

**Report of the  
Strategic Review  
of the  
Queensland  
Audit Office**

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**4 October 2004**

# STRATEGIC MANAGEMENT REVIEW

OF THE

## QUEENSLAND AUDIT OFFICE

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4 October 2004

The Honourable Peter Beattie, MP,  
Premier and Minister for State Development,  
Executive Building,  
100 George Street,  
Brisbane Q 4000

Dear Premier,

Herewith is our Report on the Strategic Review of the Queensland Audit Office which has been conducted in accordance with the relevant sections of the Financial Administration and Audit Act 1977 and also in accordance with our terms of appointment.

We have appreciated the opportunity to undertake this review. It has been a significant undertaking and we have valued the co-operation and assistance we have received from many quarters particularly from Queensland Audit Office staff from the Auditor-General down and also officers from your Department, which has made our task that much easier.

We believe the 38 recommendations and 119 conclusions contained in the report provide a comprehensive framework on which the Queensland Audit Office can build for continuing success in the future.

Yours sincerely



(Richard Anderson)



(Henry Smerdon)

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**Abbreviations Commonly Used in This Report:**

EMG	Executive Management Group
PA	Performance Auditing
PAC	Public Accounts Committee
PMS	Performance Management System
PwC	PricewaterhouseCoopers
QAO	Queensland Audit Office
SMG	Senior Management Group
SSP	Shared Service Provision

**Sheridan Report/Sheridan Review** The review of the Queensland Audit Office undertaken in 1996/97 by Mr Tom Sheridan, a former Auditor-General of South Australia, pursuant to Division 6 of the *Financial Administration and Audit Act 1977* and the Report thereon dated 19 July 1997 which was tabled in the Queensland Parliament on 7 October 1997.

## **SECTION A: EXECUTIVE SUMMARY**

### **OVERVIEW**

This Report presents the conclusions and recommendations of the second strategic management review of the Queensland Audit Office (QAO) conducted in 2004 pursuant to section 72 of the *Financial Administration and Audit Act 1977*. It comes some seven years after completion of the first review by Mr. Tom Sheridan.

In responding to the particular Terms of Reference which were approved by the Governor-in-Council on 14 November 2003 and provided to us for the conduct of this review we have not been limited in any way. We have adopted a fully consultative approach to the review and have enjoyed the full co-operation and assistance of all parties who have had an involvement with us in the pursuit of our inquiries. From this platform we have reached conclusions and developed recommendations which we believe will provide sound and constructive guidance for the future of QAO.

The review involved extensive interviews and discussions with current and former staff, auditees and other stakeholders including the Public Accounts Committee (PAC), Under Treasurer, Director-General of the Department of Premier and Cabinet and the Chair of the Crime and Misconduct Commission. We interviewed and received valuable assistance from the Auditors-General of New South Wales, Victoria and the Australian National Audit Office.

A formal process of public submissions was not used. However submissions were invited and welcomed as an integral part of the interview and discussion program. A number of valuable submissions were received from both current and former staff members, auditees and other interested parties.

We have addressed a number of key strategic issues including

- the adequacy of the current audit mandate;
- the broadening of the operational responsibilities of QAO to undertake audits of other than Queensland public sector entities;
- the relationship of QAO with Parliament and the PAC; and
- the relationship with auditees and other key stakeholders, including the media.

On this basis we have formed a broad view of the current strategic position of QAO which is presented in this first section of the Executive Summary. The second section of the Executive Summary provides in order a reference schedule of all conclusions and recommendations. It is vital to a full understanding of all issues that these be considered in conjunction with the discussion in the main body of the report.

In some cases we have come to conclusions without making specific recommendations. Generally these concern operational matters where we have not been prescriptive as to the way forward, preferring instead to give management flexibility to act on them. It will therefore be for the current Auditor-General and his successor to carefully consider these conclusions and proceed to deal with them appropriately having regard for the conclusions we have reached.

At the outset we believe it important to state our strongly held view that QAO has made significant progress in the past seven years under the leadership of the current Auditor-General, Mr Len Scanlan, whose term as Auditor-General is due to conclude in December 2004. It is equally important to acknowledge the excellent ongoing service provided by the highly skilled and dedicated QAO management team and staff. Their ready assistance and co-operation with the conduct of this review is gratefully acknowledged.

Our examination and investigations lead us to the view that

- QAO operates as an efficient and effective public sector auditing practice;
- QAO is well-organised and well-managed;
- QAO has embraced the final agreed recommendations of the Sheridan Report and has systematically and thoroughly undertaken their implementation;
- considerable progress has been made in developing and strengthening relationships with key stakeholders;
- communication within QAO and with key stakeholders and auditees has been significantly improved;
- there is coherency in and commitment to the vision and strategic direction of QAO;
- there is a much greater awareness of the auditee as a client, which has seen a marked improvement in the relationship between QAO and auditees;
- the independence of the Auditor-General to undertake the audit task continues as a cornerstone of our system of Government.

We believe that there are opportunities for further development of

- the Performance Management Systems audit mandate and the possible future adoption of a Performance Audit mandate;
- a greater QAO presence for the benefit of auditees in regional and remote areas of Queensland;
- the relationship with the Parliament through the Public Accounts Committee;
- the provision of enhanced training and development for staff;
- more flexible remuneration structures for QAO staff;
- enhanced communication protocols with key stakeholders, including the media.

We have recommended an amendment to the legislation regarding the timing of these reviews to provide for fixed intervals thereby ensuring that a review will be conducted every five years and therefore during the normal term of each Auditor-General. We have also recommended that there be no change to the present maximum seven year fixed non-renewable term of appointment to the position of Auditor-General.

In addition to matters covered by the Terms of Reference three matters were referred to us for consideration in the context of the review.

These were

- consideration of the two recommendations contained in PAC Report No 64 dealing with the capacity of the QAO to undertake commercial type audits and collegiate type activities;
- whether the Auditor-General's powers to access documents subject to legal privilege was compromised by the High Court Decision in Daniels Case and hence whether an amendment to the Act is required;
- whether the Auditor-General and the QAO had sufficient capacity and technical skills to deal with audit issues arising from major IT systems and whether the next Auditor-General needed to have special skills in this area.

These matters have been dealt with in section H and other areas of the report.

There are major challenges for the QAO going forward:

- an on-going need and capacity to attract and retain high quality skilled staff and to enhance and develop those skills to meet the challenges of a rapidly changing environment;
- the need to develop acceptable audit practices that will facilitate smaller audits being conducted efficiently and effectively with a much lower resource intensity so that resources can be released for work in areas of increased risk;
- pro-active positive engagement of auditees and other key stakeholders to ensure that the QAO continues to be valued in the overall accountability process;
- clear resolution of the issue of mandate in terms of PMS audit versus performance audit.

We should also point out that some recommendations have funding consequences eg increased funding for staff training and development, doubling of the resources available for PMS audits and greater presence by the QAO in regional and remote areas. There are also potential funding implications in the proposal to have a more flexible remuneration structure.

We have not undertaken detailed costing of these recommendations as they are yet to be fully developed. However, the budget cost could be significant.

From our discussions and interviews during the course of this review, it is clear to us that this process of independent review is valued and provides a valuable contribution to the on-going management of the QAO. We also believe that it plays an important role in the overall accountability process to the Parliament.

While it will be for time and others to assess the relative merits of our conclusions and recommendations, we set out with the key objective of positively assisting the QAO, the Parliament and other key stakeholders to provide an efficient and effective audit service so important to our Westminster system of government. We trust our conclusions and recommendations will achieve this objective.

## **CONCLUSIONS AND RECOMMENDATIONS**

(These Conclusions and Recommendations represent the outcome of at times, considerable discussion, research and debate and therefore should be read in conjunction with the relevant section of the report itself.)

### **SECTION C: THE AUDIT TASK**

#### **C1: Mandate**

##### **C.1.1: Financial and Compliance Audits**

**Our conclusions are that the QAO**

- **has acted upon the comments and recommendations of the 1997 Sheridan Review;**
- **has maintained and improved the quality of financial and compliance audits and the opinions and reports issued thereon;**

- has implemented an ongoing program of improvement to financial and compliance audit methodology and processes;
- financial and compliance audit methodology and processes are robust and well suited to this task which is the core business of the QAO.

### C.1.2: Performance Management System Audits and Performance Audits

Our conclusions are that

- PMS audits have made a limited but nevertheless valuable contribution to overall public sector management and performance;
- the PMS audit mandate has not been as fully and actively exploited by the QAO as Parliament might have originally envisaged;
- too few resources have been applied to the PMS audit task and even these limited resources have too often been diverted to other special audit tasks;
- the PAC could and should play a greater role in the overall PMS audit process;
- the value of the PMS audit function needs to be better evaluated, which can only occur when more PMS audits have been undertaken at the agency level;
- PMS audits need to be better focused and completed in tighter timeframes to maximise their value;
- performance auditing is a valuable and effective tool for targeted independent evaluations for Parliament. But it is not necessarily as valuable for overall management purposes in an environment where primary responsibility for performance is unambiguously with Ministers, Directors-General and CEO's;
- the PMS audit mandate should remain in place pending a more detailed evaluation based on a three year plan of targeted PMS audits.

***We therefore recommend that***

- ***the QAO, in consultation with the PAC, develop a three year plan to undertake at least 20 targeted PMS audits across the public sector, with each audit taking no more than six months;***
- ***the PAC undertake detailed scrutiny of PMS audit reports when completed;***
- ***the PAC evaluate the value of PMS audits at the end of this three year period and report on the effectiveness of the PMS audit mandate in terms of Parliament's previously expressed position;***
- ***the current PMS audit mandate remain in place pending the outcome of this process;***
- ***in the event that the PMS audit mandate is not delivering what Parliament intended, a performance audit mandate be further considered;***
- ***an appropriate level of resources be provided to the QAO to enable the plan to be fully implemented.***

### C.1.3: Special Audits

Our conclusions are that the QAO and the Auditor-General should

- as part of the overall budgetary process undertaken with Queensland Treasury, develop a flexible funding approach to the requirement for special audits;
- allow individual reports to stand as the record of conclusions and recommendations from the audit, to be considered by the Parliament and the PAC without the need for elaboration by the Auditor-General via the media.

### C.1.4: Audit Coverage

Our conclusions are that the QAO

- has met the requirements of its mandate in the conduct of financial and compliance and special audits;
- as suggested elsewhere in this report, needs to further develop its PMS audits to meet the requirements of this aspect of its mandate;
- needs to foster a more co-operative relationship with auditees to resolve complex accounting and financial reporting issues;
- should continue to seek to resolve low-level probity issues and issues of minor materiality by agreement with auditees rather than by public reporting and by resorting to such reporting only as a “last resort”.

*We recommend that the QAO*

- *continue to address auditee concerns regarding the resolution of complex accounting and financial reporting issues by continuing to proactively work with auditees and through education forums;*
- *continue to address through education and communication, auditee concerns about the perceived emphasis of the QAO on matters thought to be immaterial in a financial sense or of minor significance or beyond the scope of audit, eg matters of organisational policy.*

### C.1.5: Commercial Audits

Our conclusions are that

- the QAO mandate
  - o exclude commercial type audits either in Australia or overseas;
  - o include specifically, collegiate type activities with other audit offices in Australia; and
  - o include participation by QAO in programs that aid developing countries, particularly in the South Pacific, preferably under the PPP model Framework established by the State Government, provided the overall quality of the annual audit program is not thus compromised;
- given that these activities are likely to be infrequent and fairly narrow in application and capable of being handled administratively, amendments to the legislation are not considered necessary.

***We recommend that the QAO***

- *develop in consultation with the PAC, guidelines and principles to govern the participation by the QAO in
  - *collegiate type activities with other audit offices in Australia, and*
  - *aid programs for developing countries, particularly in the South Pacific;**
- *ensure that participation has demonstrable benefits for the QAO and/or the State and that the core audit program is not compromised as a result.*

## **C.2: Methodology**

### **C.2.1: TeamAsset**

Our conclusions are that the QAO

- has, in TeamAsset, a well developed electronic platform which currently provides a strong base for the implementation of its financial and compliance audit methodology;
- internally has appropriately qualified resources for the maintenance and further development from TeamAsset of its computer based audit platform;
- from July 2004 will have only limited external support for the maintenance and development of TeamAsset;
- recognises that it must now take immediate steps to develop and implement a strategy for the maintenance of its electronic platform as an integral part of its overall audit methodology, including prospects for co-operation with other audit offices.

***We recommend that***

- *the QAO finalise as a matter of urgency, a strategy to replace TeamAsset, such strategy to include an implementation program which would ensure that the replacement platform is in place before current licensing arrangements and support for TeamAsset ceases in 2007;*
- *given the importance of an appropriate electronic platform to the core QAO audit functions, regular progress reports be provided to the Parliament on this matter.*

### **C.2.2: Quality Assurance**

Our conclusions are that QAO

- has achieved considerable progress in the development of its quality assurance processes;
- finalised a draft Policy G26 as it relates to financial and compliance audits and special audits and commenced implementation of the five year, three year and annual review programs during 2004;
- should ensure the draft Policy encompasses the needs of PMS audits.

### C.2.3: Client Service Plans

Our conclusions are that

- the QAO audit methodology has benefited greatly by the inclusion of the Client Service Plan;
- there is opportunity, without compromising independence, for further development of the Client Service Plan and its related processes;
- further development can assist the achievement of better understanding by auditees of audit responsibilities and by audit teams of auditee needs;
- the suggested involvement of the PAC in developing a suitable communication strategy should also assist the process.

*We recommend that*

- *the timetable for preparation and agreement with auditees of the Client Service Plan be reviewed to address concerns expressed by auditees that generally this has been left too late for them to give proper consideration to the Plan;*
- *the QAO increase its commitment to programs of staff training and client information to enhance relationships with auditees.*

### C.3: Process

#### C.3.1: Use of Contractors

Our conclusions are that

- the QAO policy of contracting-out audit fieldwork is justified as an efficient and effective means of completing the annual workload;
- based on our review of the adequacy of resources available to the QAO the extent of work contracted out appears reasonable;
- generally the process for the management of contractors is satisfactory.

*We recommend*

- *auditees be consulted on the appointment and the terms of appointment of contractors proposed to undertake their audit and QAO should include in its management process suitable steps to achieve this.*

#### C.3.2: Internal Audit

Our conclusions are that QAO

- has in place appropriate auditing policies for the use of internal audit work;
- has mixed success in implementing the policies due to the variable quality of internal audit work.

***We recommend that the QAO***

- *continue to address auditee concerns about internal audit through better communication of the difficulties being experienced in relying on the work of internal audit;*
- *continue to encourage auditees to improve the quality of internal audit;*
- *further develop staff exchange and secondment programs with internal audit within auditee organisations.*

### **C.3.3: Delegations**

Our conclusion is that

- the policy of delegated authority, to the extent now introduced, is a valuable contribution to the management of audit processes and the professional output of QAO and the Auditor-General should continue and extend such delegations of authority.

### **C.3.4: Regional Presence**

Our conclusions are that

- reasonable concerns are held by regionally based auditees as to the development and maintenance of a good working relationship with QAO;
- there is value to be gained, both by auditees generally and by QAO, in continuing to foster such relationships.

***We recommend that***

- *the QAO examine its current approach to servicing auditees in regional and remote areas with a view to developing strategies to increase its presence in these areas and thereby its active involvement with regionally based auditees. Such strategies should incorporate more regional visits to facilitate greater interaction with individual auditees.*

### **C.3.5: Technology**

*We have no particular conclusions beyond those included in Section C.2.1 of this report.*

### **C.3.6: Audit Specialist Technical Skills**

Our conclusions are that the QAO

- has a considerable requirement for specialist technical knowledge and skills beyond audit and accounting and generally has been successful in marshalling the necessary resources;

- particularly in some areas the availability of these resources is limited and QAO justifiably has supplemented its in-house skills by outsourcing work or by the direct employment of skilled contractors;
- is likely to experience increasing demand for specialist skills and knowledge.

**We recommend that**

- *the QAO review current strategies for meeting audit specialist technical skill needs to ensure that it continues to be able to access the necessary skills and expertise, particularly in the area of information technology, treasury and other systems.*

#### **C.4: The Role of the Public Accounts Committee and the Parliament**

**Our conclusions are that**

- there would be benefits in an enhanced level of examination of the work of the Auditor-General and the QAO by the Parliament, having regard to the significant powers and responsibilities vested in the Office of the Auditor-General by the legislation;
- this enhanced scrutiny can best be undertaken by the PAC on behalf of the Parliament utilising existing available processes;
- the high standard and standing of the Office of the Auditor-General would be further enhanced by greater involvement by the Parliament and the PAC;
- areas where the PAC could play a more significant role include –
  - the annual performance management system audit plan,
  - proposed audit and other standards,
  - emerging areas of audit interest,
  - communication and media protocols,
  - considering areas identified by the Auditor-General as being of future concern and interest,
  - examining more formally, either publicly or in camera, reports to the Parliament by the Auditor-General.
- the increased role of the PAC should not be such that it would compromise the independence of the Auditor-General.

**Recommendation**

- *Acknowledging that this is ultimately a matter for the Parliament and the PAC, we nevertheless recommend that careful consideration be given to the conclusions we have outlined.*

## **SECTION D: Organisation and Management Issues**

### **D.1: Organisational Structure**

#### **D.1.1: General Issues**

Our conclusions are that

- the current structure of the QAO is consistent with the identified strategic and operational business needs of the QAO;
- the structure provides a flexible environment within which the audit task can be undertaken efficiently and effectively and meet the needs of a changing client base;
- the structure provides a suitable environment for staff development and training.

#### **D.1.2: Business Services**

Our conclusions are that

- Business Services and Audit Policy and Reporting have responded positively to the Sheridan Report in terms of improving efficiency and effectiveness;
- both areas have satisfactorily met the challenges of a significant increase in numbers of auditees, increases in QAO staff numbers, the additional demands of a more technology reliant QAO as well as increased activity generally;
- both areas need to continue to be vigilant in controlling costs and providing services of the highest quality to support the core audit function.

#### **D.1.3: Library Services**

Our conclusion is that

- the decision to transfer the Library Services to the Audit Policy and Reporting Section should be re-examined by the Auditor-General with full consultation with affected parties.

#### **D.1.4: Gender/Equity Issues**

Our conclusions are that

- there is a gender imbalance in senior positions within the QAO;
- more could be done to improve representation of certain employee groups, eg Aboriginal and Torres Strait Islanders and people with disabilities in the QAO;
- the QAO has been active in attempting to address these issues and we exhort the QAO to continue to work for better outcomes in these areas.

*We recommend that the QAO*

- *review its current recruitment strategies, including the use of interchange arrangements, particularly on a targeted basis, to ensure that the current gender imbalance in senior levels of management continues to be actively addressed;*
- *continue to be proactive in fostering the employment of under represented groups in the QAO to achieve outcomes consistent with broad strategic Government outcomes.*

## **D.2: Financial Resources**

### **D.2.1: Cost Recovery**

**Our conclusions are that**

- **the need for additional training and development expenditure should be recovered by way of an increase in audit fee given that auditees generally will benefit from the enhanced training and development;**
- **the current policy of not charging for PMS audits is appropriate and should be continued;**
- **there are concerns by auditees about their level of involvement in the audit fee setting process which could be addressed by greater engagement of auditees in the fee setting process. This should not undermine the authority of the QAO to set an appropriate fee;**
- **some issues were raised in regard to the time recording and processes used and the impact on staff and the QAO needs to ensure that these processes are consistent with best practice.**

*We recommend that*

- *the current fee-determination process incorporate a further element of cost recovery for training and development needs;*
- *there be no change to the current policy of not charging for PMS audits;*
- *there be greater engagement of auditees by the QAO in the fee determination process to ensure that the fee charged is well-understood and accepted, and that opportunities are afforded to reduce the fee in appropriate circumstances and to be increased where circumstances warrant;*
- *the QAO should continue to improve time management and recording processes for the audit task consistent with best practice.*

### **D.2.2: Adequacy of Resources**

**Our conclusions are that**

- **the financial resources available to the QAO are adequate for the basic financial compliance audit task;**
- **the resources are well-managed;**
- **more resources are needed for training and development;**

- additional resources are also required for the PMS audit function to be undertaken as Parliament intended and more particularly so that the recommended 3 year PMS audit plan can be fully implemented. PMS audit resources also should not be diverted to other functions.

