

11 August 2011

Mr James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue 14<sup>th</sup> Floor  
New York, New York 10017 USA

Dear Mr Gunn,

**Exposure Draft: Proposed International Standard on Assurance Engagements  
ISAE 3000 (Revised), Assurance Engagements other than Audits or Reviews  
of Historical Financial Information**

Attached is the Australasian Council of Auditors-General (ACAG) response to the exposure draft referred to above.

In developing the response it became apparent there were a range of views amongst the members of ACAG that could not be accommodated in one submission. In particular alternative views were held in relation to:

- Determining a 'material misstatement' for a direct engagement
- Clarifying what is the 'subject matter information' for a direct engagement
- Determining and applying 'proper evaluation or measurement' for both an attestation and direct engagement.

As a consequence the members of ACAG agreed that this response provides two submissions that reflected the alternative views that were held amongst the members of ACAG. In providing these submissions there is consensus on a range of matters and the responses to questions 1, 2(b), 2(c), 3(a), 3(b), 3(c)(ii), 4, 5, 6 and the additional comments on 'Agreeing on the terms of the engagement-paragraph 23'; 'Small and Medium Sized Practices and Small and Medium Sized Entities' and 'Preconditions for the Assurance Engagement' are common to both submissions. As such the responses to those questions have been deleted from submission two to avoid duplication.

If nothing else, the differing points of view that have been identified as ACAG has developed its response to this exposure draft indicate further work is needed to address differences between attestation and direct engagements particularly in the public sector. This is so regardless as to whether or not a separate standard is developed for direct engagements and, in any event, is likely to have flow-on consequences for the Framework.

Yours sincerely



Simon O'Neill  
**Chairman**  
**ACAG Financial Reporting and Auditing Committee**

### **Proposed International Standard on Assurance Engagements ISAE 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information**

#### **OVERALL COMMENT**

ACAG recognises that this is the foundation standard for a broad range of non-financial engagements. For this reason, the standard needs to stand-alone and provide the minimum necessary guidance to assist users to understand and apply the standard for a range of engagements and in various circumstances.

In the public sector, this standard will represent the foundation document for performance audits undertaken by Auditors-General in accordance with their respective legislative mandates (as these engagements come within the definition of ‘direct engagements’). In this respect, ACAG is concerned that the proposed standard unnecessarily contains requirements and related guidance that is more suited to financial statement-type engagements than engagements that address issues of economy, efficiency and effectiveness.

While having one overarching standard has some advantages including ensuring consistency of language and expression, the proposed standard runs the risk of being difficult to understand by all intended users. Particularly in the light of a number of issues referred to below, ACAG suggests the IAASB give further consideration to the possibility of having a separate standard that deals specifically with ‘direct engagements’, as currently defined. In the alternative that the proposed standard adequately addresses the issues discussed below.

The Explanatory Memorandum accompanying the proposed standard seeks comment in respect of a number of particular matters. We have provided comment on these matters under the heading ‘Request for Specific Comments’.

In addition, we have provided comment on other matters that have come to our attention under the heading ‘Comments on Other Matters’.

#### **REQUEST FOR SPECIFIC COMMENTS**

ACAG provides the following comments in response to specific questions raised by the IAASB.

- 1. Do respondents believe that the nature and extent of requirements in proposed ISAE 3000 would enable consistent high quality assurance engagements while being sufficiently flexible given the broad range of engagements to which proposed ISAE 3000 will apply?**

ACAG broadly supports the proposal but has some concerns which are outlined further in relation to each of the specific questions.

- 2. With respect to levels of assurance:**

- (a) Does proposed ISAE 3000 properly define, and explain the difference between, reasonable assurance engagements and limited assurance engagements?**

ACAG broadly supports the changes to the definitions notwithstanding our comments and recommended amendment below.

ACAG considers the proposed standard does not go far enough in describing the sorts of procedures you would be performing in relation to a limited assurance engagement. The provision of further guidance in this standard or in the subject-specific standards which sit beneath it would assist users to better understand the differences.

In relation to the definition of a reasonable assurance engagement, ACAG believes that the conclusion should not be expressed as ‘an opinion’ in all cases, particularly for direct engagements such as performance audits (see paragraphs 8(a)(i)(a) and 60(l)(ii)). This view is consistent with: subject matter information sometimes being expressed in the form of a conclusion; and also paragraph 6(b). In addition, the use of a conclusion helps differentiate a ‘non-financial’ reasonable assurance engagement from a ‘financial’ reasonable assurance engagement. It is more logical that a conclusion ‘concludes’ rather than ‘opines’. (This comment also impacts the proposed International Framework for Assurance Engagements, for example, paragraph 17.) ACAG recommends changing the second sentence in 8(a)(i)(a) to:

‘The practitioner’s conclusion is expressed in a form that conveys that conclusion on the outcome of the measurement or evaluation of the underlying subject matter.’

In relation to the definition of a limited assurance engagement, the definition uses the term ‘materially misstated’. As discussed later in this response, ACAG considers that the term ‘misstatement’ may not always be appropriate for use in relation to direct engagements.

**(b) Are the requirements and other material in proposed ISAE 3000 appropriate to both reasonable assurance engagements and limited assurance engagements?**

Other than the issues discussed below, (particularly under 2(c)) the requirements and other material in the proposed standard are appropriate to both reasonable assurance engagements and limited assurance engagements.

**(c) Should the proposed ISAE 3000 require, for limited assurance, the practitioner to obtain an understanding of internal control over the preparation of the subject matter information when relevant to the underlying subject matter and other engagement circumstances?**

For both limited and reasonable assurance engagements the standard requires a risk-based approach to be taken (ie the procedures performed must be responsive to the assessed risks). For a reasonable assurance engagement, the auditor must identify and assess the risks of material misstatement and perform procedures designed to respond to these assessed risks (paragraph 41). While the proposed standard does not require a stringent risk assessment process for limited assurance engagements, the practitioner must still consider areas where material misstatements are likely to arise and perform procedures to obtain a level of assurance that is ‘meaningful’ to users (paragraph 42).

For the types of limited assurance engagements performed by practitioners in the public sector (examples provided in Appendix A), the practitioner could generally be expected to obtain an understanding of internal control over the preparation of the subject matter information. However, it is considered there are circumstances where observation and sufficient substantive procedures can be undertaken without the need to obtain an understanding of internal control. The same situation can also apply for reasonable assurance engagements.

This could be provided for by paragraph 37 stating ‘Where relevant, the practitioner’s understanding shall include an understanding of internal control...’. This would also require reconsideration of Application Guidance paragraph A93.

3. **With respect to attestation and direct engagements:**

- (a) **Do respondents agree with the proposed changes in terminology from ‘assurance-based engagements’ to ‘attestation engagements’ as well as those from ‘direct-reporting engagements’ to ‘direct engagements’?**

ACAG agrees with the changes in terminology. Using the term assurance-based engagements was particularly confusing given both types of engagements meet the definition of assurance engagements.

- (b) **Does proposed ISAE 3000 properly define, and explain the difference between, direct engagements and attestation engagements?**

ACAG believes that the proposed standard adequately defines direct engagements and attestation engagements. ACAG welcomes the addition of information addressing the nature of direct engagements, and the differences from and similarities to attestation engagements. However, the provision of examples would assist users to better understand the nature of each.

ACAG does, however, have reservations about the terms ‘subject matter information’ and ‘underlying subject matter’. ACAG notes that an understanding of these terms and how they are defined is critical to an understanding of a number of key aspects of the proposed standard and considers that the similarity of these terms and the wording of the definition of ‘underlying subject matter’ as ‘The phenomenon that is measured or evaluated by applying criteria’ warrants further consideration by the Board. ACAG suggests that ‘subject matter information’ could perhaps be changed to ‘subject matter assessment’. As a minimum, we suggest that the standard include examples to illustrate what is represented by ‘underlying subject matter’.

- (c) **Are the objectives, requirements and other material in the proposed ISAE 3000 appropriate to both direct engagements and attestation engagements? In particular:**

ACAG welcomes the addition of new application and other explanatory material addressing direct engagements. However, in some cases, the standard appears to have been written to capture attestation engagements, with additional paragraphs being added to address direct engagements. As a result there are a number of requirements in the proposed standard which may not be appropriate to direct engagements. ACAG suggests the standard should contain clear mandatory requirements and definitions appropriate for both types of engagements.

