



FINANCE AND ADMINISTRATION COMMITTEE

Members present:

Mr SW Davies MP (Chair)
Mrs EA Cunningham MP
Dr B Flegg MP
Mr R Gulley MP
Mrs FK Ostapovitch MP
Mr CW Pitt MP
Mr MA Stewart MP

Staff present:

Ms D Jeffrey (Research Director)
Dr M Lilith (Principal Research Officer)
Ms L Whelan (Executive Assistant)

PUBLIC HEARING—INQUIRY INTO THE LEGISLATIVE ARRANGEMENTS ASSURING THE AUDITOR-GENERAL'S INDEPENDENCE

TRANSCRIPT OF PROCEEDINGS

WEDNESDAY, 12 FEBRUARY 2014

Brisbane

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Committee met at 9.32 am

CHAIR: Good morning, ladies and gentlemen. I declare this public hearing of the Finance and Administration Committee inquiry into the legislative arrangements assuring the Auditor-General's independence open. My name is Steve Davies, I am the chair of the committee and the member for Capalaba. The other members of the committee are: Mr Curtis Pitt MP, deputy chair and member for Mulgrave; Mrs Liz Cunningham MP, member for Gladstone; Dr Bruce Flegg MP, member for Moggill; Mr Reg Gulley MP, member for Murrumba; Mrs Freya Ostapovitch MP, member for Stretton; and Mr Mark Stewart MP, member for Sunnybank.

The purpose of this hearing is to receive further information from stakeholders in order to examine the practical implications of the issues raised in response to the committee's inquiry into the legislative arrangements assuring the Auditor-General's independence. We are running this hearing as a round table forum to facilitate discussion. However, only members of the committee can put questions to witnesses. If you wish to raise issues for discussion, I ask you to direct your comments through me. This hearing is a formal proceeding of the parliament and is subject to the Legislative Assembly's standing rules and orders. The committee will not require evidence to be given under oath, but I do remind you that intentionally misleading the committee is a serious offence.

I thank you for your attendance here today. The committee appreciates your assistance. You have previously been given a copy of the instructions for witnesses, so I will take those as read. Hansard will be recording the proceedings and then you will be provided with a transcript. The hearing is also being broadcast. In order to assist Hansard, could witnesses please state their name and the agency they are representing when they speak? I also remind witnesses to speak into the microphones. As you can see, there is a shortage of microphones so you will probably have to move them around.

I remind all those in attendance at the hearing today that the proceedings are similar to the parliament to the extent that the public cannot participate in proceedings. In this regard, I remind members of the public that under the standing orders the public may be admitted or excluded from the hearing at the discretion of the committee. I also request that mobile phones be turned off or switched to silent. I remind you that no calls are to be taken inside the hearing room.

I now invite the representatives here to make a three- to five-minute opening statement. I will start with the Auditor-General. I think that is appropriate.

BOOTH, Mr Michael, Assistant Auditor-General, Queensland Audit Office

CLOSE, Mr Anthony, Deputy Auditor-General, Queensland Audit Office

GRAY, Mr Mark, Under Treasurer, Queensland Treasury and Trade

GRAYSON, Mr Jon, Director-General, Department of the Premier and Cabinet

GREAVES, Mr Andrew, Auditor-General, Queensland Audit Office

HOURIGAN, Mr David, Deputy Director-General, Policy, Department of the Premier and Cabinet

McKAY, Mr Peter, Deputy Commissioner, Workforce Reform, Public Service Commission

MOLLOY, Mr Dennis, Assistant Under Treasurer, Queensland Treasury and Trade

REED, Mr David, Director, Policy and Legislation, Public Service Commission

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Mr Greaves: Thank you very much. There are two equal and important parts to a well performing audit function that acts in concert with the overall system of government to provide balance: having the audit mandate to provide value to the parliament and having the independence to utilise it effectively. With the introduction of the Auditor-General Act 2009 and amendments subsequent to that, Queensland now has a modern, external audit mandate that reflects better practice, both in Australia and internationally. This is supported by the results of the 2013 survey of the Australian and New Zealand legislation commissioned by the Victorian Auditor-General's Office, which measured our legislation against the eight principles of independence identified by the International Organisation of Supreme Audit Institutions, referred to as INTOSAI. This survey saw Queensland's overall independence ranking rise from eighth out of 10 in 2009 to fourth in 2013. That increase in ranking was based predominantly on improvements to our mandate, for example, the inclusion of performance audit, 'follow the dollar' and collaborative audit powers. However, if it is the desire of this parliament to achieve full functional independence for the Auditor-General and through this to build a world-class Queensland Audit Office, then the survey results highlight two key areas of independence of the Auditor-General that require further consideration: first, strengthening the relationship between the Auditor-General and the parliament.

While the Auditor-General is often referred to as an officer of the parliament, this is not recognised in the present audit legislation, unlike other independent officers such as the Ombudsman. This would be a strong symbolic step reinforcing the special relationship between the external auditor and the parliament. However, such recognition in the legislation needs to go beyond mere symbolism. Some substantive elements of good practice already exist such as the provision of my reports to the parliament—to the Speaker for tabling rather than to the executive. However, there are some anomalies as well such as the provision of my annual report to the Premier for tabling, the selection of the position of Auditor-General being controlled by the executive and the setting of terms of reference for the strategic review of my office also by the executive. This dichotomy reflects on the deeper issue of the differential treatment in my act between the oversight of the exercise of my audit mandate by this committee and the parliament on the one hand and the control over my resources by the executive on the other hand.

This takes us to the second issue that requires consideration: achieving appropriate financial and managerial or administrative autonomy for managing the Queensland Audit Office. Having a modern audit mandate counts for little if you do not also have the requisite authority to discharge it as you see fit. Independence becomes more a matter of form rather than substance if, on the one hand, as set out in my act I and my staff cannot be directed in the discharge of my mandate over the executive government while, on the other hand, the executive can constrain the resources I require to do this competently. The fee-setting and approval arrangements under section 56 of the Auditor-General Act are one aspect which could be used to constrain the resources I require.

My mandate is grounded in auditing standards, which I am rightly compelled to follow. It is these auditing standards that determine the resources that need to be applied to my audits. If I do not have the resources as required by these standards, I would be professionally negligent if I then provided an audit opinion. In my submission I am seeking greater resource autonomy from the executive. In doing so, however, I fully understand and appreciate the fact that I am a monopoly provider and I am acutely aware of the responsibility this places on me to demonstrate that the QAO is fully efficient and effective. I might say we are already required to demonstrate this at least every five years through the strategic review process.

In this last important respect because we use public funds, the safeguards, checks and balances that apply to all other public sector entities should apply also to us. However, the key difference and perhaps the defining principle in this matter is that our resource accountability should be, as is the case with our audit mandate, directly to the parliament and not to the executive government. This can be achieved by further strengthening the oversight role of this committee to include a more active and direct review of our budget and to make recommendations to the executive about the level of resources we require. Enhancing the current legislative arrangements in these areas would better match the Auditor-General's independence with a modern mandate now provided for in the legislation. Together, they would maximise the effectiveness of the role and enable the Auditor-General to deliver the level of assurance and accountability expected by the parliament and the people of Queensland.

CHAIR: I would like to open the floor to the Department of the Premier and Cabinet. Jon Grayson, if you would like to go first.

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Mr Grayson: Thank you very much for giving me this opportunity. It is an important issue. We certainly respect the role of an independent audit function in a well-functioning democracy. It is a critical issue. I would like to touch on a few points which I think have been outlined in the Premier's response but draw out a couple of issues under the three headings, or the three terms of reference, in the letter you provided to me. The first term of reference relates to the effectiveness of section 56, which is about the ability of the QAO to charge fees, those fees being subject to the approval of the Treasurer. The Under Treasurer will address this aspect in more detail. So I do not propose to do that except to make a few summary points.

Firstly, I would like to acknowledge that the Auditor-General made a contribution to the fiscal repair task in 2012-13 where he did not seek an increase in fees. Nevertheless, whilst the QAO provides a very important function, as I mentioned at the beginning, there are many demands on the state budget: health, education and other community outcomes. It is, therefore, appropriate that those competing demands are subject to a budget process.

As to the adequacy of funding, I just make a couple of high level observations. One is that the cumulative increase in fees over the past four years has exceeded the level of inflation. Secondly—and I think very importantly—the total level of funding to the QAO is about the same or greater than New South Wales or Victoria, which of course have significantly larger populations and budgets. Lastly, I would note that in terms of setting fees, Queensland is not unique in this respect. Both New South Wales and South Australia require similar ministerial or government approval processes.

Turning to the second term of reference, I am confident that the current legislation adequately enshrines independence and accountability. I think the Auditor-General has already referred to section 8 of the act that ensures he is not subject to direction, for example. Then in 2009 the amendments to the legislation further enhanced the independence of the Auditor-General. But with independence comes accountability and I note that there are some effective mechanisms in the legislation for that. For example, there is parliamentary scrutiny and oversight of the QAO budget through the estimates process and there are a range of mechanisms that are designed to ensure accountability to Queensland. There is the three-year audit plan of performance audits, reports on auditing standards and strategic reviews to be carried out every five years. The last one, of course, was in 2010 and I understand there will be another one in 2015. I think those accountability measures are reasonable and do not compromise the independence of the QAO.

In summary on this second term of reference, I note that the Institute of Internal Auditors Australia considered the Queensland legislative framework in their submission to this committee and stated that 'the current legislation is comparable to the world's better legislation' and that 'it is a good, workable act.' That is the legislative framework.

Mr Chairman, the last thing you asked me for comment on was how Queensland compares to arrangements in New Zealand and other Australian jurisdictions. In this respect, I think the Queensland arrangements, or the QAO, compare pretty well against those other jurisdictions. In the Premier's written response to the committee, it was noted that legislative provisions in the ACT, the Australian government and New Zealand are very similar in the way that they explicitly articulate the independence of the Auditor-General. Other jurisdictions rely more on an implied independence.

I would refer to, as the Auditor-General has, the study that was commissioned by the Victorian Auditor-General. It is a very recent study—2013. It was a survey of all Australian jurisdictions and New Zealand, assessing the independence of those auditors-general. It assessed that independence against eight criteria which were set by the International Organisation of Supreme Audit Institutions. As the Auditor-General has noted, Queensland has stacked up pretty well in that, ranking fourth, but that is a significant improvement in that ranking since 2009.