***We recommend that***

- *the resources allocated to the PMS audit function not be called upon to undertake other tasks such as special audits except in exceptional circumstances;*
- *consideration be given to additional funding for training and development funded by a small increase in audit fees, as discussed in section D.2.1;*
- *additional funding be provided for PMS audits, as discussed in section C.1.2.*

### **D.3: Staffing Issues**

#### **D.3.1: Recruitment**

Our conclusions are that

- the QAO has a well-developed recruitment program at the graduate level with the program being well-regarded internally and externally;
- the recruitment policies adopted by the QAO are generally appropriate and suitable for the purpose;
- there is a gender imbalance at the senior levels in the QAO which must continue to be proactively addressed;
- there is a perception that the QAO overly relies on recent public sector auditing skills which can deter applicants who could bring other relevant skills to the organisation.

***We recommend that the QAO***

- *continue to ensure that current selection criteria and processes, particularly for senior positions, do not discourage female applicants and applicants who may not have recent public sector auditing experience.*

#### **D.3.2: Training and Development**

Our conclusions are that

- the QAO is to be commended for the increased commitment to training and development in recent years;
- the QAO should pay greater attention to the career needs of longer term employees within its overall training and development strategy;
- the QAO should continue to ensure that all staff have access to appropriate training and development which will require additional funding to support;
- part of the development opportunities for staff should include participation in programs such as the Senior Executive Service mobility program as well as targeted interchanges.

*We recommend that*

- *the level of funding commitment to training and development be increased to a minimum of 1.5% of the QAO budget within three years to a level of at least \$400 000 per annum, funded as proposed in section D.2.1;*
- *the QAO re-evaluate its participation arrangements in regard to the Senior Executive Service mobility program. If necessary, it should adopt a broader view of acceptable skills for those coming into the QAO and a temporary refocus of duties of particular positions to increase the attractiveness of the arrangements;*
- *the QAO develop a suite of protocols, practices and procedures to encourage and facilitate a greater level of interchange between the QAO and the private sector to broaden work experience and skill enhancement opportunities, such arrangements to incorporate a more targeted approach to recruiting suitable participants.*

### **D.3.3: Staff Turnover**

Our conclusions are that staff turnover:

- has been relatively stable in recent years;
- is within acceptable bounds;
- is appropriately dealt with in human resource management terms, with exit interviews offered and follow-up processes in place for dealing with identified issues.

While factors specific to an individual may be the source of discontent resulting in eventual separation, we do not see any significant systemic problems as a fundamental cause of staff turnover or requiring substantial corrective action by the QAO.

### **D.3.4: Remuneration and Reward Structures**

Our conclusions are that

- the current remuneration structure within the QAO does not adequately recognise the professionalism, competency and experience of the audit staff;
- the current promotion process within the QAO does not adequately recognise the career nature of a professional auditing service;
- the QAO should discuss with the Acting Public Service Commissioner (and as appropriate, the Department of Industrial Relations), a more flexible remuneration structure for the professional auditing staff which is based on professional development, experience and skill measured against appropriate benchmarks;
- there is no real justification for the introduction of performance pay and other similar reward programs within the QAO.

***We recommend that***

- *a more flexible remuneration structure for the professional audit staff be introduced which is based on professional development, experience, competency and skill measured against appropriate benchmarks;*
- *this matter be taken up with the Acting Public Service Commissioner and the Department of Industrial Relations as a matter of priority.*

#### **D.4: Governance**

##### **D.4.1: Audit and Risk Management Committee**

Our conclusions are that

- the Auditor-General is to be commended for his approach to establishment of an Audit and Risk Management Committee within the QAO governance structure;
- the QAO should be more proactive in promoting the value and need for audit committees with appropriate representation, including external members, using QAO's own structure as a model.

##### **D.4.2: Senior Management Group(SMG)/Executive Management Group(EMG)**

Our conclusions are that

- the Auditor-General should review the current structure and operations of the EMG/SMG with a view to adopting a single over-arching committee that embraces strategic and operational issues with membership broadly along the lines of the current SMG;
- the role of the new committee be well-communicated to staff;
- if it is decided to retain the 2 committee structure, the respective roles also need to be clearly defined and well-communicated to staff.

##### **D.4.3: Finance Committee**

Our conclusion is that

- the Auditor-General consider whether responsibility for chairing the Finance Committee given its role in overall financial and budget management within the QAO, needs to be taken either by the Auditor-General or the Deputy Auditor-General.

#### **D.4.4: Audit Methodology Committee**

Our conclusions are that

- consideration should be given to the Deputy Auditor-General chairing the Audit Methodology Committee;
- the Director, Audit Policy and Reporting continue to support the work of the Committee;
- consideration be given to appointing an Assistant Auditor-General to this Committee on a rotational basis.

#### **D.4.5: Human Resource Strategy Committee:**

Our conclusions are that

- the representation on the Human Resource Strategy Committee should be amended to include at least one and desirably two staff drawn from non-audit staff within the QAO;
- the Manager, Human Resources, continue as a member of the Committee;
- the number of staff with an audit background on the Committee be reduced to accommodate the additional non-audit staff members.

#### **D.4.6: Delegations**

Our conclusions are that

- the Auditor-General is to be commended for the delegations he has already put in place and the commitment he has shown over recent times to their success;
- the Auditor-General should continue to identify opportunities for further devolvement of responsibility;
- appropriate training should be provided to ensure staff are well-prepared for the additional responsibility.

#### **D.5: Staff Surveys**

Our conclusions are that

- QAO as an organisation is to be commended for undertaking regular and comprehensive staff surveys;
- the results of the staff survey recently conducted are overall positive and commendable with only a small number of areas suggesting need for improvement;
- where issues have been identified in the survey, these should be addressed at an early date and solutions developed in consultation with staff.

## SECTION E: Communication

Our conclusions are that

- the Auditor-General and his staff should continue to build on the excellent work that has been done to improve communication with all stakeholders, including auditees;
- communication within the QAO is of a high standard,
- all staff and senior staff in particular are committed to a process of continuous improvement in communication;
- the Auditor-General should reassess with the Treasury the current set of protocols for dealing with financial management policy to ensure the positive contribution by the QAO to good financial management outcomes is recognised and valued;
- the Auditor-General in conjunction with the PAC, should consider whether reports both meet the needs of Parliament and satisfactorily meet the perceived needs of the media in ways that do not detract from the Parliamentary process.

*We recommend that*

- *the style and presentation of reports to Parliament be reviewed to ensure that each report fully informs and that the need for explanatory briefings to other stakeholders, including the media, is not required. To assist this process, the Auditor-General should consider publishing with each report, a separate short précis publication for broader public consumption; and*
- *the Auditor-General develop in consultation with the PAC on behalf of the Parliament, a set of protocols for dealing with the media, particularly in regard to reports to Parliament.*

## SECTION F: Shared Services Provision and Related Broad Structural Issues

Our conclusion is that

- the QAO has demonstrated a capacity to respond positively to issues impacting on the public sector as a whole and there is no reason to believe that this capacity will be diminished in the future given the procedures and policies in place within the QAO. Whilst the QAO view is that it does respond in a timely manner, the QAO does need to ensure that it is not perceived by auditees as slow to respond and one way of dealing with this is to have appropriate protocols in place with the key agencies such as Treasury.

## SECTION G: The Sheridan Report Implementation

Our conclusions are that the QAO

- is to be commended for the diligence and commitment demonstrated in embracing the recommendations of the Sheridan Report and the outcome of subsequent considerations by the PAC and the Government,

- should continue its commitment to the implementation of those aspects of the Sheridan Report recommendations that have on-going implementation implications.

## **SECTION H: Other Issues**

### **H.1: Term of Review**

**Our conclusion is that**

- the legislation should be amended to provide for a review to be conducted at a maximum of five year intervals, with the five years being determined by reference to the date of the tabling of the reviewer's report in the Parliament.

### **H.2: Term of Appointment to the Position of Auditor-General**

**Our conclusion is that**

- the maximum seven year fixed term arrangement for appointments to the position of Auditor-General in Queensland is appropriate.

### **H.3: Workload and Other Key Performance Indicators:**

**Our conclusions are that**

- the QAO has established and maintained an appropriate range of quantitative and qualitative key performance data;
- there is a reasonable level of performance reporting to key stakeholders;
- the QAO has demonstrated a commitment to performance analysis and linking key performance indicators to outcomes.

- Mr Henry Smerdon

Henry is a former Under Treasurer with a long career in the Queensland public sector, primarily in the Treasury Department. Henry is on a number of boards and operates a consulting practice. He has been a major contributor to public sector financial management reforms.

#### **B.4: Review Process**

The legislation provides for the reviewers to have the same powers as an authorised auditor under the Act.

While the process was genuinely consultative, we at no time felt that we were under any constraints in terms of the conduct of the review and we need to place on record our appreciation of the co-operation we have received from all stakeholders, including the Auditor-General and the QAO and the Department of the Premier and Cabinet.

We were largely free to determine the methodology to be used, constrained only by the requirements of the Terms of Reference. For example, the Terms of Reference required that we take into account interviews with staff, particularly those seeking to be interviewed, as well as former staff.

The review process proceeded as follows:

- An initial round of interviews was conducted with the
  - o Auditor-General;
  - o Director-General of the Department of the Premier and Cabinet;
  - o Under Treasurer;
  - o Chairman, Crime and Misconduct Commission;
  - o Chairman, Public Accounts Committee (Current as well as previous Chair).
- Visits were then undertaken to the Office of the Auditor-General in New South Wales and Victoria as well as the Commonwealth Auditor-General in Canberra.
- Opportunity was then afforded for staff to meet with us in largely unstructured forums. The forums were arranged so that groups of staff from similar areas of the QAO attended the same forum. These groups included the Deputy Auditor-General, Assistant Auditors-General, Executive Director-Business Services, Directors of Audit, senior auditors and auditors generally (three groups), Audit Policy and Reporting staff and Business Services staff. Several staff also took the opportunity to discuss issues with us on an individual basis. Individual interviews were also conducted with the Deputy Auditor-General, all Assistant Auditors-General and the Director and Assistant Director of Audit Policy and Reporting.
- All ex-staff of the QAO who had left in the previous five years as well as members of the QAO Alumni Association were invited to a forum. Former staff members who did not attend the forum also had the opportunity to be interviewed separately.
- Some 30 auditees around the State were also interviewed. The auditees were selected to give a good spread of size, diversity, type (department, statutory authority, local government, grammar school and university) and location as well as whether the audit was conducted by the QAO or a contractor and also covered the five groups within the QAO each of which is headed by an Assistant Auditor-General. In some cases the interviews were conducted by a single reviewer while in others, both reviewers attended. The interviews were conducted using a standard format addressing identified topics of interest. A list of the auditees interviewed is set out in Attachment C.

## **SECTION B: BACKGROUND**

### **B.1: Background**

Division 6 of the *Financial Administration and Audit Act 1977* provides for a strategic review of the Queensland Audit Office to be conducted every five years. The strategic review is to include a review of the Auditor-General's functions and the Auditor-General's performance of the functions to see whether they are being performed economically, effectively and efficiently.

The reviewer is appointed by the Governor in Council on terms and conditions approved by the Governor in Council. The terms of reference for the review are also determined by the Governor in Council.

The Minister (in this case the Premier) must consult with the parliamentary committee and the Auditor-General about the appointment of the reviewer and the terms of reference.

The appointed reviewer has the powers of an authorised auditor in regard to access to information and investigation.

### **B.2: Terms of Reference**

The Terms of Reference for the conduct of this review were approved by the Governor in Council on 14 November 2003.

The Scope of the Review was defined as

*"The appointee 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 Queensland Audit Office (QAO), in order to assess whether they are being performed in accordance with the requirements set out in section 72 of the Financial Administration and Audit Act 1977 (the Act).*

*The 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 Parliament.*

*Consideration is also to be given to the recommendations agreed by the Government arising from both the 1997 inaugural strategic review, and the related Public Accounts Committee review, particularly the extent to which they have been implemented and whether they are achieving the desired objectives."*

The full scope of the Terms of Reference, including the Methodology to be employed and the matters to which particular reference was to be given, is set out in Attachment A.

### **B.3: Reviewers**

The reviewers appointed by the Governor in Council on 14 November 2003 were

- Mr Richard Anderson

Richard is a former Managing Partner of Cooper & Lybrand and latterly PricewaterhouseCoopers with particular responsibilities for audit. Richard also serves on a number of public and private company boards as well as a number of charitable organisations.

- Apart from the interview process we also had access to a large range of written material covering all aspects of the QAO and its operations as well as reports and other papers from other jurisdictions.
- The QAO audit process was the subject of detailed briefings as well as examination of a selection of audit files drawn from the list of auditees interviewed. The previous reviewer had engaged Ernst & Young to undertake a detailed examination of audit files. We concluded that while this may have been appropriate for the first review, the subsequent work and development in the QAO since the first review and the fact that our detailed examinations and interviews had uncovered no significant audit issue, meant that a repeat of the Ernst & Young exercise was not in our view, value for money. Rather we chose to rely on a limited sample drawn from those interviewed. A list of audit files investigated is set out in Attachment D.
- Given the reliance of the QAO on technology, we spent some time investigating the future of TeamAsset, including discussions with the original supplier, PricewaterhouseCoopers.
- While a number of representations were received by the reviewers in various ways on issues of concern, we did not embark on a process of calling for public submissions or hold public meetings in regard to the review. We do not believe that this compromised the process in any way or detracted from the final outcome.
- We also interviewed the Acting Chair of the Public Service Commission, the Head of the Shared Services Implementation Office, and PricewaterhouseCoopers (in regard to TeamAsset and other issues).
- We did not receive a formal submission from the Auditor-General, but rather engaged in an extensive consultation process with the Auditor-General and his senior staff which provided regular and detailed exchanges of information and points of view.

We were also fortunate to have available to us the outcome of the recently completed and independently conducted staff survey which was a valuable resource for us.

The QAO Agency Consultative Committee also conducted a work load survey which we found helpful.

We have appreciated the very willing co-operation we have received from all quarters which has contributed to what we hope has been a successful review. Requests for information and/or assistance were always met with constructive responses which made our job that much easier.

Particular thanks must go to the Auditor-General, Mr Len Scanlan, Mr Neil Jackson, Assistant Auditor-General, Mr John Findlay, the Director of Audit Policy and Reporting, Mr Tony Johnson, Executive Director-Business Services, and Ms Kathleen Hanlon, Personal Assistant to the Auditor-General, as the QAO staff most closely involved in the process, for their professionalism and ready co-operation as well as their commitment to the review process. Thanks must also go to the many other QAO staff who provided valuable contributions to these deliberations.

## **SECTION C: THE AUDIT TASK:**

### **C1: Mandate:**

The QAO audit mandate embraces financial and compliance, performance management systems audits and special audits. QAO has adopted a comprehensive approach to this mandate particularly as applied to financial and compliance and special audits

#### **C.1.1: Financial and Compliance Audits**

A major element of the 1997 Sheridan Review was a comprehensive examination (conducted on behalf of the reviewer by Ernst & Young) of a significant sample of QAO client financial audits, the related audit files and the audit methodology used by QAO at the time of the review. Various comments and recommendations are included in the Sheridan Report regarding this element of that review.

Since then, at the instigation of the Auditor-General, a number of further reviews have been conducted with the stated intention of ensuring that the Sheridan Report recommendations have been acted upon and to implement an ongoing process of quality control and improvement. The reviews have been conducted by Ernst & Young, PricewaterhouseCoopers and internally on a peer review basis by QAO teams which were independent of those which conducted the audits.

Based on our examination of the reports prepared as a result of the reviews we have concluded that the Auditor-General has acted upon the Sheridan Report comments and recommendations (see Section E of this report). We also have concluded that the findings of the subsequent reviews (most recently by PricewaterhouseCoopers in February 2004) indicate strongly that the overall quality of the QAO files and audit conclusions has been maintained and improved. Further, there is substantial evidence of an ongoing development and improvement of QAO financial audit processes and methodology.

A summary entitled "External and Internal Peer Reviews on QAO Financial and Compliance and Performance Management Systems Audits Since 1997 Sheridan Review" dated May 2004 is included as Attachment B.

Our comments and conclusions regarding Quality Assurance processes within QAO are included in section C.2.2 of this report.

As mentioned in section B.4 of this report, interviews were conducted with some 30 auditees selected to provide a spread of size, diversity, type (department, statutory authority, local government, grammar school and university) and location.

Based on the results of our examination of the peer reviews conducted since 1997 and our interviews with auditees we determined that, for the purposes of our review, there was little to be gained by further extensive examination of financial audits and the related audit files. However, to verify this approach we conducted a limited review of nine audits and the related audit files from the wider selection included in the earlier client interview program. This confirmed to us that the processes and methodology being used by QAO are robust and well suited to the task.

The nine audits selected for limited review are listed in Attachment D.

#### **Our conclusions are that the QAO**

- has acted upon the comments and recommendations of the 1997 Sheridan Review;

- has maintained and improved the quality of financial and compliance audits and the opinions and reports issued thereon;
- has implemented an ongoing program of improvement to financial and compliance audit methodology and processes; and
- financial and compliance audit methodology and processes are robust and well suited to this task which is the core business of the QAO.

### **C.1.2: Performance Management System Audits and Performance Audits**

Under section 80 of the *Financial Administration and Audit Act 1977*, the Auditor-General has a discretionary mandate to undertake audits of performance management systems. This section was included in the Act in 1993.

QAO has advised that since 1993 it has undertaken 27 reviews either wholly or partly under the PMS mandate and these are documented in Attachment E. Two of these reviews have been presented to Parliament as formal PMS Audit Reports, both in 2002-03. Many of the reviews listed in Schedule E as having been undertaken under the PMS mandate, while having PMS audit elements, also have many characteristics of audits/reviews of compliance and probity issues undertaken by the Auditor-General using the special review process. These reviews are principally sector-wide reviews.

Whether a particular review ought to be more properly characterized as a PMS audit or some other label was not of great importance to the review process. The reviews were undertaken in appropriate areas and had positive outcomes in terms of their recommendations and the acceptance thereof by auditees.

We are concerned as to whether the PMS mandate is being addressed as Parliament originally intended.

It is our understanding that PMS audits were approved by Parliament in 1993 to encourage agencies to establish effective processes to manage and evaluate their performance. We also understand that it was to obtain through independent audit by QAO, verification that this was indeed being done so that Parliament could be reasonably assured that the performance information flowing to it was accurate, well-developed and meaningful.

The Treasurer, when introducing the Bill in November 1992, made the point that

*"The Auditor-General's traditional financial and compliance auditing role will be expanded to allow for audits of performance management systems – both within and across public sector agencies. I acknowledge that EARC recommended a slightly different approach to this issue.*

*EARC considered that the Auditor-General should be required to review and report on program performance – as occurs in some other jurisdictions. However this recommendation did not take sufficient account of the existing responsibilities of departments and statutory bodies in Queensland to review and report on their performance.*

*If agencies are to be accountable for their performance they must have freedom to undertake their own internal reviews – within the overall framework set down by the Public Finance Standards.*

*The Auditor-General can best add value to this process by auditing the management systems adopted by the agencies.*

*In this way, agencies retain their responsibility for their performance management but are held accountable by Parliament through regular external reporting processes as well as periodic scrutiny by external audit.*

*I would emphasise that under the proposed legislation, the Auditor-General can scrutinize the performance management systems of any public sector entity. This includes any department, any statutory body, any local authority and any entity controlled by one of these bodies. This is a very broad jurisdiction."*

The QAO has now had the PMS audit mandate for in excess of ten years. While some good work has been done on a sector-wide basis, there has not been the level of activity one might have expected at the individual agency level, perhaps missing out on opportunities to contribute even more positively to overall improvements in public sector efficiency and effectiveness.