Also refer to the specific comments below.

- (i) **In a direct engagement when the practitioner’s conclusion is the subject matter information, do respondents believe that the practitioner’s objective in paragraph 6(a) (that is, to obtain either reasonable assurance or limited assurance about whether the subject matter information is free of material misstatement) is appropriate in light of the definition of a misstatement (see paragraph (8)(n))?**

ACAG is concerned that the wording in the standard does not support application to direct engagements, whether or not the practitioner’s conclusion is the subject matter information.

There are a number of paragraphs in the standard which are not applicable or do not relate well to a direct engagement.

The standard has been drafted so that assurance is obtained over the ‘subject matter information’. This is appropriate for an attestation engagement. However, it is not appropriate in a direct engagement as providing assurance on whether the subject matter information is not materially misstated means the practitioner is providing assurance that their findings are not materially misstated.

Consider the following direct engagement scenario:

- The underlying subject matter is the controls operating within an entity during the year.
- The criteria is the effective operation of the 10 controls mandated by legislation.

The practitioner applies the criteria to the underlying subject matter and concludes that the criteria are met. Therefore, the subject matter information is that effective controls were in place for the year (note, this is also the conclusion in this instance).

For there to be a misstatement, the practitioner must conclude that there is a difference between their own findings (the subject matter information) and a ‘proper measurement or evaluation... of the underlying subject matter against the applicable criteria’. That is, the practitioner must conclude that they have not undertaken a ‘proper measurement or evaluation’ when performing their work.

While ACAG does not consider this is the proposed standard’s intention, particularly in light of paragraph A164, the main body of the standard as written can be interpreted as not being consistent with A164.

ACAG’s view is that for a direct engagement, the practitioner should seek to provide assurance that the **underlying subject matter** meets applicable criteria.

Where the underlying subject matter does not meet the applicable criteria, the practitioner’s opinion should be modified.

That is, for the scenario above, where effective controls were not exercised by an entity, the practitioner modifies their opinion. As the standard is written, it could be interpreted that if controls were **not** in place, and the practitioner considered that they had conducted their evaluation of controls ‘properly’, then the assurance report would be unmodified.

ACAG considers that this problem could be resolved by the following:

- The notion that assurance is provided on the subject matter information should not be applied to direct engagements.
- Instead, for direct engagements, assurance should be provided that the underlying subject matter meets the criteria.
- The concept of misstatement should be expanded to accommodate the concept of a ‘deviation from criteria’.
- Where there is material deviation from criteria, the assurance conclusion outlines details of the variation.

### The objective of an assurance engagement

In the light of the above discussion, ACAG submits that the objective as contained in paragraph 6(a) of the standard is not appropriate for a direct engagement as it refers to a material misstatement and assurance over the 'subject matter information'.

ACAG suggests that the objective either needs to be so broad in nature that it does not refer specifically to subject matter information or, alternatively that separate objectives be provided for attestation and direct engagements.

A suggested form of the latter follows:

In conducting an assurance engagement, the objectives of the practitioner are:

- (a) To obtain reasonable assurance or limited assurance, as appropriate, in order to enhance the degree of confidence of the intended users other than the responsible parties about:
  - (i) in the case of an attestation engagement, whether the subject matter information (that is, the reported outcome of the measurement or evaluation of the underlying subject matter) is free from material misstatement; and
  - (ii) in the case of a direct engagement, whether the underlying subject matter, in all material respects, meets the criteria.

- (ii) **In some direct engagements, the practitioner may select or develop the applicable criteria. Do respondents believe the requirements and guidance in proposed ISAE 3000 appropriately address such circumstances?**

ACAG believes that the requirements and guidance in the proposed standard appropriately address circumstances in which the practitioner selects or develops the applicable criteria.

#### **4. With respect to describing the practitioner's procedures in the assurance report:**

- (a) **Is the requirement to include a summary of the work performed as the basis for the practitioner's conclusion appropriate?**

ACAG is satisfied that the requirement to include a summary for the work performed as the basis for the conclusion is appropriate, as this supports the reader in understanding the conclusion formed and the level of assurance obtained (ie reasonable or limited assurance).

However, it is important to ensure that users of an assurance report appreciate that the nature and level of procedures or work performed are dependent on the risks identified (ie the same level of assurance has been obtained regardless of the procedures performed). There is a risk that users may interpret that a greater level of assurance has been obtained where there is a longer, more detailed list of procedures contained in the assurance report.

- (b) **Is the requirement, in the case of limited assurance engagements, to state that the practitioner's procedures are more limited than for a reasonable assurance engagement and consequently they do not enable the practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement, appropriate?**

The requirement to state that the procedures are more limited is appropriate and further assists readers in understanding the conclusion formed and level of assurance obtained.

**(c) Should further requirements or guidance be included regarding the level of detail needed for the summary of the practitioner’s procedures in a limited assurance engagement?**

The IAASB has acknowledged that it is difficult to clearly and unambiguously communicate a summary of the work performed. If the IAASB believes these details are necessary for a user to adequately understand and appreciate the level of assurance obtained, then the provision of examples is the best way to ensure consistent application.

The IAASB should consider the examples of assurance reports submitted by respondents and consider providing an example for a limited assurance engagement as it relates to the summary of work performed.

This reinforces the need for more information to be provided in the standard in relation to the level of detail expected to be included in the assurance report. ACAG also considers that the assurance report at a minimum should be required to state that procedures carried out were designed to address the addressed risks. This would remind users that there may be differing risks from one audit to another and that the procedures performed should be considered in light of this.

We also noted that there are a number of ‘may’ statements made in the application guidance to the standard, e.g. ‘It may be appropriate to include in the summary a statement that the work performed included evaluating the suitability of the criteria’. A minimum standard should be set by the IAASB and included as mandatory requirements in the main body of this standard or the subject specific standards which sit beneath it. In ACAG’s view this may mean mandating such requirements with the proviso of ‘where relevant’ instead of inclusion in application guidance.

**5. Do respondents believe that the form of the practitioner’s conclusion in a limited assurance engagement (that is, ‘based on the procedures performed, nothing has come to the practitioner’s attention to cause the practitioner to believe the subject matter information is materially misstated’) communicates adequately the assurance obtained by the practitioner?**

ACAG acknowledges that there is a risk that readers of limited assurance engagement reports may not fully appreciate the limited nature of the assurance provided in comparison to a more detailed reasonable assurance engagement. This is so, even though the conclusions are expressed negatively.

To compensate for this significant risk, ACAG considers the limited assurance engagement report should include a clear statement following the conclusion that the report provides a lesser level of assurance compared to a reasonable assurance engagement.

**6. With respect to those applying the standard:**

**(a) Do respondents agree with the approach taken in proposed ISAE 3000 regarding application of the standard by competent practitioners other than professional accountants in public practice?**

ACAG agrees that the standard should be applied by those who work for an accounting firm or public sector auditors who are not members of an IFAC body as the engagement partner (who is responsible for the assurance report) will generally meet the definition of a professional accountant in public practice.

In ACAG’s view, the approach taken and requirements included address the concerns expressed in the explanatory memorandum that intended users have no way of telling whether the practitioner has the level of education and training, ethical requirements, technical standards and quality control that would be expected from a member of an IFAC member body.



**(b) Do respondents agree with proposed definition of ‘practitioner’?**

ACAG agrees with the proposed definition.

## **COMMENTS ON OTHER MATTERS**

### **Public Sector— special considerations**

#### ***Agreeing on the terms of the engagement- paragraph 23***

The requirement to agree on the terms of the engagement with the engaging party may not always be appropriate or practical for an Auditor-General. This is acknowledged in paragraph A55 of the proposed standard. To address this issue ACAG recommends that paragraph 23 be revised as follows:

‘The practitioner shall communicate or agree on the terms of the engagement with the engaging party’.

#### ***Small and Medium Sized Practices (SMPs) and Small and Medium Sized Entities (SMEs)***

ACAG does not see any specific issues with scalability of the requirements.

#### ***Preconditions for the Assurance Engagement***

Experience in the Australian public sector is that some of the preconditions listed in paragraph 20 will not be known until planning has been completed or is near completion. For example, suitable criteria are not likely to be fully defined until an advanced understanding of the underlying subject matter and related benchmarking is gained and the engagement plan is completed or is near completion.

