etc.
- . set out the audit objectives including scope and focus, audit boundaries and exclusions
- . identify methodology, sampling techniques and action packages to be used in the audit
- . details staff resources and time allocated
- . set out monitoring and review points
- . define reporting requirements, and
- . provide for preparing, reviewing and approving officers.

127. The field audit plan is confidential to the GAO. It should not be discussed with auditee management in a manner inviting approval, comment or suggestions for amendment; although such practical questions as timing of access to auditee personnel and

records may be varied at the auditee's suggestion. Any attempt to influence the planning, scope or objectives of an audit by auditee management shall be rejected as an impairment of audit independence.

128. The field audit plan for regularity audits shall provide for a review of compliance with applicable laws and directives. Field plans for regularity audits should also require an examination of managerial decisions, board minutes or accounting records for unusual transactions which may be indicative of:

- . decisions exceeding powers conferred by legislation
- . decisions reflecting lack of probity, and
- . lack of accountability to the Assembly.

129. The field audit plan shall be signed by the Audit Manager or Audit Coordinator.

130. Where it becomes apparent that there is a difference of view between auditee management and the auditor as to the meaning of a provision in an Act or other instrument having legislative force, and a correct interpretation is crucial to audit findings, the auditor should request that a legal advising be obtained. Generally, the appropriate authority from whom an advising should be obtained is the Chief Law Officer. Should auditee management evince continuing reluctance to seek (or tardiness in seeking) an advising, the Auditor-General will seek an advising direct.

131. For audits identified as potential efficiency audits, a preliminary diagnostic study is first carried out to establish whether or not there is a sufficient basis for the audit to be developed and undertaken as a designated efficiency audit.

132. The diagnostic study should be undertaken within guidelines specified by the Auditor-General. The format of such guidelines cannot be standardised because of the diverse nature of efficiency audit subjects. Auditee management will be advised of the purpose of the diagnostic study and that a decision will be made whether to proceed with an efficiency audit in the light of the findings of the diagnostic study.

133. Field work carried out on a project audit directed at issues of efficiency and management effectiveness may, at the discretion of the Auditor-General, be substituted for a diagnostic study.

134. An audit may be designated by the Auditor-General as an efficiency audit and carried out pursuant to the provisions of the Act after considering the results of a diagnostic study or project audit of an organisational unit, function or program of auditable activity of a department or statutory authority.

135. Where the Auditor-General decides to proceed with an efficiency audit, a plan should be prepared setting out, inter alia:

- . the objectives of the audit
- . the scope (boundaries) of the audit and the functional areas on which the audit will focus
- . the resources required
- . briefing arrangements for the audit team
- . arrangements for progress reviews, and
- . expected date for completion of the audit.

136. The field audit plan for an efficiency audit may:

- . set out the scope and objectives
- . incorporate instructions for the guidance of the audit team as to work to be undertaken and audit criteria to be applied
- . indicate the role of external consultants, if engaged for the audit, and
- . indicate the time allocated for the audit and requirements for progressive review.

137. Subject to compliance with relevant GAO Auditing Standards, a contract auditor shall have regard to Statement of Auditing Practice AUP10-Planning.

Supervision of the audit

138. Where work is assigned to assistants, the assisting audit officers must have sufficient proficiency and training to carry out the assigned tasks. Since training, experience and other qualifications vary among auditors, work assigned must be commensurate with skills and aptitudes.

139. The audit manager should ensure that each member of the audit team has a clear understanding of the field audit plan before commencing the work.

140. Supervisory review should be directed both to the substance and method of auditing. It should:

- . establish that the audit has been carried out in accordance with the GAO Auditing Standards and auditing practices of the GAO
- . ensure that the field audit plan and action packages specified in that plan were followed unless a variation was authorised
- . see that working papers contain evidence supporting adequately all work undertaken and findings and conclusions
- . establish that the auditor has achieved the stated audit objectives, and
- . ensure that a field audit report had been prepared setting out the audit findings.

