



Consideration of the recommendations of the strategic review of the Queensland Audit Office

Report No. 51, 55th Parliament
Finance and Administration Committee
October 2017

Finance and Administration Committee

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Acknowledgements

The committee acknowledges the assistance provided by Ms Philippa Smith and Mr Graham Carpenter, current and former staff of the Queensland Audit Office and the Treasurer.

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Abbreviations

ACAG	Australasian Council of Auditors-General
ACPAC	Australasian Council of Public Accounts Committees
AG Act	<i>Auditor-General Act 2009</i>
CBRC	Cabinet Budget Review Committee
the committee	Finance and Administration Committee
former committee	Public Accounts and Public Works Committee
GOC	Government owned corporations
INTOSAI	International Organisation of Supreme Audit Institutions
PSC	Public Service Commission
QAO	Queensland Audit Office
SAP	strategic audit plan
strategic review /the review	Strategic Review of the Queensland Audit Office
strategic reviewers/ the reviewers	Ms Phillippa Smith and Mr Graham Carpenter
The report / review report	Philippa Smith & Graham Carpenter, <i>Strategic Review of the Queensland Audit Office</i> , March 2017
ToR	Terms of Reference, Strategic Review of the Queensland Audit Office

Chair's foreword

The Queensland Audit Office (QAO) is a highly regarded Queensland institution. The five yearly strategic review offers an opportunity to review the functions and operation of the QAO.

This report considers the latest strategic review undertaken in 2016-17 by Philippa Smith and Graham Carpenter. It is clear that the QAO has moved forward and implemented the recommendations flowing from the last strategic review. The reviewers noted that the issues raised in the 2010 strategic review were not raised during this review.

The strategic reviewers found that the QAO is fundamentally sound and is valued by its clients. There were five strategic recommendations and 27 operational recommendations. These are discussed in the committee's report. A significant change since the last strategic review is the performance audit mandate of the QAO. The QAO has worked to implement and develop its performance auditing of public sector agencies.

The committee commends the Auditor-General and his staff for their hard work and dedication to improving the public sector through performance auditing. The responsibility for the improvements to the public sector does not rest with the QAO alone; accordingly the committee has recommended that Ministers ensure the timely implementation of agreed performance audit recommendations. The committee also recognises the role of Parliamentary portfolio committees in monitoring the implementation of the Auditor-General's recommendations.

Workload and managing the health and wellbeing of QAO staff remains a challenge, as is evidenced in multiple staff surveys over several years. The value of the QAO is in its staff so it is imperative that the Auditor-General work to relieve these impacts to ensure a healthy workforce. Again, the responsibility for managing the impacts of workload on QAO staff does not rest with the Auditor-General alone. It is incumbent on agencies to prepare and submit their financial statements in a timely manner. This will reduce the last minute workload increases on the financial auditors within the QAO. Again, the committee calls on Ministers to ensure agencies prepare and submit their financial statements and asset valuations in a timely manner.

The committee will continue to monitor this issue closely.

The committee is particularly impressed with the QAO's development of its audit analytics system which should deliver efficiencies in collecting and reviewing government data for the purposes of its audits. The committee notes that the QAO will work with the government to develop similar capabilities for government data. The committee looks forward to receiving positive updates in this regard.

I thank the strategic reviewers for their work in undertaking this review and the staff of the QAO past and present for their cooperation. It is clear that QAO staff embrace and encourage improvement in their work and we look forward to continuing our oversight of this valuable Queensland institution.

Finally, I thank my fellow committee members and secretariat staff for their work on this matter. As a committee we strive to ensure the QAO is held accountable to the people of Queensland, I believe that the committee's bipartisan approach to this inquiry means we can achieve this aim.

I commend the committee's report to the House.



Peter Russo MP
Chair

Recommendations

Recommendation 1 **9**

That the Auditor-General ensure that the Queensland Audit Office Better Practice Asset Valuation Guide is available in a timely manner.

Recommendation 2 **13**

That the Premier and Treasurer advise all Ministers and departments of the need to and expectation that they will ensure timely preparation and submission of financial statements to the QAO.

Recommendation 3 **18**

The committee recommends the QAO prepare a detailed analysis of any additional funding it requires and ensure the committee is included and aware of any approaches to the Treasurer/ CBRC for future funding increases.

Recommendation 4 **18**

The committee recommends Ministers outline to their agencies the importance of the implementation of the QAO's performance audit recommendations, in accordance with any prescribed timelines.

Recommendation 5 **27**

That the Premier, in consultation with the Minister for Innovation, Science and the Digital Economy and Minister for Small Business, consider amendment of section 53 of the *Auditor-General Act 2009* or any other alternatives to allow the Department of Science, Information Technology and Innovation to access and utilise the QAO held audit analytics data of government departments.

Recommendation 6 **27**

That the Minister for Innovation, Science and the Digital Economy and Minister for Small Business update the House with respect to the development of the whole-of-government data solution capability.

1 Introduction

1.1 Role of the committee

The Finance and Administration Committee (the committee) is a portfolio committee of the Legislative Assembly which commenced on 27 March 2015 under the *Parliament of Queensland Act 2001* and the Standing Rules and Orders of the Legislative Assembly.¹

The committee's primary areas of responsibility include:

- Premier, Cabinet and the Arts
- Treasury and Trade and Investment, and
- Employment, Industrial Relations, Racing and Multicultural Affairs.

The Standing Orders also detail the committee's oversight responsibility. Schedule six of the Standing Orders provides the committee has oversight responsibility for the Auditor-General, the Integrity Commissioner and the Queensland Family and Child Commission.²

The *Auditor-General Act 2009* (AG Act) sets out the committee's role with respect to the oversight of the Queensland Audit Office (QAO), which includes that the committee is to be consulted on:

- the proposed appointment, removal or suspension of a person as Auditor-General
- the development of the proposed budget of the QAO for each financial year
- the development of strategic audit plans for performance audits to be undertaken by the QAO
- the terms of reference for and proposed appointment of person/s as strategic reviewer/s to conduct the five yearly strategic review of the QAO, and
- the development of the annual QAO strategic plan.

The committee holds regular meetings and hearings with the Auditor-General and his staff with respect to the matters above and various reports of the QAO.

2 The Queensland Audit Office

The QAO is established by the AG Act and is the independent auditor of the Queensland public sector and related entities. Section 6 of the AG Act establishes the audit office, and provides there is to be an Auditor-General and a Deputy Auditor-General. The QAO is led by the Auditor-General.

The current Auditor-General, Mr Brendan Worrall, commenced on 11 July 2017. The former Auditor-General, Mr Andrew Greaves, commenced in December 2011 and ceased in the role in September 2016. Mr Anthony Close, then Deputy Auditor-General, was the Acting Auditor-General from September 2016 to 10 July 2017 in accordance with section 23 of the AG Act.

The Auditor-General is independent and is not subject to direction by any person about the way in which powers regarding audits are to be exercised, nor about the priority of the matters to be audited.³

The QAO conducts financial audits and performance audits of public sector entities and provides recommendations, where necessary, to promote accountability and transparency in government, and improvements in service efficiency and effectiveness.

¹ *Parliament of Queensland Act 2001*, section 88 and Standing Order 194.

² Standing Rules and Orders of the Legislative Assembly, Schedule 6.

³ *Auditor-General Act 2009*, section 8.

The QAO is funded through an annual parliamentary appropriation and through fees charged to its financial audit clients. The budget (parliamentary appropriation) for 2016-17 was \$6,629,000 and for 2017-18 was \$6,670,000.⁴

As at 30 June 2016 the QAO employed around 199 permanent and contract staff (equivalent to 191 FTE). The 2015-16 annual report does not provide a clear breakdown of which areas the staff are employed other than 83% in audit operations and 17% in support services.⁵ As at 30 June 2017 the QAO employed 184 FTE. An increase in budget for the 2017-18 year was for an internally funded initiative to employ an additional 13 graduate financial auditors, increasing the FTEs to 197.⁶

2.1 Financial audit

The AG Act requires the QAO to audit the consolidated fund accounts and the financial statements of every Queensland public sector entity yearly.⁷

The QAO ensures that the financial statements do not contain material misstatement, and that they comply with relevant legislation. The Auditor-General then provides an opinion on the reliability of the financial statements which must be included in the entity's annual report.

The QAO is required to report annually on the results of the audits of financial statements. In 2016-17 the QAO provided 436 financial statement audit opinions.⁸ The QAO complies with this requirement through sector-based reports to parliament.

In its report No. 8 of 2016-17 *Queensland State Government: 2015-16 results of financial audits* the QAO states that it issued 94.3 per cent of financial statements for the 2015-16 year. 84 per cent of agencies met their legislative timeframe for providing their draft financial statements to the QAO. That report also notes that 15 of the 21 departments' financial statements were certified on the cut-off date of 31 August 2016. In an attempt to manage this process for the 2016-17 financial year, the QAO encouraged public sector entities to complete valuations of all material assets by 31 May 2017, with a view to achieving the target of 31 March in 2018.⁹

At a public hearing in March 2017, the then Acting Auditor-General advised there were approximately 134 financial auditors in the QAO at that time.¹⁰ Around 94 per cent of the QAO's financial auditors are professionally qualified or working towards their qualifications with the QAO's graduate program providing training and on the job experience for qualified accountants.¹¹

2.2 Performance audit

The QAO's performance audit mandate was included in the AG Act as a result of recommendations of the previous strategic review and the former committee. Section 37A of the AG Act allows the Auditor-General to conduct performance audits of a public sector entity. Performance audits of government owned corporations (GOC) or their controlled entities can only be conducted following a request of the Legislative Assembly, the committee, the Treasurer or an appropriate Minister.¹²

⁴ 2017-18 Queensland State Budget - Service Delivery Statements - Department of the Premier and Cabinet, p 122.

⁵ QAO, Annual Report 2015-16, p 25.

⁶ 2017-18 Queensland State Budget - Service Delivery Statements - Department of the Premier and Cabinet, p 120, <http://www.parliament.qld.gov.au/documents/tableOffice/TabledPapers/2017/5517T936.pdf>

⁷ *Auditor-General Act 2009*, s 30

⁸ QAO, annual report 2016-17, p 12.

⁹ QAO, report no 8 of 2016-17 : *Queensland state government: 2015-16 results of financial audits*, December 2016, p 1.

¹⁰ Public hearing transcript, Brisbane, 22 March 2017, p 5.

¹¹ QAO, Annual Report 2015-16, p 21.

¹² *Auditor-General Act 2009*, s 37A. Appropriate Ministers are defined in the schedule to the Act.

Performance audits consider whether the objectives of the public sector entity are being achieved economically, efficiently, effectively and in compliance with relevant laws.¹³

The Auditor-General must consult with the committee in preparing its rolling three-year strategic audit plan, updated and published on the QAO website by 30 June each year.¹⁴

The QAO undertook and tabled reports on 13 performance audits in 2015-16, and 12 in 2016-17.¹⁵

3 Strategic review of the Queensland Audit Office

Section 68 of the AG Act requires strategic reviews of the QAO be undertaken approximately every 5 years.

Strategic reviewers are to be appointed to conduct a strategic review of the QAO 5 years after the Minister responds to the committee's report on the most recent earlier strategic review. Accordingly, the next strategic reviewers should be appointed within 5 years of the government response to this report.

Strategic reviewers have the powers vested in them under of section 69 of the AG Act to conduct the review.