The other thing I would note is that the Auditor-General made a distinction between the mandate and independence. My reading of the overall assessment in this report—and I am looking at page 2, which refers to overall independence scores; it is an assessment of the independence—shows Queensland coming in at No. 4 out of all of the Australian and New Zealand jurisdictions. So, Mr Chairman, they are my opening comments. I am happy to discuss this further later.

CHAIR: Thank you, Mr Grayson. I would like to open it up to Queensland Treasury and Trade and Mr Gray.

Mr Gray: Thank you very much for the opportunity to appear before the committee to address this inquiry into the independence of the Auditor-General. Just reinforcing the points made by the director-general, Jon Grayson, we very much support the independence and role of the Auditor-General and believe that that is a very critical part of our system of government. So Queensland Treasury and Trade supports the role of the Auditor-General and the oversight he

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provides on behalf of the parliament and the public. Our department has contributed input into the submission made by the Premier and prepared by the director-general's department, so I will not address any issues relating to the administration of the Auditor-General Act as these have been covered by Jon Grayson. I will, rather, make some brief comments about some of the budget and funding issues.

Some of the submissions to this inquiry have suggested that the parliament should be approving the QAO's funding and budget. I think the Auditor-General in his comments talked about greater resource autonomy. The current arrangements provide for the basic rates of fees for the QAO to be approved by the Treasurer. This is an important step, particularly in the current environment of fiscal restraint, to ensure that fees are reasonable across the sector and to ensure that there is no unreasonable burden placed on agencies.

There have also been some concerns raised regarding the fee arrangements for the QAO. For example, at least one of the submissions suggested that there is anecdotal evidence that the QAO's audit fees are too high, and I refer to page 2 of the Institute of Internal Auditors submission. Similar comment was made in the 2010 report on the strategic review of the QAO, and I refer to pages 60 and 61. Moreover, the QAO's 2012-13 annual report concedes that the average cost of audits remains higher than that of other audit jurisdictions. We also note that a joint project has been commissioned by the ACAG, the Australasian Council of Auditors-General, to benchmark fees across the jurisdictions. We understand that expected implementation was by 31 December 2013. We have not yet seen the report but would be interested in seeing the results of that exercise. So there is a fair bit of information there around the level of fees.

Whilst there have been no increases to the basic rate of fees charged by the Audit Office in the last two financial years, prior to this there were actual significant increases in fees—in 2009, 10.8 per cent increase in fees; in 2010, 5.8 per cent increase in fees; in 2011, 3.9 per cent increase in fees. So over the period 2008-09 to 2012-13, the basic rate of fees increased by over 13 per cent. Over the same period, Brisbane's CPI increased by 10.3 per cent. Across the general government sector, actual expenses in 2012-13 were only 0.2 per cent higher than in 2011-12. This was the lowest actual rate of growth in expenses since 1998-99—the lowest rate since accrual budgeting and accrual accounting was introduced—and contrast with average expenses growth of 8.9 per cent in the decade to 2011-12.

Given the current fiscal restraints, all public sector entities have been responsible for contributing to the reduction in expenses growth. Specifically all agencies have been required to review their internal business systems and processes and to review their expenses to limit expenditure growth and the QAO has not been treated differently. The QAO should not be immune from the fiscal repair task and the need for ongoing fiscal discipline. There is an opportunity for the QAO, like every other department, to put its case to the Cabinet Budget Review Committee and to the Treasurer and to identify efficiencies in their operations and savings as part of their budget process.

I note also that the 2010 strategic review recommended that annual adjustments to the basic rate of audit fees determined by the Treasurer should be based on an assessment of wages, salaries and other costs relevant to the operations of the QAO—so basically cost recovery—but, interestingly, should also take into account productivity and/or efficiency considerations, especially those relevant to the funding of core government departments. I will just repeat that: productivity and/or efficiency considerations, especially those relevant to the funding of core government departments. The second point is an adjustment factor to reflect market movements in audit fees generally—so a market conditions adjustment factor as well. So it is based on not only basic, flat, straight cost recovery but productivity issues and general market conditions as well.

Mr Chairman, in relation to the broader issue of the QAO budget, I note that the Treasurer must consult with this parliamentary committee in developing the proposed budget for the Audit Office. There is also an opportunity, as Jon said, during the estimates process for wider parliamentary scrutiny of the QAO's budget.

In summary, Treasury believes that the current fee and funding arrangements for the QAO remain appropriate and, importantly, strike the right balance between independence and accountability. I should say independence is not really a one-way street here. Any proposals for increased independence should be accompanied by increased accountability, and perhaps we can talk a bit more about that later on during the discussion.

Just on that point, the final report of the independent Commission of Audit was fundamentally about examining ways in which the quality and quantity of services can be improved, including models that make better use of the skills capacity and innovation of the private sector. Many of Brisbane

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recommendations in the final report relate to contestability—a process whereby government tests the market to ensure it is providing the best possible solution at the best possible price. The 2010 strategic review of the Queensland Audit Office outlined possible approaches to contestability of the QAO's audit functions. Given the government's response to the Commission of Audit recommendations, perhaps now is the time to reassess some of the possible approaches to ensure greater accountability and value for money in the delivery of the audit functions of the Audit Office.

Mr Chairman, thank you again for the opportunity to speak with the committee on these issues. I am happy to take questions when the time comes.

CHAIR: Thank you, Mr Gray. I would now like to open it up to the Public Service Commission and Mr McKay.

Mr McKay: Thank you, Chair. The Queensland Audit Office's submission to this committee previously indicated that the application of the Public Service employment framework affects the perception of its independence. The Public Service Commission is responsible for the employment framework for the Public Service. That framework is set out largely in the Public Service Act and in directives that are issued in accordance with that act. Those cover employment arrangements and some employment conditions.

For the benefit of the committee, I will provide a brief overview of the employment arrangements for QAO staff. Other than the Auditor-General, the staff of the QAO are employed under the Public Service Act. The QAO is a Public Service office under the Public Service Act and the act applies to the QAO as if the QAO were a department. The act applies to QAO employees as if they were Public Service officers. Directives made under the Public Service Act apply to QAO staff, and the Auditor-General is treated as a director-general for the purpose of making decisions under the Public Service Act and under directives.

The Public Service Act contains sections dealing with matters such as the appointment of staff, criminal history checking, personal conduct principles, discipline, suspension, retirement on medical grounds, and the powers and functions of chief executives in relation to staff. Those arrangements would need to be replicated in the Auditor-General Act if the QAO were to be placed outside the Public Service Act.

Nothing in the Public Service Act or the directives allows the PSC, or in fact anyone in government, to direct the Auditor-General or the staff of the Queensland Audit Office in the way in which they perform their duties. Senior executive service numbers in the Queensland Audit Office are set by Governor in Council. The Public Service Commission has no control over the number of senior executive service equivalents employed under section 122 of the Public Service Act provided the remuneration is at senior executive service level 4 or less. The Queensland Audit Office employs staff under this arrangement. The Public Service Commission has no control over the number of other staff that are employed by the Queensland Audit Office.

Having said that, the Public Service Commission is the workforce adviser to the Queensland government. So the inclusion of the Queensland Audit Office within the employment framework of the Public Service Act and directives provides access to a series of benefits that might not otherwise be available if they were engaged outside that. In that respect, the Public Service Commission acts in an advisory and support arrangement, making available expertise in areas such as leadership development, workforce planning, industrial relations and employment advice to those Public Service departments and officers covered by the employment framework.

Looking to the future, the Commission of Audit dealt with a number of matters relating to the public sector employment framework. Recommendation 128 provided that the Public Service Act be amended to incorporate core employment conditions for all persons employed in the Queensland Public Service. Recommendation 129 provided that all other employing legislation for specific groups or categories of Public Service employees be amended to remove core employment conditions which are to be covered in a proposed new Public Service Act, with only specific qualification and occupational issues to remain within other pieces of legislation. The Commission of Audit report identified that benefits would be derived from having common employment legislation and a simplified employment framework that would reduce complexity and duplication.

The Public Service Commission is responsible for implementation of those recommendations of the Commission of Audit. We are currently examining what the framework of the Public Service employment legislation should be into the future, so what should the Public Service Act look like in its next iteration? Coupled with that, we are currently examining therefore which agencies and which employees should have their core employment conditions included in the Public Service Act.

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No decisions have been made about the future application of the act. The Public Service Commission has started consultation with agencies about what might be included in the act and the way in which that framework might apply to Public Service departments and officers. Thank you.

CHAIR: Thank you, Mr McKay. My question is for the Auditor-General. By way of introduction, could the Auditor-General please explain to the committee how public sector auditing differs from private sector auditing?

Mr Greaves: In many respects it does not differ. We apply the auditing standards that apply to the private sector and we undertake audits of financial statements that the private sector also undertakes in relation to financial statements prepared by private sector companies. I guess the key difference is if you look at my mandate first of all there is a performance audit mandate, which does not exist in the private sector, which goes to the efficiency, effectiveness and economy of public services. In the financial statement audit mandate, as we articulate in our auditing standards, given that we are dealing here with public moneys, the standards of probity and propriety, the standards of accountability and the expectations around the expenditure and protection and safeguarding of those moneys are fundamentally different to those in the private sector and therefore within our financial audit mandate and our performance audit mandate and more broadly we have regard to matters of probity and propriety. To give you a practical example of what I mean, if a private sector organisation decides they are going to refit their toilets and they want to gold plate their taps, that is their call. If somebody in the public sector decided they were going to have gold plated taps and spent public moneys on putting gold plated taps into a public sector toilet, that would be a matter for the Auditor-General to consider in relation to this important area of probity and propriety of expenditure. That is a key differential and defining factor in separating out the role of a public sector auditor from a private sector auditor.