141. Supervision should, as appropriate, be exercised by the audit manager.

142. For an audit conducted by a contract auditor, the responsibility for supervision of the kind detailed in paragraph 140 shall be that of the audit manager assigned to the audit. The Partner responsible for the audit shall carry out the higher level of supervision of the kind required by paragraph 141 and the GAO audit coordinator will oversee the audit task.

Conduct of the field audit

N B Reference to an audit manager in the following paragraphs should be read, in the case of an audit to be carried out by a contract auditor, as a reference to their audit manager or audit senior or other supervisor responsible for the field work.

143. Subject to these Standards, audit personnel assigned to the audit shall carry out the audit in accordance with the approved field plan.

144. As guidelines to field auditors, field audit plans must not be read as restricting professional judgment. Should matters come to the notice of the auditor which carry implications for audit steps not envisaged in the field plan, they should be discussed with the audit manager.

12. Auditing Standards

145. A variation of the time allowed for the audit may be authorised if adequate justification is shown. The reasons for authorising such a variation should be documented.

146. Where a field plan requires sampling to be undertaken regard is to be had to Statement of Auditing Practice AUP24-Audit Sampling.

147. For the purpose of paragraph 148 and 149 issues of audit significance include:

- . matters materially affecting financial statements
- . apparent non-compliance with legislation
- . apparent non-compliance with accounting standards and principles as applied by the "Guidelines" issued by the Government
- . departures from generally accepted accounting practices, and
- . matters materially affecting performance from the standpoint of efficiency, economy or management effectiveness.

148. Where an issue of audit significance to the formation of an opinion arises, field audit personnel should orally raise the matter with the appropriate auditee manager and seek an explanation. The matter of audit concern should then be referred to the audit manager who may discuss it with auditee management with a view to the matter being corrected.

149. Reference shall be made in the field audit report to any significant audit issue which has come under notice during the audit.

150. Subject to compliance with this paragraph and other relevant provisions of the GAO Standards, in carrying out a financial statements audit regard should be had to Statements of Auditing Practice issued by the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia.

151. Subject to any further notification in the Gazette of auditing standards set by the Auditor-General, regard should be had also to any Statements of Auditing Practice (or revisions to existing Statements) which are issued by the professional institutions subsequent to the issue of these standards.

152. The specific requirements of the Companies Act/Codes do not apply to statutory authorities, the operations of which are governed by their enabling legislation. Otherwise, reference in the Statements of Auditing Practice to companies should be broadly interpreted and applied, unless the context implies differently, to the audit of a statutory authority.

153. Statement of Auditing Practice AUP 21 Audit Implications of Current Cost Accounting is not relevant to audits undertaken within the public sector, unless specifically called on in the 'Guidelines'.

Evaluation of internal controls

154. Internal control is defined as follows (General Statement of XII INCOSA1 paragraph 46):

"The whole system of financial and other controls, including the organisational structure, methods, procedures and internal audit, established by management within its corporate goals to assist in conducting the business of the enterprise in a regular, economic, efficient and effective manner; ensuring adherence to

management policies; safeguarding assets and resources; securing the accuracy and completeness of accounting records; and producing timely and reliable financial and management information.

155. Auditors must systematically evaluate the nature of the auditee's operations and systems of internal control to assess the extent to which it may be relied upon to:

- ensure the integrity of accounting and other information
- . ensure compliance with statutory requirements, and
- . promote effectiveness in administrative practices

156. In evaluating the quality of internal control the audit should focus on key controls. Where controls do not exist or do not operate properly, additional audit testing should be undertaken.

157. Where accounting transactions and data are processed by a computerised system the auditor's responsibility extends to ensuring that the computer system contains adequate and appropriate control features and that it is operated in such a manner that the integrity of data stored and the system's output can be relied upon. Regard should be had to the ANAO document "Introductory Guide to DP Auditing" and to the Item "Public Service Board" publication "Guidelines on Internal Controls for Computer-based Systems".