Phillippa Smith and Graham Carpenter (the reviewers) were appointed to carry out the review on 26 July 2016 by the Governor in Council. Their appointment followed consultation by the Premier with the committee, in accordance with the AG Act.¹⁶

Terms of reference

The strategic review included a review of the Auditor-General's functions and the performance of those functions, including whether the functions are being performed economically, effectively and efficiently.¹⁷

The committee was consulted on the proposed terms of reference (ToR) for this review. The ToR for this strategic review (refer **Appendix A**) required the reviewers to:

- review of the Auditor-General's functions
- review of the Auditor-General's performance of the functions to assess whether they are being performed economically, effectively and efficiently
- examine all structural and operational aspects of the QAO, as well as its relationship with public sector entities, relevant Ministers, the Treasurer and the Parliament of Queensland
- consider recommendations arising from the 2010 strategic review, the report of the former committee into the 2010 review and the government's response
- focus on performance audit, as it is a function that was assumed by the QAO since the previous strategic review, and
- note the inquiry of the committee into the legislative arrangements assuring the Auditor-General's independence.

The reviewers considered the scope of this strategic review was too broad, stating that it essentially amounted to four separate reviews on:

¹³ *Auditor-General Act 2009*, s 37A(3).

¹⁴ *Auditor-General Act 2009*, section 38A. The committee cannot direct the Auditor-General as to the strategic audit plan though the Auditor-General is to consider its comments in finalising the strategic audit plan.

¹⁵ Report no 3 of 2016-17 was a follow up of an earlier audit.

¹⁶ *Auditor-General Act 2009*, section 68(5).

¹⁷ *Auditor-General Act 2009*, section 68(7).

- the functions of the Auditor-General
- the efficiency of the office
- the effectiveness of the office, and
- the independence of the office.¹⁸

In terms of process, the reviewers queried whether people looking at strategic issues are ‘necessarily the best people to also look at efficiency which involves trawling through an office’s systems and looking at all sorts of benchmarks.’¹⁹

With respect to the functions of the QAO, the reviewers advised that the question of whether the QAO should audit non-financial performance information in addition to financial reporting may have been worthy of, but was not, reported on.²⁰ The reviewers stated that while they would suggest the QAO undertake such work, they did not make a recommendation to that effect because:

*...the level of reporting of non-financial performance information across Queensland government agencies at the moment is pretty minimal, and ... it is probably too soon for the Auditor-General to be in there.*²¹

In a presentation to an Australasian Council of Public Accounts Committees (ACPAC) conference hosted by the committee in April 2017, one of the reviewers, Ms Smith, suggested other ways of assessing the efficiency and compliance of an audit office including:

- ad hoc review by the office’s independent auditor
- ad hoc review by another independent assessor
- Australasian Council of Auditors-General (ACAG) peer review²²
- self-review – for example using International Organisation of Supreme Audit Institutions (INTOSAI) performance measurement framework
- ACAG’s annual macro benchmarking survey, and
- Chartered Accountants Australia & New Zealand (CA ANZ) practice review.

Committee comment

The committee notes the strategic reviewers’ views about the broad scope of the terms of reference for the strategic review. Clearly, the broader the terms of reference for an inquiry or review, coupled with a short timeframe, the less focussed a review will be. More focussed terms of reference will likely result in strategic reviews that add value to the operation of the QAO. In this regard, it may be more appropriate for the AG Act to be amended to reconsider the legislative inclusions of a strategic review.

The committee will consider this matter further and may report on this matter at a later date. Regardless, future committees considering proposed terms of reference should ensure that there is no scope creep to extend the terms of reference beyond what is necessary.

With respect to alternative ways in which the efficiency and compliance of the QAO can be monitored, the committee understands that the QAO engages in the annual ACAG benchmarking survey and is active in its own self-review and improvement.

Peer and self-review are important hallmarks of a modern audit office that looks to improve its performance. The committee looks forward to engaging with the Auditor-General on the QAO’s

¹⁸ Public briefing transcript, Brisbane, 29 April 2017, p 1. Note, the scope of the strategic review of the Queensland Audit Office is established in section 68(7) of the AG Act.

¹⁹ Public briefing transcript, Brisbane, 29 April 2017, p 1.

²⁰ Public briefing transcript, Brisbane, 29 April 2017, p 1.

²¹ Public briefing transcript, Brisbane, 29 April 2017, p 1.

²² The Australasian Council of Auditors-General is an association of Auditors-General established to provide mutual support and share information.

processes of self-reflection, review and performance improvement to ensure continued improvement in the QAO.

Conduct of the review and reviewers' report

The review was conducted between August 2016 and January 2017.

The reviewers met with and interviewed a range of stakeholders, including this committee, present and former QAO officers, QAO stakeholders and audit offices in other jurisdictions, and reviewed a range of documents and reports.²³

The AG Act requires the reviewers to consult with the Premier and the Auditor-General on the draft report, with any agreed comments on the report to be disposed of or included in full.²⁴ The reviewers provided a copy of their draft report to the Premier and to the QAO for comment. The QAO provided a response to the reviewers' draft report in February 2017 which is included in the review report at Appendix 7. There is no response from the Premier included in the review report.

Additionally, the reviewers note that they consulted with the former Auditor-General, Mr Greaves, given the strategic review focused on his term as Queensland's Auditor-General. The reviewers advise they provided Mr Greaves with a copy of the draft report and he provided feedback in January 2017.

Hon. Anastacia Palaszczuk MP, Premier and Minister for the Arts tabled the reviewers' final report, *Report on the strategic review of the Queensland Audit Office* (the review report), on 23 March 2017.

In accordance with section 70(7) of the AG Act and section 92 of the *Parliament of Queensland Act 2001*, the report was referred to the committee to consider and to report to the Legislative Assembly.²⁵

The next strategic reviewers are to be appointed 5 years after the government response to the committee's report.²⁶

3.1 Committee consideration of the strategic review report

The former Auditor-General, Andrew Greaves, resigned the position in July 2016, effective 16 September 2016, after nearly 5 years in the position.²⁷

The committee met with the former Auditor-General prior to his departure to discuss issues relevant to the QAO and to the strategic review. The committee appreciates Mr Greaves' participation and cooperation in the strategic review.

Mr Anthony Close, then Deputy Auditor-General, commenced as Acting Auditor-General in accordance with section 23 of the AG Act and held that role from September 2016 to July 2017. The committee appreciates Mr Close's participation and cooperation.

The committee held a public briefing with the strategic reviewers on 19 April 2017 to discuss the review and their report and recommendations.

The committee held a public briefing and private hearing with the Acting Auditor-General and the Acting Deputy Auditor-General on 10 May 2017. Additionally, the committee visited the QAO on 24 May 2017 to meet with staff and attend a presentation on the QAO's audit analytics capability (see 5.2 for further information about this capability).

²³ Strategic Review Report, p 3.

²⁴ Section 70, *Auditor-General Act 2009*.

²⁵ Refer section 70(7) *Auditor-General Act 2009* and section 92 *Parliament of Queensland Act 2001*.

²⁶ Section 68(2) *Auditor-General Act 2009*.

²⁷ See: <http://www.parliament.qld.gov.au/documents/tableOffice/TabledPapers/2016/5516T1057.pdf>

The committee was cognisant that an incoming Auditor-General would likely have views and comments to make on the strategic review and the proposed direction of the QAO. Accordingly, earlier this year, the committee resolved to hold off further consideration of the strategic review report until the new Auditor-General was appointed and had commenced in the role.

The appointment process for the Auditor-General commenced in late 2016 following consultation with the committee on the proposed process for the selection process in accordance with the AG Act. The committee was consulted in March 2017, on the proposed appointment of Brendan Worrall as the Auditor-General. Mr Worrall commenced as Auditor-General on 11 July 2017. The committee was not advised as to the reasons for the delay in the appointment of Mr Worrall as Auditor-General.

The committee met with Mr Worrall shortly after he commenced and later sought his written comments on the report. A copy of the Auditor-General's response is at **Appendix C** and is discussed below.

4 Strategic recommendations

The strategic reviewers found that the QAO is 'fundamentally sound' and:

It is valued by Parliament, and its relationships with its other stakeholders are mostly good. It is operating economically and efficiently, and in accordance with its legislation. The measures recommended in 2010 are now largely in place... few of the issues discussed by the reviewers in 2010 have come to our attention in 2016. The QAO has made good progress in many of those areas since 2010 and, in addition, has made impressive progress in other areas, particularly in the increased application of data analysis to its audit work.²⁸

However, the reviewers also considered the QAO was not operating as effectively as it might.²⁹ The reviewers identified areas for improvements and made five strategic recommendations around:³⁰

- client management
- funding for performance auditing
- workload trends and pressures
- staffing, and
- the independence of the Auditor-General and the QAO.

The reviewers acknowledge their strategic recommendations are to address issues which they consider are impediments to the QAO achieving its strategic vision set out in its strategic plan, and that these issues are somewhat inter-related.

In short: the client relationship issues appear to be caused in part by under-resourcing, and the QAO's ability to remedy the under-resourcing is limited by the requirement that it comply with public service employment provisions.³¹

This report focuses on the reviewers' strategic recommendations.³² As noted above, the then Acting Auditor-General accepted all recommendations made in the strategic review.³³ Following the commencement of his appointment as Auditor-General in July 2017, Mr Worrall also accepted the recommendations.

²⁸ Strategic Review Report, p 2.

²⁹ Strategic Review Report, p 2.

³⁰ Strategic review report, pp 13-14.

³¹ Strategic Review Report, p 6.

³² Refer Strategic Review Report, pp 7-9, 20-26, 76-80.

³³ Strategic Review Report, Appendix 7.

The strategic reviewers also made 27 operational recommendations (refer **Appendix B**). These operational recommendations have been accepted by, and it is appropriate that they are largely addressed by, the Auditor-General and the QAO. The committee has however, commented where appropriate with respect to the operational recommendations in this and the next section of this report and will monitor their implementation moving forward.

4.1 Relationship with audit clients

The strategic reviewers recommended that:

...because client engagement should be led by the Auditor-General and Deputy Auditor-General, the QAO institute an annual programme of visits so that either the Auditor-General or the Deputy Auditor-General meets the Director-General or chief executive of each major client each year.³⁴

The reviewers identified specific issues around the QAO's communication with its clients which they consider arose due to minor irritations. The reviewers found the quality of the QAO's work with respect to audits is not a problem – the audit work is both effective and efficient – rather the benefit or value of the work will not be realised if the QAO does not improve its relationships with its clients.³⁵

The reviewers found that the QAO should improve its communication with financial audit clients around the processes for and requirements of asset valuations. In this respect the reviewers recommended that once the QAO's *Valuing Public Infrastructure* guide was issued, it should be reviewed and feedback sought from stakeholders, including clients.³⁶

The QAO released the *Valuing Public Infrastructure* guide on 30 May 2017 and sought feedback until 31 July 2017 however, at the time of drafting this report, the guide was no longer available on the QAO website.³⁷ It is important that, given stakeholder views around the miscommunication from the QAO, the finalised version of this guide be available in a timely manner to assist government agencies in arranging asset valuations.

The reviewers also note some client views with regard to delays during financial audits around decision-making and provision of advice. These issues included escalating issues for example to offsite managers or to the QAO particularly where the auditor is a contractor, and lack of timeliness because difficult issues are raised at the last minute.³⁸

Financial audit clients noted that while the fees they pay for the financial audits have declined in recent years, the internal costs of accountability have increased significantly due, for example, to regulatory or internal audit committees or external asset valuation costs.³⁹

While most of the feedback from the QAO's performance audit clients, via client satisfaction surveys, is positive, the reviewers identified improvement opportunities for the QAO, particularly around its engagement with its performance audit clients.

The reviewers observed that most performance audit clients noted the benefit to their agency of the QAO performance audits, despite the cost and effort involved.

³⁴ Strategic Review Report, p 13.

³⁵ Strategic Review Report, p 83.

³⁶ Strategic Review Report, p 22.