The resources available to the PMS audit function within the QAO have been limited with staff numbers generally varying from five up to ten. However all too often these resources have had to be diverted to other special audit activities, thus compromising the PMS audit program.

The diversion of resources to special audit activities may also have contributed to the rather long completion times for some PMS audits. We are aware that in one recent case, a PMS audit was begun in an agency in 2003 but was suspended temporarily so that the staff involved could undertake some special audit work. At the time we were considering this matter, that PMS audit had not been recommenced. (We understand that it has been subsequently resumed with the report nearing completion for tabling.)

It would seem to us that the implementation of the PMS audit mandate has not proceeded with the level of commitment that may have been envisaged by the original legislators.

Some of the reasons for this could include

- the concept of PMS auditing is somewhat unique and not widely used in other jurisdictions. This has limited the capacity of the QAO to draw on the experience of others to assist with implementation;
- resources allocated to PMS audits have been limited and not fully or consistently applied, with diversion to other special audits a common occurrence. It would have been preferable for the Parliament to provide sufficient resources to the QAO to support its activities in this area;
- the Auditor-General has expressed publicly a strong view that QAO needs the wider performance audit mandate which could lead to the perception within the QAO and externally that the PMS audit function is not valued;
- the Auditor-General may have been overly cautious and conservative in bringing PMS auditing to the public sector – and this is understandable given the potential for resistance within agencies and the need for an educative process initially;
- Parliament itself has probably not stated as clearly as it might, what is expected to be achieved with PMS audits (and we are aware of efforts by the Auditor-General to clarify this).

A number of comments to us could be interpreted as a reluctance on the part of the QAO to really grasp the PMS audit mandate and run with it or to test the boundaries of the mandate. While many staff would like to see the mandate extended to embrace performance auditing as a matter of principle, there is a view, including at senior levels, that the QAO needs to prove itself with the PMS mandate essentially to "earn" the wider mandate.

We do not accept that the QAO needs to prove itself. Rather the issue should be – "Is the PMS audit mandate appropriate and does it fulfill a valuable function in the overall accountability process for the Parliament?"

It was unfortunate that the Sheridan Report made no attempt to evaluate the worth of PMS auditing. The Report was strongly supportive of the wider performance audit mandate and seemingly not prepared to entertain alternatives.

It is unfortunate that PMS audit and performance audit are all too often characterized as being at opposite ends of the spectrum. In fact in many ways there is a significant degree of complementarity.

At its simplest, with PMS audits, the Auditor-General is effectively asked to look at the agency's performance management systems and provide an opinion as to whether they

- are sufficiently robust and well founded,
- provide information that is consistent, appropriate, accurate and relevant,
- support and underpin the objectives of the program,

such that the Parliament may obtain a reasonable level of confidence that the performance ie efficiency and effectiveness of the program can be and is being evaluated and reported to Parliament by management.

In the case of performance auditing, the Auditor-General adopts more of the traditional audit role of independent evaluation of management and systems. (This ought not to obviate the need for management to also evaluate its own performance in the same way.) The Auditor-General forms and reports to Parliament his opinion on the efficiency and effectiveness of the program in terms of the objectives set for the program. The nature of the Office of the Auditor-General and the level of trust it engenders means that Parliament has a level of comfort that the opinion from him is completely independent.

Most Parliaments in the western world have adopted performance auditing as the preferred model. Queensland and the Northern Territory remain the only Australian jurisdictions that have preferred the PMS audit model.

The arguments in favour of a performance audit mandate have been well-documented in the 1997 Sheridan Report and also publicly by the current Auditor-General. The performance audit mandates in place in other jurisdictions we visited are quite mature and generally well-thought of by most stakeholders.

In those other jurisdictions, there is a significant commitment of resources to performance auditing with around 40%-50% of the annual budget said to be committed to this purpose. Even so, the capacity to undertake performance audits is limited. For example, in New South Wales in 2002-03, only 13 performance audits were completed while only nine were completed in Victoria. (Source: Relevant Annual Reports)

Our observation is that the focus of performance audits in other jurisdictions tends to be on specific programs rather than on overall evaluations of the effectiveness of management systems. Consequently, there is not a broad coverage of management processes but a concentration in depth of a limited number of specific budgetary allocations or expected policy outcomes.

As we understand the 1993 PMS audit mandate, Parliament intended a broad coverage of the public sector recognizing the primary responsibility of Ministers, Directors-General and Chief Executives to report accurately and comprehensively to Parliament on their performance.

In considering the issue of PMS auditing versus performance auditing, we note that the Parliament has on two separate occasions (firstly in considering EARC's report which lead to the 1993 *Financial Administration and Audit Act* amendments and again in 1999 when it considered the Sheridan Report) taken the view that PMS audits are the preferred option for Queensland.

We also note that the concept of performance audits was raised by Sir Ernest Savage in his 1987 report on the public sector and it was also rejected by the Government of the day.

Whilst we recognize in principle at least, that a case can be made for performance auditing, we are not of a mind in the absence of satisfactory PMS audit experience, to go once again down the path of recommending for QAO, a performance audit mandate that has been rejected on at least two previous occasions.

With performance auditing, it would need to be accepted that while Parliament would have an independent view and opinion from the Auditor-General on some matters, there would be a vast number of programs not subject to the same detailed scrutiny and which might never be evaluated by the Auditor-General.

Many agencies would welcome the independent confirmation of the performance of programs administered by them that would come with a performance audit conducted by the Auditor-General. However there would be only a small number of programs covered each year and the recommendations generally are likely to be program specific and not necessarily widely applicable.

In the case of PMS audits, properly implemented, with a balance of sector wide and agency specific initiatives, QAO could cover a much greater range of activities in a shorter space of time and perhaps make a more positive contribution to improving overall management culture in the public sector.

The issue would be how much would Parliament lose in terms of independence and accuracy of performance reporting if the role of the Auditor-General was less of the traditional auditor (as in performance auditing) and more of the agent for Parliament in improving the quality of data and evaluations coming to it from Ministers and management (as in PMS auditing)? It is possible that any perceived shortcomings in PMS audits can be offset by the broader management value and culture enhancement that would come from a greater focus on performance evaluation at the coalface that is accurately reported to Parliament by management.

Because of the difficulties encountered by the QAO in pursuing the PMS audit mandate, we are not overly critical of the QAO for seemingly not pursuing the mandate with the vigour apparently intended by Parliament. However, in our opinion, more could have been done.

We do not have sufficient data or confidence that the PMS audit mandate has been sufficiently well-examined as to be able to form a judgment that we should recommend that the Parliament's wishes expressed on two separate occasions in the past should be overturned. In our opinion, a proper assessment and evaluation of the relative merits of PMS audits needs to be undertaken based on sufficient data to enable a well-founded conclusion to be drawn.

We see the way forward as follows:

- a three year plan should be developed for PMS audits in consultation with the PAC on behalf of the Parliament,
- the plan should provide for at least 20 PMS audits to be undertaken over the three years across the broad public sector,
- each PMS audit should have a completion deadline of no more than six months,
- the PAC on behalf of the Parliament should monitor progress and regularly and independently review outcomes of PMS audits,
- at the end of this period (or completion of the 20 audits), an evaluation be undertaken (tentatively by the PAC) of the relative value of PMS audits to the Parliament and to the broad public sector.

It must be stressed that the plan is highly dependent on sufficient committed resources being available to the QAO to undertake these tasks without the risk of diversion to other special audits. The PMS audit team would need to be doubled to at least 20 staff drawn from a variety of disciplines to be really effective.

If at the end of the evaluation period, the conclusion is that PMS audits are a valuable tool when implemented as Parliament originally intended, then Parliament's previous two decisions will have been vindicated.

If with a proper and full evaluation, the conclusion is that the PMS audits are of limited value to Parliament, then Parliament will be in a position to objectively go back on its previous positions and

consider the move to a wider mandate. On this basis, Queensland would then be in line with other States.

If at that stage, the decision is made to go down the performance audit mandate path, QAO will be in a good position to actively and quickly pursue the agenda having had three years or so of intensive experience and with a reasonable complement of appropriately trained staff on board.

**Our conclusions are that**

- **PMS audits have made a limited but nevertheless valuable contribution to overall public sector management and performance;**
- **the PMS audit mandate has not been as fully and actively exploited by the QAO as Parliament might have originally envisaged;**
- **too few resources have been applied to the PMS audit task and even these limited resources have too often been diverted to other special audit tasks;**
- **the PAC could and should play a greater role in the overall PMS audit process;**
- **the value of the PMS audit function needs to be better evaluated, which can only occur when more PMS audits have been undertaken at the agency level;**
- **PMS audits need to be better focused and completed in tighter timeframes to maximise their value;**
- **performance auditing is a valuable and effective tool for targeted independent evaluations for Parliament. But it is not necessarily as valuable for overall management purposes in an environment where primary responsibility for performance is unambiguously with Ministers, Directors-General and CEO's;**
- **the PMS audit mandate should remain in place pending a more detailed evaluation based on a three year plan of targeted PMS audits.**

***We therefore recommend that***

- ***the QAO, in consultation with the PAC, develop a three year plan to undertake at least 20 targeted PMS audits across the public sector, with each audit taking no more than six months;***
- ***the PAC undertake detailed scrutiny of PMS audit reports when completed;***
- ***the PAC evaluate the value of PMS audits at the end of this three year period and report on the effectiveness of the PMS audit mandate in terms of Parliament's previously expressed position;***
- ***the current PMS audit mandate remain in place pending the outcome of this process;***
- ***in the event that the PMS audit mandate is not delivering what Parliament intended, a performance audit mandate be further considered;***
- ***an appropriate level of resources be provided to the QAO to enable the plan to be fully implemented.***

### **C.1.3: Special Audits**

From time to time and solely at the discretion of the Auditor-General, the QAO conducts what are collectively termed special audits. These include inquiries instigated by the Auditor-General which do not fall into one of the pre-planned categories of financial or PMS audits and occasionally inquiries instigated at the request of other parties. Also included in this category are inquiries required by Parliament.

Except for audits requested by Parliament pursuant to section 77 of the *Financial Administration and Audit Act 1977*, the Auditor-General has discretion regarding whether or not he undertakes investigations into matters referred to him. In evaluating such referrals, the Auditor-General considers relative risks and priorities and whether the public interest would be served by such reviews.

Whilst generally these audits are carried out most competently and achieve satisfactory and conclusive outcomes, QAO often experiences difficulties with their conduct. These difficulties arise because usually the issues that are the subject of inquiry

- are complex;
- are out of the ordinary;
- are sensitive;
- may be the subject of inquiry by another agency such as the Crime and Misconduct Commission;
- are subjected to intense media coverage (often speculative) and consequent public discussion.

QAO can experience significant management difficulties caused by the need to divert resources from other planned activities with adverse impact on staff availability to complete those other scheduled activities and possibly on the annual cost and revenue budgets. In our opinion, processes should be in place to ensure that the statutory requirement of the Auditor-General to undertake special audits is not compromised and that the other important work, eg PMS audits, is not compromised by the need to divert resources to special audits. This should be discussed with Treasury.

The Auditor-General has often been at the centre of the media coverage and hence at risk of having compromised the scope and content of the specific report, together with control of his own role in the formal Parliamentary process as intended by the *Financial Administration and Audit Act 1977*.

**Our conclusions are that the QAO and the Auditor-General should**

- **as part of the overall budgetary process undertaken with Queensland Treasury, develop a flexible funding approach to the requirement for special audits; and**
- **allow individual reports to stand as the record of conclusions and recommendations from the audit, to be considered by the Parliament and the PAC without the need for elaboration by the Auditor-General via the media.**

#### **C.1.4: Audit Coverage**

Through its annual schedule of financial and compliance, special and performance management systems audits it is intended that QAO examines the breadth and depth of the widely diverse activities of the Queensland Public Sector including

- government departments;
- statutory bodies;
- government owned corporations;
- grammar schools;
- universities;
- local government;
- Aboriginal and Torres Strait Island Councils;

- controlled entities of public sector entities;
- specific requirements of Parliament.

In recent years with the legislated requirement that all Queensland Government entities be subject to audit by QAO, the total number of auditees now exceeds 800. Particularly in the area of financial and compliance audits, this is a large and complex workload.

By comparison, the audit offices of the other jurisdictions that we visited in conducting this review

- do not have nearly as many individual auditees for which they are responsible, eg no or very few local government or Aboriginal and Torres Strait Island Councils; and
- direct a far greater proportion of both their time and cost budgets to performance auditing.

Of course this does not suggest that there are not large and complex auditees in those other jurisdictions or that the respective audit offices are not required to deal with complex and at times contentious audit issues. However it does suggest that the overall management task in Queensland is considerably more complex and has become more so with the increased legislative requirements. The generally greater decentralisation of Queensland compared to those other jurisdictions adds further complexity to the management task.

In response to this QAO makes significant use of the services of contract auditors particularly in the conduct of financial and compliance audits of local government and Aboriginal and Torres Strait Island Councils and in complex and specialist areas such as the audit of information technology systems and Treasury systems. The relatively low level of activity in PMS audits appears to be at least partly attributable to the requirement to devote the majority of resources to the financial and compliance demands of this large number of auditees and to its ongoing management.

Without special additional funding for PMS audits and given the recent demand for special audits, QAO has not been able to devote sufficient resources to the PMS audit task even when funds have been allocated for this purpose.

As reported elsewhere we believe that these issues should be re-evaluated through normal budgetary processes to ensure that QAO is resourced so as to be able to meet the total requirements of its current mandate and that the resources are managed annually to achieve the intended outcomes in all areas of financial and compliance, PMS and special audits.

Also as reported elsewhere, whilst at times (and not unexpectedly) there is debate and difference of opinion, the results of the financial and compliance audits generally are regarded by auditees as being of a high standard, a conclusion with which we agree. Similarly, and despite the nature of special audits being sometimes controversial, the outcomes of special audits generally appear to be well accepted by both auditees and Parliament.

Based on our interviews with relevant auditees, the conduct of the PMS audits are not so well regarded by them. QAO, as part of its on-going refinement to its formal client feedback processes, has recently developed an up-dated questionnaire to be completed by clients when a PMS audit is undertaken. This will provide for additional structured feedback to be received and acted upon by the QAO on these types of audits.

The principal area to which auditees direct criticism of QAO is where a particular audit, whatever its purpose, is believed to have included undue emphasis on matters thought to be immaterial in a financial sense or otherwise insignificant or beyond the scope of audit, eg a matter of organisational policy.

This is a difficult area for both management and for QAO. The difficulties appear to stem from two particular aspects.

Firstly, as a principle because of the public nature of the funds administered by and the duty to the public of the auditees, and having regard for the requirements of the *Financial Administration and Audit Act 1977*, the QAO believes that it has responsibility regarding issues of probity, propriety and compliance, beyond that which is envisaged in Australian Auditing Standards. This emphasis has been incorporated into its own Auditing Standards policy as guidance to and as a requirement of its audit teams in the conduct of audits. QAO has attempted to communicate this requirement to auditees by including a standard explanation in the introductory paragraphs of the template for the preparation of Client Service Plans. In most cases the Client Service Plans we reviewed included this standard explanation.

Secondly, although more so relating to the past, whilst acknowledging the importance of the principle there is a belief amongst auditees that QAO has been overly zealous in its emphasis of these issues.

There is also added difficulty for some types of auditees. For example, GOCs are often competing with private industry or with other GOCs in commercial activities.

Whilst these are undoubtedly issues of judgement, in several cases discussed with us there indeed seems to have been undue emphasis on relatively immaterial transactions and items of expenditure. This has particularly been so in terms of the inclusion in formal reporting to Parliament which has then been the subject of, at times, intense media reporting. Judgement is also essential in the consideration of issues relating to policy with added complexity through the need to distinguish between policy based on auditees business issues and the need for adherence to Finance and Accounting Standards. In a number of instances discussed with us there appears to have been confusion between auditees and QAO in distinguishing the issues and then in the attempts at resolving the concerns raised by QAO.

QAO has attempted to overcome auditees concerns by, for example, referring them to ministerial policy as a benchmark in the case of entertainment or travelling expenses and suggesting that the particular agency adopt a similar policy appropriate to their individual circumstances. Indeed it is somewhat surprising that such a policy is not already in place in all government agencies. No doubt a reconfirmation to audit teams to pursue this approach, ie referring to ministerial policy or other appropriate benchmarks, would be welcome. Equally, agencies should ensure that they have in place appropriate policies and procedures and that compliance with such policies is required and acted upon by all levels of management and staff.

Significant matters relating to the interpretation and application of accounting standards require considerable knowledge and experience. Generally QAO senior staff and management appear to be well qualified and resourced in this regard. Agencies need to have the same level of knowledge and experience to cope with the complex requirements of financial accounting and reporting in the accrual accounting environment.

Whilst undoubtedly it is the responsibility of agencies to develop the necessary knowledge and expertise QAO could, by proactively working with auditees, greatly assist this process. By so doing QAO could eliminate much of the misunderstanding regarding the audit role and foster a more co-operative relationship with auditees in the consideration of complex accounting and financial reporting issues. We realise that the independence of QAO must not be compromised in any way. However we believe that this need not be the case.

We also acknowledge that in recent times QAO has gone some way to addressing some of the concerns raised with us but clearly more needs to be done.

#### **Our conclusions are that the QAO**

- **has met the requirements of its mandate in the conduct of financial and compliance and special audits;**
- **as suggested elsewhere in this report, needs to further develop its PMS audits to meet the requirements of this aspect of its mandate;**

- needs to foster a more co-operative relationship with auditees to resolve complex accounting and financial reporting issues;
- should continue to seek to resolve low-level probity issues and issues of minor materiality by agreement with auditees rather than by public reporting and by resorting to such reporting only as a "last resort".

***We recommend that the QAO***

- ***continue to address auditee concerns regarding the resolution of complex accounting and financial reporting issues by continuing to proactively work with auditees and through education forums;***
- ***continue to address through education and communication, auditee concerns about the perceived emphasis of the QAO on matters thought to be immaterial in a financial sense or of minor significance or beyond the scope of audit, eg matters of organisational policy.***

### **C.1.5: Commercial Audits**

Subsequent to a request from the Honourable the Premier and Minister for Trade under section 78(1) of the *Financial Administration and Audit Act 1977*, QAO, in 2003, tendered and was appointed to provide external audit services to the Government of Norfolk Island for a three year period. Also in 2003, QAO tendered jointly with two private sector organisations for the Auditor-General's Office of Papua-New Guinea Institutional Strengthening Project. QAO has also conducted a Strategic Review of the Northern Territory Audit Office.

The strategy underpinning the desire to undertake these assignments is based on two considerations. Firstly it recognises the role of Auditors-General in promoting the development of the public sector auditing function. Secondly it is felt that benefits come from the provision of development opportunities for QAO staff and from promotion of the State's expertise.

Generally additional revenue may be received whilst assisting smaller jurisdictions in areas where the QAO has expertise possibly lacking in those other jurisdictions.

In 2003 the Public Accounts Committee conducted an inquiry into whether the *Financial Administration and Audit Act 1977* should be amended to permit the QAO to undertake services in addition to those currently specified in the Act. In his submission to this inquiry dated 16 May 2003, the Auditor-General stated his position in support of the proposal to amend the legislation. In so doing he confirmed his view that such activities should not impinge on the private sector domain, should draw on the specialist expertise of the Auditor-General and should not be undertaken with a profit motive.

The Committee's Report No 64 was tabled in the Parliament on 7 October 2003.

The Report made two recommendations as follows:

***Recommendation 1:***

*The Committee recommends that the Financial Administration and Audit Act 1977 be amended so that if the Auditor-General wishes to undertake activities not specifically identified in the Act the approval of the Parliament via the Public Accounts Committee and the consent of the Premier be obtained prior to pursuing these activities.*

*Recommendation 2:*

*The Committee recommends that Part 6 of the Financial Administration and Audit Act 1977, dealing with the scope of the Auditor-General's mandate, be amended to provide for collegiate type endeavours within Australia.*

The Government's response to Report No 64 was tabled in the Parliament on 22 December 2003. The response proposed that the two recommendations be referred to this review for consideration.