Audit evidence

159. Auditors must obtain all evidence necessary for the effective completion of the audit.

160. Evidence needed to support the audit findings may be,

- . physical evidence obtained by observation and enquiry
- . testimonial evidence from interviews or statements from involved persons
- . documentary evidence consisting of legislation, ministerial statements, reports, minutes, memoranda, controls, extracts from accounting records, formal charts and specifications of documentation flows, systems design, operating manuals and organisation structure and functional charts, and
- . evidence secured by analysis of information collected by the auditor

161. Evidence should meet basic tests of sufficiency, competence and relevance. The audit working papers must reflect the details of the evidence upon which the auditor has relied or include copies of papers containing that evidence.

162. The evaluation of evidence obtained in the conduct of an efficiency audit presents issues different from those related to financial statements. From an efficiency perspective the issue fundamental to the audit is the extent to which the products of an auditee are meeting stated objectives and performance criteria appropriate to the service under examination. The form of such objectives and availability of such criteria vary markedly. The auditor must examine the basis on which they have been established and evaluate same and achievements against them, but, if not established, consider whether efficient operations require this to be done.

163. In considering the use of resources the auditor must endeavour clearly to establish resources

employed and examine the costs involved. If the auditee is unable to identify the cost of the resources employed this is itself a significant audit finding upon which a recommendation would be based.

164. General guidance in relation to the criteria for the evaluation of performance standards, work methods, and management controls is contained in Chapter 1 of the ANAO publication Elements of Efficiency Auditing A Basic Guide, referred to earlier.

165. The evaluation of evidence should also have regard, in relation to a specific audit, to criteria set out in the management plan and the field audit plan.

Audit documentation

166. Auditors are to document adequately the audit including the basis and extent of planning, the work performed and the results and findings.

167. Adequate documentation of audit planning, audit methods and procedures and audit findings and results is a vital aspect of maintaining a professionally acceptable level of auditing for these reasons.

in the absence of such documentation the accountability of both senior audit officers and field audit staff for the standard of audit performance may not be achieved

the Auditor-General or authorised officer or audit Partner must have an adequate basis for the audit opinions expressed in a report

it provides an effective link between successive audits and

it provides a basis for quality assurance reviews

Relationships with auditee management

168. General standards governing relationships with auditee bodies are set out in paragraphs 61 to 69

169. At the commencement of an audit an interview will be sought with an officer at an appropriately senior level of management. The general scope and objectives of the audit will be outlined and discussed. Senior representation may be appropriate depending on the nature of the audit. For audits designated as efficiency audits contact should be made with the auditee body at Chief Executive level to explain the scope and objectives of the audit and to make appropriate working arrangements for access and for progressive discussion of matters arising during the audit.

170. Progressively throughout the audit, arrangements should be made with designated, or appropriate, levels of management to discuss or obtain audit evidence and to verify evidence

171. At the conclusion of the audit an exit interview is arranged, preferably with the person with whom the opening interview (see 169 above) was held. The purpose of the exit interview is to:

- advise auditee management of provisional audit findings
- discuss with auditee management and obtain management comment on the basis of audit findings, conclusions and opinions
- afford the auditee the opportunity to question the audit

conclusions and findings, including any possible qualification on the financial statements, and note auditee management comments

172. For audits designated as efficiency audits, except where special circumstances exist and other arrangements are made, the provisional audit conclusions and findings are to be conveyed formally to the auditee prior to the exit interview, and the auditee given an opportunity to provide timely and formal comments on them following the exit interview. The exit interview and the auditee's formal comments, including comments on matters of fact, will be taken into account in the preparation of the proposed report.

173. For other audits, except where special circumstances exist and other arrangements are made, a management letter is to be sent to the senior responsible officer of the auditee body following the audit exit interview. The purpose of the management letter is to state the provisional audit findings and conclusions (after taking into account discussions at the exit interview) and to elicit management comments, including as to factual evidence on which audit findings and conclusions were based.