What I typically find is that, because we in fact outsource—and if I refer to the Under Treasurer's comment about contestability from the Commission of Audit—we have been living contestability for decades. Auditors-general, including the Queensland Audit Office, outsource a third of our work, so we actually lived the contestability mantra way ahead of the Commission of Audit. In terms of contestability, we also benchmark ourselves against the private sector and against other jurisdictions. Why I am saying that is because when we actually engage private sector auditors we spend a fair bit of time educating them in the differences between the public sector and private sector audit. They typically take a much narrower view of what their role and responsibility is in terms of forming an opinion on a set of financial statements, and that is one of the factors why their audit fees may in fact be different to our audit fees. We are not actually comparing them on a like-for-like basis.

CHAIR: Thank you.

Mrs CUNNINGHAM: I listened to all of the opening statements and I note that the Auditor-General believes that there are still matters to be addressed to ensure the reality and perception of independence. The Public Service Commission, Queensland Treasury and Trade and Department of the Premier and Cabinet each said that there is sufficient autonomy now. Given that my experience is that independence or autonomy can be easily impacted politically, what problems are there in fracturing completely that link to the executive so that QAO only reports to parliament and is funded directly by parliament and not in any of the issues by the executive? What are the problems, because each of you said it is fine the way it is but there are still those intrinsic links that it would be better that they were broken? So why don't any of you want that to occur?

Mr Grayson: Mr Chairman, maybe if I just make an observation and then I will ask the Under Treasurer to comment. While ever the Auditor-General is funded from the Consolidated Fund—whether directly or indirectly, and it is indirectly in this case or for most of his functions—there does need to be trade-offs, as I said, between the various competing demands, and there are significant competing demands on the Consolidated Fund. At some point there needs to be a call on whether we increase Health expenditure or whether we increase the amount of money going to audit or other functions, and what do we reduce? So at some point, whether that is at the executive level or at the parliament level, that needs to be made. I presume that when you say whether the parliament should be making that call then it would be for parliament to decide how much of the allocated resources it has should be going to the audit function, but at some point then there has to be a consideration of how much is allocated to that larger bucket going to parliament.

Mr Gray: Mr Chairman, if I could just add to that, I think what Jon has identified is what is in fact the core fundamental economic problem—that is, wants are unlimited and resources are limited. So there is always a resource allocation issue and that resource allocation issue is better considered in the context of the overall budget than separated out and treated as a distinct budget

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item or distinct budget process. What I said in my opening comments was that it is very important that the Auditor-General's budget is considered in the context of that broader budget setting process. I suppose with respect to this committee and the parliament, I suspect the Treasurer is better placed than both this committee and the parliament to make those judgements about resource priorities in the budget and the impact on agencies of the costs of the audit function. I said before that independence is not a one-way street. In terms of the Auditor-General seeking greater independence, in principle I do not have a problem with that. I think there is a need to go with that some increased accountability.

The Auditor-General did say in response to your first question that he has been doing contestability for a long, long time. I would beg to differ on that. He is actually doing outsourcing, but he is controlling that outsourcing. He is not actually making the service contestable. For example, I have no choice as to my auditor. I am told by the Auditor-General whether it is him or it is a contract auditor, but that process is actually controlled by him. True contestability will allow me to choose whether I choose the Auditor-General or a contract auditor. So that would be the true test of accountability of what his fee levels should be, and not only fee levels—not only the price—but also the quality of service. I am not in a position to make that judgement at the moment. Increased independence would require increased accountability. That increased accountability can be achieved through actually testing the price in the marketplace through a contestable process. This is what I would suggest is the only other way of doing that that would be rigorous and objective and independent. As the Auditor-General said, he is a monopoly provider. He sets a monopoly price. He has effectively got a captive market. It is effectively a regulated product. So basically the other course of action would be to have someone like the Queensland Competition Authority, which adjudicates on monopoly prices, to set the fees for the Auditor-General.

CHAIR: Andrew, would you like to respond?

Mr Greaves: Thanks very much, Chair. There are a number of points I would like to respond to there. We talk about contestability, and we need to be clear. Sturgess would talk about the credible threat of contestability in the public sector context rather than the pure, let's use the *Yellow Pages* test. Of course, that argument disregards all the benefits from having the Auditor-General have oversight of the public sector. We gain extra leverage from accessing all public sector agencies every year and what we can then do with that information is put it in the reports we provide to the parliament given that it is the parliament that holds the executive to account and we are here to actually report information to the parliament. So let us set aside the benefits but let us just focus on the costs.

A number of points have been made. The first was that we are a monopoly provider and that there is a risk that we will run riot and we will charge excessive fees, and the fiscal repair task has been mentioned a couple of times. I am fairly pragmatic. I like to have reality checks every now and then. The total cost of my organisation is 0.1 per cent of the total spend of the state—one-10th of one per cent of the spend of the state. So my ability to contribute to the fiscal repair task is fairly minimal. If I could put that in more prosaic terms, I think every Queensland—man, woman and child—pays about \$30 a day for the Public Service in Queensland. My contribution to that \$30 a day is 3c. So I cost every man, woman and child in Queensland 3c a day. So to have principled debates about the need for regulatory oversight, we have to have regard to the practicalities here. My audit fees that I charge—not the ones that I outsource to the private sector but the ones that I control—are about \$22 million a year. That will turn out to be 0.05 per cent of state expenditure. But even having said that, even taking into account the practicalities, I do not mind having regulatory oversight. The idea of independent regulatory oversight I think is important. The fact that the Treasurer is my regulator at the moment seems to be, given the size of my organisation, a very large sledgehammer to crack a very small nut. But the principle that is espoused under the INTOSAI principles is this: would you want your price regulator to be the person that you are auditing? Should they be your price regulator? So I would advocate for an independent regulatory oversight.

What we are advocating for in our submission is that the independent regulatory oversight is best done by the parliament, and the Institute of Internal Auditors's response has been mentioned on a couple of occasions. Firstly, in terms of the comment that the Institute of Internal Auditors said that anecdotally my fees are regarded as too high, I can tell you that we measure that and the current satisfaction rating with my fees is now at 55 index points—higher than it has ever been. The dissatisfaction rating is 15 IP. We report that type of information in our annual report and that type of information is available to the strategic reviewer. We have recently surveyed chairs of audit

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committees, because audit committees are very concerned about the resources that are applied in financial audits because they want to make sure they are getting a quality, value for money financial audit. Not one chair of an audit committee that we surveyed had a concern with our fees.

So the facts of the matter are in fact that fees are not a problem in that sense and so we are not talking about whether or not our fees are excessive. What we are trying to argue here is that a principle around independence is that you should be autonomous from the people you are auditing. We are looking for resource autonomy, but we still acknowledge, as I said in my opening remarks, that there is a need for oversight. We think there is a perfect mechanism that already exists for oversight; it is called the strategic review. The strategic review can come into my organisation at least every five years—you could do a strategic review every year if you wished—and you could examine all of my operations or you could examine my audit fees and my prices. As I said, we outsource a third of our work, so we actually know what rates we charge. We publish our rates on the web. The private sector firms do not publish their hourly rates. I know because we see their submissions and our hourly rates are way below the hourly rates of the big four in the second-tier firms. We know that so we benchmark there, and that information would be available to the strategic reviewer.

So there is a whole range of practical considerations. But ignoring the practical and the fact here that we are talking about less than one-10th of one per cent of the state's expenditure and from the concept of a red-tape reduction excessive regulation point of view, you might argue in fact that it is a little bit excessive. Forget the fact that we are actually focusing in section 56 on approving an input cost rate, not an output price, so the whole operation of section 56 is a bit of an anachronism because it actually focuses on my input cost. Budgeting and budget management reform around Australia and internationally moved away from an input focus to an output focus years ago. The focus should be on my output price—the average fee per financial audit. We do track that. We do benchmark that. That would be the test in the market and we understand that, from our perspective, we are very competitive in the context of the price we charge for our financial audit in the Queensland context.

CHAIR: Thank you.

Mr PITT: I had a series of questions written down and the exchange we have had so far has actually answered some of those in part. If I do go over old territory, that is the reason why. Just going back to the Under Treasurer and talking about the true contestability approach, hearing that we have had one-third of work from the Auditor-General's office outsourced—and you have made the comment that that is not a true contestability model, it is only outsourcing because you do not get to choose who is used—is not there a question of the Auditor-General, in fulfilling his role independently, having some say over which firms are used to ensure independence?

Mr Gray: Sure, absolutely. I agree entirely and, in fact, part of that process is that the Auditor-General at the moment, in terms of contract auditors, prequalifies those. There is a panel of prequalification so you just cannot go out—and I was not suggesting that I could go out—and commission Joe Bloggs down the street to do the audit for my department.

Mr PITT: What do you mean about true contestability in the sense that true contestability, by my measure, would mean that you go out and do the *Yellow Pages* approach as was mentioned earlier? I am just trying to find out exactly where you are coming from.

Mr Gray: In many respects, it is only one step further down the track than occurs at the moment. But it is that issue of putting the choice in the hands of the purchaser, not in the hands of the provider as it is at the moment. As I say, at the moment the Auditor-General chooses whether he or his officers audit the Treasury Department or whether it is done by a contract auditor. He prequalifies that panel of contract auditors. What I am suggesting is that that choice should lie in the hands of agencies as to whether to use the Audit Office or the prequalified panel of auditors that he has approved as meeting the required standards of public sector auditing.

Mr PITT: Again, I ask the question: does not that come back to the independence of the role? Today we have heard a lot of principled arguments about where does independence lie and that versus accountability. Maybe this is a question to yourself and then also to the Auditor-General. Power versus responsibility: if the Auditor-General is willing to have the buck stop with him in terms of that, would not that preclude there being a need for the sort of example that you have put forward today?

Mr Gray: I am just suggesting in terms of the debate on how fees are set—and as I said during my opening comment, I am very happy with the way fees are set at the moment; we think it works very well. Despite the fact that there has been some controversy over whether the level of

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fees is too high or not, we think the arrangements do work well. But if we are in a debate around increased independence, then it was in that context that I was suggesting that maybe increased accountability is desirable as well. Ultimately, the true test of whether fees are set too high or not revolves around testing that price in the marketplace. We can have strategic reviews, we can have regulators, we can have parliament do it, we can have anyone else do it, but in fact the only true test of whether the price is competitive or not is the test of the marketplace. In respect of audit services, there is a very competitive market and there are contract auditors doing a lot of the work for the Auditor-General. So there is no question that the quality of work can be undertaken by external auditors, but at the moment agencies do have some concerns that they are captive to a price over which they have no control.