ACAG therefore does not agree with the proposed paragraph 21 that indicates that where an engagement is ‘accepted’ as required by laws or regulations, but does not meet the listed preconditions, the engagement does not comply with the ISAEs. ACAG considers that the construct at paragraph 8 of ISA 210 to be more appropriate.

Alternatively, ACAG considers that paragraph 20 could be amended to recognise that planning for the engagement may be required before it can be determined that ‘... The engagement exhibits all of the following characteristics: ...’ Such a change would be consistent with paragraph 35 on planning. The amendment could state that the engagement exhibits the characteristics based on the ‘... practitioner’s preliminary knowledge of the engagement circumstances ...’ as is done in the present Australian Auditing and Assurance Standards Board’s - Framework for Assurance Engagements - paragraph 17.

This proposed amendment also has implications for the proposed International Framework of Assurance Engagements – paragraph 24(b).

#### ***Proper evaluation or measurement (The comments in relation to this matter are not supported by all members of ACAG)***

There is little information in the exposure draft about the concept of a ‘proper measurement or evaluation’. This concept has potential to be contentious in practice. Where a practitioner communicates in their assurance report that the subject matter information as prepared by an ‘other party’ is materially misstated, there are potential ramifications for both the practitioner and the other party. This would be exacerbated where the other party does not agree with the practitioner.

To determine whether there is a misstatement the practitioner must resort to a dictionary definition of 'proper'. Our assumption is that to determine if there is a misstatement, the practitioner applies their professional judgement as to whether the other party has obtained sufficient appropriate evidence to support their conclusion. Also, the practitioner would apply their professional judgement to determine if the other party's interpretation of the evidence was appropriate. It is our view that the intention needs to be much more clearly articulated in the standard.

Also, for an attestation engagement, it is not clear what is required when the practitioner does not concur that the criteria developed and used were appropriate. This will only be an issue where either acceptance of the engagement is required by law or regulation, or the issue is discovered after the engagement has been accepted (paragraphs 21 and 22). Paragraph 22 notes that in the latter situation, the practitioner shall determine whether, and if so how, to communicate the matter in the assurance report.

Further guidance should be included to highlight that this is not considered to be a misstatement (and therefore does not result in a modification), and how this might be communicated through the assurance report. For example should such a situation involve an Emphasis of Matter paragraph?

## SUBMISSION TWO

### **Proposed International Standard on Assurance Engagements ISAE 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information**

#### **OVERALL COMMENT**

ACAG recognises that this is the foundation standard for a broad range of non-financial engagements. For this reason, the standard needs to stand-alone and provide the minimum necessary guidance to assist users to understand and apply the standard for a range of engagements and in various circumstances.

In the public sector, this standard will represent the foundation document for assurance engagements undertaken by Auditors-General in accordance with their respective legislative mandates (as these audits come within the definitions of ‘direct’ and ‘attestation’ engagements). In this respect, ACAG is concerned that the proposed standard should contain greater consideration and guidance for direct engagements.

The Explanatory Memorandum accompanying the proposed standard seeks comment in respect of a number of particular matters. We have provided comment on these matters under the heading ‘Request for Specific Comments’.

In addition, we have provided comment on other matters that have come to our attention under the heading ‘Comments on Other Matters’.

#### **REQUEST FOR SPECIFIC COMMENTS**

##### **2. With respect to levels of assurance:**

- (a) **Does proposed ISAE 3000 properly define, and explain the difference between, reasonable assurance engagements and limited assurance engagements?**

ACAG broadly supports the changes to the definitions notwithstanding our comments and recommended amendment below.

ACAG considers the proposed standard does not go far enough in describing the sorts of procedures you would be performing in relation to a limited assurance engagement. The provision of further guidance in this standard or in the subject-specific standards which sit beneath it would assist users to better understand the differences.

In relation to the definition of a reasonable assurance engagement, ACAG believes that the conclusion should not be expressed as ‘an opinion’ in all cases, particularly for direct engagements such as performance audits. (See paragraphs 8(a)(i)(a) and 60(1)(ii)). This view is consistent with: subject matter information sometimes being expressed in the form of a conclusion; and also paragraph 6(b). In addition, the use of a conclusion helps differentiate a ‘non-financial’ reasonable assurance engagement from a ‘financial’ reasonable assurance engagement. It is more logical that a conclusion ‘concludes’ rather than ‘opines’. (This comment also impacts the proposed International Framework for Assurance Engagements, for example, paragraph 17.) ACAG recommends changing the second sentence in 8(a)(i)(a) to:

‘The practitioner’s conclusion is expressed in a form that conveys that conclusion on the outcome of the measurement or evaluation of the underlying subject matter.’

The term material misstatement is applied to both types of engagements (see definition for a limited assurance engagements and paragraph A5 for direct engagements). As discussed later in this response, ACAG considers that the term ‘misstatement’, as currently described, may not always be clear in relation to direct engagements. However, ACAG supports the application of the concept of misstatement to all engagements.

**3. With respect to attestation and direct engagements:**

**(c) Are the objectives, requirements and other material in the proposed ISAE 3000 appropriate to both direct engagements and attestation engagements? In particular:**

**(i) In a direct engagement when the practitioner’s conclusion is the subject matter information, do respondents believe that the practitioner’s objective in paragraph 6(a) (that is, to obtain either reasonable assurance or limited assurance about whether the subject matter information is free of material misstatement) is appropriate in light of the definition of a misstatement (see paragraph (8)(n))?**

ACAG is concerned that the wording in the standard does not clearly support application to direct engagements and misstatements.

The standard has been drafted to require the practitioner to express a conclusion on the outcome of the measurement or evaluation of the underlying subject matter. To do so the practitioner must obtain assurance on the extent to which the outcome of the measurement or evaluation is free from material misstatement. This applies to both attestation and direct engagements. For a direct engagement the subject matter information is created independently by the practitioner and assessed by the practitioner through applying appropriate skills and techniques to obtain the engagement’s evidence providing the assurance. Using this evidence the practitioner is able to express a conclusion about whether or not the subject matter information is materially misstated. (See paragraphs A4 – A6.)

Consider the following direct engagement scenario:

- The underlying subject matter is the controls operating within an entity during the year.
- The criteria is the effective operation of the 10 controls mandated by legislation.

The practitioner applies the criteria to the underlying subject matter and concludes that the criteria are met. Therefore, the subject matter information is that effective controls were in place for the year (note, this is also the conclusion in this instance).

In direct engagements like this the focus of proper evaluation when testing for material misstatement is on the practitioner’s approach. The extent of any misstatement, proper measurement or evaluation is tested during planning, undertaking and reporting and by the practitioner applying professional judgement and quality control. This includes: the applicability of criteria, the measurement of variation from them and the management of engagement risk.

For an attestation engagement the practitioner is independent from the subject matter information because the other party has prepared it. The focus is on testing the other party's proper measurement or evaluation and the practitioner obtains evidence that the subject matter information is free from material misstatement. (See paragraph A3.) This results in similar quality and quantity of evidence to a direct engagement. (See paragraph A6.) This further illustrates the point that who prepares the subject matter information influences how a potential misstatement is considered.

The definition of subject matter information provided in the proposed standard is that it is 'the outcome of the measurement or evaluation of the underlying subject matter against applicable criteria'. As proposed it applies to circumstances in both types of engagements where there is 'deviation (variation) from criteria'.

In such cases where the underlying subject matter does not meet the applicable criteria, and this is confirmed by the practitioner's evidence, the engagement's conclusion should be modified. In the above example the conclusion would not be modified.

ACAG considers this understanding to be consistent with paragraph A164.

To clarify the application to direct engagements ACAG considers:

- The definition of misstatement should be expanded to clearly illustrate its application to attestation and direct engagements.
- Where there is material deviation indicated in the subject matter information, and verified by the practitioner's evidence, the conclusion should outline details of the variation.

## Appendix A

### REQUEST FOR EXAMPLES OF ASSURANCE ENGAGEMENTS

The explanatory memorandum accompanying the proposed standard seeks examples of assurance engagements being undertaken in practice. Note that the following tables contain examples from various jurisdictions within Australia and therefore there may be differences in the way engagements have been reported on for a given category.

