

Auditing

Frequently asked questions



What is auditing and why is it required to be performed?

The general definition of auditing is that it is an activity undertaken over individuals, organisation, systems, processes (and a wide variety of other subjects) to achieve defined objectives. This involves performing procedures (called audit procedures) necessary to achieve the objectives for which an audit is initiated. Such audit procedures may include interviews, investigation, observation, inspection and examination of relevant information and documents.

Under the Development Act 1993 (the Act), councils are generally the relevant authority for assessing development applications for approval. However, the legislation authorises private certifiers to exercise certain functions of a relevant authority in relation to the granting of building rules consents and development plan consents (for residential code development). These are important and critical public functions which can impact public health and safety and, as such, are required to be conducted with utmost professional care.

Given the critical nature of these functions, there is a need for some form of assurance that these functions are being carried out appropriately. It is within this context that building rules assessment audits and development plan assessment audits (residential code development) are required to be undertaken, as legislated under the Act.

Building rules assessment audit

Section 56B of the Act, legislated in 2008, provides the legal basis for auditing the building rules assessment function carried out by private certifiers and councils. On 1 July 2012, the regulation amendments enabling auditing to commence came into effect.

Under section 56B (3), the purposes of the audit are to:

- “check whether the processes and procedures have been undertaken in accordance with the requirements of this Act;
- to the extent the auditor thinks it is appropriate to do so, check technical aspects of assessments against provisions of the Building Rules;
- report, if appropriate, on any other aspect of the work of council or private certifiers prescribed by the Regulations.”

While the prime focus is clearly on processes and procedures, provision is made for a check of technical aspects where the auditor considers it to be appropriate. Such detailed checks (called a substantive test of details in auditing terminology) are part of standard audit practice and are often performed when there is insufficient information to satisfy the auditor that relevant requirements (eg regulatory requirements) are met. The Minister’s Guide to Auditing for Building Surveyors provides samples when technical checks may be initiated.

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Accordingly, the auditing function has been developed based on recognised Audit Standards to meet statutory obligations. These standards include those issued by the Institute of Internal Auditors and the Standard on Assurance Engagements (ASAE) 3100 Compliance Engagements by the Australian Government's Auditing and Assurance Standards Board.

Development plan assessment audits (Residential Code)

Section 56C of the Act (Development Plan Assessment Audits) was legislated on 4 April 2013. The regulation amendments enabling auditing to commence came into effect on the same date. The Audit Standards adopted for building rules assessment audits will also apply to development plan assessment audits. At this stage, audit of residential code development plan assessments are yet to commence. More information about this will be communicated in the future.

Why use recognised audit standards

The building rules assessment and development plan assessment audits are a statutory audit function legislated under the Act. Regulatory audits are performed following Audit Standards. As a statutory audit function, the result becomes "Official" and may be subject to scrutiny. To ensure that audits are properly undertaken, the audit function must have an Audit Framework that establishes the scope, approach and the audit process (among other things). Accordingly the Audit Framework is set up based on the principles of relevant Audit Standards.

The counterpart function of the building rules assessment audit in Victoria was audited by the Victorian Auditor – General in December 2011, who had made the following comment:

"The commission's performance audit program has not provided adequate scrutiny over the effectiveness of building surveyors' work. Audits are not risk-based, targeted or sufficiently informed by rigorous analysis of reliable data on the performance of building surveyors".

By undertaking audits properly in accordance with the relevant Audit Standards, such findings from any third party (including the South Australian Auditor-General) can be avoided. The Auditor-General's report in Victoria forms a useful and instructive reference for conducting audit programs in the area of building rules assessments.

What are recognised audit standards

The primary focus of an audit (for both building rules assessments and residential code development plan assessments) is on reviewing the system of processes and procedures of private certifiers and councils to ensure compliance with the Act.