Mr PITT: I have a follow up on that: from the Auditor-General's perspective, and he may wish to respond—sorry to jump ahead—we have heard that some of the prices that may be charged by some of the prequalified auditors are in excess of what the Audit Office itself would be charging. Based on some of the earlier discussions around fiscal repair, there is almost an argument to suggest that more work should be being done by the Auditor-General's office if those fees are less than going down that outsourcing model further, if what you said earlier about having that focus being on the fiscal repair task is the qualifier.

Mr Gray: Two things: firstly, the rack rates, the prices that are set, may be higher or lower; I do not know. But at the end of the day the task is a function of not only price but also volume. So I am not quite sure where the price-volume equation ends up. I am not necessarily saying that a contract auditor is always going to be lower priced. A contestable market and a choice of auditor give you that choice; it gives you that ability to assess what the price is. If their price is better, that is fine. I am very happy, if that is fine. If that is the outcome, I do not have a problem with that. Contestability is a process of discovering the right price; it is not a predetermined outcome.

CHAIR: Andrew?

Mr Greaves: Just quickly, if I could respond. I think we want to be clear and distinguish two levels of contestability. The first would have it that public sector agencies self-determine who their auditor is. That would be the purest model of contestability. I am not mandated to be their auditor. They can go out and do their own tendering process. Of course, that creates administrative issues in terms of them having to do their own tendering process. It creates practical issues, because most of the firms in Queensland would be conflicted with most of their clients because they are doing huge consultancy work and they would have to manage these conflicts of interest. I know ASIC recently commented on the fact that it is concerned that the audit fees are getting a bit low and they are starting to get a bit nervous about the quality of the audit, so having a very strong contestable competitive marketplace is not necessarily a great thing when you are looking at audit quality. I am setting aside the pure model of contestability, because that is not the current model here. That would be a policy matter for government, which I would not comment on.

The model that we have here is the Auditor-General is the auditor and then the second level of contestability is that, well, I pre-approve auditors, so my client should be able to say they want me or one of my pre-approved auditors. Sorry: I am the auditor, they are my agents, I sign the audit opinion, the buck stops with me. Therefore, I will determine, while I am responsible, who does the audit of that agency. It is not something I would compromise on at that level of contestability.

CHAIR: Dr Flegg?

Dr FLEGG: For me, there are two givens. I think the first given is that, whilst in almost all circumstances I would be a person who favoured contestability, I do not think you can have agencies contesting and choosing their own auditor. I think that should be a given. Every disaster you see in the private sector is a result of a cosy relationship with an auditor, and do not start me on that because there are so many that we would be here all day. The second given is that where you have a monopoly public sector provider, they cannot set their own fees. I start from the point that you cannot vary from those. It is a little bit similar, I guess, to funding for the CMC where, at least in theory, if someone was not doing the right thing they could reduce their chances of being detected by starving the agency of the resources they need to investigate it. There is obviously a big increase in workload if you are doing performance auditing, which I think most of us here—I look over at Curtis—but probably all of us would think is probably a good idea that we are doing performance auditing. I guess the question then would be, how do you set those fees? I wrote down a few things, which were pretty consistent with what everyone else said. One is contestability but not in the traditional model where the customer agency chooses their auditor. The other one is benchmarking where the resources are benchmarked against some independent benchmark, albeit whether it is a private sector benchmark or what happens in other public jurisdictions. Another possibility, of
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course, would be linking it to a cost index, which you did not like. The other one is for another agency to set it, which could be the Queensland Competition Authority, it could be a committee of the parliament or whatever. I guess I am saying if your autonomy is increased, then which of those things do we look at?

Mr Greaves: If I come back to the independence principles, the argument is in fact that the Auditor-General should be determining the fees, particularly in relation to the operation of the act as it presently stands, at least determining the hourly charge-out rates. So the hourly charge-out rates are simply a product of my costs divided by the audit hours that my auditors produce. I have reduced my costs over the last three years, but I have reduced the hours that are applied to the audits, so we have actually had significant efficiency improvements. But I have reduced the hours at a faster rate than I can reduce my costs, because I have fixed overheads and in a transitional sense if I have to move people on I have to pay them out, so I cannot bring my costs down as fast as I can bring my hours down. Mathematically, that means my hourly rate goes up. That is just a mathematical consequence of the two. That is how it is constructed. By asking for an increase in an hourly rate last year, I also said that I am not going to increase my fees; in fact, I am going to continue to reduce my fees. I have reduced them now by \$3.3 million over the last three years. There is no contradiction in asking for an increase in an hourly rate, but my point is the hourly rate is the wrong thing to focus on. It is the wrong lever. It creates perverse incentives. Because I did not get my hourly rate increase last year, I am now forecasting a deficit. The simple way for me to avoid a deficit would be to ask my staff to go and spend more time on the job—anathema to efficiency and productivity. It opens the system to gaming, if I was so minded as an auditor-general.

First of all, the point to make is I think the hourly rate and the approval by the Treasurer of my hourly rate, which I must use in setting the fee, is the wrong lever to be focusing on. But I take your point: yes, there should be regulatory oversight of the price of my service, the output cost of my service. We simply come back to the principle that it creates an inherent conflict of interest if it is the executive who I audit who is then determining the price of my service. The point you make is well made: if they wish to, they could constrain my audit effort. For example, this year there has been an agreement that because my staff are bound by the Public Service Act, I will pay my staff more money. I was not consulted on that; that was a decision of government. But I have to absorb that now because I have not got an increase in my hourly rate. So there are real practical consequences here.

The other point I made about this was that in coming up with the cost of my office and the resources I need to apply for it, I am bound by the auditing standards. So I am fundamentally different from other organisations. I have to comply with the auditing standards. The auditing standards specify the nature, level, quality, skill and experience of the resources I must apply to do my job. There is this external reference point. I am bound to follow those. I have Queensland auditor-general auditing standards which adopt the Australian auditing standards.

Dr FLEGG: So you are suggesting that, rather than use the hourly rate as the lever, I think you called it, you should be looking at the global budget for the office?

Mr Greaves: Exactly, the total fee budget. Each year I have forecast lower fees based on lower costs. Even though I am only one-tenth of one per cent of the state expenditure, in fact I have contributed to the fiscal repair task and will continue to do that within my limited resources and capacity. Of course, if I had greater autonomy over my finances and if I had greater autonomy over my staff, I could probably contribute more to the fiscal repair task. To give you an example, my staff at the AO7 level are very important in my organisation. They are my audit managers, what I call my light audit managers. They work on the less complex. But because I have to pay them for their hours worked, if they work excessive hours I have to give them time off in lieu, unlike my executive; if they work excessive hours, they work excessive hours and I do not have to give them time off in lieu. I am bound to give my staff this time off in lieu. I could actually employ fewer AO7s if they were not subject to that particular term and condition of employment. I do not have the flexibility to manage my resources. Of course, I am competing, effectively, with the private sector for the resources. On the one hand, I have one hand tied behind my back: contestability, the private sector is out there, they are very competitive—

Dr FLEGG: Andrew, can I just ask you to clarify that? You are saying that your establishment, how many people you have at different levels, is not under your control?

Mr Greaves: No. The number is, but if I could change the way that I employed them and the terms and conditions of their employment, I could achieve some more efficiencies, if I had control, under my legislation, of my staff to that extent and was not bound by a public service determination or an award.

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Mr Close: To be clear, we are constrained by the classification system that occurs. From an auditing professional standard, the audit manager is at a level that we expect more outcomes focus based on traditional auditing. The classification that gets through the JEMs process that occurs at the PSA means that we are constrained around those flex times and TOIL.

CHAIR: I understand there have been a number of strategic reviews around that. I think it is probably worthwhile getting the Public Service Commission to talk about the relationship with this.

Mr McKay: If I could comment on a couple of things? One relates to the Auditor-General's comments around the 2.2 per cent wage increase. That was an administrative payment approved by the Premier. The Queensland Audit Office has chosen over some period of time to be a party to a multiparty certified agreement known as the core agreement and a 2.2 per cent payment had been proposed under that core agreement for some period of months before the Premier made that announcement. In advising agencies that choose to be part of that multiemployer agreement there is advice to those departments about what the government's intention is. So that 2.2 per cent wage increase was likely to have come at some stage through the agreement.

CHAIR: One of the things that I think that the Auditor-General has talked about is actually moving out of the Public Service and making his employees actually employees of the Auditor-General itself. What are your views on that?

Mr McKay: I suppose I make a couple of comments there: there are some flexibilities inherent within the employment framework that I mentioned earlier which is around the use of contracts under section 122 of the Public Service Act to remunerate people differently. There are schemes that have been developed in other agencies that have faced competitive market pressures. Crown Law, for example, introduced, in the mid-2000s, a scheme to pay senior lawyers higher rates of pay linked to productivity increases and to step outside of the constraints of the classification structure that applied to them. The Office of the Director of Public Prosecutions I understand had similar arrangements, as did the Transport and Main Roads department in respect of their engineers, particularly engineers in regional parts of Queensland. So, there is the capacity to step outside of those arrangements and currently the Auditor-General does use section 122 contracts as part of the suite of employment arrangements.

The other comment I would make is, as the Auditor-General mentioned, a third of their audits are conducted by people other than employees of the office so the ability to manage the resource constraints is affected by the ability to use private sector providers to deliver in some instances. Regardless of what happens to the employment framework, you need to have an evaluation system that evaluates what your jobs are. So whether it is the JEMS evaluation which is jointly built by Queensland government and Mercer, whether it is JEMS, whether it is Mercer's own product, whether it is a product from Hay's or one of the other providers, you will have a classification structure that places some constraints around the work you do by classifying those ranks. You will be subject to wages pressures from employees who are seeking higher wages or improved conditions. That does not change by moving from one employment framework to another. It might change the nature of that, but it does not remove those pressures completely.

CHAIR: Would you like to make a short statement in relation to that? We are running out of time and we do have some more questions.