#### Direct Engagements

##### *Reasonable assurance*

State	Nature of engagement	Name of Report	Attachment No or Link
WA	Performance audit	Universal Child Health Checks Report 11 (November 2010)	<a href="http://www.audit.wa.gov.au">http://www.audit.wa.gov.au</a>
WA	Performance audit (with compliance components)	Public Sector Performance Report 2011 (Report 5 June 2011) <ul style="list-style-type: none"> <li>Agency Compliance with Procurement Requirements</li> <li>Managing the Priority Start – Building Policy</li> </ul>	<a href="http://www.audit.wa.gov.au">http://www.audit.wa.gov.au</a>
WA	Compliance audit	Information Systems Audit Report (Report 4 June 2011) <ul style="list-style-type: none"> <li>Cyber Security in Government Agencies</li> <li>Application and General Computer Controls</li> </ul>	<a href="http://www.audit.wa.gov.au">http://www.audit.wa.gov.au</a>
WA	Compliance audit <sup>1</sup>	Independent Audit Opinion – Commissioner of Main Roads as at 30 June 2010 – Controls Opinion	<a href="http://www.mainroads.wa.gov.au">http://www.mainroads.wa.gov.au</a>
NSW	Compliance audit	Report on the Contracts Summary for (details of Contracts) compliance with the ‘Working with Government: Guidelines for Privately Finance Projects’	Attachment I
NSW	Performance audit	The Effectiveness of Cautioning for Minor Cannabis Offences (NSW Police Force, NSW Health)	<a href="http://www.audit.nsw.gov.au/publications">http://www.audit.nsw.gov.au/publications</a>

<sup>1</sup> These types of audits are subject to ASAE 3000. These audits are performed in conjunction with the audit of financial statements and the requirements of ASAs applied to the financial statements are also applied to the controls and KPI audits.

State	Nature of engagement	Name of Report	Attachment No or Link
NSW	Performance audit	Government Expenditure and Transport Planning in relation to implementing Barangaroo	Attachment VI
Vic	Performance audit	Hazardous Waste Management (June 2010)	<a href="http://www.audit.vic.gov.au/reports_and_publications">http://www.audit.vic.gov.au/reports_and_publications</a>
ANAO	Performance audit	Audit Report No 56 2010-11 Administering the Character Requirements of the <i>Australian Citizenship Act 2007</i> – Department of Immigration and Citizenship	<a href="http://www.anao.gov.au/Publications">http://www.anao.gov.au/Publications</a>
SA	Opinion on effectiveness of controls	Incorporated into the Annual Auditor-General's Report to Parliament	Attachment IV <a href="http://www.audit.sa.gov.au">http://www.audit.sa.gov.au</a>
SA	Probity review	Report on the Auditor-General's Examination, Pursuant to Section 39 of the <i>Passenger Transport Act 1994</i> , of Certain Bus Contracts and the Probity Processes Leading up to the Awarding of the Contracts	Attachment V <a href="http://www.audit.sa.gov.au">http://www.audit.sa.gov.au</a>

## Direct Engagements

### *Limited assurance*

State	Nature of engagement	Name of Report	Attachment No or Link
NSW	Compliance review	Report on compliance with Premier's Memorandum M2006-11 'NSW Procurement Reforms'	Attachment II

## Attestation Engagements

### *Reasonable assurance*

State	Nature of engagement	Name of Report	Attachment No or Link
WA	Compliance review <sup>2</sup>	Independent Audit Opinion – Commissioner of Main Roads as at 30 June 2010 – Key Performance Indicators	<a href="http://www.mainroads.wa.gov.au">http://www.mainroads.wa.gov.au</a>

<sup>2</sup> These types of audits are subject to ASAE 3000. These audits are performed in conjunction with the audit of financial statements and the requirements of ASAs applied to the financial statements are also applied to the controls and KPI audits.

State	Nature of engagement	Name of Report	Attachment No or Link
NSW	Assurance report on controls at a service organisation	Independent Auditor's Report (Name of service organisation)	Attachment III
ANAO	Compliance review	Independent Report on the National Sexually Transmissible Infections (STIs) Prevention Program: Sexual Health Campaign (May 2009 – June 2010) – Additional material	<a href="http://www.anao.gov.au/Publications">http://www.anao.gov.au/Publications</a>
SA	Review of confidential contracts	Report of the Auditor-General on Summary of Pelican Point Power Station Project documents under section 41A of the <i>Public Finance and Audit Act 1987</i>	Attachment V <a href="http://www.audit.sa.gov.au">http://www.audit.sa.gov.au</a>

### Attestation Engagements

#### *Limited assurance*

State	Nature of engagement	Name of Report	Attachment No or Link
ANAO	Review of the status of selected Defence equipment acquisition projects	Report 17 2010-11: (Assurance Report) 2009-10 Major Projects Report (Defence Materiel Organisation)	<a href="http://www.anao.gov.au/Publications">http://www.anao.gov.au/Publications</a>
ANAO	Compliance review	Independent Report on the National Sexually Transmissible Infections (STIs) Prevention Program: Sexual Health Campaign (May 2009 – June 2010) – Additional material	<a href="http://www.anao.gov.au/Publications">http://www.anao.gov.au/Publications</a>



## INDEPENDENT ASSURANCE PRACTITIONER'S COMPLIANCE AUDIT REPORT

### Report on the Contracts Summary for [details of Contracts] compliance with the 'Working with Government: Guidelines for Privately Financed Projects'

To the Members of the New South Wales Parliament, the NSW Treasurer and [Head of Agency]

I have audited [name of project]'s Contracts Summary's compliance with the disclosure provisions contained in section 5.2 of the Working with Government: Guidelines for Privately Financed Projects (Guidelines).

#### Respective Responsibilities<sup>1</sup>

The [head of agency] of the [agency name] is responsible for the Contracts Summary's compliance with the Guidelines.

My responsibility is to express a conclusion on [agency name] [name of project] Contracts Summary's compliance with section 5.2 of the Guidelines. My audit has been conducted in accordance with applicable Standards on Assurance Engagements (ASAE 3100 'Compliance Engagements' and ASAE 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information') to provide reasonable assurance that [agency name] [name of project] Contracts Summary has complied with the Guidelines.

My procedures included:

- understanding key elements of the Guidelines
- understanding key elements of the Privately Financed Project
- examining the Contracts Summary to determine if it contains all the required elements of section 5.2 of the Guidelines
- examining the information in the section titled 'Elements of the Contracts' to determine if it accurately reflects, in all material respects, information contained in the Contracts
- determining whether confidential material has been fairly categorised and, as such, has been excluded from the Contracts Summary.

I have undertaken these procedures to enable me to conclude on whether [agency name] [name of project] Contracts Summary has complied, in all material respects with the disclosure provisions contained in section 5.2 of the Guidelines.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit conclusion.

#### Use of Report

This report was prepared for Members of the NSW Parliament, the NSW Treasurer and the [head of agency] of [agency]. I disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Members of the NSW Parliament, the NSW Treasurer and the [head of agency] of the [agency], or for any purpose other than that for which it was prepared.

#### Inherent Limitations

The audit of a Contracts Summary has certain inherent limitations over and above those inherent limitations common to all audits.

<sup>1</sup> Where there is a limitation on the scope of the auditor's work, the Respective Responsibility paragraph will need to be modified. The modification varies depending on whether the scope limitation results in a qualified conclusion or a disclaimer of conclusion.

Some information included in the Contracts Summary as 'Background to the Project' may not be included in the contract documents, for example, the results of the cost-benefit analysis and risk sharing. Such information may represent one party's interpretation, may involve a high degree of judgement and usually does not form part of the contract.

For these reasons, while I tested that such information is included in the summary, because it is subjective and not factual, my conclusion does not provide assurance about the accuracy of that information, or the legality of the relevant contracts or their effectiveness.

My conclusion does not provide assurance:

- about the security and controls over the electronic publication of my report and the Contracts Summary on any website where they may be presented
- about any other information which may have been hyperlinked to/from the Contracts Summary.

#### **Conclusion**

In my opinion the [agency name] [name of project] Contracts Summary complies, in all material respects, with the disclosure provisions in section 5.2 of the Guidelines.

[OR]

#### **[Qualified/Adverse or Disclaimer] Conclusion**

In my opinion, [except for/because of] the matter(s) noted in the paragraph below, the [agency name] [name of project] Contracts Summary complies, in all material respects, with the disclosure provisions in section 5.2 of the Guidelines.