174. The nature of the final report, including any qualification to that report, is a matter for the Auditor-General or the senior officer authorised to sign the report. Accordingly, other Audit Office representatives or contractors at an exit interview cannot give any clear cut assurance to auditee management about the statutory report. Such advice, where sought, may be couched in the form of provisional conclusions and recommendations and given only with that clear understanding

4. Reporting Standards

Generally applicable reporting standards

175. The comprehensive nature of the audit mandate involving tasks which vary in nature, objectives and scope, is not conducive to a standard reporting format for all audits. In relation to some of these tasks, certain essential requirements of the audit report are set out in the auditing provisions of the relevant legislation. In such cases, the form of the legislation may give the Auditor-General a wide discretion.

176. In general terms, reports should be clear, concise and complete, and those not involving a formal certificate or expression of audit opinion, should:

- explain clearly, where applicable, the scope and objectives of the audit
- present findings and conclusions in an objective and dispassionate manner
- present only findings and conclusions adequately supported by evidence properly documented in the working papers. Detailed supporting data should be included as necessary to allow for a convincing presentation
- include the auditor's recommendations for remedial action to be taken and information on underlying causes of non-compliance with statutes, inaccuracy of accounting and other information, waste and deficiencies, and inefficient systems, operations and practices
- in commenting on the past, draw out lessons for future improvement; critical comments should be presented in perspective
- identify and explain issues or questions needing further

study and consideration by the auditor or others
 . recognise management initiated improvements, and
 . recognise views firmly adhered to by auditee
 management

177. Audit findings should be presented fairly so as to reveal a balanced, consistent perspective. The objective is to produce reports which are fair and not misleading and which, at the same time, place primary emphasis on matters requiring attention.

178. Opinions and conclusions should be clearly identified and based on sufficient evaluation, testing and review processed to warrant their inclusion. All opinions, conclusions and findings should be evidenced by adequate documentation.

179. Where management views on audit findings are not accepted by audit, the report should state the reasons for their non-acceptance.

180. Reports are to be regarded by the GAO as confidential until they have been tabled in the Assembly

Reports on financial statements

Reports on Unitary Financial Statements

181. Part 6 of the Act sets out the statutory requirements for the preparation and audit of these statements. Particular requirements to be observed in the preparation of the report are set out in sections 71(1), and 75-80 of the Act.

182. The Auditor-General's formal expression of opinion in the financial statements should be in a format consistent with the requirements of the Act.

183. Section 76 of the Act empowers the Auditor-General to include in any report under this Act such information as he or she thinks desirable in relation to audits, examinations and inspections carried out in pursuance of the provisions of this, or any other law of the Territory. Section 78 of the Act directs the formal manner and timing in which the reports of the Auditor-General are to be transmitted to the Assembly. Reports transmitted in pursuance of this section are addressed to the Speaker.

184. Section 80 of the Act authorises the Auditor-General to make recommendations, plans and suggestions for the better collection and payment of the public monies and any improvement in mode of keeping the public accounts. It also authorises the Auditor-General to make a special report including these matters

185. The timing of any report depends on the date on which the Statements are transmitted to the Auditor-General. The report is completed, printed and signed as quickly as possible following that date

Reports on the financial statements of statutory authorities

186. The enactment which establishes a statutory authority usually contains provisions pertaining to the audit of accounts. Standard provisions relating to public authorities required to keep accounts in accordance with commercial practice are contained in part 9 Division 2 of the Act; those relating to public authorities not required to keep accounts in accordance with commercial practice are contained in Part 2 Division 3 of the Act.

187. Legislation establishing certain statutory authorities may contain audit provisions which differ from the above mentioned standard provisions. The basic characteristics of the audit report to be furnished to the appropriate Minister in respect of the financial statements of the statutory authority are those contained in sections 93 and 97 of the Act, or of the establishing enactment, as appropriate.

188. The preparation of reports to be made pursuant to these sections shall have regard to the mandatory nature of certain provisions e.g., section 93(2) and section 97(2) or the equivalent section of the establishing enactment.

189. The financial statements in respect of which the audit report is to be made are those submitted in the form approved by the Minister unless the particular enactment provides otherwise. The auditor should draw the attention of the auditee to any departures from that form and invite resubmission of the financial statements in the approved form.