Mr Greaves: Very short, I think I will just come back to the principle that what we are concerned about in the proposals that are currently under consideration is that effectively the employer or the employer's representative could, if my staff are considered to be part of this general public service pool, actually take staff off me or could tell me to take staff on. I do not know how far that deliberation has gone yet and I would certainly not welcome that prospect and I think the simplest way to avoid that is not have my staff subject to the Public Service Act and to allow me to set the terms and conditions of their employment equivalent to, as I said, the organisations I compete most with. I think about 40 to 60 per cent of auditors who have left my organisation in the last few years, maybe it is even higher, have left to go onto better pay and better conditions in the private sector.

CHAIR: Would you see any legal impediments at all to the Queensland Audit Office having their own arrangements for their staff?

Mr McKay: In terms of the use of the existing framework within the Public Service Act?

CHAIR: Yes.

Mr McKay: No. There are processes that need to be gone through to establish schemes using section 122 of the act, but there is no constraint on the ability to do that other than the constraints that are inherent in meeting business need.

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Mr GULLEY: Can I compliment the conversation between Andrew Greaves and Peter McKay on that tension of resource management. I acknowledge that your most significant cost is your staff. The exploration of how best to structure your audit office is certainly key to the conversation today. That was the question that I was going to ask, but it has already been answered for me. One thing I would like to explore is that tension with familiarity of your client base, but also that overfamiliarity with your client base. Coming from a corporate accounting background, turnover of managers and partners in accounting firms always gave us that fresh set of eyes coming through. How do you as an audit office ensure that you have always got a fresh pair of eyes but get the benefit of your corporate knowledge?

Mr Greaves: The standards that apply to the private sector we try to emulate. The expectation is, although there are debates at the moment about how long the rotation period should be, at least every five years. They are talking now about seven years, potentially 10 years you should change the audit partner. It is not clear whether or not it should be the audit partner or the audit firm so there is a little bit of grey in this rotation expectation to overcome this issue of familiarity. We have a policy within our organisation that you cannot be an engagement leader, which is the equivalent of a partner, on a particular client for more than five years, so we actively manage the rotation of people through, and at the manager level we actually set it at three years and at the senior level we set it at two years. We are trying to balance continuity of knowledge and reap the benefits of someone knowing the business with this independence threat from familiarity. We actively manage and monitor that particular independence threat, as we do all the other conflicts of interest that they may have.

Mr GULLEY: Secondly, do you view yourself as a service provider or a service facilitator when it comes to audit?

Mr Greaves: I am definitely a service provider under the act, the way it works and the way we talk about the services we produce. I am funded by the parliament to the tune of about \$6.5 million a year to provide services to the parliament for the parliament, and they are my reports and the advice and assistance I give to committees. And I charge my financial statement audit clients for the financial audit service that I provide to them. So I am definitely a service provider.

Mr PITT: This has been a very useful public hearing in the sense that I think we have covered a lot of issues. There are some other issues regarding independence I wanted to get to but just quickly, there was some correspondence between the Auditor-General, the Treasurer's office, as well as this committee, that really looked at the potential impacts of the functional independence of the audit office. I think it is important that we are having this discussion. Have there been any specific examples, and obviously I am referring to where the funding issue has been paramount or resourcing, where performance of your office has suffered or where you think there has been any suggestion of the squeeze being put on?

Mr Greaves: The way I would answer that, first of all, is let me make it quite clear we are not casting any aspersions about the current government or their attitudes or approach to the Auditor-General and that is not the point of the submission, it is the principle and the fact that it could be used in the future. So I will make it quite clear right now there are no examples where we have had a squeeze put on in the financial audit sense. We have very robust debates and discussions with all our financial audit clients about our audit fee and the audit chairs look at it very closely and we give them a lot of information about how it is constructed and, as I said, the feedback we are now getting from our clients is that they are fairly happy with the fees. There is still work to be done there. From that perspective no concerns. When I wrote the submission I indicated that I needed to increase my hourly rate. I have now forecast a deficit for this year. How I am trying to manage that is I am on a program of trying to smooth my financial audit work and bring work forward from next year to this year and I think we will be successful this year. I did indicate in my letter to the committee that I could handle this for another year by doing things like smoothing my work, but that is a one-off thing. I am not going to charge extra fees, I am just going to charge the fees this year that I would have charged into next year because I have done the work earlier. I get one chance at doing that and that is how I have been able to manage not having my fee rate increased, but next year, once we go through and we now do our budget submission, if we now look at our structures and cost, I will have to then revisit this hourly rate.

The other side of my mandate, which is performance audit, there was a point made earlier how long is a piece of string. Of course there are wants and needs and of course I would want a huge performance audit mandate. We actually went ahead and did this review of the right of private practice on an initial understanding we were going to get some budget supplementation which was not approved when requested so we absorbed the cost of the right of private practice audit which

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ran to about \$1.5 million in total. The only observation I would make about the right of private practice audit is that at the moment we know that the state is at least \$10 million better off each year because of the audit that we did. When we do the final accounting on this, because we are going to track it very carefully, both in terms of the increased revenue that the state is getting from the health system and the reduced cost, we think it is going to be in the order of tens of millions.

Mr PITT: That was a question I was trying to get at as a follow-up. I wanted to find out what cost benefit analysis has been done and what that cumulative effect is of the current status of the audit office being independent and where future relationship more geared to the parliament would land you in terms of cost savings. We have heard a lot about fiscal repair and priorities in terms of the overall consolidated fund. What does that mean and how much are you contributing? Are you punching well above your weight?

Mr Greaves: We would argue that at least off the back of one audit—and I know a swallow does not a summer make, and I am not going to hang my hat on that for the rest of my term—that audit alone has funded this organisation into perpetuity. From its parliamentary appropriation it has probably covered the cost of my organisation in terms of my financial audit. So there is actually a net benefit to the state from the audit function rather than a net cost to the state from the audit function off the back of one performance audit. So that demonstrates the benefit and the value that the parliament can get from a strong, independent Auditor-General who has command of his resources, both financial and human.

CHAIR: Thank you very much. We are coming to the end of our time. I think that it is appropriate that as we started with a statement that we finish with a statement from each of the directors and under-treasurers. We started with you, Mr Grayson, so how about we finish and we will leave Andrew with the last word.

Mr Grayson: Thank you, Mr Chairman. This certainly has been an interesting discussion for me. I think what it is saying is that it is not a simple matter of should fees be increased or not or who should have oversight of those fees. There are consequences, there are lots of other implications, lots of other pieces to the puzzle that would need to be looked at if we changed one aspect. I would have to say from my department's point of view I am very happy to sit down with my colleagues in Treasury and, in fact, with the Auditor-General to look at alternative models, but I guess the point I would leave with the committee is that we cannot just focus on one aspect, it would need to be a much larger review.

The second point I would like to finish up with is that whatever the challenges of the current arrangement, the independent assessments, the quantitative assessments, suggest that the current arrangements are ensuring that the Queensland Auditor-General's independence is guaranteed by the legislation but his funding would appear to be very adequate.

CHAIR: Mr Gray?

Mr Gray: Thank you, Mr Chairman. I endorse the comments that this has been a very valuable debate and has raised some interesting issues. I would like to reiterate John's point that this needs to be seen in a holistic context, it is not just a matter of pursuing independence of its own volition. It is really important to strike the right balance between independence and accountability. In my opening comments I said I thought we were striking the right balance there now. If we are to pursue greater independence then I think we need to pursue greater accountability and I have given you my comments on that.

I reiterate that I think that the most effective way at the end of the day is through a market mechanism rather than through regulatory mechanisms which, for all their good intentions, can at times be imperfect as well.

In respect of the issue of potentially getting bad outcomes from contract auditors, which I think Dr Flegg raised, that is, in fact, possible now under the contract auditing procedures. In fact, the only change I am suggesting is that the choice be in the hands of the purchaser not, in fact, in the hands of the provider, as it currently is.

Beyond that, I think it has been a very productive discussion. I applaud the Auditor-General on his contribution to the fiscal repair task. He has made significant efficiency savings and improvements. His figure of \$10 million a year or more into perpetuity I will take that gladly, thank you very much. That is something that we are seeking across all agencies in government—to make those sorts of productivity improvements. I think that message is getting through loud and clear and that is occurring. That is helping to reduce the pressure on our budgets. So I applaud his work there.

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I am very happy to sit down and look at the cost-benefit analyses that I think Mr Pitt was talking about. I am very happy to do that in the context of the budget deliberations and to look at the value that the Auditor-General is adding in that respect. Thank you very much.

Mr McKay: Just briefly, I think I started with the proposition that the employment framework set out under the Public Service Act in no way impedes the independence of the operation of the Queensland Audit Office but, like most Public Service offices and departments, there is much that can be done to improve the way in which the framework is applied to get better business outcomes and we are happy to continue to work with the QAO to do that.

CHAIR: Thank you very much. Just briefly, Mr Greaves?

Mr Greaves: I will try to be brief. I welcome the opportunity for this hearing for this inquiry. It is something that I have been thinking about since I took up the role of Auditor-General. The point I made at the beginning was that I was very pleased to become the Queensland Auditor-General because of the modern mandate that the QAO has. All I am simply seeking now is to get the balance right.

The point about balance is absolutely central here. Let us make sure that, if we have this modern mandate, we have the authority to discharge it so that we can continue to provide value. I know that that \$10 million is in the bank, because we have already spoken to Queensland Health about the extra revenue that they have obtained from the Commonwealth through what we found where they were not billing for revenue. So we are assured that we have added value through that.

Greater minds than I would think about the independence and the proper functioning of an Auditor-General and we would defer to those. INTOSAI I think has given you a set of principles to guide this committee and to guide the parliament and we have referred to those in the submission. But I hark back to the EARC review and the EARC recommendations going way back now to 1991. As set out in our submission—I think in table 1 on page 5 of our submission—if you are looking for a steer as to what the Auditor-General would like out of this, if you run your eye down the list of recommendations that have not yet been adopted they would be the recommendations that we would be seeking from the committee.

So given the timing of this hearing, given the likely timing of your report and the likely timing of the response of the government, it is therefore for this parliament and this government to determine whether or not it wants to continue to modernise and update the powers and functions of the Auditor-General so that we can aspire to the aspirations of the Premier for the broader Public Service to become the best Audit Office in Australia. Thank you.