#### **[Basis for Qualified Assurance Practitioner's Conclusion]**

[This section should include relevant and sufficient reasons for each matter resulting in a modification/qualification of the Conclusion.]

#### **[Findings and Recommendations]**

**The Engagement Controller may communicate other information, recommendations or explanations in this report to those charged with governance. If these matters are not included in this report, they must be communicated in the management letter.**

**(Further guidance is provided at ASAE 3000 para 86 and ASAE 3100 para 83 and 88 and ASA 265.)**

#### **Assurance Practitioner's Independence**

In conducting this audit I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The *Public Finance and Audit Act 1983* further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.

A T Whitfield

24/03/11

D1022887 Version 1.0

**INDEPENDENT ASSURANCE PRACTITIONER'S COMPLIANCE REVIEW REPORT**  
**[Name of Agency]**

Report on compliance with Premier's Memorandum M2006-11 'NSW Procurement Reforms'.

To the [Director General/ Chief Executive Officer] of [Head of Agency].

I have reviewed the compliance of [name of Agency] with the requirements specified in the Premier's Memorandum M2006-11 'NSW Procurement Reforms' and its key elements of e-procurement and e-tendering, for the period from 1 July 2009 to 30 June 2010. My conclusion is expressed on compliance with each of these elements.

### **Respective Responsibilities**

The [head of agency] of the [agency name] is responsible for compliance with the requirements of the NSW Procurement Reforms.

My responsibility is to express a conclusion on [agency name]'s compliance with the requirements of the NSW Procurement Reforms. My review has been conducted in accordance with applicable Standards on Assurance Engagements (ASAE 3100 'Compliance Engagements') to provide limited assurance that [agency name] has complied with the requirements of the NSW Procurement Reforms.

My procedures included:

- understanding the Premier's Memorandum M2006-11 'NSW Procurement Reforms' and the requirements of its key elements of e-procurement and e-tendering
- understanding key elements of the compliance program at [Name of Agency] to address the requirements of the NSW Procurement Reforms
- understanding key elements of the internal control framework at [Name of Agency] to address the requirements of the NSW Procurement Reforms
- sample testing a number of transactions for compliance with the requirements of the NSW Procurement Reforms.

These procedures have been undertaken to form a conclusion, that nothing has come to my attention that causes me to believe that [agency name] does not comply, in all material respects, with the NSW Procurement Reforms and the requirements of its key elements, e-procurement and e-tendering specified in Premier's Memorandum M2006-11 for the period from 1 July 2009 to 30 June 2010.

### **Use of Report**

This compliance review report was prepared for the [head of agency] of [agency]. I disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the [head of agency] of the [agency], or for any purpose other than that for which it was prepared.

### **Inherent Limitations**

The inherent limitations of any compliance procedure and [agency name] internal control framework mean it is possible that fraud, error or non-compliance with the requirements of the NSW Procurement Reforms and its key elements, e-procurement and e-tendering, may occur and not be detected. A review is not designed to detect all instances of non-compliance with requirements, as it generally comprises making enquiries, primarily of the responsible party, and applying analytical and other review procedures. The review conclusion expressed in this report has been formed on the above basis.

Projection of my evaluation to future periods is subject to the risk that requirements may change and/or the degree of compliance with them may deteriorate.

## Conclusion

Conclusions must address compliance with the NSW Procurement Reforms. This comprises both e-procurement and e-tendering requirements. Please choose from the options below after referring to the completed worksheets in D1041030 and D1041028.

### i. Conclusion on Compliance with e-procurement Requirements

Select the appropriate conclusion for e-procurement.

***[Unqualified for e-procurement]***

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe that [agency name] does not comply, in all material respects, with the requirements of the NSW Procurement Reform relating to e-procurement specified in Premier's Memorandum M2006-11 for the period from 1 July 2009 to 30 June 2010.

[OR]

***[Qualified for e-procurement]***

Based on my review, which is not an audit, except for the matter(s) noted in the paragraph(s) below, nothing has come to my attention that causes me to believe that [agency name] does not comply, in all material respects, with the requirements of the NSW Procurement Reform relating to e-procurement specified in Premier's Memorandum M2006-11 for the period from 1 July 2009 to 30 June 2010.

*[Insert a brief description of each non-compliance matter, sufficient for users of the report to understand the basis upon which the conclusion has been formed.]*

[OR]

***[Adverse for e-procurement]***

Based on my review, which is not an audit, matter(s) have come to my attention that cause me to believe that [agency name] did not comply, in material respects, with the requirements of the NSW Procurement Reform relating to e-procurement specified in Premier's Memorandum M2006-11 for the period from 1 July 2009 to 30 June 2010.

*[Insert a brief description of the matters which formed the basis for the adverse conclusion, sufficient for users of the report to understand the basis for that conclusion.]*

### ii. Conclusion on Compliance with e-tendering Requirements

Select the appropriate conclusion for e-tendering.

***[Unqualified for e-tendering]***

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe that [agency name] does not comply, in all material respects, with the requirements of the NSW Procurement Reform relating to e-tendering specified in Premier's Memorandum M2006-11 for the period from 1 July 2009 to 30 June 2010.

[OR]

***[Qualified for e-tendering]***

Based on my review, which is not an audit, except for the matter(s) noted in the paragraph(s) below, nothing has come to my attention that causes me to believe that [agency name] does

not comply, in all material respects, with the requirements of the NSW Procurement Reform relating to e-tendering specified in Premier's Memorandum M2006-11 for the period from 1 July 2009 to 30 June 2010.

*[Insert a brief description of each non-compliance matter, sufficient for users of the report to understand the basis upon which the conclusion has been formed.]*

**[Findings and Recommendations]**

The Engagement Controller may communicate other information, recommendations or explanations in this report to those charged with governance. If these matters are not included in this report, they must be communicated in the management letter.

(Further guidance is provided at ASAE 3000 para 86 and ASAE 3100 para 83 and 88 and ASA 265.)

**Assurance Practitioner's Independence**

In conducting this review the Audit Office has complied with the independence requirements of the Australian Auditing and Assurance Standards and other relevant ethical requirements. The *Public Finance and Audit Act 1983* further promotes independence by providing that only Parliament, and not the executive government, can remove an Auditor-General.

[Name]

Director, Financial Audit Services [*or relevant title*]

[Date]

SYDNEY

**INDEPENDENT AUDITOR'S REPORT****[Name of Service Organisation]**

To the *[management/those charged with governance]* of *[service organisation]*

I have conducted an assurance engagement to express an opinion on the accuracy of *[service organisation]*'s description of controls over the *[specify the shared services contracted or agreed by the service organisation]* provided to *[service organisation]*'s clients ('the controls'), and on the design, implementation and operating effectiveness of those controls in achieving the control objectives. A description of these controls has been prepared by management and is set out on pages *[page number]* to *[page number]* for the *[specify reporting period]*. This report covers only the controls of *[service organisation]* relevant to providing the agreed services and as described by management of *[service organisation]* as at *[date]*. Controls are policies and procedures designed to provide reasonable assurance about the achievement of the *[service organisation]*'s objectives in the provision of the agreed services by *[service organisation]*.

**Auditor's Opinion**

In my opinion, in all material respects:

- the controls over the provision of *[contracted or agreed services]* detailed on pages *[insert page number]* to *[insert page number]* by *[management/those charged with governance]* accurately describes the controls over *[contracted or agreed services]* which were in place throughout the *[year or other period]* to *[date]*
- the controls described were suitably designed to achieve the specified control objectives
- the controls were implemented
- the controls were operating effectively throughout the *[year or other period]* to *[date]*.

**Management's Responsibility**

*[Management/those charged with governance]* of *[service organisation]* are responsible for:

- providing the services covered by the description
- identifying controls objectives relevant to the provision of the agreed services, and financial reporting of clients to whom *[the agreed services]* are provided
- the design, implementation and operation of the controls at *[service organisation]* to provide reasonable assurance that the control objectives are achieved
- the description of the control objectives and allied controls and the assertions about the controls set out in the *[service organisation]* report.

**Auditor's Responsibility**

My responsibility is to form an independent opinion, based on the assurance work carried out in relation to the controls over *[service organisation]*'s *[contracted or agreed services]* carried out at *[the specified business units of]* *[service organisation]* *[located at [ ]]* as identified and described by management and report this to *[management/those charged with governance]* of *[service organisation]*.