³⁷ See QAO, Insights Newsletter, July 2017, pp 8-9, available at:

https://www.qao.qld.gov.au/sites/all/libraries/pdf.js/web/viewer.html?file=https%3A%2F%2Fwww.qao.qld.gov.au%2Fsites%2Fqao%2Ffiles%2Fnewsletters%2Finsights_july_2017.pdf

³⁸ Strategic Review Report, pp 24-26.

³⁹ Strategic Review Report, pp 25-26.

The lowest scores in the annual survey of clients were around a lack of understanding by audit teams of a client's business and operational context. Other issues included:

- a lack of willingness to negotiate the timing of an audit
- unreasonable requests for information within short timeframes, and
- a failure to understand the cost of implementing recommendations, particularly poorly specified recommendations or those that require something out of the control of the agency for example additional funding.⁴⁰

The reviewers note that it was clear that many performance audit clients did not understand the QAO's performance audit process. This is despite the QAO explaining the process at the commencement of an audit and providing the QAO's *Performance Audit Practice Statement* factsheet.⁴¹

The reviewers found that this misunderstanding may stem from the fact that the QAO will often only audit a small business area of any particular client. Pre-audit discussions between the QAO and senior management may not be communicated to the team being audited. Similarly, the learnings gained by staff in an area subject to audit may not then be communicated to the wider team.⁴²

The reviewers commended the Department of Premier and Cabinet's (DPC) establishment of the Queensland Audit Office Central Coordinator role which aims to develop the maturity of the working relationship between the QAO and Queensland Government departments.⁴³

Audit costs were a common concern across both financial and performance audit, particularly the time and energy clients spent on the audit process. The reviewers note clients' frustration around fees with respect to both financial and performance audits is exacerbated by perceptions the QAO does not understand the needs of clients and is unwilling to provide advice about good practice.⁴⁴

QAO comment

The then Acting Auditor-General acknowledged the risks associated with poor client relationships and the need to balance the independence of the office while establishing relationships with clients to make recommendations that 'speak to the efficiency, effectiveness and economy of government service delivery'.⁴⁵ He noted that the key message from the reviewers was that to achieve full effectiveness there are some client relationship issues that, if they were to become widespread, would limit the QAO's potential. He noted that the QAO's vision of better public services recognises the importance of focusing on its clients.⁴⁶

In terms of building relationships with clients in the performance audit space, the QAO advised the committee:

Increasing the appropriation to allow us to do more in that space gives us more space to then enable our sector directors to build that relationship more and understand the context associated with that as well.

Within our current constraints I am planning to reduce the number of outputs that we produce to give our performance auditors more time up-front and, post tabling of the report, to work

⁴⁰ Strategic Review Report, pp 77-78.

⁴¹ Strategic Review Report, p 78. The QAO *Performance Audit Practice Statement* factsheet is available at: <https://www.qao.qld.gov.au/sites/all/libraries/pdf.js/web/viewer.html?file=https%3A%2F%2Fwww.qao.qld.gov.au%2Fsites%2Fqao%2Ffiles%2Ffactsheets%2Fperformance%20audit%20fact%20sheet%20v2.pdf>

⁴² Strategic Review Report, pp 87-88.

⁴³ Strategic Review Report, p 85.

⁴⁴ Strategic Review Report, pp 24-26.

⁴⁵ Public briefing transcript, Brisbane, 10 May 2017, p 1.

⁴⁶ Strategic Review Report, Appendix 7.

through the issues and understand the reasoning why to gain better adoption in that space. It is certainly something that I would do significantly more if I had the funding to do so. Recognising the recommendation from the strategic review, as you have mentioned, myself and the new Auditor-General I am sure will be putting significantly more effort well above and beyond that recommendation. Since acting into this role I have taken the approach of either myself or Brahman [the Acting Deputy Auditor-General] meeting with each of the DGs or senior members of the performance audits that we undertake at the start, generally as we are refining and shaping recommendations. I think that is working quite well, so more of that will be undertaken.⁴⁷

Additionally, the Auditor-General advised that since he commenced he has organised a program of visits and, as at 31 August 2017, had met with 21 public sector leaders with more visits, including to regional areas, scheduled.⁴⁸

Committee comment

It is important that the QAO maintains strong, balanced relationships with its clients to achieve the purposes and vision of the QAO. The committee supports this recommendation and the work being undertaken by the QAO to improve its relationships with its financial and performance audit clients. The committee will monitor the Auditor-General's management of client relationships as part of its ongoing oversight of the QAO.

With respect to improving its communication with audit clients around asset valuation requirements, the committee notes that the QAO produced and sought feedback on its better practice guide for asset valuations. At the time of drafting this report, the consultation on the guide had finished. Given the evident need for clear information on these matters, the committee recommends that the QAO ensure its final version of the guide be published in a timely manner to assist agencies in understanding the requirements for asset valuations.

Recommendation 1

That the Auditor-General ensure that the Queensland Audit Office Better Practice Asset Valuation Guide is available in a timely manner.

4.2 Resources – financial audit⁴⁹

The strategic reviewers recommended that:

...given:

- *the results of the Working for Queensland survey in 2016 which indicate that an unacceptably high number of staff consider that their workload is having a negative effect on their health, and*
- *additional audit requirements for 2016-17*

the QAO undertake a review of the 2016-17 fees budget for financial audit service for financial audits to:

- *determine whether it is realistic*
- *ensure that it can maintain audit quality, and*
- *consider optimal resourcing for the 2016-17 audits, including the mix of QAO staff, contracted-in staff and contract auditors.*

⁴⁷ Public briefing transcript, Brisbane, 10 May 2017, p 5.

⁴⁸ Correspondence from the Auditor-General, 31 August 2017, p 1.

⁴⁹ Strategic Review Report, pp 9-10, 101-103.

Financial audit – fees

The QAO conducts financial audits on a user-pays basis. The basic fees are set by the Treasurer in accordance with section 56 of the AG Act.⁵⁰

The QAO basic fees were reduced in 2014 by between 1.9 per cent to 3.9 per cent, with a weighted average of 3.1 per cent. The former Treasurer advised the committee that, as part of the government's payroll tax policy for departments effective 1 July 2014, all departments were exempt from paying payroll tax. The 2014 QAO basic fee reduction equated to the amount of payroll tax that the QAO was previously required to pay.⁵¹

As part of the 2015-16 budget process, the current Treasurer approved a 2.5 per cent per annum increase in the QAO fees charged for financial audits effective from 1 October 2016 to 1 October 2019.⁵² This was the first increase in fees since 2011.

The reviewers noted a decline in real terms of financial audit fees of 1.1 per cent per annum since the previous strategic review.⁵³

The reviewers also noted that the weighted average cost per hour, excluding travel for contract auditors, in 2015–16 was \$150.42 per hour as compared with QAO's weighted average cost of \$144.01 per hour. The QAO does not pay payroll tax which, when compared with the profit margin of private sector firm, indicates that the average cost is comparable to the private sector.⁵⁴

Workload pressures for financial audit staff

Approximately 85 per cent of the QAO's work relates to financial audits.⁵⁵ In 2015-16, the strategic reviewers noted the QAO issued 435 financial audit opinions.⁵⁶

The reviewers commended the QAO for responding to the need to 'do more with less resources' and recognised the importance of efficiently using public resources. However, the reviewers also concluded that some of the QAO efficiencies have gone so far as to be counter-productive and the QAO now lacks sufficient resources to perform at peak efficiency and effectiveness.⁵⁷

The efficiencies gained by the QAO have also had a significant negative impact upon staff and, as noted above, on client relationships and perceptions of the professionalism of the QAO.

The reviewers noted some clients complained about turnover of audit teams and difficulties in receiving timely input from more senior staff for those working offsite, which impacts on the efficiency of an audit.⁵⁸ There were also assumptions made by clients of a shortage of QAO staff. Some clients

⁵⁰ Section 56 of the AG Act permits the Auditor-General to charge fees – as well as reasonable costs and expenses incurred – for an audit, this includes setting basic rates for audit fees with the Treasurer's approval. The Auditor-General must have regard to the basic rates when assessing the fees for an audit. The monetary resources to conduct financial audits are collected by the QAO through this mechanism under the Act.

⁵¹ Correspondence from Mr Tim Nicholls MP, former Treasurer, 24 June 2014.

⁵² Strategic Review Report, p 56; Correspondence to the Finance and Administration Committee from Hon. Pitt MP, Treasurer, 5 July 2016.

⁵³ Strategic Review Report, p 57; Public briefing transcript, Brisbane, 19 April 2017, p 3.

⁵⁴ Strategic Review Report, p 55.

⁵⁵ Public briefing transcript, Brisbane, 10 May 2017, p 5.

⁵⁶ Strategic Review Report, p 98. The QAO Annual Report for 2016-17 states the QAO issued 436 financial statement audit opinions in 2016-17 (at page 12).

⁵⁷ Strategic Review Report, p 9.

⁵⁸ Strategic Review Report, p 103.

considered that the staff shortage is due to the QAO being unable to pay market rates for staff and instead employing 'second-rate staff'.⁵⁹

The reviewers did not accept these assumptions but acknowledged that comments such as these are evidence of issues that need to be addressed.⁶⁰

Impacts upon staff

Each year the Queensland Government surveys public sector employees using the *Working for Queensland Survey*.⁶¹ In 2015, 27 per cent of QAO staff provided negative responses to the questions around their workload and health.⁶² In 2016, this increased to 40 per cent and placed the QAO in the bottom 20 per cent of the Queensland public sector with regard to staff feeling overloaded with work, burned out and that their workload is having a negative impact on their health.⁶³

The reviewers noted evidence during the review consistent with this survey result and noted advice from the QAO that a range of measures were implemented to address the concerns identified in the staff survey:

It is improving the sophistication of its workforce planning systems. It is encouraging staff to focus on health and well-being and providing stress tolerance sessions for staff and, in 2017, providing sessions on work/life balance and personal effectiveness.

It is also running workshops with staff to better understand the underlying issues, and to involve staff in identifying actions that might improve the situation. The workshops have identified as issues:

- *long hours, and long hours sitting;*
- *insufficient planning and allowance for contingencies creates high or unrealistic workloads;*
- *inconsistent distribution of workloads;*
- *insufficient delegation of tasks;*
- *insufficient communication within and across teams when help is needed.*

The QAO is taking steps to address these issues, including creating two new director positions that it is currently recruiting to fill. It has also enhanced its graduate intake programme.⁶⁴

QAO comment

The QAO advised the committee that the recommendation in the strategic review relating to resourcing for financial audits recognises the need to mature the pricing model used for financial audit. This is a strategic priority for the QAO, and the implementation of new enterprise resource planning systems will assist in this process.⁶⁵

The Auditor-General advised that as part of the planning for the 2017-18 financial audits he will 'consider the appropriateness of audit fees and associated resourcing and quality implications.'⁶⁶

⁵⁹ Strategic Review Report, p 9.

⁶⁰ Strategic Review Report, p 10.

⁶¹ See: <https://www.forgov.qld.gov.au/working-queensland-survey>

⁶² Ibid. See the 2015 Working for Queensland survey results highlight report for the QAO, p 3.

⁶³ See the 2016 Working for Queensland survey results highlight report for the QAO, p 4:
<https://www.forgov.qld.gov.au/working-queensland-survey>

⁶⁴ Strategic Review Report, p 102.

⁶⁵ Public briefing transcript, Brisbane, 10 May 2017, p 2.

⁶⁶ Correspondence from Mr Brendan Worrall, Auditor-General, 31 August 2017.

With respect to the results of the 2016 *Working for Queensland Survey* the QAO indicated that measures put in place to improve the health and wellbeing of QAO staff have not been as effective as hoped, noting the existing constraints in the office.