190. The standards set out in Statement of Auditing Standards, AUS1 and Statement of Auditing Practice, AUP3-The Auditor's Report on Financial Statements, are generally applicable to reporting on audits of financial statements of statutory authorities. Those statements must, however, be interpreted in accordance with paragraph 44 of the GAO Auditing Standards. In particular, references to acceptable accounting policies and standards have to be understood as including references to standards specified for statutory authorities in the Guidelines issued by the Treasurer. Similarly, paragraphs 9, 11 and 16 of AUP3 and the appendices to that Statement do not apply to audits of the financial statements of statutory authorities

191. Opinions expressed in reports on the financial statements of a statutory body may be

- (1) Unqualified
- (2) Qualified
 - (a) exception
 - (b) adverse, or
 - (c) disclaimer of opinion

having regard to these standards and to the general guidance contained in Statement of Auditing Practice AUP3, paragraphs 20-34

192. The standards set out in this section apply also to audit reports on financial statements of commercial undertakings of departments in respect of which the Minister has made a determination under section 58 of the Act

Report on the financial statements of government owned or controlled companies

193. The Auditor-General is appointed auditor of any company in which the Government or a statutory authority has a controlling interest. The appointment of the Auditor-General extends the scope of the audit beyond the financial attest audit to embrace the full range of regulatory audits.

194. An audit of the financial statements of government owned or controlled company shall, where that company is a company limited by guarantee, have regard to the provisions of any special legislation relating to the establishment and operations of that company.

195. An audit of the financial statements of a

government owned or controlled company shall have regard to the provisions of any directive given to the Directors of the company by or under the authority of the government. Non-compliance with aspects of the directive will, prima facie, be a matter for qualified audit opinion.

196 Where government owned or controlled companies are registered overseas and the Auditor-General cannot be appointed auditor under laws of the country of domicile, guidance contained in Statement of Auditing Practice AUP11-Using the Work of Another Auditor is relevant to the audit of the consolidated financial statements.

197. Audit reports on financial statements of companies should conform to the requirements of the Companies Act or relevant Companies Code. If an instance of apparent conflict with the Auditor-General's wider public sector responsibilities should arise it should be referred to the Auditor-General.

Reports on audits of accounts and records of government bodies

198 The keeping of proper accounts and records of the transactions and affairs of an authority is a requirement of the standard accounts and audit provisions (see section 53 of the Act). Provisions relating to the accounts and records audit are contained in various sections of the Act and equivalent sections in other enactments. The mandatory nature of the requirement in Section 17(1) of the Act, to report any irregularity disclosed if considered of sufficient importance, is noteworthy.

199. The report to the appropriate Minister pursuant to sections 58(3) and 79 of the Act or equivalent sections in other enactments on the audit of the accounts and records is usually made concurrently with the report on the financial statements

200 The audit of the accounts and records is usually carried out in conjunction with the interim audit or the financial statements of an authority or company. The report to the Minister will refer to matters of audit concern which have warranted qualification of the opinion given in the report on the financial statements. In addition it will refer to other matters of 'sufficient importance' such as:

- . matters relating to accounting issues not considered to warrant a qualification
- . decisions of management authorising transactions which lack probity
- . commercial-in-confidence issues and concerns findings arising out of the broad range of regularity audits such as findings relating to the planning, management and general operation of a computer installation
- . issues of concern in relation to management/audit relationships, and
- . any other matter arising from the audit which the Auditor-General (after considering where appropriate advice from an authorised officer or audit Partner in the case of contracted audits) considers appropriate to draw to the attention of the Minister.

201. A report to the Minister may also include favourable audit comment on action taken by management to rectify a matter which has been a cause for concern and to which reference was made in a previous audit report. A summary of the report on the

audit of accounts and records may be included in a subsequent report of the Auditor-General to the Assembly.

202. In some cases an audit conducted pursuant to statutory powers to inspect and audit the accounts and records of a statutory authority will focus primarily on performance issues. In such cases, reports are to take into account matters included in paragraph 214 of these standards.