We have canvassed the issue extensively with auditees and staff of the QAO. We found very little support from auditees for any expansion of the role of the Auditor-General into commercial audits albeit in the limited way considered by the Public Accounts Committee and proposed by the Auditor-General. There was also mixed support for its further pursuit among staff to whom we spoke.

The general view is that the scale of activities necessary to make such endeavours worthwhile for training and development purposes could compromise the real core business of QAO which is auditing the Queensland public sector.

We agree with these views. We are firmly of the view that QAO should stick to its core business which it does very well and for which it is well-regarded by auditees.

We also have some doubts as to how successful a more commercial QAO might be unless it was prepared to offer a suite of services to match those of its likely competitors such as the major accounting firms. As explained in the submission of 16 May 2003 from the Auditor-General to the PAC, this is not the intention of QAO.

There are no concerns with QAO undertaking collegiate activities in Australia with its counterparts in other jurisdictions, nor indeed is there any difficulty with the QAO participating in overseas aid programs to assist developing countries. The State Government has already established a framework for this to happen under a Public-Private Partnership (PPP) model for the public sector's participation in aid and development business with an International Aid and Development Business Policy (IADB) Framework to be adopted by Queensland Government Agencies by the 30 June 2004. It would be appropriate for the QAO to participate under this banner.

While the PAC has recommended an amendment to the legislation to clarify the types of activities that can be undertaken, the occurrences are likely to be few in number and could well be handled administratively, for example by requiring consultation with the PAC before the QAO could undertake such activities. This is similar to the approach recommended by the PAC. The Auditor-General is responsible to Parliament and in this way would be accountable to Parliament through the PAC.

Most Audit Offices participate in collegiate type activities although we are not aware of any legislative under-pinning for such activities.

We do think it is desirable for the QAO internally to establish a set of guidelines and principles that would support the QAO's participation in such activities, ie collegiate type activities and overseas aid programs. It would be helpful to develop this in consultation with the PAC.

The Auditor-General's counterparts in other jurisdictions we visited do not undertake commercial audits and confirmed no intention of so doing.

**Our conclusions are that**

- **the QAO mandate**
  - o **exclude commercial type audits either in Australia or overseas;**
  - o **include specifically, collegiate type activities with other audit offices in Australia; and**

- include participation by QAO in programs that aid developing countries, particularly in the South Pacific, preferably under the PPP model Framework established by the State Government, provided the overall quality of the annual audit program is not thus compromised;
- given that these activities are likely to be infrequent and fairly narrow in application and capable of being handled administratively, amendments to the legislation are not considered necessary.

***We recommend that the QAO***

- ***develop in consultation with the PAC, guidelines and principles to govern the participation by the QAO in***
  - ***collegiate type activities with other audit offices in Australia, and***
  - ***aid programs for developing countries, particularly in the South Pacific;***
- ***ensure that participation has demonstrable benefits for the QAO and/or the State and that the core audit program is not compromised as a result.***

## **C.2: Methodology**

QAO uses a risk-based methodology. The use of the methodology is supported by the TeamAsset toolset. QAO through its Audit Methodology Committee reviews the appropriateness of the methodology and toolset and the quality of the audits performed, during structured quality assurance reviews which include external assessments. QAO's audit process is discussed with auditees through the Client Service Plan.

### **C.2.1: TeamAsset**

The audit methodology used by the audit staff in the conduct of audits includes a computer software platform called TeamAsset. It is a Lotus Notes based database system which fundamentally drives the audit process. It was acquired under license from PricewaterhouseCoopers (PwC) some six years ago and has proved a very flexible and invaluable tool in the conduct of audits.

TeamAsset is no longer supported by PwC although QAO has managed to secure an extended licensing arrangement and limited support from PwC until 2007. It is imperative that QAO has in place an appropriate replacement audit methodology toolset before 2007. QAO has been active in trying to secure a replacement and has endeavoured to have other audit offices join with them in finding a solution that may have application to a number of offices.

We are satisfied that QAO is taking the necessary steps to develop a clear strategy to address the issue but some additional budgetary support may be necessary if QAO is to achieve an outcome that meets its needs in the limited timeframe with which it is faced.

The resolution of this matter is a major strategic decision for the QAO.

### **Our conclusions are that the QAO**

- **has, in TeamAsset, a well developed electronic platform which currently provides a strong base for the implementation of its financial and compliance audit methodology;**
- **internally has appropriately qualified resources for the maintenance and further development from TeamAsset of its computer based audit platform;**

- from July 2004 will have only limited external support for the maintenance and development of TeamAsset;
- recognises that it must now take immediate steps to develop and implement a strategy for the maintenance of its electronic platform as an integral part of its overall audit methodology, including prospects for co-operation with other audit offices.

**We recommend that**

- **the QAO finalise, as a matter of urgency, a strategy to replace TeamAsset, such strategy to include an implementation program which would ensure that the replacement platform is in place before current licensing arrangements and support for TeamAsset ceases in 2007;**
- **given the importance of an appropriate electronic platform to the core QAO audit functions, regular progress reports be provided to the Parliament on this matter.**

### **C.2.2: Quality Assurance**

At the time of our review, Draft Policy G26 – “Quality Assurance: Audits” was being finalised. It is being developed as part of a project to formalise and consolidate the QAO approach to quality assurance. The policy is to apply to all audits, both in-house and contracted-out, performed by QAO including financial and compliance audits, PMS audits and special audits such as audits of probity issues and audits conducted at the request of Parliament. The purpose of the policy is to ensure that robust systems are in place to provide assurance that audits are conducted in accordance with legislative requirements, Australian Auditing Standards and QAO policies and guidance.

Within the policy QAO has established a quality assurance system based on a four point framework of

- Quality Assurance Structures which ensure that policies and procedures are in place so that audits are conducted in accordance with prescribed requirements,
- Quality Control which is maintained through a range of internal and external review processes,
- Better Practice and Innovation which, via the peer reviews and nominated projects, identifies areas of improvement for incorporation into the audit methodology and processes for dissemination to all staff, and
- Service Quality Review through client and staff feedback surveys and mechanisms to deal with complaints.

The policy document assigns specific responsibilities to QAO officers to

- develop five year audit quality review plans for both in-house and contracted-out audits to ensure adequate coverage of contracted-out audits and to ensure that all high risk audits and all audit managers are reviewed within the period,
- develop an annual program for the conduct of in-house peer reviews,
- identify appropriately skilled, experienced and independent QAO staff to undertake the annual in-house peer review program,
- develop a program for the conduct of external peer reviews to be conducted no less than once every three years,

- develop pro-forma programs for the conduct of peer reviews,
- report on and make recommendations on the findings of the peer review process,
- prepare staff advices on the outcomes of the annual post-certification reviews and on other quality assurance matters as identified from time to time,
- ensure the maintenance of policies and procedures which facilitate the conduct of audits in accordance with professional and QAO standards,
- oversee the conduct of the annual client feedback program.

As reported in Section C.1.1 "Financial and Compliance Audits", considerable effort has been expended by QAO through internal and external peer reviews to ensure that the recommendations of the Sheridan Review have been actioned and to foster the development of a culture of continuous improvement in audit quality. The results of those peer reviews support the conclusion that considerable progress has been made in the area of financial and compliance audits.

The compilation of Policy G26, particularly as it relates to financial and compliance audits, is a very worthwhile further development. When completed it should provide a fully planned long term program supported by a suite of necessary tools and processes. Examples of these, such as the Team Asset Reviewers Checklist and the QAO Contractors Workshop, already exist.

The draft document is intended to cover not only financial and compliance audits but also PMS audits and special audits such as those conducted at the specific request of Parliament. The draft policy specifies that at least one PMS audit review be undertaken in-house each year. A quality assurance review has been completed on the PMS audit "Regulatory Aspects of the Ensuring a Clean Environment Output – Environmental Protection Agency".

The extensive procedures included in the draft in respect of financial and compliance audits have not yet been similarly developed to deal with the quality review of PMS audits on the basis that the principles apply equally to PMS audits. Similarly the draft document requires that special audits will be reviewed as determined by the Chair of the Audit Management Committee but contains little detailed instruction as to how this should be done. The draft includes a requirement for external reviews of all audit types at least every three years.

We accept that there may be a need to review PMS and special audits on a case by case basis and that development of separate policies dealing eg with individual issues of PMS and special audits generally may not be practical.

#### **Our conclusions are that the QAO**

- **has achieved considerable progress in the development of its quality assurance processes;**
- **finalised a draft Policy G26 as it relates to financial and compliance audits, PMS audits and special audits and commenced implementation of the five year, three year and annual review programs during 2004;**
- **should ensure the draft Policy encompasses the needs of PMS audits.**

#### **C.2.3: Client Service Plans**

Under the *Financial Administration and Audit Act 1977*, QAO is responsible to and reports to the Queensland Parliament on the results of its audits including the certification of financial statements of individual auditees. However, recognising that the auditees themselves have a very strong interest in the outcome of the audit and are integral in achieving high quality outcomes, QAO has been developing its audit approach to increasingly take into account the input of auditees. This is not only aimed at improving the quality of audits but potentially overall public sector financial management.

Central to this improvement process is the view of the auditee as a client and the preparation of a client service plan for each financial and compliance audit.

The client service plan is integral to the process as it is intended to document the overall approach to audit service for the benefit of both the auditee as client and the audit team. Since the introduction of the client service plan to its audit methodology the QAO has progressively developed a template approach to provide guidance to audit teams in the planning of audits. The purpose of the plan is to record the framework under which the audit is to be performed.

Based on the most recent template it includes

- an introduction explaining the mandate in terms of the attest function which provides for the certification of the entity's financial statements, expanded with additional requirements relating to independent assurances regarding probity, proprietary and compliance with legislation and other prescribed requirements,
- a discussion of major developments affecting the entity's business and the environment in which it operates,
- a risk analysis on which the audit strategy is based including details of the reliance to be placed on factors such as the control environment and internal audit,
- an explanation of the approach to any areas requiring specialist skills such as information technology and treasury systems
- a profile of the engagement team with details of the individual team members and their responsibilities
- a "key milestones" schedule detailing planned timelines for the conduct of the audit,
- a "billing schedule".

During interviews both client management and QAO staff commented very positively on this approach to audit planning and to the more inclusive view of the auditee as a client participating in the process rather than the traditional view of the auditee as the subject of a report to Parliament.

The development of this approach has not been without its difficulties.

Whilst strongly committed to achieving improvements, QAO is sensitive to its need to maintain independence. It therefore has moved at a slower pace than that desired by some auditees. A common concern expressed to us during our interviews is that QAO continues to distance itself from debate or from providing advice which could be helpful to clients for example on accounting and disclosure issues.

We appreciate the concerns QAO has about not impinging on the role of management and also the accounting profession's code of conduct precluding the external auditor offering advice. In our opinion, the QAO can be more "client friendly" without compromising its independence.

Auditees also expressed concerns that the presentation of the plan often was very late in the audit year and that in spite of the risk based approach espoused in the plans, there continues to be an undue emphasis on relatively minor issues rather than the "big picture". There is evidence, in the comments of auditees and in the results of peer reviews, that the application of the audit methodology is inconsistent across the audit base although not necessarily compromising the overall audit outcome.

In our opinion, the processes QAO has been developing can ensure that the improvements being sought are achieved without compromising independence and that at the same time the concerns expressed by auditees can be addressed. There seems to be considerable opportunity to further tailor individual plans to match the particular circumstances of individual auditees. For example concerns relating to the different commercial environments in which departments, councils,

universities and GOCs operate could be addressed with auditees. Timing issues also should be addressed with clients. Consistency could be improved through further QAO staff training together with a client information program to improve auditee understanding of the approach.

We note that the QAO has introduced an integrated framework (ORCA – Objectives, Risks, Controls, Alignment matrix) to better understand the client's business which results in more targeted audit testing plans as well as improved efforts to enhance communication.

Elsewhere in this report we have canvassed greater involvement of the PAC to foster improved communication between Parliament, QAO and auditees. Better understanding of these issues should be a goal of such involvement.

**Our conclusions are that**

- **the QAO audit methodology has benefited greatly by the inclusion of the Client Service Plan;**
- **there is opportunity, without compromising independence, for further development of the Client Service Plan and its related processes;**
- **further development can assist the achievement of better understanding by auditees of audit responsibilities and by audit teams of auditee needs;**
- **the suggested involvement of the PAC in developing a suitable communication strategy should also assist the process.**

***We recommend that***

- ***the timetable for preparation and agreement with auditees of the Client Service Plan be reviewed to address concerns expressed by auditees that generally this has been left too late for them to give proper consideration to the Plan;***
- ***the QAO increase its commitment to programs of staff training and client information to enhance relationships with auditees.***

### **C.3: Process**

QAO's key output presented in summary reports to Parliament pursuant to the *Financial Administration and Audit Act 1977* is in the opinions, conclusions and recommendations formed and expressed annually in more than 800 audit reports. QAO currently produces around ten summary reports annually. These include general reports on audits performed as well as reports relating to the results of local government audits, Aboriginal Council audits, Island Council audits, universities and grammar schools.

Since 2001-02, the QAO has published interim audit results to enhance the timeliness of reporting. Interim reporting can also include key issues and themes in public sector accounting and accountability.

A further initiative in the process has been the identification of "business improvement opportunities" during the course of audits. QAO engagement teams seek to identify unnecessary or inefficient practices and procedures which could also form the basis of better practice guidelines.

The QAO is also proactive in the field of auditor independence including reviewing its own independence framework in 2001 following the release of the Ramsay Report entitled *Independence of Australian Company Auditors – Review of Current Australian Requirements and Proposals for Reform*. While this report refers specifically to companies, the principles espoused provide general guidance in the consideration of auditor independence. In 2003, the QAO introduced a comprehensive system for managing auditor independence which QAO claim is the most advanced system for management of auditor independence in any Australian audit office.

### C.3.1: Use of Contractors

The fieldwork for many QAO audits, particularly the audits of local government and audits in locations remote from Brisbane, is contracted out. QAO has a comprehensive process for the management of audit contractors based on a register of interested and suitably qualified and experienced candidates. Appointments with a fee above \$40 000 are required to be subject to competitive quotation and are subject to re-tendering and rotation. This, however represents only approximately 9% of contracted audits. As a matter of policy, all audits are intended to be subject to rotation on a maximum term of five years. As part of the process, approximately every five years a QAO audit team conducts the entire audit including the fieldwork.

Generally this appears to be operating satisfactorily. However in a number of cases concerns were expressed to us particularly as to the limited choice of contractor and lack of consultation in their selection and appointment. Auditees understand that it is QAO's responsibility to conduct the audits and therefore QAO's responsibility to appoint the contractors. However they would like the opportunity to be consulted on the appointment and the terms of appointment.

QAO has had a process whereby client feedback is sought on the audit contractor's performance and whether they have any known conflicts of interest. This process is currently being upgraded.

The QAO also publishes in its annual report, details of the more significant contract audit allocations and fees.

#### Our conclusions are that

- the QAO policy of contracting-out audit fieldwork is justified as an efficient and effective means of completing the annual workload;
- based on our review of the adequacy of resources available to the QAO the extent of work contracted out appears reasonable;
- generally the process for the management of contractors is satisfactory.

#### *We recommend that*

- *auditees be consulted on the appointment and the terms of appointment of contractors proposed to undertake their audit and QAO should include in its management process suitable steps to achieve this.*

### C.3.2: Internal Audit

In departments, large statutory bodies and local government internal audit has developed a significant presence in recent years. Where present and where it is appropriate to place reliance upon internal audit, it is the policy of QAO, in accordance with auditing standards, to do so.

A number of clients with whom we discussed this matter confirmed a satisfactory relationship between internal audit and QAO. However others expressed concern at the lack of recognition given to internal audit.

We understand from our discussions with QAO staff that there are considerable difficulties in giving proper effect to this policy. The quality of internal audit work, whilst improving, is variable. In QAO's view, the problem can be related back to the scope, timing and coverage of internal audit work which is at the discretion of client management and hence may be insufficient for the purposes of external audit. At times, though of good quality, internal audit work is not designed or intended to cover issues of interest to external audit.

There seems to be an opportunity for QAO through a program of client education and through proactively working with clients to foster the development and improvement of internal audit in government.

We understand that the QAO already undertakes annual internal audit briefings and regularly provides presentations to the Institute of Internal Auditors.

We also understand that there have been exchanges and secondments of staff between QAO and other government agencies. This has potential benefits for QAO as well as for clients and should be expanded wherever possible. Unfortunately, QAO has not had a good response to attempts to increase participation although it acknowledges that it needs to maintain the effort.

**Our conclusions are that QAO**

- has in place appropriate auditing policies for the use of internal audit work;
- has mixed success in implementing the policies due to the variable quality of internal audit work.

***We recommend that the QAO***

- ***continue to address auditee concerns about internal audit through better communication of the difficulties being experienced in relying on the work of internal audit;***
- ***continue to encourage auditees to improve the quality of internal audit;***
- ***further develop staff exchange and secondment programs with internal audit within auditee organisations.***

**C.3.3: Delegations**

Since the publication of the Sheridan Report, the Auditor-General has further delegated authority for various functions of his Office including the signing of audit reports. Each year and each time a new audit is added to the mandate, a review of the delegations in place is undertaken. Through this delegation various direct responsibilities are now held by the Deputy Auditor-General, Assistant Auditors-General, Audit Directors and Managers. Whilst this was essential to cope with the recent rapid and major increase in the legislated workload it is also a commendable approach to tasks such as risk management, quality improvement and skills development.

At the time of the Sheridan Review in 1997, the Auditor-General or the Deputy Auditor-General signed almost 32% of all audit certificates. That percentage has now declined to 24%. Other senior auditors now have much greater authority to sign annual audit certificates which has assisted the smooth operations of the audit process.

Until very recently a significant legislative impediment has been the Auditor-General's inability to delegate signing of independent audit reports for the public sector companies incorporated under the *Companies Act*. Following representations by the Australasian Council of Auditors-General, the Commonwealth Government has amended the legislation to allow Auditors-General to delegate the signing of these audits. The QAO is currently reviewing its delegations which is likely to result in a significant number of audits being delegated from the Auditor-General to other senior QAO staff as well as contractors.

The process of delegation of authority is appreciated and well received within QAO and by auditees who see improved service levels from QAO.

**Our conclusion is that**

- **the policy of delegated authority, to the extent now introduced, is a valuable contribution to the management of audit processes and the professional output of QAO and the Auditor-General should continue and extend such delegations of authority.**

**C.3.4: Regional Presence**

During the review we visited selected auditees in major regions of Queensland to interview management and other interested parties including independent members of audit committees. Particularly in regions such as North Queensland and North Western Queensland which are remote from the QAO office in Brisbane clients commented on the difficulties experienced in developing and maintaining a close contact with QAO. They see ever-increasing value in the relationship with QAO as the complexities of issues of accounting, governance, disclosure and reporting compound.

These clients genuinely feel that this is an important matter because they believe that the relationship should provide assistance to them in dealing with these complex issues. Importantly also, whilst the audit fieldwork may be conducted on site by a contractor, ultimately the auditor is the Auditor-General. The audit opinions are formed and the audit reports are signed by the Auditor-General or a delegate. This issue of QAO relationships in remote or regional locations is a concern to clients even when the audit is conducted fully by a QAO audit team.

We acknowledge that the QAO has made significant steps in recent times to improve communication with auditees in regional and remote areas using a variety of mediums, eg print, workshops, personal attendance at forums, and the Web. However the key issue for many auditees is the ability to deal face-to-face and also the desire for specific interaction on day-to-day issues.

Greater presence in regional and remote areas is likely to come at a cost to the budget but the pay-off in terms of improvement to auditee relationships is highly desirable and is likely to justify the resource commitment required.