The issue around workload health and safety in the QAO that our staff have clearly identified to us through the employee opinion survey Working for Queensland is one that is fairly clear. To bring it into a real issue as it stands today, I have a shortfall of a reasonable number of auditors as we move into the busy period of signing those statements. In terms of the ability to attract those staff, the efforts that we have undertaken have not resulted in the outcomes that we would seek to achieve, and the basic reason for that is that our ability to attract lateral hires from the private sector from the talent pool of accountants and external auditors that we draw from is limited at certain levels by the remuneration that we can pay, compounded by some of the conditions of employment relating to working hours, to the benefits et cetera associated in that space.⁶⁷

Recruitment, remuneration and retention of staff is discussed further at 4.4 below.

Committee comment

The QAO's focus on efficiency since the previous strategic review is evident. However, as noted by the reviewers, the level of efficiencies has had detrimental impacts upon the health and wellbeing of its staff. This is not acceptable and must be addressed, and it will be monitored by the committee moving forward.

However, the committee strongly refutes the views expressed by some clients that QAO staff are 'second rate' and notes the reviewers also rejected this proposition. When asked if they believed the pressure on staff was compromising the quality of the financial audits, Ms Smith replied:

No, I do not think we have that evidence and I would not want to suggest that they are compromising on quality. What we are saying is, 'Can you just stop and think and test before you run the risk of compromising on quality?' I think the stress for staff arises because the reporting dates are almost all at the same time. They are different for Education, but if some poor sector director is trying to get 25 audits signed off in about two or three days, then the staff are in a queue saying, 'But what about my issue?' It is pressure on them. It is inevitable.⁶⁸

Given the findings of the strategic reviewers that the basic rates for audit fees have had little impact on audit fees, the 2.5 per cent increase per annum to the basic rates set by the Auditor-General for financial audits from 1 October 2016 is not likely to address the QAO's resourcing concerns.

The committee notes the 2017-18 budget contains an additional internally funded increase in FTEs of 13 A03 graduate financial auditors to address workload issues.⁶⁹ The 2017-18 budget service delivery statements provide:

The increase in budgeted Employee expenses for the 2017-18 Budget against the 2016-17 Estimated Actual of \$2.0 million is mainly due to a higher audit full time equivalents (FTEs) and approved salary increases under the Enterprise Bargaining arrangements. The increase in audit FTEs is to bring the QAO's staff numbers to its planned establishment, to meet its legislative requirements for the certification of annual financial statements. QAO has experienced a significant resource gap which has been mitigated by staff achieving higher utilisation than

⁶⁷ Public briefing transcript, Brisbane, 10 May 2017, p 2.

⁶⁸ Philippa Smith, public briefing transcript, Brisbane, 19 April 2017, p 4.

⁶⁹ Correspondence from Mr Anthony Close, Acting Auditor-General, 1 June 2017

*planned. The high number of hours being undertaken by audit staff is not sustainable and it has been identified as a material issue for the office.*⁷⁰

The committee sought advice from the QAO at a hearing on 10 May 2017 with respect to the results of 2016 Working for Queensland staff survey. The QAO implemented a strategic workforce plan 2016-20.⁷¹ The then Acting Auditor-General advised this was aimed at addressing the issues raised by staff in response to the surveys. While the committee notes the purpose of the plan is to address workforce capacity by, for example, using new engagement strategies, there is little detail in the plan as to what steps the QAO will actually take to address the workload issues. The additional 13 staff should help.

The committee will seek updates on the Auditor-General's considerations, and plans, with respect to fees and resourcing for the 2017-18 financial audits. Additionally, the committee will continue to pursue the issues around the QAO's management of workload issues generally. While we note the fluctuation of the workloads, we expect to see action resulting in improvements.

The workload issues with respect to financial audits are to some extent outside the control of the QAO. 157 of the 187 entities met their legislative timeframes for financial reporting for the 2015-16 year. 15 of the 21 departments' financial statements were certified on the 31 August cut-off date. This was despite the former Under Treasurer strongly encouraging the departments to implement strategies that would allow for earlier completion of financial reports. These strategies include completion of asset valuations by 31 March each year which requires entities to plan and to engage valuers in sufficient time.⁷²

In its Report on the results of the 2015-16 state government financial audits, the QAO stated:

*To achieve these timeframes, those charged with governance will need to ensure they understand and agree with the assumptions, inputs, and processes used by the valuers and disclose them in their financial statements. They will also need to allow enough time to interpret, evaluate, and challenge the results.*⁷³

Accordingly, the committee recommends that the Premier and Treasurer ensure that all Ministers and departments are advised of the need to, and an expectation that they will, ensure timely preparation and submission of financial statements to the QAO.

Recommendation 2

That the Premier and Treasurer advise all Ministers and departments of the need to and expectation that they will ensure timely preparation and submission of financial statements to the QAO.

4.3 Performance audit

The strategic reviewers recommended that:

...the QAO's funding for performance audits be doubled to give the QAO:

- *greater flexibility to engage earlier and better with its performance audit clients*

⁷⁰ 2017-18 Queensland State Budget - Service Delivery Statements - Department of the Premier and Cabinet, p 21, available at:

<http://www.parliament.qld.gov.au/documents/tableOffice/TabledPapers/2017/5517T936.pdf>

⁷¹ Queensland Audit Office, strategic Workforce Plan 2016-20:

https://www.qao.qld.gov.au/sites/all/libraries/pdf.js/web/viewer.html?file=%2Fsites%2Fqao%2Ffiles%2Fstrategic_workforce_plan_2016-20_1.pdf

⁷² Queensland Audit Office, *Report No. 8: 2016-17 – Queensland state government: 2015-16 results of financial audits*, pp 2-3.

⁷³ Queensland Audit Office, *Report No. 8: 2016-17 – Queensland state government: 2015-16 results of financial audits*, p 3.

- *more scope to engage expert resource for audits and to increase sector expertise among its staff, and the capacity to deliver a wider range of assurance on the performance of Queensland public sector agencies.*⁷⁴

As noted above, the AG Act was amended in August 2011 to allow the Auditor-General to undertake performance audits, after a recommendation was made in the 2010 strategic review of the QAO.

With regard to the role of performance audit and reporting to parliament, the strategic reviewers stated:

*...in the absence of strong performance reporting—and I know that there is some performance in the service delivery statements, but comprehensive reporting and certainly audited information—the role of the office with regard to performance audits is playing an important role, because that is one mechanism by which the parliament and your committee have the opportunity to be able to consider the performance that is being achieved in particular areas of government.*⁷⁵

Overall, the strategic reviewers found that the QAO applies the performance audit methodology appropriately and that it conducts audits, on balance, efficiently. The reviewers also commended the QAO for the effectiveness measures it applies.⁷⁶

As noted above, the funding for the QAO performance audits is from the parliamentary appropriation. In 2016-17, the QAO budget was \$6,629,000. The 2017-18 budget is \$6,670,000. The overall budget is used for purposes other than solely conducting performance audits. In its 2015-16 annual report, the QAO states that 78% of the 2015-16 budget was used on its performance audit program and reports to parliament.⁷⁷

The QAO's 2016-17 Annual Report notes that \$3.8 million of parliamentary funding was spent on performance audits in 2016-17; \$4,065,614 was spent on performance audits in 2016-17.⁷⁸ Based on the 2016-17 parliamentary appropriation, approximately 57 per cent of the funding provided by parliament was spent on performance audits.

The reviewers concluded that the QAO is doing as much as it can with its current performance audit budget and doubted there were any further efficiencies to be found.⁷⁹ They considered the performance audit program, with 17 staff (16.6 FTE) is under-resourced.⁸⁰ The team consists of:

- one Assistant Auditor-General
- three audit directors
- seven audit managers
- four senior auditors
- two auditors.⁸¹

Pressures on staff arise because a high percentage of their time allocated to audits is used to manage costs and delays in the completion of audits. Due to small audit teams, delays can occur, including for

⁷⁴ Strategic Review Report, p 13.

⁷⁵ Public briefing transcript, Brisbane, 19 April 2017, p 5.

⁷⁶ Strategic Review report, pp 72, 74 & 75.

⁷⁷ Queensland Audit Office, Annual Report 2015-16, p 18.

⁷⁸ Queensland Audit Office, Annual Report 2016-17, pp 13 & 42.

⁷⁹ Strategic Review report, pp 90.

⁸⁰ Strategic Review Report, pp 10, 65 & 90.

⁸¹ Strategic Review Report, p 91.

example where team members move between audits. Staff advised the reviewers that they are pressured to meet ambitious timeframes.

Compounding the pressures, senior performance audit staff raised concerns that they are required to take on audit roles which limits their ability to provide strategic and overarching support and advice to subordinate staff.⁸²

The reviewers considered the employment of more junior staff in the performance audit team could address these issues. Given the lack of an external market for performance auditors, the QAO should recruit junior staff from a range of backgrounds and provide training in auditing.⁸³

A recurrent issue, as noted above, was a lack of understanding of clients' business. In its consideration of the 2010 strategic review, the Public Accounts and Public Works Committee (PAPWC) recommended that the QAO utilise subject area experts and arrange secondments from within departments during the audits; not just to review findings and reports at the end of the audit. The reviewers noted that the QAO has used experts in the way suggested but it comes at a cost. Accordingly, the reviewers suggest that if funding is increased, the QAO's spend on expert resources 'should be doubled at least'.⁸⁴

Strategic audit planning

In developing its three-year rolling strategic audit plan (SAP) each year, the QAO seeks to understand the important issues by continuous environmental scanning and engaging with its stakeholders. It then assesses and determines what to audit before communicating the draft and final plan. The 'environmental scanning' includes consultation with parliamentary committees and public sector entities and a website page which invites the public to suggest audit topics. Staff can also suggest audits.⁸⁵

For the 2016-19 SAP, the reviewers note the QAO had a list of around 90 potential audit topics which were assessed and scored against 12 'business drivers', including the relevance to key stakeholder groups, significance, and the QAO's ability to provide insights and assurance, priority and timing. The executive management group then considers the shortlisted topics and determines the draft SAP. The draft SAP includes around 10 or so topics for each of the forward three years. The QAO then consults with the committee and, recently, with the executive management groups of departments on the draft SAP. Following consultation, the final SAP is published on the QAO website.⁸⁶

The reviewers found that despite the comprehensive process to develop the SAP, the drivers did not ensure direct consideration of the improvement of the performance of the public sector, which is the QAO's primary objective, nor the value of the audit to the client.⁸⁷

The costs of developing the SAP equates to roughly the cost of an average performance audit. The reviewers expected the earlier plans to cost more, as they would involve the cost of developing the planning system, but those costs should have fallen, not increased. While it is important that the QAO use its limited budget to carefully select the topics that will be most valuable, around 40-50 of the 90 topics for 2016-19 had merit and so less care could be taken to choose from them. Further, of the 12 topics for the third year of the SAP, only around 50 per cent will be actually undertaken, as topics will be removed for various reasons and as circumstances change over the years.⁸⁸

⁸² Strategic Review Report, pp 10-11, 89-92.

⁸³ Strategic Review Report, p 91.

⁸⁴ Strategic Review Report, p 91.

⁸⁵ Strategic Review Report, p 93.

⁸⁶ Strategic Review Report, pp 93-94.

⁸⁷ Strategic Review Report, pp 95-96.

⁸⁸ Strategic Review Report, p 96.

As per the recommendation outlined above, the reviewers consider that the performance audit budget should be doubled to allow the performance audit team to deliver more. Ms Smith stated:

They could stop trying to rob Peter to pay Paul. They could have a bigger resource so that you do not have two people on an audit getting stretched. You could have three doing a slightly more considered and comprehensive job. That is not to say that what they have been producing now is bad—it certainly is not. I am saying that it could be better and my suggestion was that, if you increase the resource, you can give them the flexibility to do what they are doing much better and much more effectively. It was not a question for us as to whether performance auditing was a good or bad thing; it is there and parliament made that decision five years ago.⁸⁹

Implementation of performance audit recommendations

The QAO has an effectiveness measure for performance auditing requiring 100 per cent completion of its recommendations to be implemented by the relevant agencies.