I conducted my engagement in accordance with Auditing Standards, issued by the Auditing and Assurance Standards Board. My work was based upon obtaining an understanding of the controls described by management in pages [page number] to [page number] to obtain reasonable assurance so as to form my opinion. My work also included tests of controls, to obtain evidence about their effectiveness in meeting the related control objectives.

My tests are related to [service organisation]'s contracted or agreed services as a whole rather than performed to meet the needs of any particular client. The relative effectiveness and significance of controls over [contracted or agreed services] provided at [service organisation] and their effect on assessments of control risk at clients may be dependent on their interaction with the controls and other factors present at individual clients. I have performed no procedures to evaluate the effectiveness of controls at, or as they relate to, individual clients and no opinion is expressed on them.

#### Use of report

This report is made solely for the use of [management/those charged with governance] of [service organisation] and solely for the purpose of reporting on the controls of [service organisation], in accordance with the terms of my engagement letter dated [date].

My work has been undertaken so that I may report to [management/those charged with governance] those matters that I have agreed to state to them in this report and for no other purpose. My report must not be recited or referred to in whole or in part in any other document nor made available, copied or recited to any other party, in any circumstances, without my express prior written permission.

I permit the disclosure of this report, in full only, by [management/those charged with governance] at their discretion to the clients of [service organisation] using [service organisation]'s [agreed or contracted services], and to the auditors of such clients, to enable clients and their auditors to verify that an assurance report has been commissioned by the [management/those charged with governance] of [service organisation] and issued in connection with the controls of [service organisation], and without assuming or accepting any responsibility or liability to clients or their auditors on my part.

To the extent permitted by law, I do not accept or assume responsibility to anyone other than [management/those charged with governance] of [service organisation] as a body and [service organisation] for my work, for this report or for the conclusions I have formed.

#### Inherent limitations

A reasonable assurance engagement is not designed to detect all weaknesses in controls as it is not performed continuously throughout the period and the tests performed are on a sample basis.

Controls designed to address specified control objectives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Such controls cannot guarantee protection against (among other things) fraud or collusion especially on the part of those holding positions of authority or trust. Furthermore, our conclusion is based on historical information and any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my assurance opinion.

*[Auditor's Name]*

*[Title]*

*[Date of the auditor's report]*

SYDNEY



## South Australian Auditor-General's Department Controls Opinion

### Background

Section 36(1)(a) of the Public Finance and Audit Act requires the Auditor-General to prepare an annual report that states whether, in the Auditor-General's opinion :

- i. the Treasurer's statements reflect the financial transactions of the Treasurer as shown in the accounts and records of the Treasurer for the preceding financial year;
- ii. the financial statements of each public authority reflect the financial position of the authority at the end of the preceding financial year and the results of its operations and cash flows for that financial year;
- iii. the controls exercised by the Treasurer and public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law

This requirement is met through the inclusion in Part A of the Auditor-General's Report to parliament, a letter to the President of the Legislative Council and Speaker of the House of Assembly which includes the following statement:

#### **Auditor-General's Annual Report**

In accordance with subsection 36(1)(a) of the *Public Finance and Audit Act 1987*, and subject to comments made within this Report, I state that in my opinion:

- (i) the Treasurer's Statements reflect the financial transactions of the Treasurer as shown in the accounts and records of the Treasurer for the financial year ended 30 June 2010
- (ii) the financial statements of each public authority reflect the financial transactions of the authority as shown in the accounts and records of the authority
- (iii) the controls exercised by the Treasurer and public authorities in relation to the receipt, expenditure and investment of money; the acquisition and disposal of property; and the incurring of liabilities, are sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law.

Further information is included in the report as follows:

Whilst I have not seen fit to express a qualified opinion with respect to matters referred to in subsection 36(1)(a)(iii) above, there have been cases where in some agencies, systems of internal controls have not, in my opinion, been of an acceptable standard. Where this has occurred I have, in accordance with the provisions of subsection 36(1) of the *Public Finance and Audit Act 1987*, drawn attention to this fact and included comment on my reason(s) in the report on the agency concerned in Part B of this Report.

#### **Report and assessment of controls**

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit included an assessment of the controls exercised by the Treasurer and public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities and also, where applicable, whether the controls in operation were consistent with the Treasurer's Instructions with particular focus on TIs 2 and 28. The overall aim of that assessment was to establish whether those controls were sufficient to provide reasonable assurance that the financial transactions have been conducted properly and in accordance with the law.

It is not practical in any such assessment to review each and every control in respect of each and every transaction. Whilst every effort is made to test the sufficiency of controls across a representative range of transactions, it must be remembered that no system of control is 'fail-safe'.

The Parliament has recognised this in stating that the controls need only be sufficient to provide, at the time of audit, 'reasonable assurance' of the matters set out in subsection 36(1)(a)(iii).

The audit assessment has been made by reviewing the adequacy of procedures and testing a number of control components against a range of financial transactions conducted at various levels of the organisation.

In assessing the sufficiency of these controls, particular regard has been had to the organisation's structure, risk and the interrelation of policies, procedures, people, management's philosophy and operating style, demonstrated competence, and overall organisational ethics and culture. All of these matters serve as interrelated elements of control.

The standard by which Audit has judged the sufficiency of controls is whether and how well those controls provide reasonable assurance that financial transactions of the Treasurer and public authorities have been 'conducted properly and in accordance with law'. This concept requires the organisation to meet the standards of financial probity and propriety expected of a public authority and, at all times, discharge its responsibilities within the letter and spirit of the law, both in terms of its own charter and as an instrumentality of government discharging public functions.

Except for the matters detailed for each agency in Part B of my Report under the section 'Audit findings and comments', Audit formed the opinion that the controls exercised in relation to the receipt, expenditure and investment of money; the acquisition and disposal of property; and the incurring of liabilities were sufficient to provide reasonable assurance that the financial transactions were conducted properly and in accordance with the law. In respect of those matters where the controls exercised were not sufficient to provide that level of assurance, Audit has made recommendations as to where improvements are required.

The following is then included in the Audit Report text which precedes each set of financial statements:

#### **Audit authority**

##### ***Assessment of controls***

Subsection 36(1)(a)(iii) of the PFAA provides for the Auditor-General to assess the controls exercised by the {entity} in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether internal controls are consistent with the TIs with particular focus on TIs 2 and 28.

##### ***Assessment of controls***

In my opinion, the controls exercised by the {entity} in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters raised in relation to payroll reports and the implementation of TIs 2 and 28, as outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the {entity} have been conducted properly and in accordance with law.

## Summary of relevant information in relation to the application of ISAE 3000

This would constitute a direct engagement with reasonable assurance.

**Underlying subject matter:** The controls exercised by the entity in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

**Subject matter information/  
Conclusion:** The controls exercised by the entity in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the entity have been conducted properly and in accordance with law.

**Criteria used:** By virtue of the *Public Finance and Audit Act 1987*, the South Australian Department of Treasury and Finance issue Treasurer's Instructions which contain mandatory requirements for all public authorities.

The following are used as the relevant criteria:

- Compliance with Treasurer's Instruction 28 Financial Management Compliance Program (TI 28)
  - An effective FMCP should ensure:
    - compliance with applicable financial management legislation
    - compliance with sub-ordinate legislation and other mandatory requirements of the State
    - ensure responsibility for financial management compliance is allocated to appropriate senior officers
- Compliance with Treasurer's Instruction 2 Financial Management (TI 2)
- Compliance with various other key Treasurer's Instructions having financial management implications
- Compliance with other relevant legislation that relates to financial management

**Procedures undertaken:** Assessment of compliance with TI 28 (evaluate and perform audit procedures to confirm the adequacy of the entity's FMCP)

Where FMCP is not effective, assess compliance with Treasurer's Instruction 2 Financial Management (TI 2) and with various other key Treasurer's Instructions having financial management implications (assess the design, implantation and operating effectiveness of the controls in place to address these requirements.) Note some of these may be assessed in conjunction with performing the financial statements audit.

Assess compliance with provisions of legislation that relate to financial management (this involves testing the operating effectiveness of controls in place to ensure compliance with governing legislation and noting any evidence of non-compliance regarding provisions in other legislation that have a financial management impact.