CHAIR: Thank you, Mr Greaves. It is great to see an accountant with passion. You certainly have passion for your job.

Mr Greaves: Thanks, chair.

CHAIR: Thank you to everyone attending today. The time for the allocation of this session has expired. If the members require any further information, we will contact you. We thank you for your attendance today. The committee appreciates your assistance and it has been a very enlightening session. The committee will now hear from a further group of stakeholders and you are welcome to observe the proceedings in the public gallery. Thank you very much for your time today. We appreciate it.

Proceedings suspended from 10.48 am to 10.57 am

**BRISKIN, Ms Stephanie, Senior Adviser, Strategy and Policy, Victoria
Auditor-General's Office, representing the Australasian Council of Auditors-General**

**DOYLE, Mr John, Auditor-General of Victoria, representing Australasian Council of
Auditors-General**

McDONALD, Mr Bob, OAM, Past President, Institute of Internal Auditors Australia

CHAIR: Good morning, ladies and gentlemen. I declare this hearing of the Finance and Administration Committee Inquiry into the legislative arrangements assuring the Queensland Auditor-General's independence open. I am Steve Davies, the chair of the committee and the member for Capalaba. The other members of the committee are Mr Curtis Pitt MP, the deputy chair and member for Mulgrave; Mrs Liz Cunningham MP, the member for Gladstone; Dr Bruce Flegg MP, the member for Moggill; Mrs Freya Ostapovitch MP, the member for Stretton; and Mr Mark Stewart MP, the member for Sunnybank. We have an apology. Mr Reg Gulley MP, the member for Murrumba, may turn up a little bit later. He has just had to step out. The purpose of this hearing is to receive further information from stakeholders in order to examine the practical implications of the issues raised in the response to the committee's inquiry into the legislative arrangements assuring the Auditor-General's independence. We are running this hearing as a roundtable forum to facilitate discussion. However, only members of the committee can put questions to witnesses. If you wish to raise an issue for discussion, I ask you to direct your comments through me. This hearing is a formal proceeding of parliament and is subject to the Legislative Assembly's standing rules and orders.

The committee will not require evidence to be given under oath but I remind you that intentionally misleading the committee is a serious offence. Thank you for your attendance today. The committee appreciates your assistance. You have previously been provided with a copy of the instructions for witnesses, so I will take them as read. Hansard will record the proceedings today and you will be provided with a transcript. This hearing will also be broadcast. In order to assist Hansard, could witnesses please state their name and agency when they speak. I also remind witnesses to speak into the microphones. I remind all of those in attendance at the hearing today that the proceedings are similar to parliament to the extent that the public cannot participate in proceedings. In this regard, I remind members of the public that under the standing orders the public may be admitted or excluded from the hearing at the discretion of the committee. Could I also request that all mobile phones be turned off or switched to silent mode. I remind you that no calls are to be taken inside the hearing room. I would like to now invite the representatives to make a brief three to five-minute opening statement. I would imagine that we will start with the Australasian Council of Auditors-General.

Mr Doyle: Thank you, chair. Good morning and good morning to everyone in the committee. Currently, I am the Auditor-General of Victoria. I started in that role on 1 July last year. So I am new as far as an Australian Auditor-General is concerned, but for six years prior to that I was the Auditor-General of British Columbia and before that I was the deputy Auditor-General and acting Auditor-General at times in Western Australia.

I have with me today Ms Stephanie Briskin, who is the senior adviser within the office in Victoria. She will probably know a lot more about some of these topics than I will. ACAG is a group of auditors-general within Australia as well as some outside of Australia. I am here to represent their views in regard to the document they have prepared for consideration by this committee. Because I have experience in other jurisdictions, I am also happy to answer questions in regard to that but when I do it will be on a personal basis and it will not represent necessarily the opinions or the advice from the ACAG group itself.

The research that was done by Dr Robertson was fascinating. It is all about the independence—which is the core issue in regard to a lot of what this committee is looking at at the moment—of an Auditor-General. What the DNA of an Auditor-General is and how an Auditor-General can actually do their work well, properly and to quote my legislation 'without fear, favour or affection'. Independence is the root of all of that, and I trust that we can go into that in some detail when you get to the questions.

Auditors-general are different. They are not unique. There are lots of them around the world and I have met quite a few of them, particularly in the Westminster based system, but they do need to be accountable and I do not know of a single one that does not want to be accountable and have that level of accountability to be utterly and totally beyond reproach. It is a big deal for us to be
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independent. It is just as big a deal to be accountable in the way that we do our work. I have seen several models in regard to funding in different jurisdictions, and if you want to explore some of those I am happy to do so, but the key issue is that funding needs to be provided so it is sufficient to conduct the work that we are required to do as auditors-general and the accountability for the expense of those funds must be commensurate with that responsibility. I will stop there because I would rather answer lots of questions than talk to you a great deal.

CHAIR: Thank you, Mr Doyle. Mr McDonald?

Mr McDonald: My name is Bob McDonald. Today I am representing the Institute of Internal Auditors, particularly in my role as past global president of the board of the IIA. However, in the interests of full disclosure, my permanent employment is as a chief governance officer for the Queensland department of health and I have permission to appear today in my volunteer role. In relation to the areas under review by the committee, I would like to make a comment on four of the terms of reference. The effectiveness of section 56 of the Auditor-General Act 2009: the Institute of Internal Auditors supports the concept of the Auditor-General setting the fees as he is doing now, although we believe that the process in relation to budgeting would be enhanced and made a better practice by the parliament either directly or through a committee such as the Finance and Administration Committee actually approving the budget for the Auditor-General.

In terms of the independence of the Auditor-General, as it stands at the moment there is a reasonable balance of independence but that could be enhanced by making the position an officer of the parliament as is demonstrated in a number of jurisdictions internationally. In comparison with New Zealand legislation, it is generally comparable taking into account the two matters I just mentioned and that would be similar in terms of the international best practice.

Just a personal thing with me: in my role at the Institute of Internal Auditors, I have been a member and a volunteer leader since 1987. I was the Australian president of the IIA in the early nineties for a couple of years. I started serving at the international level in 1995, and I was the global chairman of the board in 2003-04.

CHAIR: Fantastic. I will kick off. By way of introduction, could the ACAG please highlight what you consider to be the most important issues in terms of principles agreed to by the ACAG?

Mr Doyle: Thank you for that question. We have put in the document that we have provided a number of issues that are very important to us and some that we believe are fully supported by international pronouncements in standards setting. Those are the degree of independence and the incapacity of any third party to enforce any kind of 'you must do' type arrangement on the Auditor-General. Words that we usually see are 'must take due regard' or 'must consider whether or not it is appropriate'—those kinds of things—which leaves the dimension of decision making to the Auditor-General to undertake any work that needs to be done.

I have seen in other jurisdictions where work has been requested of the Auditor-General that the actual funds that are required to undertake that work must follow that unless the Auditor-General determines that he or she can do that work within their own resources. So the fundamental issue for us is all about independence. While Dr Robertson's research showed the recent Queensland legislation as being a great improvement on what had been done before, and there was a movement from somewhere quite well down on the scale to the top four, do not forget that is based on the total number of marks for each individual principle. There are gaps in those principles where Queensland does not fare too well and by bringing those up you could actually shift from fourth up to New Zealand, which is considered to be one of the world leaders.

CHAIR: Fantastic. Any questions?

Dr FLEGG: It seems to me there are two areas of independence. There is administrative independence, which includes oversight and autonomy in choosing what areas and what types of audit to do. Then there is financial independence, because if you do not have the resources to do those things you haven't got administrative independence. I think earlier we mostly talked about financial independence. I suspect that was because that was the most difficult area for Treasury and others to let go of their control of the finances, but if we were able to achieve greater administrative independence—in other words, more autonomy in how the Auditor-General's office was run, a change of oversight to becoming an officer of the parliament, a move out of the rigid public sector staffing rules and so forth—how far would that go towards achieving the aim of best practice?

Mr Doyle: Thanks for the question. It would go a long way. I think we may have an issue here about what we call things. Operational means deciding what work you are going to do. Admin is how you can marshal your resources to do that work. Financial is the dollars that underpin

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everything, I suppose. Being capable of determining what work you would undertake, even if you were to provide insight in the way of published documents about what that work would look like over the next few years in the way that performance audits are flagged in advance, would be a very useful way of demonstrating overt independence for the office. The Auditor-General being an officer of the parliament is another way of creating the relationship that should exist between an Auditor-General and the parliament and demonstrate that it is a direct relationship. If you like, parliament owns all the operations of the public sector. The executive is responsible and is the management that controls everything. Parliament—the way that the model is working at the moment—is determining that as the shareholder it wants an auditor to undertake work right through the whole public sector and to advise it directly. That is almost parallel to the corporate model that was not discussed earlier but is one which may resonate with you.

CHAIR: This is a follow-on. How are you funded in Victoria? Is it by an act of the Treasurer?

Mr Doyle: I can give you a few examples of the way different auditors-general are funded around the world. This is me now talking personally rather than ACAG. In Victoria it is through a normal budget process. We make a recommendation as to what the budget should be to the Public Accounts and Estimates Committee, which is also the equivalent of the Public Accounts Committee, so they are both rolled in together. They consider the submissions that I would make, and attached to those submissions is the plans that I would have for the future. At the same time as they are considering what I am going to be doing they are considering how much they need to provide in the way of resources, and I have no doubt whatever that I will be provided the resources I need to do the work that I need to undertake.

In British Columbia I would provide a plan to the Public Accounts Committee and they would either approve or not approve that plan. Usually they did approve it without modification. Then I would go to the Finance and General Purposes Committee and say, 'This plan has now been approved and this is what it will cost to do,' and they would then either approve it or not approve it, and they always approved it. So in both cases what we had was an appropriation being provided to the office but it did not go through the executive system. What it did go through was comments from Treasury and others who it may be of interest to who would like to comment on what we did because it was all out in the open and above board.

CHAIR: Was there a difference between the financial and the performance audits in how that worked, or was it all bundled in as one?

Mr Doyle: In Victoria I would get three appropriations. One is me. I get an appropriation for me and my costs. The second is the performance audit. I think you have a similar performance audit mandate here that we have in Victoria. The third is the financial audit, and the financial audit is offset by the fees we charge as well.