The committee is aware of the challenges facing the QAO in monitoring and enforcing the implementation of agreed audit recommendations. The achievement of this performance measure is outside of the control of the QAO. In its latest annual report, the QAO reports that agencies advised that they had fully implemented 86 per cent of accepted recommendations from performance audit reports tabled in Parliament during 2014-15.⁹⁰

QAO comment

In accepting the recommendations in the strategic review, the then Acting Auditor-General wrote:

I support the recommendations that the government ... double the QAO's funding for performance audits to enable us to engage earlier and better with our clients, increase our use of external experts and increase sector knowledge, and to provide a wider range of assurance on the performance of Queensland public section entities [5.7(iv)].

This will enable the QAO to realise its full potential in effectiveness and we are well placed to apply additional funding to good effect in improving the efficiency, effectiveness and economy of government service delivery.⁹¹

The QAO advised the committee that it conducts around 12 performance audits per year.

Currently with our performance audit mandate, we do around 12 audits a year. In that kind of funding model, with some of the fairly critical programs that we should look at and that would be of benefit to government, we might only be able to have a look at once every 10 or 15 years. ...we have a topic list which is driven by analysis and from talking to the sector that is quite meaningful, but we are really picking on those really critical ones. Some of the benefits to entities is really getting in a lot earlier when programs start. For example, with the NDIS and those very large initiatives, it is being able to get in earlier and help entities to really get their heads around how they are tracking, as opposed to coming in halfway or three-quarters of the way into a fairly significant program... I think it is about appropriate critical mass. Really, when you talk about doubling it does sound huge—100 per cent—but in terms of what that means in dollars, it is pretty reasonable.⁹²

Further:

In terms of the overall value... I can certainly say that doubling is a minimum. We are always happy to help more in that space, but if I look at it in comparison to the investment in consulting

⁸⁹ Public briefing transcript, Brisbane, 19 April 2017, p 5.

⁹⁰ Queensland Audit Office, Annual Report, 2016-17, p 13.

⁹¹ Strategic Review Report, Appendix 7

⁹² Private briefing transcript, Brisbane, 10 May 2017.

*budget across government, I certainly think a shift and move in this space with the independent integrity organisation would be very well-placed.*⁹³

As noted above, the parliamentary appropriation for the QAO increased from \$6.629 million in 2016-17 to \$6.670 million for 2017-18.⁹⁴

Committee comment

The committee recognises the value of the QAO's performance audits in improving the public sector and informing the parliament of the achievements and areas of concern within Queensland Government agencies. The committee agrees that there are undoubtedly efficiencies to be gained in the strategic audit planning process. In this respect, members of the committee have raised issues with the preparation, particularly around the level of 'environmental scanning' undertaken by the QAO which included scanning the topics of debate in the Legislative Assembly. Members noted that the political discourse in that particular forum may not be the most appropriate guide as to suitable topics for performance audits.⁹⁵

The QAO advised that, in light of current constraints, fewer performance audit reports will be planned to allow for auditors to focus on improving relationships with clients at the commencement of a performance audit and once a report is tabled.⁹⁶

The recommendation for increased funding is not unexpected and would undoubtedly increase the number and scope of performance audits undertaken by the QAO.

The QAO tabled 12 performance audits in the 2016-17 financial year.⁹⁷ The QAO's website identifies nine performance audits for completion in 2017-18.⁹⁸

The QAO did not make a funding submission to the 2016-17 Mid-Year Fiscal and Economic Review. It stated that this was because the Treasurer advised that the Cabinet Budget Review Committee (CBRC) would only consider an increase in funding to the QAO if:

- the CBRC had requested a submission from the QAO, or
- there was an unforeseen issue representing an immediate risk to service delivery which could not be managed otherwise.

The QAO advised that as neither of these conditions were met, it did not make a submission. Also, the QAO did not make a funding submission with respect to the performance audit program specifically as it was awaiting a response from the government to this strategic review. It has however secured approval for the additional 13 graduate financial auditors as they will essentially be covered in the 'user-pays' work undertaken by the QAO.⁹⁹

The QAO addressing resourcing issues by reducing the number of performance audits is not ideal in terms of achieving the purpose of the performance audit mandate, to improve the public sector. While the committee agrees that an increase in funding could assist the QAO to undertake more audits and to address the resourcing issues, the committee sees no evidence of why or how the reviewers reached the recommendation for a 100 per cent increase in the current funding. Nor is there any detailed

⁹³ Public briefing transcript, Brisbane, 10 May 2017, p 5.

⁹⁴ 2017-18 Queensland State Budget - *Service Delivery Statements* - Department of the Premier and Cabinet, p 122.

⁹⁵ Public hearing transcript, Brisbane, 22 March 2017, pp 6-7.

⁹⁶ Public briefing transcript, Brisbane, 10 May 2017, p 5.

⁹⁷ Queensland Audit Office, Annual Report 2016-17, p 13.

⁹⁸ Queensland Audit Office, <https://www.qao.qld.gov.au/audits/audits-in-progress> [accessed 29 September 2017]. One performance audit was tabled on 19 September 2017, a further eight are currently in progress.

⁹⁹ Correspondence from Mr Close, Acting Auditor-General, 1 June 2017.

analysis of what a 100 per cent increase would achieve in terms of the number of additional audits, etc.

The committee is not aware of any detailed business case or other significant analysis undertaken (outside of the work in the strategic review) to support the recommendation to double the QAO's performance audit budget. Accordingly, the committee will continue to engage with the Auditor-General with respect to the resourcing needs of the QAO.

The committee also recommends that the QAO prepare a detailed analysis of any additional funding it requires and ensure the committee is included and aware of any approaches to the Treasurer/ CBRC for future funding increases.

Recommendation 3

The committee recommends the QAO prepare a detailed analysis of any additional funding it requires and ensure the committee is included and aware of any approaches to the Treasurer/ CBRC for future funding increases.

With respect to the QAO's effectiveness measure for implementation of agreed performance audit recommendations, the committee encourages Ministers to reflect the importance of the QAO's recommendations, and agencies' implementation of those recommendations, in accordance with any prescribed timelines.

The committee also notes the role of portfolio committees in the monitoring and oversight of agencies' implementation of the Auditor-General's recommendations. The committee will be working with the Auditor-General going forward to ensure that this goal is achieved.

Recommendation 4

The committee recommends Ministers outline to their agencies the importance of the implementation of the QAO's performance audit recommendations, in accordance with any prescribed timelines.

4.4 The QAO's ability to recruit, retain and remunerate staff

The strategic reviewers recommended that the AG Act be amended to:

- *provide for the Auditor-General's employment of QAO staff under the AG Act rather than under the Public Service Act*
- *give the Auditor-General the authority to employ the staff necessary to carry out the Auditor-General's functions, and*
- *enable the Auditor-General to determine the remuneration and other terms and conditions of employment of QAO staff.*¹⁰⁰

The strategic reviewers found the QAO is legislatively constrained in effectively addressing pressures on staff and filling vacancies. It struggles to attract and retain enough audit staff because it cannot offer sufficiently attractive remuneration or conditions of employment. The current legislative framework treats the QAO as part of the executive and subject to government control. As such the Auditor-General's ability to employ staff and determine remuneration and conditions are limited to the public service classification levels and remuneration rates.¹⁰¹

The reviewers noted the QAO needs to fill senior staff vacancies, mainly in the financial audit group, and that it has a continuous recruitment process in place. However, the QAO is impeded in hiring suitable candidates often due to the remuneration it can offer, recognising that promotion from within is a more desirable option. The reviewers noted that while the performance audit team was fully

¹⁰⁰ Strategic Review Report, p 13.

¹⁰¹ Strategic Review Report, p 103.

staffed as at 31 October 2016, it comprised contract staff who did not wish to take up permanent employment because of the QAO's remuneration and conditions of employment.¹⁰²

The review identified two impediments to filling senior vacancies by promotion:

- the additional remuneration is off-set by the lack of flex time and there is little incentive for audit managers to seek promotion, and
- preparing staff for promotion requires careful and tailored mentoring and training which is less likely to occur when resources are stretched.

The reviewers note the QAO has engaged with the Public Service Commission (PSC) to improve the remuneration of staff at more senior levels to an extent. While this led to the QAO offering contracts to some senior staff under section 122 of the *Public Service Act 2008*, it has not addressed the wider issues with respect to the remuneration of QAO staff.¹⁰³

In 2014, the QAO engaged advisors to review the remuneration and grading systems within the QAO and to advise on a more appropriate structure. This review concluded that the eight public service remuneration classifications lacked flexibility and did not sit well with the QAO's work. Similar roles fell into different grades and were paid differently, and small changes in jobs gave rise to the need to reclassify jobs. The QAO's remuneration (at that time) was on average 20 per cent lower than the 25th percentile (the point at which 75 per cent of firms pay more and 25 per cent pay less) compared to 200,000 positions from 600 organisations across Australia. The disparity increased with the more senior positions for example directors and sector directors. These are the levels for which the QAO has the greatest difficulty in recruiting. A revised structure was recommended that would involve moving 95 positions to the minimum point recommended and would have cost \$883,000 per year. The QAO however, cannot implement any new remuneration structures while it is legislatively bound to employ staff under the *Public Service Act 2008*.¹⁰⁴

The reviewers consider that the Auditor-General should be able to employ staff under the AG Act and outside the public service framework. In setting terms and conditions of employment, the Auditor-General could be required to have regard to:¹⁰⁵

- the public service terms and conditions, where appropriate, which would be for most non-audit positions, and/or
- remuneration rates paid by auditing firms in Queensland.

QAO comment

In accepting the recommendations in the strategic review, the then Acting Auditor-General stated:

I support the recommendations that the government... amend the Auditor-General Act 2009 to enable me to employ QAO staff under this Act rather than the Public Service Act, to allow me to employ the staff necessary to carry out the auditor-general's functions, and to enable me to determine the remuneration and other terms and conditions of employment of QAO staff [6.3 (ii)].

*This is a fundamental issue that has been raised as recommendations in successive strategic reviews. We have done everything that we can do within our constraints, but we require a change to our legislation to mitigate the associated risks you have identified.*¹⁰⁶

¹⁰² Strategic Review Report, pp 103-104.

¹⁰³ Strategic Review Report, p 105.

¹⁰⁴ Strategic Review Report, p 104.

¹⁰⁵ Strategic Review Report, p 105.

¹⁰⁶ Strategic Review Report, Appendix 7

Committee comment

The committee is aware of the difficulties of the QAO to recruit and retain staff. These issues and those around remuneration levels have been raised in every strategic review since 1997.

Recruitment, retention and remuneration of staff has impacted on, and continues to constrain the QAO's measures to improve, staff well-being and health. With regard to the QAO's engagement with the PSC to improve remuneration of staff at higher levels, the PSC advised the former committee that the Auditor-General utilises section 122 of the *Public Service Act 2008* to recruit staff under contract in order to provide different remuneration.¹⁰⁷

Earlier this year, the QAO told the committee that the measures implemented in conjunction with the PSC have not been successful:

*...the PSC advised that there were options and opportunities that we can pursue within the Public Service Act. We have implemented all of those options; however, the issues that are core to the conditions of employment issues [sic] remain for us. We have partially – but not fully – solved those issues for the wider staff.*¹⁰⁸

This matter does not appear to have been satisfactorily resolved and therefore the committee will give further consideration to this recommendation. In doing so, the committee will seek and review the external assessors 2014 report regarding the remuneration structure within the QAO and will consult again with the Premier as the Minister responsible for the QAO and the Treasurer given his responsibility for consulting with the committee with respect to the QAO budget.