Within the broad field of Auditing, review of business processes fall under the realm of 'Internal Auditing' whereby the relevant Audit Standards are the International Standards for the Professional Practice of Internal Auditing (ISPPA). These standards are adopted by the Institute of Internal Auditors Australia for compliance by Internal Audit practitioners. One of the specialisations of Internal Auditors is evaluating processes and procedures for compliance with applicable laws and regulations. In addition to the ISPPA, the conduct of audits will also apply, where appropriate, the relevant principles of the ASAE 3100 Compliance Engagements.

It is to be noted that there are no audit standards specific to the conduct of building rules assessment or development plan assessment audits per se. Like many other operations or functions that may be subject to audits, audit practitioners adopt the most suitable audit standards to achieve the intended objectives.

The Audit Standards adopted for building rules assessment audits (also to be applied for development plan assessment audits) provide a reasonable and sound basis for achieving the purposes of such audits in accordance with Sections 56B (3) and 56C (3) of the Act.

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What is the high level audit process?

1. Private certifiers/councils will be contacted to agree the timing of the audit.
2. An Audit Planning Memorandum will be sent that will include the approach, the scope and the timing of the audit.
3. Fieldwork/fact gathering process will be undertaken. This will involve interviews, discussions, review of sample documents and other information relevant to the scope of the audit. Any audit issue identified will be validated.
4. Draft report will be prepared and sent for review and response by private certifiers/councils. This provides the opportunity for private certifiers/councils to correct any error of fact. The report will include issues identified and any related recommendations. Action plans to address issues will also be requested from private certifiers/councils.
5. Final report will be issued.
6. Any issue that is of significant contravention or failure to comply with the requirements of the Act (within the scope of the audit) will be referred to the Registration Authority/Minister.

How does the Department of Planning, Transport and Infrastructure ensure compliance with the audit standards

The Audit Framework has been developed in accordance with the principles of the ISPPA. In addition, controls have been embedded in the audit process to ensure the quality of the audit. There is an audit feedback form sent after each completed audit where private certifiers and councils can evaluate the audit process based on their experience with the audit. The form allows private certifiers and councils to provide their feedback. Feedbacks are taken on board to improve relevant aspects of the audit.

The Audit Framework requires a regular review of the status of audits undertaken every six months. Any issues and lessons learnt will be discussed and taken on board for improving the overall audit process.

One of the quality assurance features included in the Audit Framework is an independent review (including the overall audit process). This review is to be performed by the Audit and Governance unit of DPTI. Audit and Governance is an independent Internal Audit functional unit which conducts the evaluation of Corporate Governance processes, internal controls, risk assessment and management practices. They are experts in applying Audit Standards to diverse functions and will be used as independent experts to verify that the Audit Framework is managed within acceptable auditing standards.

These provide some comfort that audits undertaken will not attract criticism similar to that provided by the Victorian Auditor-General in 2011.

Audits are evidence-based

Audits are mainly focused on the objective assessment of evidence. It is imperative that there is sufficient documentation available to demonstrate the appropriateness of the processes established leading to the granting of building rules consents and residential code development plan consents.

Further, the auditor is also required to obtain sufficient evidence (to the extent practicable) to form a conclusion on the matter being audited. The extent of the information required is based on the auditor's professional judgment. This principle is not dissimilar for planners or building surveyors requesting additional information from applicants until they are satisfied with the sufficiency and appropriateness of the documented information submitted in support of a development application.

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What triggers a technical check?

The Minister's Guide to Auditing for Building Surveyors explains the circumstances where a technical check may be triggered. These are consistent with the requirements of Section 56B of the Act, which leaves it to the auditor to determine when a technical check is appropriate in the circumstances and to ensure that technical checks are undertaken in accordance with the legislative provisions.

Who undertakes technical checks?

Technical checks will be conducted by a Level 1 Building Surveyor. The process for a compliance audit will be as per Section 56B (3)(a) of the Act and will be conducted by the appointed building assessment auditor, who will decide when a technical check is appropriate under the circumstances and then refer the assessment being audited to a building surveyor for review. This arrangement provides for a technical check to be undertaken separately from the person who initiated it. It also ensures that technical checks are undertaken by appropriately qualified people who will report their findings to the auditor.