Other engagements undertaken in the past by the South Australian Auditor-General could be captured by ISAE 3000:

AUDIT OF CONFIDENTIAL CONTRACTS

In South Australia, under s41A of the *Public Finance and Audit Act 1987*, the Auditor-General may be required to review a summary of a contract to which a confidentiality agreement is applicable. The Auditor-General must review the summary against the contract and determine the summary's adequacy.

This would constitute an attestation engagement with reasonable assurance.

Underlying subject matter:	the contract
Subject matter information:	the contract summary
Criteria used:	accuracy of the details included per the contract, the confidentiality agreement
Procedures undertaken:	Review the summary of the contract and determine whether:  -the summary contains substantial information as to the content of the contract to which they refer  -they are not misleading as to those contents in the form and context in which they are presented and  -the material that has been excluded as confidential appears fairly to have been characterised as such.

An example has been attached from the Report entitled: Report of the Auditor-General on summary of Pelican Point Power Station Project documents under section 41A of the Public Finance and Audit Act 1987 (November 2000).

AUDIT OF BUS CONTRACTS AND PROBITY OF PROCESSES

Report on the Auditor-General's Examination, Pursuant to Section 39 of the *Passenger Transport Act 1994*, of Certain Bus Contracts and the Probity of Processes Leading up to the Awarding of the Contracts.

Section 39.3(f) of the *Passenger Transport Act 1994*, contains the following requirement:

- (3f) The Auditor-General must, within the period of 4 months after the receipt of a service contract and report under subsection (3e)—

- (a) examine the contract; and
- (b) prepare a report on the probity of the processes leading up to the awarding of the contract.

This engagement is considered to be a reasonable assurance engagement which is direct.

Underlying subject matter: Contracts and tender process

Subject matter information: the same as the conclusion

Criteria used: A probity framework which reflects common law principles and concepts and the requirements of authoritative guidance provided by the State Supply Board and the Department of Transport and Urban Planning (these are outlined in more detail in section 1.3 of the report).

Provisions of the Request for Tender document.

Requirements of the Passenger Transport Act 1994

## The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Office issues a variety of reports to agencies and reports periodically to Parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament — Financial Audits.

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Government expenditure and transport planning in relation to implementing Barangaroo: Barangaroo Delivery Authority, Department of Transport, NSW Treasury.**

A handwritten signature in black ink that reads 'Peter Achterstraat'.

Peter Achterstraat  
Auditor-General  
June 2011

# Executive summary

2

NSW Auditor-General's Report  
Government Expenditure and  
Transport Planning in relation to  
Implementing Barangaroo

EXECUTIVE SUMMARY

## Background

### The audit's scope

Barangaroo is a high profile project attracting considerable public debate about the scale of development, its approval by government and proposed remediation of the site. This audit does not enter into that debate. The Auditor-General has a limited mandate and is not authorised to question the merits of government policy objectives, such as the scale and design of the development.

The audit examined two key issues that will contribute to Barangaroo's success: expenditure on the precinct's public domain being at no cost to government, and transport planning solutions for moving the significant number of additional CBD commuters. The audit was finalised early in the term of a new government. Their policies relating to Barangaroo are still being developed. The audit and its recommendations provide timely input to this process.

### A brief history of Barangaroo

Barangaroo is a major urban renewal project on 22 hectares of government owned prime harbour foreshore in Sydney CBD's western corridor. Construction is expected to span 12 years to 2023. The granting of 99 year development leasehold rights by government will provide a new commercial, retail and residential precinct in the CBD (Barangaroo South). Developer contributions are expected to provide for public domain and other government development costs. Half the site is public domain, including the six hectare Headland Park. The precinct, when completed, will service an anticipated 26,000 workers and residents and up to 33,000 visitors a day.

Following a 20 month competitive tender process, the Barangaroo Delivery Authority (the Authority) entered into a Project Development Agreement with Lend Lease in March 2010 to develop Barangaroo South. The Authority is responsible for managing this agreement and delivery of the public domain and infrastructure including transport connections adjoining Barangaroo.

The Concept Plan when first approved on 9 February 2007 represented the base case for gross floor area and public spaces within designated envelopes. It was then modified to allow more floor space in February 2009 and a new northern cove and enhanced naturalistic headland in November 2009. Larger floor area is likely to increase premises land value resulting in higher developer contributions.

On 16 December 2010, a fourth modification to the Concept Plan was approved by the Minister for Planning. This modification allowed construction of Lend Lease's preferred proposal for Barangaroo South including a hotel on a pier in Darling Harbour, more floor space (residential and commercial) and some increased building heights. Construction of the commercial area and the Headland Park is to commence in mid 2011.

### Government expenditure and transport planning

The Authority developed a 15 year financial forecast in December 2009 consistent with the base case proposal submitted by the successful proponent, Lend Lease. The forecast comprises estimated project revenues, including nominal dollar value contributions over 15 years from Lend Lease, and government expenditure of approximately \$1 billion each.

Significant additional pressure will be placed on the capacity and accessibility of the CBD's transport services by the Barangaroo precinct. This will especially be the case for the estimated 26,000 additional workers and residents requiring access to the precinct. It is anticipated that there will be 13,800 workers by September 2015, 20,900 by December 2020 and 22,700 by September 2023. The target is for 63 per cent of Barangaroo commuters to travel by train during the morning peak hour when demand is most concentrated.

## The audit's objective

The audit examined the effectiveness of budgeting for the public domain and infrastructure, and planning for transport infrastructure. In particular, it examined whether:

- the budget for government spending on the precinct was based on complete and well founded estimates of revenue and expenditure, and
- the planned transport infrastructure is adequate to move the significant numbers of people in and out of the precinct.

## Conclusion

The audit concluded that there has been extensive planning in support of the government financial forecast and transport solutions for Barangaroo.

The audit also concluded that there are three key risks that could limit Barangaroo's success:

- developer contributions to government being different to those forecast
- the cost of public domain constructed by government being greater than estimated
- planned, and necessary, transport solutions not started and completed on time by government.

If these risks can be managed effectively, Barangaroo's success is more readily assured.

## Supporting findings

### Is the budget for government spending on the precinct based on complete and well founded estimates of revenue and expenditure?

The December 2009 government budget forecast for the Barangaroo precinct included estimates of key revenue and expenditure items over the life of the project and was well documented. This provided a sound framework for the financial forecast.

However, there are inherent difficulties with forecasting 15 years ahead. These include complexities with estimation of revenue flows from the developer, variations to the Agreement and to the cost of constructing the public domain and Barangaroo Central. More recently, underlying the increases in developer contributions and enhancement of the public domain and infrastructure has been the increased scale of the project. This emphasises government's dependency on the commercial development being a success and providing the necessary funds to government for public facilities across half the precinct. There is also a risk that any delays or changes in one part of the project can cause delays elsewhere and result in variations to the financial forecast.

There is potential for significant variation in revenue as value sharing payments, a large portion of revenue, are based on the market value of the developer's commercial and residential buildings in eight to ten years time. Fixed payments will increase to the extent that the increase in gross floor area, approved in Modification 4, is taken up by Lend Lease.

Certain public domain and infrastructure estimates in the initial financial forecast have increased some \$38 million since December 2009. In addition, any variations to the Agreement may require compensating payments to or from Lend Lease.

The Authority took a conservative approach to compiling the 15 year financial forecast in December 2009. A midpoint in a range of revenue forecasts was taken. An unallocated contingency reserve was included in the financial forecast for cost overruns or, if underutilised, possible application to cultural facilities. We found that varying methods were applied to the calculation of contingencies for the individual projects making up the public domain. These allocated contingencies currently total \$78 million.



This approach produced a balanced budget of approximately \$1 billion over 15 years. This is in line with government policy that there should be no net cost to government. However, the forecast does not include all government costs relating to public domain and infrastructure. The Department of Transport is funding the balance of the Barangaroo Pedestrian Link (estimated \$186 million). Also, the forecast does not include the cost of proposed ferry wharves (estimated \$45 million) and the cost of fitting out the cultural space within the headland (amount yet to be finalised).

If contributions from Lend Lease are less than expected, or expenditure on public domain greater than estimated, construction of uncommitted works may need to be reduced and the public domain curtailed. If a surplus arises from increased revenue, government may decide to return it to consolidated revenue or invest it further in the Barangaroo precinct.