4.5 Independence of the Auditor-General¹⁰⁹

The strategic reviewers recommended that:

- *the Auditor-General become an independent Officer of Parliament*
- *the Auditor-General's independence be strengthened in line with the suggestions made by the QAO in its submission to the Finance and Administration Committee's 'inquiry into the legislative arrangements assuring the Auditor-General's independence', and*
- *subsections 56(3) and 56(4) of the Auditor-General Act be repealed.*¹¹⁰

The strategic review found that the current legislative framework of the QAO is not appropriate for an audit office in a mature democracy.

While acknowledging there was no evidence that the Queensland Government has attempted to constrain the operations of the QAO, the reviewers highlighted a number of concerns about the QAO's legislative structure impacting on its ability to independently fulfil its legislative mandate:

*The basic principle of audit independence is that an auditor must be independent as far as possible of the entity he or she is auditing. The auditee must not be able to influence the scope of the audit work or the reporting of the auditor's opinion. In the case of an Auditor-General, the auditee is primarily executive government.*¹¹¹

¹⁰⁷ Public hearing transcript, Inquiry in the Legislative Arrangements Assuring the Auditor-General's Independence, 12 February 2014, p 11.

¹⁰⁸ Public briefing transcript, Brisbane, 10 May 2017, p 4.

¹⁰⁹ Strategic Review Report, pp 12, 120-127.

¹¹⁰ Strategic Review Report, p 14.

¹¹¹ Strategic Review Report, p 121.

The reviewers found:

- The Auditor-General is not an independent Officer of the Parliament, to the extent the Auditor-General is not free from influence by the executive in the regards to appointment and resourcing under the AG Act.
- Section 56 of the AG Act provides that the Auditor-General may set audit fee rates only with the Treasurer's approval, effectively treating the QAO as if it were part of the executive and subject to government control.
- The Auditor-General's ability to employ staff and determine remuneration and conditions of employment is constrained, affecting recruitment and retention of staff. This is a consequence of the QAO being a public service office for the purposes of the *Public Service Act 2008* and a department for the purposes of the *Financial Accountability Act 2009*.

The reviewers noted that while few other practical consequences of the Auditor-General's lack of independence from the executive were identified, the Auditor-General's independence should have an appropriate legislative basis.

QAO comment

The QAO advised the committee with respect to the independence of the office:

*For us it is our No. 1 strategic initiative around increasing and assuring the independence of the Auditor-General. We think it is absolutely critical, as we have said on a number of occasions since 2014. We are very comfortable with the mandate of the office as a mature, independent function operating with the Queensland Government, but the management and autonomy of the office does constrain us.*¹¹²

With respect to the budget process which resulted in the increased graduate financial auditors, the then Acting Auditor-General advised the committee:

*Whilst I have received approval from the Department of Treasury and Trade to increase FTEs, the existence of this administrative process could be perceived as a constraint on the independence of the role of the Auditor-General by the government of the day. As an independent office, my preference is that the QAO budget is agreed through parliamentary committee oversight, rather than through the public sector processes intended for departments that receive appropriation to achieve government objectives.*¹¹³

Committee comment

The committee notes the issues raised by the reviewers with respect to the independence of the Auditor-General. These issues were canvassed in the inquiry commenced by the former committee into the legislative arrangements assuring the independence of Queensland's Auditor-General. This committee reported on that inquiry in June 2016 and reserved any comments to allow the strategic review to proceed without any undue interference from a committee inquiry.

Section 56(3) and (4) of the AG Act provide:

(3) The auditor-general may, under the Treasurer's approval, decide the basic rates of fees.

(4) The auditor-general must assess the fees for an audit having regard to the basic rates of fees decided under subsection (3).

¹¹² Public briefing transcript, Brisbane, 10 May 2017, p 2.

¹¹³ Correspondence from Mr Close, Acting Auditor-General, 1 June 2017.

As noted in the committee's June 2016 Report, the former Auditor-General advised the former committee:¹¹⁴

- that most Auditors-General in Australia and New Zealand have the ability to determine the fees they charge for their audit services without the requirement for executive approval.
- the existing requirement for the Treasurer to approve the Auditor-General's basic fee rates effectively provides the executive government with the ability to significantly influence, if not control, the financial resources available to the Auditor-General. He noted that if requested fee rate increases needed to fully recover costs are not approved, the alternative is not to undertake necessary audit work leading to a limitation of audit scope. The Auditor-General advised that as audit fees represent approximately 85 per cent of the QAO's total annual revenue, any restriction on these fees will significantly impact on the QAO's operations.
- this matter relates to INTOSAI's principle 8 – Financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources.
- the audit fees QAO charges recover both the direct and indirect costs associated with providing the audit services and do not include a profit element. To ensure the audit fees are sufficient to recover the costs of providing the audit services it is imperative that the basic fee rates continue to move in line with the cost of providing audit services.
- the Auditor-General's independence can be strengthened if the accountability for ensuring the fees remain reasonable was to the parliament and not the executive government. He suggested that the appropriate balance between independence and accountability could be achieved by parliament performing its oversight functions through:
 - the process for establishing the QAO's annual budget, and
 - the 5 yearly strategic reviews of the QAO required by the AG Act.

The reviewers noted one instance, where a former Treasurer refused an increase in the basic rates for fees in accordance with section 56(3) of the AG Act, though this occurred following a recent significant increase in the rate.¹¹⁵

The committee sought comments from the Treasurer and Premier with respect to some of the recommendations of the reviewers. The committee did not receive any response from the Premier. The Treasurer does not support the recommendation to repeal section 56(3) and (4) from the AG Act (refer **Appendix D**).

*The purpose of obtaining the Treasurer's approval is not to limit the Auditor-General's independence, but to ensure a whole of government perspective is applied to any increases. Similarly, proposals for additional funding for performance audits should be subject to the discipline of the annual Budget process to allow the assessment of competing priorities. As the QAO is a department for the purposes of the Financial Accountability Act 2009, it should be subject to normal government approvals for revenue raising.*¹¹⁶

The current Auditor-General did not provide any comments in response to the recommendations around the independence of the Auditor-General noting that he would await the committee's consideration.¹¹⁷

¹¹⁴ Finance and Administration Committee, Report no. 23, Inquiry into Auditor-General's independence, June 2016, pp 32-33.

¹¹⁵ Strategic Review Report, p 125.

¹¹⁶ Correspondence from Hon Pitt MP, Treasurer and Minister for Trade, 29 August 2017.

¹¹⁷ Correspondence from the Auditor-General, 31 August 2017.

The committee appreciates the intention of the recommendation is to strengthen the independence of the Auditor-General. As noted above, the committee will liaise with the current Auditor-General around issues of resourcing and will consider the external advisors' 2014 report regarding the remuneration structure of the QAO.

The independence of the Auditor-General is recognised in several ways, including:

- The Auditor-General is not subject to direction.
- The scope and topics of the audits undertaken by the QAO and the resultant recommendations in the reports on these audits do not suggest the Auditor-General is not independent.
- The AG Act provides that the Speaker is to table reports of the Auditor-General in the parliament without any intervention, or approval process, from any Minister.

The committee agrees with the Treasurer around the need to provide funding for the QAO in the context of a whole of government perspective. One instance of a refusal to approve an increase in fees does not amount to a limit on the independence of the Auditor-General and does not warrant the repeal of section 56(3) and (4) of the AG Act.

5 Operational Recommendations

The strategic reviewers made 27 operational recommendations. While the majority of the operational recommendations are for the QAO to consider and implement where necessary, the committee considered the following operational recommendations in more detail.

5.1 Small and low risk audits (recommendation 4.6 (i))

The 2010 strategic reviewers recommended that the AG Act be amended to allow the Auditor-General to exempt small and low risk clients from financial audit.¹¹⁸ The AG Act was amended in 2011 to this effect, inserting section 30A. The Queensland Auditing Standards were subsequently amended in 2012, incorporating criteria to determine whether a public sector entity is small and low risk.

The reviewers state there were 28 entities that are exempt from audit under section 30A, including a number of Hospital and Health Foundations. The reviewers noted some concerns were raised with the QAO, including by the Minister for Health in 2014, with regard to a number of Queensland Hospital or Health Foundations and health related organisations being exempted from financial audit.¹¹⁹

The strategic reviewers recommended the QAO 'assess the exemptions of Hospital and Health related foundations to determine whether the assessment of small and low risk continues to apply'.¹²⁰

QAO comment

As noted above, the QAO accepted all recommendations of the strategic reviewers within its control.

At a private briefing in May 2017, the then Acting Auditor-General noted the exemption is the exception to the rule that all entities will be financially audited. It acknowledges the cost burdens on some smaller entities of the regulatory compliance associated with audit. Mr Close advised that, sometimes, the largest expenditure item for some of these smaller entities is the audit fees. Mr Close also advised that, in determining whether to exempt an entity under section 30A of the AG Act, the QAO considers the size of the entity as one factor, and the risk level as another factor. Further, over the last few years, the QAO has implemented and refreshed this process and there is a lot more rigour around assessing the risk in that space.¹²¹

¹¹⁸ Strategic Review Report, pp 31-32.

¹¹⁹ Strategic Review Report, p 32.

¹²⁰ Strategic Review Report, p 32.

¹²¹ Private briefing, Brisbane, 10 May 2017.

It was noted that the strategic reviewers held the view that the QAO had gone too far with respect to exemption of hospital foundations; while those entities are small, they interplay with the large hospital and health services. The QAO currently uses a definition of small entities, similar to that used by the Australian Securities and Investment Commission (ASIC), and the exemptions it provides. In this respect, the committee was advised that the QAO would review the QAO current policy around exemptions.¹²²

Committee comment

The committee recognises the value in exempting small, low risk entities from financial audits, particularly with the example provided by the QAO where the largest expenditure they incur is the audit fees.

The committee will follow up with the QAO with respect to its review of its use of section 30A of the AG Act and its related policies.

5.2 Audit analytics (recommendations 4.8 (i) to (iv))

The QAO established a dedicated audit analytics team in May 2015 to advance the use of audit analytics in the conduct of audits. The strategic reviewers commended the initiative of the QAO in establishing this capability and noted that once it is fully implemented it is expected to deliver efficiencies in audits as well as savings for clients.¹²³

The audit analytics capability supports the audit process through the use of analytical procedures such as ratio analysis, trend analysis, regression analysis, etc. on data collected from agencies.¹²⁴ The strategic reviewers stated:

*It is evident that, if audit analytics is a mechanism for external audit which provides benefits exceeding cost within the audit process both for auditors and audit clients, and improves the quality of audit work, the technique of using audit analytics on the extensive level of data held by audit clients will have merit. Benefits may arise during all phases of the audit process including planning, risk assessment, testing of controls and substantive procedures and in drawing overall conclusions from the audit.*¹²⁵

However, in terms of implementation of the initiative, the strategic reviewers also identified a number of challenges and risks, including with regard to:¹²⁶

- the need to manage the change process, including training of staff and contractors who use the audit analytics system
- costs in establishing and using audit analytics, not least the cost of storing, analysing and producing reports, as well as to an auditee in arranging for data to be provided to the audit office
- the appropriateness of the QAO managing the information gathered and the possibility that the QAO could be taking on a consulting role as audit clients have expressed an interest in being able to access the reports produced by the QAO for their own use (which is outside of its mandate), and
- practical matters relating to the secure storage of data and privacy of information.

¹²² Private briefing, Brisbane, 10 May 2017.

¹²³ Strategic Review Report, pp 34-43.

¹²⁴ Strategic Review Report, p 35.