**Our conclusions are that**

- **reasonable concerns are held by regionally based auditees as to the development and maintenance of a good working relationship with QAO;**
- **there is value to be gained, both by auditees generally and by QAO, in continuing to foster such relationships.**

***We recommend that***

- ***the QAO examine its current approach to servicing auditees in regional and remote areas with a view to developing strategies to increase its presence in these areas and thereby its active involvement with regionally based auditees. Such strategies should incorporate more regional visits to facilitate greater interaction with individual auditees.***

**C.3.5: Technology**

Most of our observations regarding technology and its position in the QAO audit methodology are found in section C.2.1 "TeamAsset". QAO has a well developed base of information and telecommunications technology which generally is available to all staff as required. We understand

that due to budgetary issues in the past there have been delays in rolling out equipment and software updates. Steps have been taken to overcome these problems. For example, recently QAO has reviewed and is considering the introduction of broadband access to its communication network.

In addition to TeamAsset the use of electronic platforms is well developed for the purposes of providing technical and professional backup, research, communication management and administrative functions such as client time recording.

It is clear that technology has played and will increasingly play an important role in the success of the QAO in delivering quality audit outcomes at a reasonable cost. Technology comes at a price and it is important that the QAO be supported in terms of funding for technology developments. We have been impressed by the QAO's capacity to utilise technology effectively through a full range of technology-supported strategies.

For QAO the principal current issue regarding technology appears to be to ensure that it is appropriately equipped for the needs of its audit methodology.

*We have no particular conclusions beyond those included in Section C.2.1 of this report.*

### **C.3.6: Audit Specialist Technical Skills**

QAO has need for specialist technical skills and a need to harness experience for the benefit of particular audit types. Technologies and systems and processes relating to areas such as information, telecommunications and treasury have significant impact on the management and operations of many clients. The risks associated with these technologies can be extremely high and generally are subject to rapid change and development. Experience with specific types of audits such as local government is essential to cope with factors such as specific legislation and specific organisational structures. The need for particular skills and experience for PMS audits is referred to in section C.1.2 of this report.

An Information Systems audit team has existed in QAO since the late 1970's. However difficulty in recruiting and retaining adequate resources in the areas of information and telecommunications technologies continues to be experienced. In response QAO has in some situations contracted-out some aspects of individual audits and in other situations directly contracted-in specialists on a part-time basis. Whilst these methods have been successful in the short term the recent appointment of a senior experienced practitioner as Director of Audit, Information Systems is welcome. We understand that it is intended to recruit further in this area to build and consolidate in-house knowledge and skills.

Similar considerations apply with treasury systems and processes and perhaps are even more acute than in IT because of the relatively limited opportunity to develop and maintain treasury knowledge and experience in Queensland. Here QAO has had for some time the benefit of a well experienced senior practitioner. This approach has been successful to date. However it is likely to be difficult for specialists within QAO to maintain the currency of their knowledge and experience unless they are afforded the opportunity to refresh through exchange or secondment.

In response to the need to build a body of collective experience in the requirements for audits such as those of local government and in specialist businesses such as those in the electricity industry, QAO has for some time organised through specialist individuals or groups known as "lead agencies". Generally this response has been successful.

#### **Our conclusions are that the QAO**

- **has a considerable requirement for specialist technical knowledge and skills beyond audit and accounting and generally has been successful in marshalling the necessary resources;**

- particularly in some areas the availability of these resources is limited and QAO justifiably has supplemented its in-house skills by outsourcing work or by the direct employment of skilled contractors;
- is likely to experience increasing demand for specialist skills and knowledge.

***We recommend that***

- ***the QAO review current strategies for meeting audit specialist technical skill needs to ensure that it continues to be able to access the necessary skills and expertise, particularly in the area of information technology, treasury and other systems.***

#### **C.4: The Role of the Public Accounts Committee and the Parliament**

The *Parliament of Queensland Act 2001* provides for the Public Accounts Committee to have responsibility for

*“... (b) considering the annual and other reports of the auditor-general”.*

All reports by the Auditor-General go to the Public Accounts Committee (PAC) once they have been tabled in the Parliament. In many cases, the PAC has instigated formal examinations of the reports.

Parliament has legislated, quite appropriately in our view, significant unfettered powers to the Auditor-General. As a matter of principle, it follows that there is a need to ensure that the Auditor-General has the capacity and resources to undertake audits without compromise or interference.

As with other jurisdictions, apart from full parliamentary discussion, the only formal process provided for consideration of the Auditor-General's reports is by the PAC. The Auditor-General is accountable to the Parliament and in our opinion, it is important and appropriate for the work of the Auditor-General and the QAO to be examined, to be afforded detailed consideration and have the benefit of full accountability. The Auditor-General, the Parliament, the PAC, the Government, the public and other stakeholders should welcome an increased focus on the work of the Auditor-General. We see this role as appropriate for the PAC and one which would benefit from a regular program of comprehensive public examination of audit reports. We do not see this as compromising the independence of the Auditor-General.

In other jurisdictions, there appears to be a higher level of involvement by the appropriate Parliamentary Committee to the point where public hearings are regularly held to consider the reports of the Auditor-General (although many would relate to the outcome of performance audits rather than the more traditional financial compliance audits). While this also occurs in Queensland, it would not appear to us to be on the same scale as in other jurisdictions.

In other jurisdictions, the development of the annual audit plan is a collaborative effort by the Auditor-General and the appropriate Parliamentary Committee to ensure, among other things, that the resources of the Audit Office are well utilised and directed.

While much of the focus in these other jurisdictions is on the annual performance audit plan, it does reflect a greater commitment by the respective Parliaments to providing a framework within which the Audit Office can operate, be accountable and have the benefit of an important and valuable link between the Parliament and the Auditor-General.

Our discussions and investigations with the other jurisdictions did not lead to any suggestion or evidence that we could see that the process in any way compromised the independence of the Auditor-General in carrying out the functions required by the Parliament. In fact, it was seen as a very positive step in achieving greater value from the audit function.

As already indicated, there is an opportunity for the Parliament through the PAC to assist the QAO to achieve the kind of financial management outcomes desired by the Parliament. We are aware that care must always be taken to ensure that the independence of the Auditor-General is not compromised and there is no suggestion that the PAC role include directing the QAO in any way in terms of audit reviews.

In our opinion, the PAC could play an important role in areas such as

- consultation in the development of the annual PMS audit plan;
- scrutinizing proposed audit and other standards;
- identifying emerging areas of audit interest;
- developing /consulting on protocols for issues such as communication and media;
- examining the Auditor-General on areas that he has identified as being of particular interest;
- examining reports of the Auditor-General, either through a public process or in camera.

We are aware that section 97 of the *Financial Administration and Audit Act 1977* already provides for significant scrutiny of auditing standards by the Legislative Assembly. In our view, the PAC could in fact examine these in greater depth on behalf of the Parliament. This is a matter for the Parliament and the PAC to determine.

We are also aware that the Auditor-General has fostered a relationship with the PAC as part of his wider consultation process. This is very positive. However it needs to be extended and formalized for the benefit of all concerned.

The existing legislative provisions are seen as sufficient to accommodate the role envisaged for the PAC.

#### Our conclusions are that

- **there would be benefit in an enhanced level of examination of the work of the Auditor-General and the QAO by the Parliament having regard to the significant powers and responsibilities vested in the Office of the Auditor-General by the legislation;**
- **this enhanced scrutiny can best be undertaken by the PAC on behalf of the Parliament utilising existing available processes;**
- **the high standard and standing of the Office of the Auditor-General would be further enhanced by greater involvement by the Parliament and the PAC;**
- **areas where the PAC could play a more significant role include –**
  - o **the annual PMS audit plan,**
  - o **proposed audit and other standards,**
  - o **emerging areas of audit interest,**
  - o **communication and media protocols,**
  - o **considering areas identified by the Auditor-General as being of future concern and interest,**
  - o **examining more formally, either publicly or in camera, reports to the Parliament by the Auditor-General;**
- **the increased role of the PAC should not be such that it would compromise the independence of the Auditor-General.**

**Recommendation:**

***Acknowledging that this is ultimately a matter for the Parliament and the PAC, we nevertheless recommend that careful consideration be given to the conclusions we have outlined.***

## SECTION D: Organisation and Management Issues

### D.1: Organisational Structure

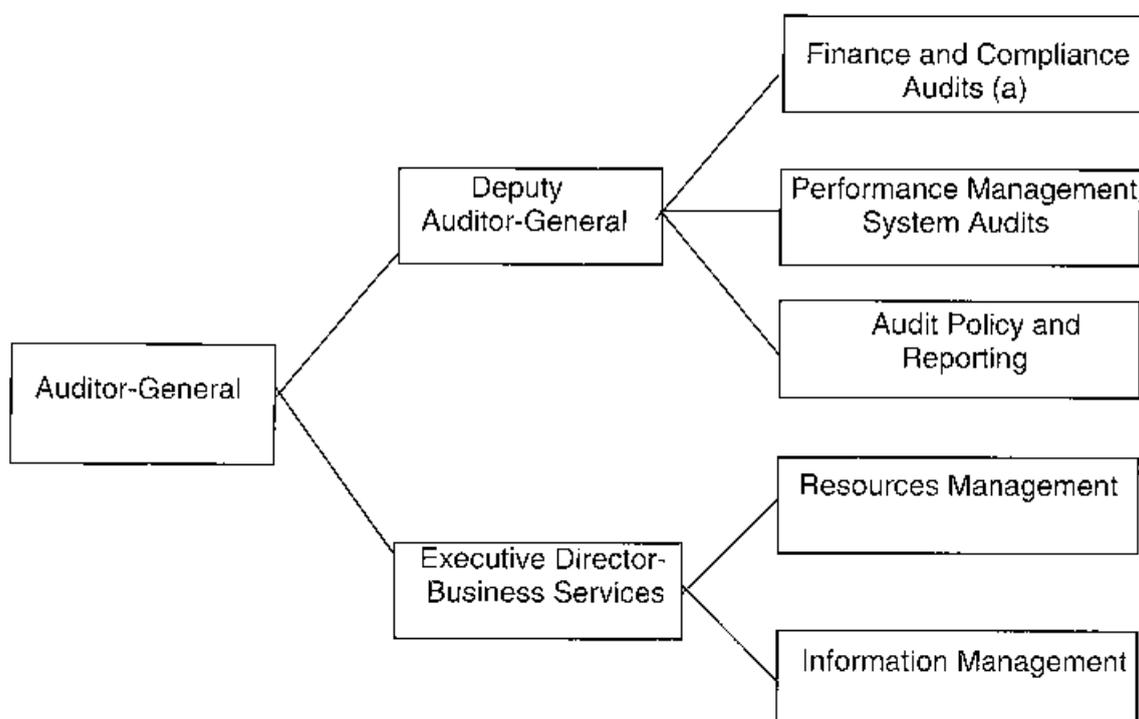
#### D.1.1: General Issues

The structure of an organisation tends to reflect identified business needs as well as the senior management's interpretation of the culture and personality of the organisation. In our view the QAO generally conforms to this model.

The core business of the QAO is auditing the public accounts and hence the majority of staff and organisational focus is on financial and compliance auditing.

The QAO has four key business or functional areas – financial and compliance auditing, performance management system auditing, audit policy and reporting and business services. The audit areas report through the Deputy Auditor-General while the business services area reports through the Executive Director – Business Services to the Auditor-General.

QAO Organisational Structure (as at 30.6.04)



(a) includes Information Systems Audit

While for a variety of reasons the PMS audit function has not been able to achieve all of its aspirations, organisationally and strategically it is appropriately located in a separate section as is currently the case.

In our view, for PMS audits,

- the audit approach is somewhat different,
- the skills required are more diverse, eg not all PMS auditors need to be CPAs or equivalents,
- the intended outcomes are generally more forward looking,

which supports the argument to separate PMS auditing from the more traditional audit functions.

It is also important that there be a separate area looking after audit policy and report preparation. The current division of responsibilities in this manner has worked well.

Within the financial and compliance audit area, the work is effectively undertaken in five work groups which look after various departments, GOCs and statutory bodies as well as local government.

While another Auditor-General may organize the tasks and divisions of responsibilities a little differently, we do not think that the current structure is necessarily inefficient or ineffective. In fact we have reason to conclude that the current system is flexible enough to deal with most issues and get the job done well. It also seems to have the support of most staff in the organisation.

The Shared Services Project (SSP) is a major Government policy development to which significant resources have been committed. It has implications for the QAO in terms of the audit task and these are discussed in section F. While the sharing of services challenges some of the organisational structural norms, the QAO structure appears to be responding well.

In terms of any realignment of audit responsibilities, the QAO's ASAP Project Team has been monitoring the situation to ensure that it is appropriately dealt with in the Public Sector Audit Business Plan for each year.

#### **Our conclusions are that**

- **the current structure of the QAO is consistent with the identified strategic and operational business needs of the QAO;**
- **the structure provides a flexible environment within which the audit task can be undertaken efficiently and effectively and meet the needs of a changing client base;**
- **the structure provides a suitable environment for staff development and training.**

#### **D.1.2: Business Services**

In the 1997 Sheridan Report, the observation was made that the business (corporate) services area of the QAO seemed high in staff numbers (31) relative to the total number of staff (154)(see \* ). The observation was not well-developed but there was some indication that the reviewer's experience as Auditor-General in South Australia was pertinent.

As the Sheridan Report acknowledged, comparisons in this area are not easy due to different scales of resourcing in the various jurisdictions and also the differences in modus operandi. Also structural changes in organisation make comparisons over time even more difficult.

At the time of the Sheridan Review, the business services area comprised what is now business services as well as what is now audit policy and reporting.

Since the Sheridan Review, the combined staffing for these two areas has grown from 31 to 38. The reasons for this growth include

- an increase in audit mandates from 585 to 801;
- an increase in overall staff numbers from 164 to 189 (see \* );
- additional evaluation, advice and assistance functions;
- increase in the production of Auditor-General's reports to Parliament to 10 using in-house desk top publishing;
- increased emphasis on technical training;

- assuming administrative responsibility for the Treasury Products Audit Specialist;
- increased use of and deployment of technology in the QAO;
- new responsibilities for Information Standards and Governance.

We are satisfied that since the Sheridan Report, the QAO and Business Services/Audit Policy and Reporting have responded very positively to the need to improve efficiency and effectiveness. The areas are well-regarded by staff generally, as evidenced by the outcome of client surveys, and we have no specific recommendations other than to reinforce the view that the QAO and the Business Services/Audit Policy and Reporting areas in particular must continue to be vigilant in controlling costs and providing services of the highest quality to support the core audit function of the QAO.

**Our conclusions are that**

- **Business Services and Audit Policy and Reporting have responded positively to the Sheridan Report in terms of improving efficiency and effectiveness;**
- **both areas have satisfactorily met the challenges of a significant increase in numbers of auditees, increases in QAO staff numbers, the additional demands of a more technology reliant QAO as well as increased activity generally;**
- **both areas need to continue to be vigilant in controlling costs and providing services of the highest quality to support the core audit function.**

( \* Total number of staff (154) in the Sheridan Report is not consistent with the relevant QAO Annual Report which quotes total number of staff as 164. 164 has therefore been used for comparative purposes.)

### **D.1.3: Library Services**

Library Services currently resides within the Audit Policy and Reporting Section. It was transferred from Business Services in late 2003 on a trial basis. It has been the subject of a number of representations to us, in part because of the lack of consultation in regard to the transfer. The lack of consultation was surprising and inconsistent with the commitment by the Auditor-General to improved consultation and communication processes in the QAO.

Audit Policy and Reporting is a large user of the Library's services but this fact should not necessarily underpin the decision to transfer the Library Services to this Section.

We acknowledge the strength of the representations to us on this matter. Libraries are generally an organisational resource and hence attached to a business support type area. The risk of housing it with a significant user is that "possession becomes nine-tenths of the law" and other users may no longer get equal priority. We have seen no evidence of this to date but it is a risk.

The issue of where the Library Service is located is primarily an organisational issue, not a strategic one. However, the representations to us need to be considered. In the circumstances, the decision should be re-examined by the Auditor-General with full consultation with affected parties.

**Our conclusion is that**

- **the decision to transfer the Library Services to the Audit Policy and Reporting Section should be re-examined by the Auditor-General with full consultation with affected parties.**

#### D.1.4: Gender/Equity Issues

While it is not specifically referred to in the Terms of Reference for this review, other than perhaps broadly within the area of human resources, we have observed that the QAO has had some difficulty in achieving what might be seen as appropriate gender and equity outcomes.

While there is a reasonable representation of females overall within the QAO, they are predominantly in the lower paid ranks. With one exception, the recently appointed Director of Audit, Information Systems, the whole of the senior management team is male. Given the merit selection process and the requirement for substantive public sector auditing experience, there is some doubt that this will change to any significant degree in the short to medium term.

Addressing this issue is not an easy task, as ultimately it means attracting and recruiting senior female staff from outside the QAO to key positions while suitable internal candidates are developing within the QAO. A number of prospective internal candidates are also exiting the organisation or taking a break in their career. A number have been retained in employment through QAO's permanent part-time arrangements.

It is acknowledged that senior staff in the QAO have an expectation that provided they have done a good job, they will be promoted in the QAO. This expectation is quite reasonable given the current merit selection processes used at the QAO.

One strategy to address this matter is to successfully use an interchange process to introduce senior female staff to the QAO so that a level of acceptance of the potential for external appointees can be created within the more senior ranks. We were advised that previous difficulties experienced with the interchanges included qualifications and whether the external personnel are willing to work in the QAO.

The QAO also needs to be more proactive in addressing employment from groups such as Aboriginal and Torres Strait Islanders and people with disabilities who might be considered to be under-represented within the overall staffing structure of the QAO.

It must be acknowledged that the QAO does employ a significant number of staff from non-English speaking backgrounds. At 26% of staff, it is around 3 times the average in the Public Service generally and one of the highest of any public sector agency.

In our view there is not a lack of commitment or indeed any unwillingness on the part of the Auditor-General and his staff to address these issues comprehensively, although the difficulties of recruitment which we must acknowledge, were pointed out to us.

Achieving better gender/equity outcomes is not a simple matter. Nevertheless, the QAO should be more proactive to ensure good outcomes in what is a sensitive and important area.

#### **Our conclusions are that**

- **there is a gender imbalance in senior positions within the QAO;**
- **more could be done to improve representation of certain employee groups, eg Aboriginal and Torres Strait Islanders and people with disabilities in the QAO;**
- **the QAO has been active in attempting to address these issues and we exhort the QAO to continue to work for better outcomes in these areas.**

#### ***We recommend that the QAO***

- ***review its current recruitment strategies including the use of interchange arrangements, particularly on a targeted basis, to ensure that the current gender imbalance in senior levels of management continues to be actively addressed;***

- *continue to be proactive in fostering the employment of under represented groups in the QAO to achieve outcomes consistent with broad strategic Government outcomes.*

## **D.2: Financial Resources**

The operations of the QAO are funded from the normal Government budget and from fee income generated from auditees.

Total revenue from ordinary QAO activities in 2002-03 was \$22.161 million, of which \$17.83 million or around 80% was derived from the charging of audit fees to auditees.

The Treasurer is required to consult with the PAC in regard to the proposed budget of the QAO but the PAC has no determining power.

In the Commonwealth, the PAC equivalent has significant power to decide the resources available to the Audit Office.

The Sheridan Report recommended that similar powers be given to the PAC in Queensland but this was rejected by both the PAC and the Government. We understand that New South Wales had also considered such a proposal but did not take it up.

Our consultations with Treasury, QAO and the PAC itself suggests that the current system limiting the role of the PAC to consultation is generally seen as a practical working framework which recognizes the fact that the QAO should be subject to similar financial frameworks within which the rest of the public sector must operate.

The Auditor-General has demonstrated a commitment to working within the broad parameters of the Budget. He has reaffirmed his view to us that the QAO should work within the traditional budget framework. He is comfortable that the current situation works well, with the possible exception of funding special audits and PMS audits and sees no requirement for special arrangements for the QAO.

Our conclusion is that the current system works well and while there is not always complete agreement between QAO and the funding agencies such as Treasury, there is no evidence to suggest that the audit task - particularly the core financial and compliance audit task - has been seriously compromised as a result or that the needs of Parliament largely are not being met.

We do have a view that there is a need for additional funding particularly for areas such as the PMS audits, special audits and training and development which we have discussed elsewhere in this report. There will also be an additional cost to provide for a greater QAO presence in regional and remote areas.