The Authority needs to revise its December 2009 financial forecast to incorporate updated cost plans and revenue modelling. An important time in the ongoing revision of the 15 year financial forecast is during 2014 and 2015 when construction across the precinct will be well advanced.

Some expenditure figures in this report are aggregated because their disclosure may provide potential tenderers with knowledge of the Authority's proposed budgets. Developer contributions to the Authority have not been disclosed as they could expose commercially sensitive information to the potential disadvantage of Lend Lease. As construction progresses, financial information will become less sensitive and can be released. The Audit Office however, had access to all relevant revenue and expenditure estimates underlying the 2009 financial forecast.

**Is the planned transport infrastructure adequate to move the significant numbers of people in and out of the precinct?**

The planning for transport and pedestrian initiatives for Barangaroo identified solutions to move the increasing number of commuters working in the precinct. To be adequate the planned solutions must be implemented on time to meet the needs of the increasing number of commuters working at Barangaroo.

Paramount amongst the initiatives for Barangaroo is increased capacity of, and access to, CBD rail services. They will need to move a predicted 3,900 Barangaroo commuters daily from December 2013, growing to 8,700 in September 2015, 13,100 in December 2020 and 14,300 in December 2023. The initiatives are part of larger CBD and metropolitan transport solutions and are outside the control of the Authority. The proposed City Relief/Western Express line was part of the forward funding program in the 10 year Metropolitan Transport Plan announced in February 2010 and was expected to be completed by 2018. The project includes two new platforms at Wynyard station. The pedestrian link between Barangaroo and Wynyard, also included in the 10 year funding program, will be used by the vast majority of rail and bus commuters. It is to be completed by early 2014 in time for the opening of Barangaroo's first office block.

Planning for Barangaroo included ambitious transport mode targets reliant on significantly lower car usage. The rail target for commuter trips to Barangaroo during the AM peak is 63 per cent. Currently, 50 per cent of commuters travel by rail to the CBD in the AM peak.

Many of the solutions for Barangaroo's transport needs have been part of transport planning for some time. However, changing transport priorities have sometimes meant that major transport initiatives have not gone ahead. An example of this was the abandonment of the Sydney Metro in early 2010. Any change in transport planning that affects Barangaroo will likely have an impact on its success.

## Recommendations

### 1. Enhance monitoring and reporting of the financial forecast and actively manage costs

As the project enters its construction stage, the Authority should improve its systems to enhance the rigour and monitoring of the project's financial forecast to ensure value for money and a potential surplus for government. This should include a rolling update of the financial forecast and more regular reporting to Treasury (page 18).

### 2. Disclosure of financial forecast figures

The Authority should continue to ensure ongoing disclosure of financial information currently withheld for commercial reasons. This will enable the Authority to continue to comply with the provisions of the *Government Information (Public Access) Act 2009* (page 13).

### 3. Greater consistency of project costing for major and high risk projects

NSW Treasury should consider the wider application across the public sector of the P90 approach to calculating the cost of major and high risk construction projects. The P90 allowance is included in the project base cost and provides a 90 per cent chance that the forecast project cost will not be exceeded. In the case of these projects, a contingency can be added for uncertainties in the design, planning and delivery stages, which is revised during the procurement process (page 19).

### 4. Focus on implementing planned transport initiatives

Co-ordinated action is required to ensure that transport plans are put in place in time to meet the needs of Barangaroo commuters. The Department of Transport needs to provide full and frank advice to Government on the implications of any delay or change of plan (page 23).

### 5. Full advice on the impact of changing transport priorities

The Department of Transport's advice on how changing transport priorities may affect Barangaroo should include an assessment of options in terms of risks and consequences, including potential financial and economic impacts of decisions (page 25).

See Appendix 1 for a timeline of key events in Barangaroo's development.

## Appendix 4: About the Audit

### Audit objective

The audit examined the effectiveness of budgeting for the public domain and infrastructure, and planning for transport infrastructure. In particular, it examined whether:

- the budget for government spending on the precinct was based on complete and well founded estimates of revenue and expenditure
- the planned transport infrastructure is adequate to move the significant number of people in and out of the precinct.

### Audit scope

The audit's examination of the implementation of the Barangaroo project only examined the project's concept planning and procurement processes to the extent that they have influenced budget forecasting and transport planning activities. The Auditor-General has a limited mandate and is not authorised to question the merits of government policy objectives, such as the scale and design of the development.

### Audit criteria

In reaching our conclusion against the audit objective, we used the following audit criteria to judge performance. Criteria were designed around models based on agency responsibilities, standards on auditing estimates, principles of policy implementation and project management. They were discussed and agreed with the agencies.

Budget forecasts:

- Are estimates of developer contributions soundly based?
- Are estimates of public domain and infrastructure costs soundly based?
- Will developer contributions cover public domain and infrastructure construction and other related government development costs?
- Are estimates of BDA operating and financing costs soundly based?
- Does the budget include contingencies that are clearly identified and estimated?
- Are future precinct maintenance costs clearly identified and included in the budget?

Transport planning:

- Is there a comprehensive plan for getting people in and out of the precinct?
- Does planning provide effective solutions for the movement of an increasing number of people over the life of the project?
- Is there effective co-ordination between the relevant agencies and relevant stakeholders to plan and implement transport initiatives?

### Audit methodology and approach

Our performance audit methodology is designed to satisfy Australian Assurance Standard ASAE 3500 on performance auditing, including related quality control procedures. Our processes have also been designed to comply with the auditing requirements specified in the Public Finance and Audit Act 1983.

The audit collected evidence by:

- conducting discussions with agency staff and stakeholders
- reviewing relevant documents on the project and its implementation
- analysing performance against criteria
- consulting with agencies on the results of analysis.

The audit's conclusions are based on findings made against audit criteria. The audit's findings are based on evidence appropriate and sufficient to provide a reasonable level of assurance. To form the audit's conclusion the findings are evaluated both individually and in aggregate. The greater, or more material, the variation the more likely the performance is outside accepted tolerances and will result in modified audit conclusions. Guiding judgement is the extent to which the performance gaps (findings) impact on Parliament's decisions or expectations about the economy, efficiency and effectiveness of activities and, if relevant, the discharge of accountability for the activities by public officials.

Potential performance gaps identified in our planning indicated how variations from criteria, and their materiality, would be judged. These included:

- dollar variations relating to –
  - current estimates of public domain and infrastructure costs, such as remediation and Cruise Passenger Terminal costs differing from how they are recorded in the budget
  - increases in costs and scale of public domain and infrastructure giving rise to questions of value for money or financial prudence and whether savings could have been passed on to government
  - developer contributions to fund the public domain and infrastructure being more or less than estimated.
- gaps in planning due to –
  - components of plans not being co-ordinated, making them incomplete
  - supporting infrastructure not likely to be completed on time
  - analysis lacking, making plans inaccurate
  - agencies or stakeholders not participating in planning
  - uncertainties following changes in government transport policies
  - lack of commitment to infrastructure in forward estimates.

#### **Audit selection**

We use a strategic approach to selecting performance audits. This balances our performance audit program to reflect issues of interest to Parliament and the public of New South Wales. Details of our approach to selecting topics and our forward program are available on our website.

#### **Acknowledgements**

We gratefully acknowledge the co-operation and assistance provided by the Barangaroo Delivery Authority, the Department of Transport, NSW Treasury and the Department of Planning. In particular we wish to thank our liaison officers and officials who participated in discussions, provided documentation and appraised the audit's papers and reports.

#### **Audit team**

Our team leader for the performance audit was Chris Bowdler, who was assisted by Lucy Stedman. Sean Crumlin provided direction and quality assurance.

#### **Audit cost**

Including staff costs, printing costs and overheads, the estimated cost of the audit is \$216,000.

# Performance auditing

## What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of Government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

## Why do we conduct performance audits?

Performance audits provide independent assurance to Parliament and the public that government funds are being spent efficiently, economically or effectively and in accordance with the law.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from Parliamentarians, the public, agencies and Audit Office research.

## What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant Minister and the Treasurer are also provided with a copy of the final report. The report tabled in Parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

## Do we check to see if recommendations have been implemented?

Following the tabling of the report in Parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the Parliamentary website.

## Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice. We are also subject to independent audits of our quality management system to maintain certification under ISO 9001.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every three years. The review's report is tabled in Parliament and available on its website.

## Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

## Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au) or contact us on 9275 7100.