¹²⁵ Strategic Review Report, p 35.

¹²⁶ Strategic Review Report, pp 34-43.

The reviewers noted interest and efforts in other jurisdictions with regard to the collection and collation of whole-of-government data, including the establishment of a central source, such as in New South Wales which has established a Data Analytics Centre within the Department of Finance:

There appear to us to be benefits in managing and storing data of this nature centrally rather than multiple databases being established.¹²⁷

The strategic reviewers made the following recommendations relating to the audit analytics program:

- (i) The QAO closely monitor the results of the implementation of audit analytics taking place within the QAO to identify the costs and benefits of audit analytics in the delivery of audit services both for financial audits and for performance audits.*
- (ii) Formal reviews of the audit analytics programme be undertaken by the QAO following the audits for each of the next three financial years to assess the benefits arising from the use of audit analytics compared to the cost of same, including costs directly incurred by audit clients.*
- (iii) Actions continue to be taken to ensure that contract auditor firms will be able to integrate audit analytics into their audit methodology in providing audit services for the QAO.*
- (iv) The QAO consult with the Chief Information Officers at the Department of Science, Information Technology and Innovation, Department of Premier and Cabinet and Queensland Treasury to determine the viability of a data centre arrangement for the secure repository of whole of government data including financial data and, once it is established, the QAO cease to provide services to audit clients in regard to the access to data and the provision of reporting tools such as Qlikview dashboards to audit clients.¹²⁸*

QAO comment

The QAO advised it developed the audit analytics capability to improve efficiency and effectiveness. The system:

- uses automated processes for receiving data that our clients previously gave to us via email or on portable storage devices*
- uses automated scripting to ensure the data sets are complete and accurate*
- applies analytical techniques to common data sets to enable audit teams to focus their effort on investigating statistical outliers*
- continuously develops — where the ad hoc analysis on one audit may be of benefit to other audits, it is added to the set of standard analysis techniques*
- maintains client data within a secure environment managed by CITEC.¹²⁹*

The QAO advised that this capability reduces manual data collection, reduces costs of collecting and handling data, and improves information available to support decisions.¹³⁰

The then Acting Auditor-General sought the committee's assistance in sharing the audit analytics more widely noting legislative amendment would be necessary given the confidentiality provision (section 53 of the AG Act). Mr Close advised that several agencies had access to the QAO audit analytics information and there was opportunity to expand it for use by central agencies. A centralised data hub could hold data for use by departments (beyond the data that the QAO collects for audits). A

¹²⁷ Strategic Review Report, p 42.

¹²⁸ Strategic Review Report, p 43.

¹²⁹ Correspondence from Mr Close, Acting Auditor-General, 29 May 2017.

¹³⁰ Correspondence from Mr Close, Acting Auditor-General, 29 May 2017.

centralised hub would also mitigate the risk to the QAO, given the core purpose of the QAO does not include maintenance of such information.¹³¹

The development and expansion of the capability is funded through, and therefore restricted by, the QAO's appropriation. The QAO proposed that, in the short term, the AG Act be amended to allow the QAO to share whole-of-government information with central agencies and that infrastructure and storage investments be made. In the longer term, the QAO considered its role to be as a user of the data held in a centrally managed hub (similar to other central agencies) and as data verifier. In this respect, the QAO would need to reconcile the data before it could be used for audits, and could perform that function generally.¹³²

The current Auditor-General supports the government's development of a whole-of-government data solution. Mr Worrall advised that, providing the data required for audit purposes is available, accurate and complete, he would use the government data from such a solution. Mr Worrall notes the expertise of the QAO in this area may be transitioned to the government at a cost and will seek additional funding should the QAO hand over its solutions, processes and scripting for its audit analytics system.¹³³

Committee comment

The committee commends the staff of the QAO for developing the audit analytics tool. Members of the committee received a briefing and a demonstration of this capability and were very impressed at the ability.

The use of such a tool at a whole-of-government level would allow immediate access to and transparency of government spending, transitioning from high level categories to individual invoices in seconds. The potential uses of such a tool could identify waste and unnecessary spending and result in significant savings.

The committee notes however, that the QAO mandate relates to audits. The data it accesses is for, and should necessarily be limited to, the purpose of conducting audits. Expanding its role to cleaning whole-of-government data for purposes other than audits is not warranted. Such an approach could see the QAO overreaching into a consulting role which we consider is inappropriate.

The committee therefore welcomes advice that the Department of Science, Information Technology and Innovation (DSITI) is working to develop a whole-of-government data solution:

*DSITI have employed some very significant data analytic capabilities since we were at the committee last, and it is appropriate that we should partner with them to solve the data analytics problem for the Queensland government. They have arranged, I understand, for some of their staff to have secondments and to have swaps with staff from the Audit Office so that the intellectual approach that the Audit Office has used to do its analysis is transferred back into the Queensland government in toto. The fact that they cannot specifically transfer data to us at the moment is overcome by the line agencies being able to build a data analytics system that does what the QAO can do at the moment.*¹³⁴

The committee notes the views around the constraints of section 53 of the AG Act with respect to sharing departments' information held by the QAO. The committee heard that while work is being undertaken by DSITI, this process could be sped up if it could access the data from other departments held by the QAO.¹³⁵

¹³¹ Correspondence from Mr Close, Acting Auditor-General, 29 May 2017.

¹³² Correspondence from Mr Close, Acting Auditor-General, 29 May 2017.

¹³³ Correspondence from the Auditor-General, 31 August 2017.

¹³⁴ Public hearing transcript, Brisbane, 23 August 2017, p 5.

¹³⁵ Public hearing transcript, Brisbane, 23 August 2017, p 5.

As such, the committee recommends that the Premier, in consultation with the Minister for Innovation, Science and the Digital Economy and Minister for Small Business, consider amending section 53 of the AG Act or other such alternatives to allow DSITI to access and utilise the QAO held audit analytics data of government departments. Additionally, the committee recommends the Minister for Innovation, Science and the Digital Economy and Minister for Small Business update the House with respect to the development of this whole of government capability.

Recommendation 5

That the Premier, in consultation with the Minister for Innovation, Science and the Digital Economy and Minister for Small Business, consider amendment of section 53 of the *Auditor-General Act 2009* or any other alternatives to allow the Department of Science, Information Technology and Innovation to access and utilise the QAO held audit analytics data of government departments.

Recommendation 6

That the Minister for Innovation, Science and the Digital Economy and Minister for Small Business update the House with respect to the development of the whole-of-government data solution capability.

Appendix A Strategic Review Terms of Reference,

2016 STRATEGIC REVIEW OF THE QUEENSLAND AUDIT OFFICE

TERMS OF REFERENCE

INTRODUCTION

The Queensland Auditor-General and the Queensland Audit Office carry out independent audits of the Queensland public sector and related entities. The scope of the Auditor-General's audit mandate includes annual financial audits and scheduled performance audits.

SCOPE

In accordance with Section 68 of the *Auditor-General Act 2009* (the Act), a strategic review of the Queensland Audit Office (QAO) is to be conducted at least every five years. The strategic review, as defined in Section 68(7) of the Act, is to include:

- a) a review of the Auditor-General's functions
- b) a review of the Auditor-General's performance of the functions to assess whether they are being performed economically, effectively and efficiently.

The appointed reviewer will be required to generally assess and provide advice and recommendations about the functions and the performance of the functions of the Auditor-General and the QAO, in order to assess whether they are being performed in accordance with the requirements of the Act. The appointee will be required to place particular focus on evaluating the QAO's expanded audit mandate in relation to performance audits, which has not been the subject of a strategic review under the Act in the past.

The strategic review is to examine all structural and operational aspects of the QAO, as well as its relationship with public sector entities, relevant Ministers, the Treasurer and the Parliament of Queensland.

The strategic review is to consider the recommendations:

- from the 2010 strategic review
- of the former Public Accounts and Public Works Committee report on the 2010 strategic review
- the Government's response to the Public Accounts and Public Works Committee report, particularly to the extent to which they have been implemented and whether they are achieving the desired objectives.

The strategic review will note the Finance and Administration Committee Report No. 23 *Inquiry into the legislative arrangements assuring the Auditor-General's independence*, the inquiry's evidence, and that the Committee determined to not comment on the inquiry to allow the strategic review of the QAO to be conducted. 129

The appointee will have the powers vested in them under Section 69 of the Act in order to conduct the review.

METHODOLOGY

In conducting the strategic review, the appointee is to have regard to the QAO's existing governance framework including strategic and operational plans, the organisational structure, corporate and operational management, operational conduct, internal/external policies, and audit service provisions of the QAO.

The strategic reviewer is to give particular reference to:

- a) whether existing processes are appropriate to the QAO's audit mandate, the needs of public sector agencies and emerging public sector organisational structures
- b) the effectiveness of existing processes, and in particular the effectiveness of the auditing standards issued by the Auditor-General and the performance audits, in fulfilling the audit mandate within the contemporary accountability requirements of Queensland's system of government
- c) examination of trends in the workload of the QAO, including an examination of current and past methodologies relating to practices and procedures employed by the QAO
- d) the operational efficiency of QAO audit methodology and relative efficiency of in-house and contract audit service provisions
- e) the standard and quality of service provided to the Parliament, audit clients and executive Government
- f) the structure of the QAO, including the delegation and allocation of responsibilities
- g) management systems and processes used by the QAO, including:
 - i. appropriate internal and external performance indicators to monitor efficiency and effectiveness
 - ii. internal communication and sharing of performance information
 - iii. human resource issues, including formal and informal staff training and guidance
 - iv. administrative systems and processes used by the QAO
 - v. whether the funding of the QAO is both appropriate and appropriately used to discharge the functions and objects of the QAO
 - vi. appropriate protocols for communication by and with the QAO
 - vii. any other matters which impact on the economy, efficiency and effectiveness of the QAO
- h) evaluating the effectiveness of the recommendations made by the QAO in audit reports and the costs and benefits associated with their implementation
- i) evaluating the QAO's understanding of Queensland public sector and related entities core business and functions being performance audited, taking into account feedback provided by entities the subject of performance audits.

The strategic review should also take into account:

- consideration of comparative models, practices and procedures used by offices in other jurisdictions equivalent to the QAO, with particular focus on jurisdictions with a performance audit mandate;
- the results of the Finance and Administration Committee oversight of the Auditor-General including related reports and transcripts of Estimate hearings;
- interviews with staff (including all staff who indicate they wish to be interviewed by the appointee) and former staff of the QAO, both individually and in focus groups (interviews with former staff are optional)
- consultation with key Government agencies including the Department of the Premier and Cabinet and Queensland Treasury, particularly in relation to the Strategic Audit Plans for the performance audits of the QAO
- consultation with other key stakeholders, including accounting firms that conduct business with the QAO.

PROPOSED TIMELINES AND KEY DELIVERABLES

As required under Section 70(1) of the Act, the reviewer must give a copy of the proposed report on the strategic review to the Premier and the Auditor-General prior to finalising the report. Under section 70(2) of the Act, the Premier and the Auditor-General may, within 21 days after receiving the proposed report, give the reviewer written comments on anything in the proposed report, in which case the reviewer must comply with Section 70(3) of the Act.

In accordance with Section 70(4) of the Act, the final review report is to be presented to the Premier and the Auditor-General in a suitable format for tabling in the Legislative Assembly. This should occur no later than ten business days after complying with sections 70(1) and 70(2) of the Act. The final review report must be substantially the same as the proposed report, apart from any changes made under Section 70(3).

Sections 70(6) and 70(7) of the Act provide that the Premier must table the strategic review report in the Legislative Assembly within three sitting days after receiving the report, and that the report be referred to the Finance and Administration Committee for examination, who may comment on any aspect of the report and make recommendations.