### **D.2.1: Cost Recovery**

The Auditor-General has the power to levy fees for audits performed by the QAO. The hourly rates to be used in determining the fee to be charged to auditees by the Auditor-General must be approved by the Treasurer.

Virtually all auditees are charged for the normal audit services provided by the QAO.

The level of cost recovery has steadily increased from around 73% in 1997-98 to the current level of 82%.

The level of audit fee charged by the QAO is not commercially based but is calculated on the basis of the cost recovery framework set out in the appropriate Financial Management Standard under the *Financial Administration and Audit Act 1977*. Most clients generally accept that it is quite modest relative to what they might expect to pay for a similar level of service from the private sector.

The concerns expressed by auditees in relation to the fees charged centre around the fact that they have no real role in their determination and the annual fee is largely presented as a fait accompli.

Treasury philosophy in regard to the fees is to encourage auditees to find more efficient ways of dealing with the audit task which should be reflected in the audit fees levied. Unfortunately there are very few tangible examples of where this has occurred.

In section D.3.2, we have recommended a significant increase in expenditure on staff training and development. Increased staff training and development would benefit both the auditee and the QAO and it would be appropriate for the fee levels to increase to accommodate this particularly as the fee increase required is likely to be small.

There is also the issue of whether auditees should be levied a fee for any PMS audits that may be undertaken. Currently there is no charge to the auditee for these audits. The situation in the other jurisdictions we visited is that generally no charge is levied for performance audits. On balance we see merit in this position and therefore we are recommending that charges not be instituted for PMS audits in Queensland.

There is an argument that PMS audits are a type of performance audit and are designed to improve efficiency and effectiveness. Therefore any savings to be generated should be utilised to meet the costs involved. The costs involved can be substantial. However charging difficulties are posed when the outcome is not a saving but better utilisation of resources for, say, an under-performing service.

A key issue raised with us by auditees is the extent to which the auditee is able to negotiate with the QAO in regard to the fee for financial and compliance audits. While the eventual outcome may well be the same, there would be merit in the auditee being engaged more by the QAO in the fee setting process. It would also provide greater encouragement for the auditee to better manage the audit.

There was some evidence to suggest that the QAO had not yet attained the high standard of professionalism in terms of time management and fee assessment to which it has aspired. Staff feedback suggests that on occasions, it has been easier for staff to simply ignore excess hours rather than go through a process of amending the fee, with all this might entail in terms of internal processes and auditee relationship. Excess hours can arise in many ways including auditee action or over-auditing by the QAO.

The QAO needs to remain committed to the process of fee setting and accountability that has been put in place to ensure expected outcomes are achieved. There needs to be continuing efforts to ensure close correlation between hours charged and billable hours actually worked.

It is not a major issue and certainly the QAO generally should be commended for what has actually been achieved to date.

#### **Our conclusions are that**

- **the need for additional training and development expenditure should be recovered by way of an increase in audit fee given that auditees generally will benefit from the enhanced training and development;**
- **the current policy of not charging for PMS audits is appropriate and should be continued;**
- **there are concerns by auditees about their level of involvement in the audit fee setting process which could be addressed by greater engagement of auditees in**

the fee setting process. This should not undermine the authority of the QAO to set an appropriate fee;

- some issues were raised in regard to the time recording and processes used and the impact on staff and the QAO needs to ensure that these processes are consistent with best practice.

***We recommend that***

- ***the current fee-determination process incorporate a further element of cost recovery for increased training and development needs;***
- ***there be no change to the current policy of not charging for PMS audits;***
- ***there be greater engagement of auditees by the QAO in the fee determination process to ensure that the fee charged is well-understood and accepted, and that opportunities are afforded to reduce the fee in appropriate circumstances and to be increased where circumstances warrant;***
- ***the QAO should continue to improve time management and recording processes for the audit task consistent with best practice.***

## **D.2.2: Adequacy of Resources**

In 2002-03, the overall budget expenditure for the QAO was \$22.208 million compared with \$20.924 million in the previous year, an increase of 6.1%.

Direct comparisons of budget expenditure with other jurisdictions are complicated by differences in methods of operation, pay scales, scope of the mandate, numbers of auditees etc and are of limited usefulness.

The Australian Council of Auditors-General has done significant work in benchmarking. However it is still difficult to make meaningful comparisons in a number of key areas, eg QAO has more than 800 auditees of all types and sizes and comparing this to other jurisdictions with fewer and perhaps proportionately more complex auditees is difficult.

Our own observations are that having regard to

- the number of auditees;
- the diversity of the traditional audit task;
- the special difficulties of a large, decentralized state;
- the controls over expenditure exercised within the QAO;
- the commitment of senior management to good, robust budget management practices;

the QAO outputs and outcomes are to be commended.

Treasury did not raise with us particular problems with QAO's budget management.

In some areas, resources available could be increased at a comparatively small cost to achieve better outcomes.

For example, the level of commitment to training and development, while commendable needs some additional resourcing to ensure the quality of staff is maintained and that additional areas of need discussed elsewhere in this report, eg career planning for more senior staff, can be addressed. We

are aware that having raised this matter during the course of the review, the QAO has already taken steps to address this issue.

Also there is a need to look at the funding for special audits in a more structured way. Treasury has been sympathetic to the QAO needs in the past where special audits have been required by Parliament or the PAC and supported requests by the QAO for additional funding. The process would benefit from a more structured approach agreed between Treasury and the QAO to streamline consideration by the Cabinet Budget Review Committee.

If there is to be greater commitment to implementing a full PMS audit process for the QAO in accordance with the 1993 mandate, then some additional resources are required to ensure that other QAO determined priorities for special audits, investigations and the like do not impinge on the PMS audit work.

Whilst we acknowledge that the proposed doubling of the resource commitment for PMS audits is substantial in its own right, it is not so significant in the context of the overall QAO budget. Rather the existing available resources firstly need to be fully committed to the task which may require some priority adjustment in other areas. There needs to be changes to the modus operandi of the PMS Audit Section to ensure investigations and reports are done expeditiously and efficiently. (The reports to date appear in a few situations to have become bogged down in process and detail.)

A concern raised in the Sheridan Report was that the QAO tended to "over-audit" to prevent mistakes. During discussions with staff, it was suggested that this culture still exists to some degree and which also was suggested in interviews with a number of auditees. There might be some opportunities for the QAO to release resources from the core financial and compliance audit task by continuing to pursue efficiencies in the audit process by maintaining a vigilant approach to the question of "over-auditing" particularly in dealing with the audits of smaller entities.

#### **Our conclusions are that**

- **the financial resources available to the QAO are adequate for the basic financial compliance audit task;**
- **the resources are well-managed;**
- **more resources are needed for training and development;**
- **additional resources are also required for the PMS audit function to be undertaken as Parliament intended and more particularly so that the proposed three year PMS audit plan can be fully implemented. PMS audit resources also should not be diverted to other functions.**

#### ***We recommend that***

- ***the resources allocated to the PMS audit function not be called upon to undertake other tasks such as special audits except in exceptional circumstances;***
- ***consideration be given to additional funding for training and development funded by a small increase in audit fees as discussed in section D.2.1;***
- ***additional funding be provided for the PMS audits as discussed in section C.1.2.***

### D.3: Staffing Issues

#### D.3.1: Recruitment

The QAO has in place a graduate recruitment program which has been a key source of professional staff for the organisation. QAO has been able to attract good, well-qualified graduates from the major institutions with numbers in recent years being:

2000-01	11
2001-02	19
2002-03	11

*(Source: QAO Annual Report 2003)*

There is a nine month graduate development program in place for new graduates and the program is well regarded by those undertaking the program. QAO seems to have no difficulty in attracting suitable graduates from appropriate disciplines and strategically this is a good position for the QAO.

While there is some concern that graduates who pass through the program are attractive to other employers such as the major accounting firms, it is a risk that the QAO is aware of and attempts to manage. Skill leakage is a reasonably common phenomenon in programs of this nature and we are satisfied that QAO has in place appropriate strategies to minimise any difficulties that might be created.

The QAO does have a difficulty in recruiting staff at more senior levels and there has been very little external recruitment at the level of Audit Manager and above. Recent previous experience in public sector auditing is a skill highly valued in the selection criteria for senior positions, which can create some barrier to entry.

While not wishing to downplay the importance of public sector auditing experience, the QAO could be limiting the opportunities to engage other highly-qualified individuals who could make real contributions to the QAO by bringing different skill sets to the audit task.

QAO is encouraged to ensure that current selection criteria, particularly for senior positions, do not discourage suitably qualified applicants who may not necessarily have recent public sector auditing experience.

QAO also needs to ensure that having regard to the current gender imbalance in senior positions, female applicants are not inadvertently discouraged from applying for senior positions. This has been addressed in section D.1.4 of this Report.

It was pointed out to us that the QAO has traditionally been a male dominated organisation which has contributed to the high percentage of males in more senior positions. There is a belief that this will change over time because of the higher proportion of females represented in lower levels of the organisation. We agree that this might be the case eventually but the issue is current and needs to be addressed now not later.

#### **Our conclusions are that**

- **the QAO has a well-developed recruitment program at the graduate level with the program being well-regarded internally and externally;**
- **the recruitment policies adopted by the QAO are generally appropriate and suitable for the purpose;**
- **there is a gender imbalance at the senior levels in the QAO which must continue to be proactively addressed;**

- there is a perception that the QAO overly relies on recent public sector auditing skills which can deter applicants who could bring other relevant skills to the organisation.

**We recommend that**

- **the QAO continue to ensure that current selection criteria and processes, particularly for senior positions, do not discourage female applicants and applicants who may not have recent public sector auditing experience.**

### D.3.2: Training and Development

More than 90% of all QAO staff have professional qualifications and in excess of 50% hold membership of one of the recognised major accounting bodies as either a Certified Practising Accountant or Chartered Accountant. It is generally incumbent upon members of such bodies to undertake continuing professional development as part of their commitment to keeping their qualifications up to date. Audit staff are all professionally qualified.

While maintaining professional qualifications is important, it is also highly desirable for all staff to be given access to suitable training, development and skill enhancement opportunities as part of a personal performance management program.

The QAO has appointed a Training and Development Officer and from our discussions with staff there is a reasonable level of satisfaction with the level of training provided and also the type of training available. Some staff felt that the QAO could be doing more but this was more related to the individuals concerned rather than a systemic problem.

The QAO has had limited funds available for training and development and has therefore tended to use a mix of external and internal training strategies, depending on the particular training need identified. We are satisfied with the QAO approach as being well targeted and effective and achieving value for money. The audit staff in particular have good access to technical training to maintain and enhance skill levels for the auditing task.

Expenditure on training and development within the QAO has increased quite significantly in recent times.

#### QAO Expenditure on Training and Development

Year	Total \$	Per Employee \$
1999-00	158 000	919
2000-01	134 000	775
2001-02	202 000	1 052
2002-03	209 524	1 114

*(Source: Annual Reports and data provided by QAO)*

We have been impressed by the increase in the level of organisational commitment to training and development. At the same time more could be done to raise the level of spend to at least 1% of the

annual budget and desirably target a level of 1.5% to 2% within say three years. This is a reasonable target given the level of professional staff within the QAO.

There are areas where the QAO could enhance its training and development. One area in particular relates to longer term employees who are desirous of moving to a different career or who would benefit from some different skilling opportunities as a precursor to a career change. QAO should identify training programs that would assist this process.

The QAO has in place a formal policy under which employees can be temporarily placed in another position. It primarily covers placement for relieving purposes in vacant positions. While the policy could cover short term placement of employees in other suitable organisations to enhance their experience and skill level, some benefit is seen in amending the current policy or adopting a special policy to cover short term placements for training purposes.

While some informal outplacements have occurred (either through individual or QAO initiative), we understand that there may be some reluctance to encourage such activities for fear that the employee concerned might not come back or would leave within a short timeframe without QAO benefiting from the investment made.

We noted that the QAO participated initially in the Senior Executive Service mobility program managed by the Office of the Public Service Commissioner. However, the perception in some quarters is that the QAO is now hesitant to participate. QAO argues that the "hesitancy" is due in part to the difficulty of finding suitable reciprocal arrangements which is a condition of participation.

It is understandable that many potential participants outside the QAO would find the level of audit knowledge seemingly required as daunting particularly where he or she might be involved in interviews with auditees on technical type issues. There needs to be some shift of focus in such circumstances to a more management/co-ordination type role that allows some latitude in the normal duties expected of the senior position.

While we appreciate that technical expertise is not to be down-played, we think that senior staff would benefit from the exposure to a different environment that would ultimately be for the longer term benefit of the QAO and we strongly urge the QAO to constructively approach its further participation in this program. This may require some broader view of the background of staff coming into the QAO and vice versa.

As alluded to above, considerable merit is seen in the QAO developing a set of protocols, practices and procedures specifically to facilitate formal outplacements from and placements with the QAO as a vital part of on-going training and development for staff. Such placements should not be limited to entities within Australia but rather opportunities should be taken to build relationships internationally.

QAO has advised that they have attempted to do this in the past without much success. The approach adopted by the QAO in the past needs to be reappraised. The key to success in these types of programs is targeting particular individuals rather than generalised invitations. The QAO should use its networks to identify suitable candidates who might be approached.

There will always be a risk that for many reasons a placement may not work as originally envisaged or that the employee will leave the QAO to work elsewhere. Equally a risk exists that employees of other entities placed in QAO may want to stay.

We do not see the risks as a reason not to do something but rather the risks need to be managed and there is evidence to suggest that QAO can manage these.

#### **Our conclusions are that**

- **the QAO is to be commended for the increased commitment to training and development in recent years;**

- the QAO should pay greater attention to the career needs of longer term employees within its overall training and development strategy;
- the QAO should continue to ensure that all staff have access to appropriate training and development which will require additional funding to support;
- part of the development opportunities for staff should include participation in programs such as the Senior Executive Service mobility program as well as targeted interchanges.

***We recommend that***

- ***the level of funding commitment to training and development be increased to a minimum of 1.5% of the QAO budget within three years to a level of at least \$400 000 per annum, funded as proposed in section D.2.1;***
- ***the QAO re-evaluate its participation arrangements in regard to the Senior Executive Service mobility program. If necessary, it should adopt a broader view of acceptable skills for those coming into the QAO and a temporary refocus of duties of particular positions to increase the attractiveness of the arrangements;***
- ***the QAO develop a suite of protocols, practices and procedures to encourage and facilitate a greater level of interchange between the QAO and the private sector to broaden work experience and skill enhancement opportunities, such arrangements to incorporate a more targeted approach to recruiting suitable participants.***

### D.3.3: Staff Turnover

Staff turnover can be an important barometer, among other things, of the overall morale within the organisation. We examined staff turnover over the past three years and compared the experience with available statistics for other Audit Offices we visited to see if the situation at the QAO was better or worse than similar organisations in other jurisdictions.

Turnover within the QAO is at or around what might be considered organisationally acceptable. It compares favourably with published data on New South Wales and Victoria although care needs to be exercised in making direct comparisons because of the potential for different measurement definitions.

#### QAO Staff Turnover

2000-01	2001-02	2002-03
%	%	%
12	10	12

*(Source: Annual Report)*

All staff who had left the QAO in the previous five years were invited to attend an open forum with the reviewers as part of the consultation process. A relatively limited number of seven attended the forum.

While a number of issues emerged during the forum, it was clear that most staff who had left the organisation had done so for personal reasons rather than any endemic dissatisfaction with the QAO as an organisation.

Frustration particularly was expressed with the lack of progress and commitment by the QAO to the PMS audit mandate, although there was still a high opinion of the QAO as a place to work. We have dealt with the PMS audit mandate in section C.1.2 of this Report.

Several former staff who did not attend the forum contacted us and were interviewed separately. There was a positive view about the QAO. There was some disagreement with the management style within the QAO, which we essentially saw as personal rather than a strategic or systemic issue.

We are satisfied that the Auditor-General has in place an appropriate set of procedures for exit interviews of departing staff and established processes to deal with any issues that arise in a satisfactory way.

We were also mindful that the Auditor-General has established an Alumni Association of ex-staff members of the QAO and it is well-supported by its members.

**Our conclusions are that staff turnover:**

- **has been relatively stable in recent years;**
- **is within acceptable bounds;**
- **is appropriately dealt with in human resource management terms, with exit interviews offered and follow-up processes in place for dealing with identified issues.**

**While factors specific to an individual may be the source of discontent resulting in eventual separation, we do not see any significant systemic problems as a fundamental cause of staff turnover or requiring substantial corrective action by the QAO.**

#### **D.3.4: Remuneration and Reward Structures**

Auditing staff within the QAO have a pay scale based on the administrative pay scale for the public sector generally. Staff occupy positions which have a certain classification grading, depending on various factors such as the duties involved, level of responsibility, accountability and the like. There are structured pay points within each classification level.

The majority of auditing positions within the QAO fall within the AO2 – AO8 scale, with the more senior positions such as Directors of Audit, Assistant Auditors-General being assigned rankings in the senior officer and senior executive service.

A summary of the AO pay scales and the assigned audit positions are set out in Attachment F.

Progression within the scale is by competitive promotion on a merit selection basis. For an auditor to progress from one grade to the next, a vacancy must generally occur to which an appointment can be made, although there is some discretion to vary establishment numbers. While skills and experience are relevant in order to meet the selection criteria, there is no way within the current remuneration system to reward an auditor who has attained certain skill levels and experience as he or she progresses with their career.

While promotion at the lower levels can be quite rapid because of staff turnover, beyond AO5 or AO6 levels, promotion can be quite slow as vacancies/positions do not come up often and are keenly sought after by staff. At the AO6 level and above, staff face long waits for promotion and also seem to find it very difficult to move from the QAO should they wish as an alternative, a change of career path.

Staff are particularly frustrated by the need to apply for positions for what in many cases is a comparatively small increase in remuneration initially (but increasing over time as the employee receives the yearly increments until the top of the classification level is reached). The process is also time-consuming for management because of the need for extensive selection processes.

Our discussions with the Acting Public Service Commissioner lead us to conclude that the QAO would benefit from a more flexible remuneration system which reflects the professional nature of the staff and the QAO. These discussions were very positive and the QAO has already begun a dialogue with the Department of Industrial Relations to progress this matter.

There would still be a need to have an administrative structure apply to the Business Services area of the QAO and also to senior positions which have a significant administrative/management component similar to other senior positions in the Public Service.

We examined the applicability of performance pay and other similar reward programs which are used in some other areas. However we believe that an appropriate professional remuneration structure will provide the necessary incentives for staff.

It is also our intention that the new structure relate to the QAO rather than be part of a more generalised professional pay scale.

#### **Our conclusions are that**

- **the current remuneration structure within the QAO does not adequately recognise the professionalism, competency and experience of the audit staff;**
- **the current promotion process within the QAO does not adequately recognise the career nature of a professional auditing service;**
- **the QAO should discuss with the Acting Public Service Commissioner (and as appropriate, the Department of Industrial Relations), a more flexible remuneration structure for the professional auditing staff which is based on professional development, experience and skill measured against appropriate benchmarks;**
- **there is no real justification for the introduction of performance pay and other similar reward programs within the QAO.**

#### ***We recommend that***

- ***a more flexible remuneration structure for the professional audit staff be introduced which is based on professional development, experience, competency and skill measured against appropriate benchmarks;***
- ***this matter be taken up with the Acting Public Service Commissioner and the Department of Industrial Relations as a matter of priority.***

#### **D.4: Governance**

The QAO has been a significant promoter of good governance practice within the public sector and has prepared a number of reports for the Parliament on the issue.

The governance structure within the QAO is generally consistent with what we would see as good practice and consistent with the QAO's own views as expressed in various reports to the Parliament.

Continuous improvement both in an operational and strategic sense has been an area which has received greater emphasis in recent years in the QAO. QAO's objective has been to enhance operations and performance such that the Parliament and auditees receive greater value for money from a more efficient and effective external auditing service.

QAO has become active in pursuing partnering opportunities to enhance governance areas with other audit offices. Areas targeted include communication strategies, audit methodology and emerging issues such as International Financial Reporting Standards.