In Canada, in BC—it did not happen in every jurisdiction but most jurisdictions work this way—there would be one appropriation and it would cover the entire organisation and all its operations and any money that was invoiced in regard to fees would go straight through to the ministry of finance and would not actually be seen by the audit office. We would write the invoices but we would never collect the money—

CHAIR: But that goes back into general revenue basically?

Mr Doyle: Straight back into general revenue.

CHAIR: Curtis, do you have a question?

Mr PITT: It is probably along the same lines. We talked about the fact that auditors-general will be different jurisdiction to jurisdiction. Earlier we talked about those areas where Queensland has pulled itself up in the rankings. I am interested in drilling down into what the areas of weakness are. Could you provide the committee with some points and suggestions as to how those improvements may be made?

Mr Doyle: If I can start with the operational end, it is the discussion component for the Auditor-General. There can be a lack of discretion because the Auditor-General can be told to actually conduct work or if the Auditor-General decided that he wanted to do a particular type of work or a block of work in the performance audit zone he has to go through a number of hoops before that could actually be approved. That was one of the first sections that we identified in the correspondence to you. I think that is a key one—the discretion for the Auditor-General to conduct the work without fear or favour. I think it is quite right and proper for the legislation to demonstrate what kind of work it should be—economy, efficiency, effectiveness and perhaps probity and waste—but the actual work that is done should be the Auditor-General's responsibility. That is why you have put him or her in that position to actually do that.

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Financial independence does become an issue. I will give you an example from a predecessor of mine in British Columbia. He was one or maybe two before me. His entire budget was cut by one-third without notice. That was quite serious. It has major ramifications for the conduct of work within the office. It basically meant that the performance audit function ceased to exist for a period of time. It also meant that the financial audit area was quite degraded.

One of the first things I did when I went into BC in 2007 was actually to get that money back, and I got that money back through the committee structure and through the process. I never got an explanation as to why it happened, but it did identify—through a process that was no longer in place because there was an amendment to the act—why financial independence is very, very important and how it can be used inappropriately on this particular occasion.

I do not know anything about the government of Queensland, so I am not pointing fingers or anything; I am just explaining a fact of something that I have seen and how it worked. I have seen it happen in smaller islands in the Caribbean as well, but they are a different kind of group in the way that they operate and they work, and they have different rules. But I have never seen it happen before in a big jurisdiction under the Westminster system like some of the big Canadian ones.

Mr PITT: Just on that point, we have had a situation, and you would have picked up through the previous hearing, the Commission of Audit that was undertaken and you talk about financial independence. The Crime and Misconduct Commission in Queensland had quite significant staffing cuts, and there were concerns raised in the broader community at that point about the ability for those cuts to have taken place and what that meant for outcomes, so I think it is a justified argument to talk about that financial independence. I think it is a critical element too, and I think that is why we have heard such a passionate case put forward by the Auditor-General in Queensland today.

I just wanted to go back to the issue we have been talking about in the previous hearing, and that was the idea of contestability. I did not have time to speak to the Auditor-General about this, but given more resources, and given that financial independence and being able to put the case whether there would be a need to have even less outsourcing than they currently have, have you seen that sort of example happen in other jurisdictions as to where there has been a retreat from outsourcing to going back to a more centralised model because of the independence that that may afford as well? So there are probably a few different questions in there.

Mr Doyle: I can give you an example from Victoria if you want. I very recently had my office reviewed, so I have just arrived and they are doing a review on me already. It was a very friendly starting point. PricewaterhouseCoopers were appointed by the Public Accounts and Estimates Committee to come in and conduct a review of the Victorian Auditor-General's office. One of their recommendations was to reduce the amount of contracting out of financial audit and to bring it all in-house. On the face of it, that sounds sensible and reasonable and appropriate. The issues that I had with the recommendation—which I accepted that I would go and have a look at it, but I did not accept that we would necessarily bring them all in-house—there were a number of reasons why you would want to think carefully about such an exercise.

The first is a lot of audit work can be done in remote areas, and actually having that work done by local providers under the overview of the Auditor-General's office and the standards that we require is actually a good thing. Why would you want to send someone, in this case from Brisbane up to somewhere, to conduct an audit when it can be done quite satisfactorily by someone quite locally. All that is required to do is then look at the working papers, and it is a win-win for everyone concerned.

Mr PITT: Is that the same for a financial audit versus a performance audit?

Mr Doyle: No, I am just talking about financial audits at the moment.

Mr PITT: So obviously performance audits would be quite a different scenario.

Mr Doyle: Very, very different scenario, yes. Another one was that there were some audits where, to actually maintain the technical competency to actually do them—say, big superannuation or finance areas—may require a level of skills and competency that needs to be maintained that will only be used once a year as opposed to a continuous stream of activity. So for example, you will find very few people in any Auditor-General's office that know a great deal about corporate tax, and some of us look askew a little bit sometimes at some of the finer points of some of the financial instruments and derivatives accounting. So basically there are some jobs where it is logical where you may not want to develop that expertise, and so you need to buy it in. Sometimes you can just

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buy it in like an actuary for a superannuation scheme. Sometimes you might just want to contract the audit out and allow it to be done by people who are actually experts in that particular area. So there are two examples where you probably would not want to bring that work in if you actually wanted to, if you like, make sure the quality of the work was up to standard; and secondly, that you were fulfilling some policy framework which actually said you should try and get people in the local area to actually undertake the work that is required.

Mr PITT: There was an issue about that in-house competency and the ability also to have the independence to attract and retain the most appropriate staff, you know, to have a good mix of people in that group. So there are probably a few things that apply.

Mr Doyle: It is the old 80-20 rule. About 80 per cent of audit can actually be done by most people, perhaps with an extension of training, or you bring in a subject matter expert to actually conduct that work—and I am talking about financial audit work here—and that is a good mix. But as I say, you cannot maintain those skills, and therefore you move them out.

The third issue is if I was to bring in all the staff I needed to conduct the financial audits at a particular point of time, I would need to recruit an extra 60 people. What would I do with those 60 people in the half of the year that we do not have financial audit work for them to do? So it would end up costing more at the end of the day because of an increase in overheads and all those kinds of problems. So the contracting in, contracting out, doing it yourself and technical expertise is a complicated balance that needs to be considered on a year-by-year basis to make sure that you have got the best fix and that you are actually undertaking the work to the appropriate standard and the appropriate level, and at the lowest average cost at the end of the day.

Mrs CUNNINGHAM: I would like to just move back to accountability, if I could. The Queensland Audit Office's submission listed a number of elements that would strengthen their autonomy. Four of them were: formally recognising the Auditor-General as an independent officer of parliament; enhancing parliament's role in the selection and appointment of the Auditor-General; enhancing parliament's role in establishing QAO's budget; and enhancing parliament's role in monitoring and assessing the performance of the Auditor-General and QAO through external audits and five-yearly strategic reviews.

I am wondering whether, having regard to those things that the auditor has put in the submission from the QAO, whether there are any other areas, particularly of negative influence, between governments and audit offices. The purpose of my question is with a view to clarifying the connections, both real and perceived, that need to be severed to ensure audit office autonomy.

Mr Doyle: Actually, I think I would probably stand by those four principles. We actually detailed them in our act, but I will perhaps comment with a bit of experience from British Columbia. I was appointed by a parliamentary committee, and the requirement was that there had to be unanimous approval of the appointee, so there was naturally no involvement by the executive whatsoever in that process. I was then appointed by the Speaker following a resolution in the House. Now, it is a unicameral system over there in most of the Canadian jurisdictions except the federal one, and having had that resolution in the House I was officially an officer of the parliament and operated in that way, and it was overt from the beginning that there was not a link to the executive per se.

Obviously, the committee consists of the mix of the number of seats in equal measure as for the last election, but it had to be unanimous. Any one person could actually blackball the applicant and before I went there, there was great difficulty in finding someone. Because I was going along and I was completely separate and knew nothing about Canadian politics—and did not even have the right accent, I suppose—they chose me to go in. And I must admit it was a very powerful and strong process which made me independent from one day—overtly independent, when you add that to the fact that I was actually in the legislation. I was an independent officer of the parliament, and it is the norm in most Commonwealth countries that you are called that. It does not actually bring anything with you. I mean, you do not get a special badge or anything. It is just that it reinforces the relationship between the Auditor-General as an officer and the parliament as an institution as well just to say it is separated out. It is not another arm of government; it is just separated out and it is part of the parliamentary arm.

So I just think to reinforce strongly those four areas that you mentioned and to set it aside from the executive would be great. The Australian tradition and approach is in fact that the executive have more input into it. In the Canadian federal government, I think it is the Prime Minister that chooses who the new Auditor-General will be when he went through that process, so BC is a little bit of an outlier when it comes to that kind of overt separation. Some of the American states

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actually have voting and you get elected officials. Like in Washington state, for example, it is actually an elected official who comes in. So there are lots of different ways of actually demonstrating independence in the way of the appointment process, the budget and everything else.

Mr McDonald: I would certainly agree with Mr Doyle's comments. If I could put this in a simple sense: if the Queensland government was a corporation and the Finance and Administration Committee was the audit committee of the administration, then in that corporate sense we would see both the head of internal audit and the external audit partner reporting to the audit committee; not to the CEO. Why through to the audit committee? Because it is the board that is responsible for the governance of the organisation and the processes.

This will be a comment particularly for Mr Davies. I heard a joke from him at the IIA SOPAC conference in March last year in Brisbane. The independence of an internal auditor who has to report to the CFO is not there, because there are very few audits that an internal auditor does that do not have an impact on some aspect of a CFO's accountability. So if you want the ability for the scope of audit to be restricted in any way, then make the internal auditor report through to the CFO. In saying that, I am not suggesting in any sense that the Treasurer of Queensland would be in that space at all, and I have seen no evidence of that in the past either. But just as an example, that true independence is back to the governing body of the organisation.

Mr STEWART: Mr Doyle, this is not a personal reflection on you in any way, but it is more just a question in relation to the perceived independence and possibly not necessarily getting the best person for a job. You mentioned earlier that the committee had to appoint the position unanimously, and that before you came along that was not the case. Could it be a possible disadvantage from the point of not necessarily getting the best person for the job because of that perceived conflict of interest?