Appendix B – Table of Strategic Reviewers’ operational recommendations

Part 4 – Financial auditing	
Views of audit clients (R. 4.3)	<p>i. The Better Practice resource for <i>Valuing public infrastructure</i>, once formally issued, be subject to review by the end of 2017 to assess feedback from stakeholders, including audit clients, as to its application and usefulness.</p> <p>ii. The QAO continue to produce Better Practice resources to benefit the Queensland public sector and continue to look for ways to enhance the use of those resources by its clients.</p> <p>iii. The QAO review its practice of requiring hard copy signed financial statements from regional audit clients and accept electronic copies to ensure timeliness in the finalisation of the audit. We recommend that, if necessary, the Act be amended to allow the Auditor-General to accept electronic copies of signed statements.</p>
Review of audit files (R. 4.4)	<p>i. The QAO adopt a policy that handwritten notes on IPSAM files be phased out and that notes be in digital format to enable ease of reading by other audit staff and for review purposes.</p>
Small and low risk audits (R. 4.6)	<p>i. We recommend that the QAO specifically assess the exemptions of Hospital and Health related foundations to determine whether the assessment of small and low risk continues to apply.</p>
Audit analytics (R. 4.8)	<p>i. The QAO closely monitor the results of the implementation of audit analytics taking place within the QAO to identify the costs and benefits of audit analytics in the delivery of audit services both for financial audits and for performance audits.</p> <p>ii. Formal reviews of the audit analytics programme be undertaken by the QAO following the audits for each of the next three financial years to assess the benefits arising from the use of audit analytics compared to the cost of same, including costs directly incurred by audit clients.</p> <p>iii. Actions continue to be taken to ensure that contract auditor firms will be able to integrate audit analytics into their audit methodology in providing audit services for the QAO.</p> <p>iv. The QAO consult with the Chief Information Officers at the Department of Science, Information Technology and Innovation, Department of Premier and Cabinet and Queensland Treasury to determine the viability of a data centre arrangement for the secure repository of whole of government data including financial data and, once it is established, the QAO cease to provide services to audit clients in regard to the access to data and the provision of reporting tools such as Qlikview dashboards to audit clients.</p>
QAO auditing standards (R. 4.10)	<p>i. The QAO Auditing Standards be revised to incorporate a section setting out the criteria on which the Auditor-General may determine which Queensland public sector entities will be subject to Australian Auditing Standard ASA701 <i>Communicating Key Audit Matters</i>.</p> <p>ii. The QAO Auditing Standards be amended to require a review of and, if necessary, revision of the Standards at least once every three years.</p>
Funding and fees (R. 4.12)	<p>i. We recommend that the QAO undertake a review of the additional audit requirements for 2016–17 including:</p> <ul style="list-style-type: none"> • those related to new accounting standards, especially the expansion of audit effort required for audit of related party disclosures; • the impact of the roll out of audit analytics including transition costs;

	<ul style="list-style-type: none"> the time required related to audit clients for whom key audit matters are expected to be incorporated within the audit opinions; <p>to determine whether the overall fee budget for financial audit services for audit clients is realistic, also taking account of the results of the <i>Working for Queensland</i> survey.</p>
Part 5 – Performance auditing	
Auditing standards /Performance audit methodology / (R. 5.4)	<ol style="list-style-type: none"> We recommend that the Auditor-General amend the <i>Auditor-General of Queensland Auditing Standards</i> to incorporate guidance on the requirement that the Auditor-General refrain from commenting on the merits of government policy. We recommend that the QAO include in its performance audit methodology guidance on the restriction on questioning the merits of government policy. We recommend that the QAO phase out the inclusion of handwritten notes on ASPIRE files and that notes be in digital format to enable ease of reading by other audit staff and for review purposes.
Efficiency and effectiveness of the QAO’s perf. audits (R. 5.5)	<ol style="list-style-type: none"> The QAO reduce to 98% its performance measure target for “performance audit recommendations implemented”. The QAO continue to work with the Finance and Administration Committee and the Parliament to improve its communication and engagement with MPs on its performance audit reports.
Opportunities for improvement (R. 5.7)	<ol style="list-style-type: none"> In 2017, the QAO select three audits planned to start in 2018 and explore opportunities for early engagement with the entities to be audited to: <ul style="list-style-type: none"> identify what value the client expects from the audit; consider the scope, audit objectives and timing of the audit; and assist the client in commencing planning and resourcing for the audit. The QAO include as part of any follow-up audit, assessment of the cost of implementing the recommendations made in the original audit. The QAO include in its performance audit methodology a requirement that the client be asked for an estimate of the cost of implementing proposed recommendations. In 2019, the QAO review the efficiency and effectiveness of the operation of the steps proposed in recommendation 5.7(i).
Strategic audit planning (R. 5.8)	<ol style="list-style-type: none"> In its refinement of its criteria for selecting performance audit topics, the QAO consider whether there is adequate emphasis on improving public sector performance. The QAO consider whether it can improve the economy of its strategic audit planning process, perhaps by increasing focus on improvement of public sector performance. The QAO consider scheduling a performance management systems audit of a GOC or GOCs. The QAO’s strategic audit plan prepared under section 38A of the Auditor-General Act 2009 be required to be reported to the Legislative Assembly.
Part 7 – Corporate matters	
Economy, efficiency and effectiveness of the QAO (R. 7.10)	<ol style="list-style-type: none"> The Auditor-General Act 2009 be reviewed to identify provisions that are outdated and that impact on the efficiency and effectiveness of the QAO, and steps be taken to seek amendment of the Act. Consideration be given to including in the Act a provision requiring regular review of its provisions.

Appendix C – Correspondence from the Auditor-General

Your ref: qA6861/Strategic Review
Our ref: 10484
K Cossart, 31496128



IN-CONFIDENCE

31 August 2017

Mr P Russo MP
Chair
Finance and Administration Committee
Parliament House
George Street
BRISBANE QLD 4000

Peter
Dear Mr Russo

Strategic Review of the Queensland Audit Office

Thank you for the opportunity to provide further comment on the strategic review of the Queensland Audit Office.

Prior to taking office, I had the opportunity to discuss the strategic review recommendations with the reviewers Philippa Smith and Graham Carpenter. Based on those discussions and my understanding of QAO operations, I am supportive of all strategic review recommendations.

Some of the recommendations require the consideration of the Committee and Government. Should these recommendations be accepted, my office is well placed to implement them.

I have commenced a range of initiatives that address both the strategic and operational recommendations within my control. A brief status of the actions taken is as follows.

Strategic recommendations

Strategic recommendation		Status/ Comment
Client engagement	Commenced	Since commencing as Auditor-General I have organised a program of visits at Director General, CEO and Board levels. To date I have met with 21 public sector leaders with more meetings scheduled. These visits include regional visits. They are aimed to enhance our client relationships and have provided me with valuable insights to date.
Funding for performance audit	Awaiting the due consideration of the Committee and the government.	
Review of fees budget for financial audits	Commenced	Our 2016–17 audit year is now nearing completion and my office will soon commence the planning of the 2017–18 financial audits. As part of this planning process I will consider the appropriateness of audit fees and associated resourcing and quality implications.

Strategic recommendation	Status/ Comment
Amendment of Auditor-General Act – employment and remuneration of staff.	Awaiting the due consideration of the Committee and the Government.
Strengthening the Auditor-General independence	As this requires legislative amendment I await the due consideration of the Committee and Government.

Operational recommendations

My office is working towards addressing all operational recommendations within my control. The Committee has asked for further commentary on two areas:

Audit Analytics capability

Audit analytics is an audit testing technique that is evolving from the increased automation of accounting and controls. I believe that developing our capability in this area will allow us to undertake more effective and efficient financial and performance audits. QAO’s work to develop skills in this area is consistent with its private and public sector peers.

I am currently assessing how to best integrate audit analytics into our audit services and will review our processes to evaluate the expected benefits.

Before large data sets are audited, auditors need to ensure the data is complete and accurate. Historically the client provided data sets had significant completeness issues. QAO has developed an innovative solution to overcome this issue and my office now obtains accurate monthly data sets for a wide range of public sector entities, including all departments. Only the information required for audit purposes is obtained and it is subject to strict governance and security protocol.

I am aware of various programs being undertaken to develop a whole-of-government data solution and am supportive of this. Provided the data I need for audit purposes is available, complete and accurate I would be a willing user of this data.

There will be a cost to QAO in transitioning our data expertise to government. If this proves to be a material cost then I would seek funding support so my office can work to hand over our solutions, processes and scripting.

Strategic Audit Plan

Strategic audit planning is undertaken to ensure we focus on the things that matter. Annually we assess the challenges, risks and opportunities facing the Queensland public sector and community. This assessment informs our three-year program of performance audits.

A tool has been developed to support this process. Our performance audit planning process will commence shortly and I will assess the process to ensure that it demonstrates value for money.

The strategic review process

I welcome the strategic review of the office as a five yearly independent report card on our operations.

I note the concerns raised about the reviewers about the breadth of the matters they reviewed as part of this process.

IN-CONFIDENCE

The intention of the review is to be a strategic assessment of performance. The broad terms of reference for the 2017 strategic review resulted in very minor operational areas being considered. Consideration could be given to limiting the scope of future reviews to focus on the key drivers of efficiency and effectiveness.

If you require any further information please contact me or have your Committee secretary contact Kaylene Cossart [REDACTED]

Yours sincerely



Brendan Worrall
Auditor-General

IN-CONFIDENCE

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Appendix D – Correspondence from the Treasurer and Minister for Trade and Investment



Treasurer
Minister for Trade and Investment

Our Ref: 03100-2017
Your Ref: qA6861/Strategic Review

1 William St Brisbane
GPO Box 611 Brisbane
Queensland 4001 Australia
Telephone 07 3719 7200
Email treasurer@ministerial.qld.gov.au
Website www.treasury.qld.gov.au

ABN 90 856 020 239

29 AUG 2017

Mr Peter Russo MP
Chair
Finance and Administration Committee
Parliament House
George Street
BRISBANE QLD 4000

Email: fac@parliament.qld.gov.au

Dear Mr Russo *PETER*

Strategic Review of the Queensland Audit Office

Thank you for your email of 23 August 2017 regarding the Finance and Administration Committee's consideration of the Report on the Strategic Review of the Queensland Audit Office (QAO). I appreciate the opportunity to contribute to the Committee's deliberations.

Strategic recommendation 8.6 (i) recommends further amendments (and other actions) be undertaken to support the independence of the Auditor-General, including removing the responsibility of the Treasurer to approve basic rates of audit fees set by the Auditor-General.

I do not support the repealing of provisions in the *Auditor-General Act 2009* so that the Treasurer does not need to approve changes to the QAO's audit fees. The purpose of obtaining the Treasurer's approval is not to limit the Auditor-General's independence, but to ensure a whole of Government perspective is applied to any increases. Similarly, proposals for additional funding for performance audits should be subject to the discipline of the annual Budget process to allow the assessment of competing priorities. As the QAO is a department for the purposes of the *Financial Accountability Act 2009*, it should be subject to normal government approvals for revenue raising.

Operational recommendation 4.8 (iv) relates to the QAO's audit analytics program. Officers within my department have had a number of discussions with QAO regarding whether Treasury should be holder of the data.

These discussions identified that, because of the type of data collected by QAO, it is not appropriate for Treasury (or another department) to be the central repository. For example, the QAO obtains detailed payroll and personnel data. Given the QAO are the only agency that requires data at this level it is appropriate they remain its custodian. As such, I do not support the moving of such data to another department.

If you require further information, your officers can contact Mr Jason Humphreys, Chief of Staff of my office [REDACTED]

I trust this information is of assistance to you.

Yours sincerely



HON. CURTIS PITT MP
Treasurer
Minister for Trade and Investment