PARIS (Performance Assessment Reporting and Improvement System) is a strategic framework established by the QAO for improving its performance in the longer term. We have been impressed by the PARIS project, its objectives and the successes to date.

The committee structure within the QAO operates reasonably effectively dealing with appropriate issues under charters which are generally well-constructed and clear. The committees meet regularly and the outcomes generally are communicated to staff.

While the number of committees does seem on the high side for an organisation of the size of QAO, business is generally managed efficiently and with one exception we saw no compelling argument to reduce or rationalize the number or scope of the committees.

The role and operations of the committees were reviewed in 2003 through the PARIS initiative.

We have made some observations/conclusions in regard to several of the committees which we believe the Auditor-General could consider. These are largely related to membership issues.

Part of our concern relates to the hierarchical nature of the committee structure where all committees seem to report through the Executive Management Group. We think that the Finance Committee and perhaps the Human Resource Strategy Committee would benefit from a direct report to the Auditor-General.

#### **D.4.1: Audit and Risk Management Committee**

The Auditor-General has recently revised the membership of the Committee to include two external appointees (rather than the previous single representative), one of whom is the Chair. This has been a very positive move and the work of the Committee has been enhanced by the input from the external members.

We were impressed by the results being achieved by the reconstituted Audit and Risk Management Committee and believe that the model could be used by the Auditor-General to raise the standard and importance of audit committees generally across the public sector.

Our observation from discussions with auditees is that the quality of audit committees varies across the public sector. They have an important role to play in assisting the Chief Executive/Director-General to discharge his or her responsibilities. We would prefer to see the QAO taking a more proactive role in enhancing the quality of the audit committees perhaps by using its own audit committee structure and operation as a model.

#### **Our conclusions are that**

- **the Auditor-General is to be commended for his approach to establishment of an Audit and Risk Management Committee within the QAO governance structure;**
- **the QAO should be more proactive in promoting the value and need for audit committees with appropriate representation, including external members, using QAO's own structure as a model.**

#### **D.4.2: Senior Management Group(SMG)/Executive Management Group(EMG)**

These two committees have a large overlap in membership but meet separately. The EMG consists of the Auditor-General, Deputy and Assistant Auditors-General as well as the Executive Director of Business Services. The SMG consists of the EMG plus the Directors of Audit and the Director of Audit Policy and Reporting. Both Committees are chaired by the Auditor-General.

The EMG is said to have a leadership and strategic focus whereas the SMG is more operational. Discussions with staff suggest to us that the distinction is not well understood.

We think it is important for the QAO to have an executive leadership group to deal with strategic and operational issues and to provide advice and a sounding board for the Auditor-General.

We think there could be some value in having a single group with wider membership along the lines of the current SMG. The distinction between strategic and operational may be a little artificial and is no doubt the source of much of the confusion with staff.

The current structure does not seem to create operational problems per se. However, it is difficult to justify having two senior management committees, particularly given the regularity of the meetings and the demands these make upon executive time.

While it is not our intention to be prescriptive on the issue, the Auditor-General should review the situation and if it is intended to keep the two committees, their roles need to be well-defined and communicated to staff. One committee would be our preference with some operational aspects devolved to other committees.

#### ***Our conclusions are that***

- **the Auditor-General should review the current structure and operations of the EMG/SMG with view to adopting a single over-arching committee that embraces strategic and operational issues with membership broadly along the lines of the current SMG;**
- **the role of the new committee be well-communicated to staff;**
- **if it is decided to retain the two committee structure, the respective roles also need to be clearly defined and well-communicated to staff.**

#### **D.4.3: Finance Committee**

The EMG is responsible for setting the strategic financial agenda for the QAO and it acts with advice from the Finance Committee. The responsibilities of the Finance Committee include, among other things

- consider all strategic initiatives and the relevant funding implications;
- review and make decisions on all finance initiatives for the QAO;
- monitor performance to budget at the Corporate and Group level;
- monitor performance against Key Financial Indicators and MPS Key Performance Indicators.

The Finance Committee is chaired by an Assistant Auditor-General.

Given the Accountable Officer responsibilities of the Auditor-General and the charter of the Committee, we think it would be desirable for the Auditor-General or the Deputy Auditor-General to chair this Committee.

We acknowledge that the EMG does have an important role to play, and does provide a link back to the Auditor-General. However management of and accountability for financial resources is so important that the Committee needs a direct report to the Auditor-General as Accountable Officer and its importance needs to be demonstrated by having an appropriate Chair.

**Our conclusion is that**

- **the Auditor-General consider whether responsibility for chairing the Finance Committee given its role in overall financial and budget management within the QAO, needs to be taken either by the Auditor-General or the Deputy Auditor-General.**

**D.4.4: Audit Methodology Committee**

The role of the Committee is to facilitate the efficient and effective operation of the QAO audit methodology by, among other things

- monitoring the application of the QAO audit methodology, including the identification and promotion of better practice and efficiencies;
- assisting with the continual evaluation of the QAO audit methodology;
- providing assistance to peer review processes.

The Committee provides a liaison between PwC and the QAO in regard to TeamAsset.

The Committee reports to the Executive Management Group through the Deputy Auditor-General as executive sponsor.

The development, application and evaluation of the QAO audit methodology is fundamental to the core business of the QAO.

In our view, it would assist the overall process and outcomes if rather than reporting to the Deputy Auditor-General, the Committee was actually chaired by the Deputy. This would provide more direct input from senior management into the work of the Committee and assist the Director of Audit Policy and Reporting, who currently chairs this Committee, to focus even more sharply the excellent work done by Audit Policy and Reporting.

In our opinion, the Committee would also benefit from representation from an Assistant Auditor-General, perhaps on a rotational basis.

**Our conclusions are that**

- **consideration should be given to the Deputy Auditor-General chairing the Audit Methodology Committee;**
- **the Director, Audit Policy and Reporting continue to support the work of the Committee;**
- **consideration be given to appointing an Assistant Auditor-General to this Committee on a rotational basis.**

#### **D.4.5: Human Resource Strategy Committee:**

The purpose of the Human Resource Strategy Committee is to provide leadership for improved organisational performance and achievement of QAO's strategic vision and goals through development and promotion of a strategic approach to the effective management of the staff.

Key duties and responsibilities embrace the broad range of HR type issues, including

- setting of strategic HR directions and policies;
- identify and consider the HR implications of QAO's strategic plan;
- oversee development of and recommend QAO's broad HR strategy;
- monitor and evaluate organisational achievements and performance against the HR strategy;
- oversee the operation of the QAO Workplace Health and Safety Committee and the Equal Employment Opportunity function.

The Committee is chaired by an Assistant Auditor-General and another Assistant Auditor-General is the Deputy Chair. The Committee is to meet at least four times each year although this was not achieved in 2003.

Of the eight members of the Committee, seven come from an audit background with the only non-audit background person being the Manager, Human Resources, whose sphere of responsibility would encompass staffing issues generally rather than representing particular employee groups.

While the significant number of audit staff in the QAO is acknowledged, there are some concerns that non-audit staff are under-represented on the Committee. All staff are important to the success of the QAO and human resource strategies impact on all staff in some way. The present composition of the Committee does not send a good message to non-audit staff in terms of their value to the organisation.

The membership of the committee is considered on an annual basis as part of the committee's self-evaluation. In our view, the representation on the Committee should be rebalanced to include at least one and desirably two non-audit staff members, as well as the Manager, Human Resources. We are aware that the committee does have two non-operational audit staff as members but nonetheless in our view our point remains valid.

#### **Our conclusions are that**

- **the representation on the Human Resource Strategy Committee should be amended to include at least one and desirably two staff drawn from non-audit staff within the QAO;**
- **the Manager, Human Resources, continue as a member of the Committee;**
- **the number of staff with an audit background on the Committee be reduced to accommodate the additional non-audit staff members.**

#### **D.4.6: Delegations**

The Auditor-General is to be commended for his concerted efforts in recent times to further devolve responsibility "down the line". It has been welcomed by staff who provided positive feedback to us during staff forums.

It has not been without some pain as the delegations seem to have altered the dynamics in terms of workload for the less senior staff. Management is aware of the problems and is taking steps to address the workload issues.

The delegations are in our view appropriate and overdue and full credit must be given to the Auditor-General for his commitment to this process. There appear to be clear lines of responsibility and decision-making which are well-documented.

We would encourage senior management to continue with the devolution and delegation process.

We are aware that there is a perception among some staff and auditees that still too much power is retained by the Auditor-General and that "nothing happens unless the Auditor-General says so".

It would be a rather harsh judgment not to acknowledge the significant progress made under the current Auditor-General and manifested in the governance and delegation structures he has put in place which have opened up the management process to scrutiny and input from all staff.

While there have been some problems which were drawn to our attention, overall the system is working well with a demonstrable commitment to on-going improvement.

#### **Our conclusions are that**

- **the Auditor-General is to be commended for the delegations he has already put in place and the commitment he has shown over recent times to their success;**
- **the Auditor-General should continue to identify opportunities for further devolvement of responsibility;**
- **appropriate training should be provided to ensure staff are well-prepared for the additional responsibility.**

#### **D.5: Staff Surveys**

The QAO has been proactive in conducting annual surveys of its staff. The surveys canvass a broad range of issues and are usually facilitated by an external independent consultant.

Apart from the annual survey of all staff conducted by the consultants, various areas within the QAO also conduct staff surveys which have become an important instrument in developing human resource management strategies. For example, the EMG has conducted surveys of its members as part of its self-evaluation process.

The QAO is to be commended for demonstrating such a strong commitment to obtaining structured feedback from staff at all levels.

The results of a number of surveys were made available to us as part of our review and by and large we have been impressed by the very positive outcomes and attitudes that are demonstrated in most of the results.

The annual staff survey was conducted earlier in 2004 and the results of the survey were provided to us in mid-May for our consideration. The results of the survey have been communicated to staff in a structured way. We have not canvassed a broad range of specific results in detail in this report as we are satisfied that the processes established by the Auditor-General to deal with the survey results are appropriate and in any case, the survey is part of an on-going process to which the Auditor-General and the QAO are committed.

However, for illustrative purposes, some areas are quoted where industry benchmark comparisons are made.

To the question "*I know what our values are at QAO and can describe them to other people*", 87% of respondents were favourable in their answer (78% or above is considered to reflect world's best practice by the firm administering the survey). This compares with 72% for All Service Occupations and 69% for Professional Occupations Only.

As we have already indicated, most results were quite positive and an improvement on the less comprehensive survey conducted in 2003 (done via the Intranet with a final level of response of around 60% of staff due to technical and other difficulties), there are nevertheless some areas where staff have a less favourable view of leadership and management in the current survey compared with the survey conducted in 2003 and in some cases are also down on Service Sector Industry Benchmarks.

By way of example staff were asked to respond to the question "*QAO is making the right improvements in the following areas to ensure its on-going success*" for a number of issues, including

- organisational structure;
- working relationships;
- work methodologies and processes;
- right people in the right jobs;
- technology systems.

The responses would suggest that there is some room for improvement in relation to these specific issues as in each case the level of positive response was less than that recorded in the 2003 survey. In the case of *organisational structure* and *right people in the right jobs*, the level of positive response was less than both industry benchmarks. In the other areas mentioned above, the level of positive response was higher than one or both of the industry benchmarks and in the case of *technology systems*, was approaching the consultant's view of world's best practice.

We also noted that from responses in other areas, there was a reasonable level of confidence that senior management would deal appropriately with the issues on behalf of staff.

There was also a comparatively low level of satisfaction with career development opportunities – around 48% - which is significantly below industry benchmarks of 58% for Professional Occupations and 62% for All Service Occupations. We have drawn attention in other sections of this report to the need to apply more resources to training and development with emphasis on career development of longer term employees. The results of the survey really highlight the importance of addressing this issue and at the time of this survey QAO had already made career planning courses available to interested staff.

Our strong sense is that the senior management team at QAO from the Auditor-General down is committed to addressing the issues raised by the staff survey.

The QAO now has started to establish some history with the surveys that have been conducted to date and we believe these should be continued.

#### **Our conclusions are that**

- **QAO as an organisation is to be commended for undertaking regular and comprehensive staff surveys;**
- **the results of the staff survey recently conducted are overall positive and commendable with only a small number of areas suggesting need for improvement;**
- **where issues have been identified in the survey, these should be addressed at an early date and solutions developed in consultation with staff.**

## **SECTION E: Communication**

Communication is fundamental to the success of any organisation. Communication has many facets and involves many relationships. In the case of the QAO, these relationships include staff, auditees, the Parliament, the Public Accounts Committee, Treasury and other departments, statutory bodies, the public generally, professional bodies and the media.

We have been conscious of the high expectations of and faith in the Office of the Auditor-General. We have therefore been particularly concerned about how the QAO communicates with its stakeholders and the contribution communication makes to achieving the strategic objectives of the QAO. It would indeed be unfortunate if the high standing of the QAO was compromised or diminished by shortcomings in communication strategies.

As a general comment the QAO adopts a wide range of communication strategies and mediums some of which have already been referred to in this report. Overall the QAO is to be commended for the significant improvements made over the past seven years and the on-going commitment to raise communication standards.

### ***Auditees:***

The QAO is developing an excellent set of communication strategies for dealing with auditees. These strategies are being documented in audit plans and client service plans and are gaining increasing acceptance by auditees. The audit sign-off is undertaken through formal correspondence and interview, usually by a senior member of the QAO.

QAO has delivered considerable enhancements in the area of client feedback since 2002, including the introduction of a client feedback questionnaire data base for easy collation of results with a concurrent expansion in the number of auditees surveyed. The survey is presently being expanded to include PMS audits and other specialist areas. Feedback from auditees is generally very positive about the availability and responsiveness of audit staff.

There has been some criticism from auditees about timeliness of preparation of audit plans/client service plans and this issue is dealt with in section C.2.3 of the Report.

Most auditees generally would like more communication but recognize the demands on audit time and are comfortable that they receive a reasonable service level. This is also supported by the QAO's own feedback from client surveys.

### ***Key Agencies:***

Due to the legislated relationship which exists, the QAO has entered into a Memorandum of Understanding with the Crime and Misconduct Commission to define the respective roles and responsibilities and for resolving potential conflicts of responsibility. While reasonably broad in nature the intent is clear and has ensured a good working relationship between these key agencies of Government.

There is also a need in our view for the QAO to consider a similar arrangement to clarify the relationship with Treasury. While Treasury has primary carriage of policy issues in regard to financial management in the public sector, clearly the QAO has a vital interest in financial management policy and has a significant body of knowledge and experience that can contribute positively to good outcomes for the benefit of all.

The feedback from auditees to us clearly favours a more proactive approach by the QAO. While QAO has a different view, the feedback to us suggested that the QAO is perceived as a little hesitant at times to participate. The QAO may need to address this perception through communication strategies.

We understand that the QAO could find itself in the position occasionally where the advice and contribution creates audit issues later on which QAO may have preferred to avoid. However this is a small price to pay for the very real contribution that can be made and generally we do not see that the independence of the Auditor-General as being seriously compromised or eroded in the normal course of events.

Our discussions with Treasury indicated a desire for a more proactive relationship with some documentation along the lines of a Memorandum of Understanding to deal with the issues.

### **Staff:**

The staff surveys and our discussions with staff at various forums have painted a very positive picture of the level of communication within the QAO. The strategies are generally well documented and well derived.

There has been a significant level of commitment to improved communication within the QAO by the current Auditor-General and he is to be commended for this. However it goes beyond the Auditor-General to a culture that has been developed and encouraged.

Some staff raised with us some personal issues of communication shortcomings in the QAO and we appreciate that there are instances where the communication has not been appropriate. However these tend to be very much the exception rather than the rule and perhaps specific to individuals rather than evidence of any systemic failure.

We were impressed by the QAO Intranet facility and the use of technology to share knowledge within the QAO. The fact that any staff member can raise issues with the Auditor-General either personally or through the Intranet is a very positive sign.

Nevertheless, while much progress has been made the QAO should continue to strive to improve the overall communication outcome in the Office.

### **The Parliament/Public Accounts Committee:**

The Parliament and its agent, the PAC, comprise the key clients of the Auditor-General. The Auditor-General is appointed by the Parliament to undertake the tasks and duties assigned by the Parliament.

The Auditor-General has developed a good relationship with the PAC with a regular process of briefings. We have developed some specific views on the relationship with the PAC and these are dealt with separately in section C.4 of this Report.

Communication with the Parliament essentially is through reports submitted to the Parliament as a result of audits undertaken by the Auditor-General. The reports are generally well written, informative and comprehensive and we have had no adverse comments in regard to them.

It could be more helpful to the wider public if a shorter summary handout was also produced which summarized key aspects of the report. This is done in other jurisdictions and is very useful as a communication medium. While the QAO does prepare an "Executive Summary" and an "At a Glance" summary in each audit report, a separate document has the potential to be more useful and accepted.

There are some concerns about an increasing tendency of the Auditor-General to "explain" aspects of his report via the media which may be external to the formal Parliamentary process. While the motives of the Auditor-General are not in question, in our view a well written report should stand in its

own right and elaboration is unnecessary unless the Parliament determines that such is warranted. If the report does not fully and adequately address the issues then the Auditor-General needs to re-evaluate the way the reports are written to ensure that further explanation or elaboration is not necessary or required.

The Auditor-General, although well intentioned, potentially creates a media debate before the Parliament or the PAC has the opportunity to deal with and debate his report. (We are aware that the Auditor-General notifies the PAC and relevant portfolio Ministers in advance and offers briefings).

In our view, the Parliament is the appropriate forum for debate and it is more appropriate for Parliament to be given adequate opportunity to deal with a report without a level of external debate being generated by the author before this occurs. Important though the media is, it should not be allowed to over-ride or compromise the proper relationship between the Parliament and the Auditor-General as an officer of and subject to the Parliament.

### ***The Media:***

There has been a tendency in recent times for the Auditor-General to be drawn into media debate and it is important that strategically it is clear what the objectives are and what the rules should be, having regard to the comments above.

In other jurisdictions we visited, there was a clear view that it was not the role of the Auditor-General to engage the media. This was clearly seen as the prerogative of Parliament and politicians. There was a strong view that the reports to Parliament needed to stand on their own merits and be written accordingly.

In our view, there are potential risks to the reputation of the Office of the Auditor-General and some potential compromising of the role of Parliament if there is direct debate with the media particularly if outside formal Parliamentary processes and before reports are fully considered through those processes. This should not in any way interfere with proper reporting by the media.

The Auditor-General's Office should produce a comprehensive, well argued and readable report. It is not for the Auditor-General to "tease" issues out of the report. That is for the Parliament (and indeed the media) if it so chooses. Unfortunately in these circumstances, the Auditor-General has a tendency to become a focus of the media attention rather than the report and its findings.

It is accepted that in this day and age of mass communication and media, the QAO should develop an appropriate set of protocols for dealing with the media, particularly in regard to its reports to Parliament. These should be developed in consultation with the PAC on behalf of the Parliament.

### ***Executive Government:***

The Auditor-General communicates regularly with the Premier, other Ministers and Departmental and Agency Heads. The current level of communication in this area is appropriate. In fact we would commend the Auditor-General for it.

We have received quite positive comment from those we have spoken to in regard to this matter. Whilst the Auditor-General no longer participates in the Chief Executives' forum on a regular basis, we see the forum as an important two-way communication medium that complements individual meetings and there may be value in the Auditor-General's regular attendance. However this is a matter outside the scope of this review and we make no specific recommendation on the issue.

**Our conclusions are that**

- the Auditor-General and his staff should continue to build on the excellent work that has been done to improve communication with all stakeholders, including auditees;
- communication within the QAO is of a high standard;
- all staff and senior staff in particular are committed to a process of continuous improvement in communication;
- the Auditor-General should reassess with the Treasury the current set of protocols for dealing with financial management policy to ensure the positive contribution by the QAO to good financial management outcomes is recognised and valued,
- the Auditor-General in conjunction with the PAC, should consider whether reports both meet the needs of Parliament and satisfactorily meet the perceived needs of the media in ways that do not detract from the Parliamentary process.