Reports on performance audits

203. Subject to this section, the reporting standards contained in paragraphs 175 to 180 have general application to performance audits, whether the audits are carried out as efficiency audits or as project audits

204 The report of an audit that has been formally designated an efficiency audit and conducted within Division 2 of Part 5 of the Act will be prepared in narrative form and will normally comprise

Overview

Introduction

Wider considerations (if required)

Detailed audit findings, auditee responses

Audit conclusions and recommendations

Summary of main audit findings and list of audit recommendations

205 A short overview should be included unless, in a particular case, the Auditor-General does not consider it would serve a useful purpose. The aim in the preparation of an overview is to give the flavour of the report, alluding to the more significant findings although not necessarily referring to every conclusion and recommendation.

206 The introduction should refer to the audit scope, setting out the objectives and focus of the audit. A definition of terms should be included, as appropriate.

207. The introduction should also include a brief but adequate description of the area under audit including, where appropriate, a reference to its history, what it was expected to achieve and capital and operating costs

208 Where the subject of review affects a number of auditee areas, it may be necessary to provide some comment or background on wider considerations.

209 The structure of that part of the report dealing with detailed audit findings, auditee responses, audit conclusions and recommendations, will reflect the number of subject areas covered by the audit. For each subject area the report should include;

- . a succinct description of the area reviewed
- . the audit findings and comments on what was reviewed
- . auditee responses, and
- . audit conclusions and recommendations.

210. A report may be supported by appendices but generally only where essential to a careful reader's understanding of the report.

211. Recommendations will be numbered and the list of recommendations is to be cross-referenced to the relevant discussion in the body of the report. The list

may be presented in tabular form. Where feasible, the list of recommendations may indicate the relative importance of each and the degree of urgency attaching to their implementation by auditees.

212. A proposed report on an efficiency audit shall be sent under section 67(4) to the chief executive of the auditee body for comment only after it has been cleared by the Auditor-General.

213. The proposed report may be amended in such manner as is thought fit having regard to the comments of the auditee on the audit conclusions, findings and recommendations, and any necessary further audit comment will be added. The revised version of the proposed report is then submitted to the Auditor-General for clearance prior to printing.

214. Reports on project audits addressing performance issues but not formally designated as efficiency audits are prepared in narrative form having regard to paragraph 175 to 180 of these standards. Such a report need not convey a formal audit opinion but will state the conclusions and findings arising from the audit and may include recommendations.

Materiality

215. The audit of a public sector body is based on recognition of the importance of the concept of accountability owed by that body to the Assembly. That accountability exists whether the body is a department of state, a statutory authority, a subsidiary company of a statutory authority or a company owned or controlled by the government.

216. This means that no public sector body can consider itself free from the scrutiny of Assembly or its committees, exercised through the responsible Minister.

217. The concept of materiality as applied in the public sector recognises that the interest of Assembly, and indeed the populace, can extend to management decisions affecting conditions of employment of executive and other staff and taxation issues, as well as to the use of resources in the achievement of objectives, the exercise of powers and the performance of functions. The exercise of probity in decision making ranks significantly in terms of the Assembly's and the public interest.

218. The reporting requirement contained in the Act, at time requires a judgement as to the materiality of a matter which has come under notice and this must be made by the Auditor-General. Precise guidance cannot be given on discretionary limits, as consideration of whether a matter is trivial, and therefore of little or no interest to the Assembly in terms of accountability, depends greatly on judgement. In exercising that judgment regard would be had to,

- . the political aspects, i.e. the extent of likely interest as evidenced by Assembly debates, questions and committee inquiries, and
- . what is generally accepted as proper behaviour on the part of an official or a member of a board, etc., operating within the public sector.

219. A report on financial statements pursuant to the Act (and equivalent provision in other legislation) would be subject to qualification if the Auditor-General were to form an opinion that an accounting policy followed in the preparation of the statements was

misleading. While the provisions of Australian Accounting Standard AASS-Materiality in Financial Statements may be taken as a guide, it is again likely that the concept of accountability as applicable to a public sector body (see paragraphs 218-219) will require a more stringent interpretation of materiality to be applied to the item in question.

J.S. O'Neill
Auditor-General

Printed by the Government Printer, D. S. Lawrence,
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