Mr Doyle: I will not take it personally, I promise. I do not think so. What I found is an enormous amount of collegiality between members and public accounts committees. It is almost like it is a different kind of committee than other committees within the parliament, and in almost every jurisdiction that I have gone to I have found that.

So what they are looking for is the best person and they are all very, very respectful of not only the role of the Auditor-General but also the difficulties an Auditor-General will be in inevitably—what I call the constructive tension that should exist between an Auditor-General and government and an Auditor-General and people who are subject to audit. What they are looking for is someone who is not obviously a shoo-in by one party or another but someone who is also going to operate and be independent.

I thought it was going a bit too far to get unanimous agreement. I do. The fact that I would benefit from it was another issue. I thought that was a bit too far. I think that is just a bit impractical unless you have a committee that is so well finely tuned and working so well that they could appoint someone. But equally, to vote for the other party, just because you wanted to appoint a particular candidate because they may or may not follow a particular line of audit or a view of reality, seemed to me also to be a problem there as well. I do not know that there is a really good way of appointing an Auditor-General who is perfect and pure, but I do know that there are some ways and it is in avoidance of the bad ways where it becomes a dictate or a fief-driven process. To get away from those and to make these exercises open, clear and subject to review by the parliament rather than the executive and so on is a move in the right direction—to allow the Auditor-General that extra level of independence and confidence when they conduct their work. It is seen that the legislation and the way that it is written is part of the whole process of being separated out from the executive.

CHAIR: I have a question for Mr McDonald. The committee notes that you raised issues of the Auditor-General being explicitly appointed as an officer of parliament. What are the advantages and disadvantages of being an officer of parliament rather than being as they are currently in Queensland?

Mr McDonald: The advantage there is the perception of direct connection with the parliament. An officer of the parliament is certainly a very different position from an appointed person to a position. We have many examples of appointments, for example, with statutory body boards etc. We get very good people there most of the time, but if we are really looking at that independence—and I think Mr Doyle has used the term a number of times—to ensure that the Auditor-General is in a position of being able to demonstrate no fear and no favour, and that is to do the job that he or she has been appointed to do without worrying about, 'Am I going to upset somebody? Are we doing the right thing?' to approach the job on a pure risk based approach is really enhanced by that officer of the parliament process.

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In terms of disadvantages, what we have at the moment works, but the officer of the parliament enhances the process. So it is not broken in that sense; it is just that opportunity. If we look at the history of Queensland in the mid-1970s—and 1977 in particular—Queensland led the way in governance in financial accounting and the Auditor-General with the implementation of the Financial Administration and Audit Act 1977. Over the period of time we have seen Queensland continue to lead in a number of areas—in requiring the first mandatory internal audit, in requiring the first mandatory audit committees, in requiring risk management accountability, that concept of accountable officer requiring documentation of the control environment. We caught up again in the last couple of years with the full mandate for performance auditing. So Queensland has always been at the forefront of that governance over government organisations. This is a way that we can enhance that reputation as well by going down the track of the officer of the parliament.

As Mr Doyle said, I have met many Auditors-General around the world through my institute of internal auditors role and for those who do not have that status, it is always one of the things. When you ask them, 'What would you like to achieve?' it is always the first thing on their tick list.

Mrs OSTAPOVITCH: I am going to ask a question that has been brought up. I am just going to read it. This is for the Australasian Council of Auditors-General. On page 2 of your submission under 'Statutory Review and Independent External Audit' you state that the terms of reference and appointment of the strategic reviewer is done without parliamentary consultation and that the report is then tabled by a minister. I have been told that this statement is inaccurate. Section 68(5) of the Auditor-General Act requires the minister to consult with the parliamentary committee about the terms of reference and the appointee or appointees and that when the report is tabled in the parliament the report is automatically referred to the parliamentary committee for its consideration. There are two parts to this. Could you please outline for the committee your original concerns and whether the fact that the parliamentary committee is consulted satisfies those concerns? Could you also advise the committee of examples of how this issue is managed in other jurisdictions? Please ask me if you want me to repeat any of that. That is quite a lot to take in.

Mr Doyle: No, I think I have it. If it is wrong, I am sorry. However, but we will continue. I think the problem is that it should not be going through the executive at all; it should be something that is controlled by the committee. I think that is the view from ACAG. It is also my personal view.

I mentioned earlier that I have just been reviewed by PricewaterhouseCoopers. It is a different group—and it is every three years, by the way, not every five. I would like to make it five. If you have any clues, I will take it back to my committee. The terms of reference, the appointment, the monitoring of the process is all controlled by the committee. I am in the position of anyone else who is having a performance audit conducted on them in respect to this. I think one jurisdiction in Australia has the same—whoever is doing this work has the same—powers as the Auditor-General to ask for information. So you are talking about a serious review and a serious level of accountability. The auditor is being audited quite robustly and it should be done by the committee that the Auditor-General reports through and to on a day-to-day and ongoing basis. I do not see where the minister is involved in it. It really should be just purely a parliamentary issue. How is it done elsewhere? I think it is—

Ms Briskin: In New Zealand, an independent auditor is appointed each year by resolution of the House of Representatives. In other jurisdictions—in the Commonwealth—it is appointed by the Governor in Council on the recommendation of the minister. It is all listed in the submission on page 46 of the ACAG research.

Mr PITT: Can I just add something? I was just thinking of the discussion from the previous hearing. Given that you were in the gallery to hear that, talking about the independence versus accountability argument again, if there was more accountability and responsibility put on to the Auditor-General, given greater financial autonomy, when the buck stops with someone how should the buck stop with them? How should that affect their tenure? I am just interested to hear your thoughts on that, because if there is a shift—and I am noting the comments made earlier—where should that balance lie in terms of how accountable the Auditor-General is?

Mr Doyle: I think if you look at all the Auditors-General who I have met I think every single one of them wants to be as accountable as possible. 'Beyond reproach' would be a set of words that they would use quite frequently. They would want to explain things without breaching confidentiality. They would want to be open. If you look at their annual reports, without exception you will find a lot more information in those annual reports than you will ever find in a lot of departmental or Public Service agency type reports, unless it is legislated that they have to provide it. I think that we have a natural disposition, because we know we are independent, to be accountable for what we do and how we do it. The only barrier that we have in regard to that

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accountability is when we receive confidential information that we simply cannot release for some reason or another. This could be because it is cabinet in confidence, or it could be the names of people or it is because the evidence that we have collected is just not quite enough for us to conclude, because we have a very high standard of requirement and scepticism, if you like, of the quality of evidence before we conclude on something.

So I think by natural disposition you have a group of people who want to be accountable. The way the accountability normally works is the financial accountability and a very good annual report. So you have an audit of our financials and you have a very good annual report, which hopefully people read. I actually go further. In British Columbia I had to turn up to the Public Accounts Committee and we would discuss my annual report in detail—every single thing in there. I do not think that happens very much in Australia, but it certainly happened for me, and it is certainly a very good way of closing the loop of accountability. But it does not cover everything. We have peer reviews that we undertake on our work for performance audit and financial audit that is much harder than anything that we would ever do to anyone else, quite frankly. It is brutal sometimes. Most jurisdictions in Australia now have cyclical major reviews where the whole office is examined by an external third party and reported directly to a parliamentary committee—I think it should go to a parliamentary committee—and then it is published. It is all available. That kind of level of accountability comes with the territory of what we are doing. I would say that in general audit officers probably have more accountability attached to them than most other organisations within the public sector because we cannot afford to get it wrong and, if we do get it wrong, it comes up and causes a lot of concern and issues.

So you layer on that the standards that we have to follow, the professional ethics that we have to do, we are very risk averse as a natural group of people. The accountability levels I have I would say at the moment are not only appropriately strong because of the legislation but they would be strong despite the legislation. I would still be doing this and asking for these things if it was not in the legislation and so would all of my counterparts.

CHAIR: Just as a follow-up, you said you get reviewed every three years and you would prefer it to be five. We do it five and we are talking—

Dr FLEGG: We prefer three.

CHAIR: If you were the boss, though, and you had an Auditor-General underneath you, what do you think is the appropriate time?

Mr Doyle: I would probably compromise and go for four and there are two reasons—

Dr FLEGG: Given a choice of three or five.

Mr Doyle: No, there are two reasons why I would. One is that we have a fixed election cycle, which is four years.

Mr PITT: Good idea.

Mr Doyle: Therefore, if it is done properly we can fit it into a process where you can get the advice that the Auditor-General can respond to and you can see things occurring. If it is too short, then you get the information, you do not really have time to implement it all—to digest it and bring it all into place. If it is too long, then for a couple of years things might have gone astray and you have not detected them because you have not done the review. I would say shorter periods and just my own personal view is that it should be a four-year cycle.

But there is no reason—no reason at all—it should all be one big exercise at one point in time. You can very easily carve it up and have it not as a continuous audit, which some jurisdictions have, but different components of the review work could be done at different periods and feed back into the whole way that the office operates and allow them to respond as they go along.

Mr STEWART: My question is in relation to a statement that was made earlier. It is essentially the accountability versus efficiencies that could be gained. Stephanie, you mentioned earlier that in the New Zealand system the appointment is every 12 months in the parliament; is that correct?

Ms Briskin: Sorry, I am referring to the appointment of independent auditor, sorry, of the Audit Office.

Mr STEWART: Okay. So the Audit Office itself is appointed how often in New Zealand?

Ms Briskin: I do not have that information in front of me. I can find out for you and get back to you, if you would like.

Mr STEWART: No, I do not mind.

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CHAIR: We can get that, that is fine. Any other questions? Liz? No? I think we have pretty well exhausted all the questions. It has been very informative. The time for the public hearing has expired. If members require any further information, we will contact you. Thank you for your attendance today. It has been very informative. We appreciate your time that you have taken in coming up here and, in the case of Mr Doyle, coming to Queensland. I hope you have enjoyed your time here. I declare this hearing closed. It is the wish of the committee that the evidence here before it be authorised for publication pursuant to section 50(2)(a) of the Parliament of Queensland Act. If there is no objection, so authorised. Again, thank you very much.

Committee adjourned at 11.47am