What happens if a person being audited disagrees with the findings of a technical check or the interpretation of a technical matter?

A person being audited must be given the opportunity to provide a response on any of the findings contained in a draft audit report before the report is finalised by the auditor. Any such response should include a written explanation of their interpretation of the technical requirement/s and any supporting information or advice that has been relied upon (e.g. from the ABCB Information Seminars or from independent technical experts).

Any submissions made will be considered and further technical advice may be sought by the auditor before the audit report is finalised.

What can I expect at the end of the audit?

There will be a report that identifies any compliance issues and areas within your business processes and procedures, where improvements can be made to manage the risks of non-compliance with the Act and the Development Regulations 2008. The report has provision for private certifiers/councils' action plans to address the improvement areas identified.

What are the issue ratings in an audit report?

In order that audit issues can be prioritised for rectification, they are rated according to the severity of their potential consequences.

Section 56B (11) of the Act refers to 'significant' issues being referred to the Minister as a requirement. A 'significant' rating represents the highest issue rating. As per the Minister's Guide to Auditing for Building Surveyors, these issues include those that pose a threat to public health or safety, represent gross misconduct or negligence in the conduct of work.

As occurred during the pilot audit period, the Department will continue to provide regular updates of issues that have been identified during building rules assessment audits (Summary of Findings).

These updates will be made publicly available for the benefit of the industry and will include the nature/theme of the issues identified and their related ratings. Specific circumstances and details of audit findings will not be disclosed if such disclosure would breach the confidentiality requirements of legislation.

What natural justice provisions are there in the legislation?

There are natural justice provisions embedded within the legislation and in the audit process. Firstly, section 56B (10) of the Act requires the auditor to provide the draft audit report to the council or private certifier being audited to correct any error of fact prior to the finalisation of the report.

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In addition to that review process, if a 'significant' contravention or failure to comply with the Act is reported to the Minister by the auditor, section 56B (14) of the Act requires the Minister to give the council or private certifier the opportunity to make a submission in relation to the matter before considering what action (if any) to take. When the Minister has decided on a proposed course of action the council or private certifier will be given a reasonable opportunity to make a further submission on that proposed course of action before the matter is finalised. It should be noted that this process is separate and independent of the audit process itself.

The audit process and the role of the auditor ends upon finalisation of the audit report and any further action (if any) will be handled by people who have not been involved in the audit itself.

Will there be further reviews of the audit process?

Feedback from relevant councils or private certifiers who have been audited is a key feature of the audit process. This is part of an ongoing continuous improvement program for the audit function, which is also subjected to independent reviews by the Department's Audit and Compliance Unit.

How does auditing fit with the Select Committee recommendations?

The current auditing requirements in Section 56B of the Act were first inserted into the Act in 2005 and commenced in 2007, two years prior to the Select Committee recommendations.

The Select Committee made a number of recommendations, of which the most significant recommendation relates to the expansion of registration of private certification to include structural engineers and council building surveyors.

The Select Committee regarded the implementation of auditing as an urgent matter and did not tie it to their other recommendations.

The other recommendations of the Select Committee are required to go through the normal legislative process before they can be implemented.

Related information

Development Act 1993:

<http://www.legislation.sa.gov.au>

Minister's Guide to Auditing for Building Surveyors

<https://www.sa.gov.au/topics/housing-property-and-land/building-and-development/building-and-development-applications/development-applications/audits>

Institute of Internal Auditors Australia website:

<http://www.iaa.org.au/>

Auditing and Assurance Standards Board:

<http://www.auasb.gov.au/Pronouncements/Standard-s-on-Assurance-Engagements.aspx>

Victorian Auditor-General's report on Victoria's Building Commission including its Performance Audit Program:

http://www.audit.vic.gov.au/reports_and_publications/latest_reports/2011-12/20111207-building-permits.aspx

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