***We recommend that***

- *the style and presentation of reports to Parliament be reviewed to ensure that each report fully informs and that the need for explanatory briefings to other stakeholders, including the media, is not required. To assist this process, the Auditor-General should consider publishing with each report, a separate short précis publication for broader public consumption;*
- *the Auditor-General develop in consultation with the Public Accounts Committee on behalf of the Parliament, a set of protocols for dealing with the media, particularly in regard to reports to Parliament.*

## SECTION F: Shared Services Provision and Related Broad Structural Issues

The Government has embarked on a major restructure of the way administration and support services are provided across the Public Service in Queensland. Essentially what is involved is the creation of a number of bodies (7) which provide such services to one or more Public Service entities.

The initiative is known as "Shared Services Provision".

Each Shared Service Provider (SSP) is hosted by a particular Department but may provide services to a number of other departments within the cluster. The host Department Director-General is the Accountable Officer for the SSP. Each relevant department purchases services from the SSP.

It is not the function of this review to pass comment on the new structural relationships that have been promulgated. Our concern is with the impact on the audit task and hence the impact on QAO.

There are two elements. Firstly as an entity of the Public Service, there is an expectation that QAO would join the Parliamentary cluster along with the Ombudsman and the Office of the Governor so that administration and support services to the QAO would be provided by the Parliament.

The Auditor-General has expressed a number of concerns to us about such a move. His primary concern relates to the potential for the move to compromise his independence. In his view, he would prefer not to be in a position where he is auditing the entity providing services to the QAO. He feels that if something were to go wrong, there is potential for the accusation to be made that he did not proceed as he should have done because of the service relationship between the Parliament and the QAO. His concern is also that very little if any administrative savings are likely to arise from the QAO's participation.

We do not see it as part of our brief to pass judgment on whether the QAO should become part of the Parliamentary cluster or not. We are aware of the Auditor-General's views and we are also aware that he has advised the Premier in correspondence of 5 May 2004 that:

*"...after careful consideration, I have considered that the most appropriate course of action is for me to withdraw from full participation in the current Cluster 6 arrangements."*

We understand that the Auditor-General is prepared to consider alternative options.

Our only comment is that in this situation, steps could be taken to minimize any real potential for independence to be compromised. As we have discussed in another section of this report, the QAO does tend to do itself a disservice at times by not appearing to participate more fully in topical issues. There is real potential for the QAO to add value and contribute very positively to improvements in overall public sector efficiency and effectiveness.

The bigger issue for the QAO is the impact of the new arrangements on the audit task.

In examining this issue we have considered the question – "Is the QAO properly prepared for the new arrangements and does it have appropriate strategies in place to deal with the issues likely to arise?"

We are satisfied that the QAO is proceeding to address in a timely way, all of the relevant issues including minimizing duplication of the audit task.

These issues are monitored and addressed by the QAO's ASAP Project Team which was established in 2003.

The QAO expects that there will be some additional cost in the initial years as the system is bedded down, largely because of the additional effort required to obtain the requisite level of satisfaction with systems and procedures.

In the longer term, QAO expects that there will be savings in terms of the overall audit task although these are difficult to quantify at this time.

We have no specific recommendations in regard to the QAO's approach to the issue of the impact of Shared Service Provision on the audit task. Our only concern was the perception that the QAO was hesitant to address some of the issues in part because of the wider concerns about having to audit auditees to whom advice had been provided, particularly if it turns out that the advice is not well-founded because of incomplete information provided by the auditee in the first instance.

Whilst the QAO view is that it does respond positively and in a timely manner in such situations – and there is some evidence to support this view – the perception of hesitancy remains and must be addressed.

Our overall view is that public sector financial management would benefit from a more inclusive approach by QAO and we have recommended elsewhere in the report that Treasury and the QAO should consider some formal arrangements which would clarify the role of the QAO and Treasury and promote greater understanding of the contribution each could and should make to improving public sector financial management.

We have not addressed any other specific structural issue. Our concern is to ensure that there is a proper process in place to address issues when they arise and we believe this can occur. To its credit the QAO has been prepared to play its part with the proviso that its independence cannot be seen to be compromised.

**Our conclusion is that**

- **the QAO has demonstrated a capacity to respond positively to issues impacting on the public sector as a whole and there is no reason to believe that this capacity will be diminished in the future given the procedures and policies in place within the QAO. Whilst the QAO view is that it does respond in a timely manner, the QAO does need to ensure that it is not perceived by auditees as slow to respond and one way of dealing with this is to have appropriate protocols in place with the key agencies such as Treasury.**

## **SECTION G: The Sheridan Report Implementation**

The Sheridan Report dated 19 July 1997 was tabled in Parliament on 7 October 1997.

The Report was considered by the Public Accounts Committee and its Report No 44 was tabled in the Parliament on 23 April 1998. The PAC generally supported the majority of the recommendations in the Sheridan Report, including the introduction of performance auditing.

The initial Government response was tabled in the Parliament on 2 March 1999. The Government accepted most of the PAC recommendations but deferred consideration of the issue of performance auditing to allow further consultation to occur.

The final Government response was tabled in the Parliament on 29 February 2000. The response effectively rejected the introduction of performance auditing.

The current Auditor-General took up his position quite soon after the Sheridan Report was tabled.

We have been impressed by the commitment shown by the Auditor-General to implementation of all of the recommendations of the Sheridan Report that were agreed to by the PAC and the Government. Processes were put in place to ensure that all recommendations were addressed comprehensively.

The Auditor-General initially reported to Parliament in Auditor-General's Report to Parliament No 4 of 1999-2000, on progress with implementation of the accepted outcomes of the Sheridan Report. Considerable comment was included in regard to the Government's decision not to widen the audit mandate to include performance auditing.

In March 2002, the Auditor-General commissioned Ernst & Young to undertake a review of progress with implementation of the agreed recommendations of the Sheridan Report covering the key areas of -

- Management;
- Reporting to Parliament;
- Information Technology;
- Independence;
- Strategic Vision;
- Audit Methodology.

Ernst & Young found that generally, QAO had made significant progress in implementing the recommendations. Ernst & Young included in their report, further recommendations to assist and complement the good work already being done.

In August 2003, QAO completed an internal review which addressed the Sheridan Report recommendations, including those not addressed by Ernst & Young, as well as recommendations made by Ernst & Young in their June 2002 report. The report conclusions were overall favourable.

We agree with the observations of Ernst & Young and the later QAO report and the QAO should be commended for its efforts.

We have no specific recommendations arising from our examination of implementation of the recommendations of the Sheridan Report that are not already covered in other sections of this report. We exhort the QAO to continue with the commitment they have demonstrated to date.

A number of the Sheridan Report recommendations involve on-going work and this continues. There are no agreed recommendations that have not been addressed and completed other than where inherently there is on-going work.

In examining the implementation of Sheridan Report's accepted recommendations we also looked at some key data in regard to the situation with the QAO at the time of the Sheridan Review and now. The following brief table is instructive:

	1996-97	2002-03	%
Expenditure	\$15.775m	\$22.208m	40.8
No of auditees	585	801	36.9
No of Audit Staff	123	140	14.1
No of Non-Audit Staff	41	49	8.1
Audit Hours Spent – All Audits	157k	177k	12.7
Contract Audits – No	308	313	1.6
Contract Audits - Hours Spent	39k	45k	15.4

(NB: Data collection processes have changed over the years and care needs to be exercised in the use of this data. It is included for illustrative purposes only.)

**Our conclusions are that the QAO**

- **is to be commended for the diligence and commitment demonstrated in embracing the recommendations of the Sheridan Report and the outcome of subsequent considerations by the PAC and the Government;**
- **should continue its commitment to the implementation of those aspects of the Sheridan Report recommendations that have on-going implementation implications.**

## **SECTION H: Other Issues**

### **H.1: Term of Review**

The legislation currently provides for a strategic review of the Queensland Audit Office to be undertaken at least every five years. The five years is counted from when the report for the most recent earlier strategic review is given to the Minister and the Auditor-General up to when the reviewer is appointed to undertake the latest strategic review.

Given the date of the last reviewer's report as 19 July 1997, the reviewer would normally be appointed prior to 19 July 2002.

However if the parliamentary committee makes recommendations to which a Minister is required to respond, the five years is counted from when the Minister's response is tabled.

The PAC made recommendations on the reviewer's report and the Minister's final response was not tabled until 29 February 2000 so that technically the next reviewer need not have been appointed prior to 28 February 2005. Under this timetable there would not have been a review during the full seven year term of the current Auditor-General. This does not seem to us to be appropriate.

To the credit of the current Auditor-General he sought the agreement of the Government and the PAC for the review to be undertaken and completed prior to the expiry of his term.

In other jurisdictions that we visited, there tends to be a fixed period for the review which is not determined by the vagaries of Parliamentary process. In New South Wales it is three years which in our view is too short. Victoria is also three years. The Commonwealth legislation provides for regular performance audits to be conducted by an Independent Auditor without reference to particular time frames.

In our opinion, a review undertaken every five years is appropriate and would ensure that a review is undertaken at least once in the normal seven year term of an Auditor-General.

#### **Our conclusion is that**

- **the legislation should be amended to provide for a review to be conducted at a maximum of five year intervals, with the five years being determined by reference to the date of the tabling of the reviewer's report in the Parliament.**

### **H.2: Term of Appointment to the Position of Auditor-General**

The question is inevitably raised as to whether, strategically, it is preferable to have a fixed non-renewable term for appointment to the position of Auditor-General or whether such an appointment should be a permanent or a shorter term renewable or even a longer term.

The Commonwealth Auditor-General is appointed for a 10 year non-renewable term which in our view is too long. The most common term seems to be seven years.

#### **Our conclusion is that**

- **the maximum seven year fixed term arrangement for appointments to the position of Auditor-General in Queensland is appropriate.**

### H.3: Workload and Other Key Performance Indicators:

The QAO collects significant data related to its operations and performance.

Summary data is published in the Annual Report of the QAO while more detailed data is collected for internal management purposes, either on a whole of entity basis or for the use of individual areas of the QAO.

The quality and range of data has been developed significantly since the time of the Sheridan Report and for this reason data in comparable form is not always available.

We have been impressed by the commitment the QAO has to review and analysis of performance and the linking of key performance indicators to the strategic plan.

We are satisfied that the QAO is providing a reasonable level of performance reporting to key stakeholders. We are also satisfied that there is a reasonable balance between quantitative and qualitative information made available.

Some relevant key performance data for 2002-03 and at the time of the Sheridan Report, is interesting and informative as follows:

- % of costs recovered from clients through fees and charges,

1997-98	2002-03
75%	82%

- % of financial audits completed within the legislative timeframe,

1996-97	2002-03
92%	87% (1)

(1) The main contributing factors to the % decrease are the increase in the number of auditees (585 to 801) and the bringing forward of the timeframe for audit certification from October to September.

- % of audits completed in accordance with QAO standards,

1996-97	2002-03
100%	100%

- % of reports presented to Parliament within one week of the agreed timeframe,

1996-97	2002-03
100%	100%

- number of reports tabled in Parliament,

1996-97	2002-03
5	10

- number of audits,

1996-97	2002-03
585	801

- % of hours charged for against available hours,	1996-97 55%	2002-03 62%
- % of productive hours spent on audits against available hours,	1996-97 76%	2002-03 75%
- % of staff who are CPA/CA qualified,	1996-97 46%	2002-03 53%
- % of staff with post-graduate qualifications,	1996-97 16%	2002-03 38%
- total expenditure for the QAO,	1996-97 \$15.775m	2002-03 \$22.208m
- total number of staff,	1996-97 164	2002-03 189

As already indicated it has not been possible to make the comparisons in a number of key areas, eg client satisfaction, staff satisfaction, strategic initiatives implemented, as data collection processes in these areas have only recently been instituted.

The Auditor-General is also an active participant in the Australasian Council of Auditors-General, which is attempting to gather consistent and relevant data across all jurisdictions for benchmarking purposes. This is to be commended.

The outcome of the workload survey collected by the QAO Agency Consultative Committee was available to the reviewers in raw data form and we were not in a position to assess the considered conclusions of the Committee. However the raw results indicated that at the critical times of the year, ie the period of intense activity related to financial end-of-year audits, staff were working long hours and also taking work home.

Many staff felt that for a variety of reasons, they worked excessive hours on audits that were never charged to the client.

Many of the issues raised by the survey have already been dealt with in various forms in the review process. In our opinion, the QAO has appropriate processes in place to deal with the issues that might be raised and it would be premature for us to draw conclusions solely on the basis of raw data without allowing the Committee to consider the outcome.

**Our conclusions are that**

- the QAO has established and maintained an appropriate range of quantitative and qualitative key performance data;
- there is a reasonable level of performance reporting to key stakeholders;
- the QAO has demonstrated a commitment to performance analysis and linking key performance indicators to outcomes.

#### **H.4: Matters Referred to the Review**

Apart from matters covered by the broad Terms of Reference for the review, there were three specific matters referred to the reviewers for consideration in the context of the review.

(a) The Acting Premier and Minister for Trade, Mr Mackenroth, wrote to us on 5 January 2004 forwarding a copy of the Government's response to PAC Report No 64. The response proposed that the issues considered in Report No 64 be considered by this review.

Report No 64 of the PAC which made two recommendations:

- Recommendation 1: The Committee recommends that the *Financial Administration and Audit Act 1977* be amended so that if the Auditor-General wishes to undertake activities not specifically identified in the Act, the approval of the Parliament via the Public Accounts Committee, and the consent of the Premier be obtained prior to pursuing these activities.
- Recommendation 2: The Committee recommends part 6 of the *Financial Administration and Audit Act 1977*, dealing with the scope of the Auditor-General's mandate, be amended to provide for collegiate type endeavours within Australia.

The issues raised in PAC Report No 64 are dealt with under the heading of "Commercial Audits" in section C.1.5 of this Report.

(b) Following the High Court Decision in the Case of Daniels, the Auditor-General wrote to the Premier suggesting that the *Financial Administration and Audit Act 1977* be amended to ensure that the Auditor-General continued to have access to documents that may be subject to legal privilege. The Premier referred this matter to the review for consideration.

As a matter of general principle, the Auditor-General should not be restricted in any way in terms of access to relevant documents. However we are mindful of the doctrine of legal privilege and it would be preferable for the advice of the Attorney-General to be sought in relation to this aspect. We did not feel competent to resolve this matter conclusively. If the Attorney-General has no concerns then we believe the legislation should be amended to ensure that the Auditor-General does have appropriate access.

We are not aware of a situation where the Auditor-General has experienced any difficulty in gaining access to required documents and information and this was confirmed by the Auditor-General.

There are remedies available should the Auditor-General be denied access. For example, the Auditor-General could approach the Courts for a determination as to whether access to the documents in dispute is available. In most cases the issue is resolved without the need to engage in legal proceedings.

(c) In discussions with the Director-General of the Department of Premier and Cabinet, the matter of audits of major computer systems such as land titling, hospitals and the like was raised with us. We were requested to address this issue as part of the review. We were also asked to consider whether the next Auditor-General needed to have special qualifications to deal with these issues.

We also received external representations in regard to this issue and raised this matter with relevant auditees.

We have concluded that computerized information systems of public sector entities are regularly assessed as an integral part of QAO's audit processes. This assessment is primarily aimed at determining the adequacy and reliability of controls over data integrity, as financial statements are prepared from data produced by these systems. The results of any assessment are used to determine the level of reliance placed on the auditee's internal controls and the audit strategy to be adopted by the financial auditors.

Auditees generally expected the QAO to be involved in the implementation phase of all computer systems with a financial implication and this invariably occurs.

Large non-financial systems do present particular problems and the QAO has been building its capacity to appropriately audit them in terms of the QAO's responsibilities under the *Financial Administration and Audit Act 1977*.

We have referred in various sections of the report to technology applications and the need for the QAO to access audit specialist technical skills (see sections C.3.5 and C.3.6). We are satisfied that the QAO is adopting appropriate strategies to deal with the issues raised.

In regard to whether the next Auditor-General should have particular skills in technology, in our view it is important that the next Auditor-General be familiar with technology that impacts on the business of auditing without necessarily being the "technical expert". There are other more important skills which the Auditor-General should have and it would be unfortunate if technical expertise was given undue prominence in the skill set required.

## **SECTION I: Matters Arising from the Response by the Auditor-General to the Proposed Report**

In accordance with section 72(9) of the Financial Administration and Audit Act 1977, we provided a copy of our proposed report of the strategic review of the Queensland Audit Office to the Auditor-General for his comment as well as to the Honourable the Premier.

The Auditor-General has provided a response to the proposed report within the 21 days allowed for by the legislation and we have included a copy of that response dated 10 September 2004 in this report at Attachment G.

We appreciate the thoroughness with which the Auditor-General has considered the proposed report and the positive spirit to the review process in general and the proposed report in particular which he has demonstrated since the process began and which is manifested in his response.

The great majority of issues raised by the Auditor-General in his response are ones he has discussed with us during the course of the review and which we had taken into account in the course of our deliberations. For this reason we have not sought to respond to individual matters but we would draw the attention of readers to the relevant sections of the report.

The wider audit mandate to include performance auditing has been a matter of discussion and debate for a number of years. The Auditor-General has publicly supported the wider mandate on several occasions and we acknowledge this fact in the report. Whilst we do not rule out a wider mandate in the future, we are mindful of previous considerations of this issue and the need to respect those previous decisions of Government and the Parliament not to introduce performance auditing and to rely on performance management system auditing.

We believe that all concerned will be in a better position to assess the alternatives if the process we have outlined in the report is followed. However it is critical that the additional resources for PMS audits we have recommended be provided for without them, the QAO will continue to be caught in the same unsatisfactory position it currently experiences. The issue of the wider mandate needs to be resolved comprehensively prior to the next review and our proposals are intended to achieve this.

In the penultimate paragraph of his letter of 10 September 2004, the Auditor-General raises the prospect of the reviewers being called upon to provide further advice in regard to various sections of the report namely probity, client service plans, gender and equity and shared services. Whilst we appreciate the Auditor-General's desire for further advice and detail, we believe such an exercise is beyond the scope of the review as it deals more with implementation matters. We believe the report provides the appropriate framework and it is a matter for the Auditor-General and his successor to move these matters forward bearing in mind that the report has certain procedural requirements to be dealt with including its consideration by the Public Accounts Committee.

We have indicated to the current Auditor-General that we would be happy to make ourselves available for a discussion with the new Auditor-General, if required, when he or she is appointed and takes up the position.

The Auditor-General has embraced many of the recommendations and conclusions and is proceeding to implement changes in a number of areas where there is unlikely to be any controversy. He is to be commended for this.

In finalizing this report, a small number of minor editorial changes were made which in no way altered the meaning and intent of the report. The changes were agreed informally with the Auditor-General.

We believe that the Auditor-General's response to our recommendations and conclusions provide an appropriate basis for taking the QAO forward and as a framework for the incoming Auditor-General to build on the significant strengths of the QAO.

**STRATEGIC MANAGEMENT REVIEW  
OF THE  
QUEENSLAND AUDIT OFFICE**

**TERMS OF REFERENCE**

**SCOPE:**

The appointee will be required to generally assess, and provide advice and recommendations about, the functions and the performance of those functions, of the Auditor-General and the Queensland Audit Office (QAO), in order to assess whether they are being performed in accordance with the requirements set out in section 72 of the *Financial Administration and Audit Act 1977* (the Act).

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

Consideration is also to be given to the recommendations agreed by the Government arising from both the 1997 inaugural strategic review, and the related Public Accounts Committee review, particularly the extent to which they have been implemented and whether they are achieving the desired objectives.

**QUALIFICATIONS OF APPOINTEE:**

The strategic review of the QAO is to be conducted by persons/agencies of high professional standing with a sound understanding of public sector auditing and the management of a public sector auditing agency. The appointee will need to demonstrate they have no pecuniary interest in the outcome of the review and have no established relationship with the QAO and its officers. The appointee will also be required to demonstrate independence from the QAO. In addition, knowledge of contemporary managerial and organisational standards and techniques would be beneficial.

**METHODOLOGY:**

In conducting the strategic review, the appointee is to have regard to existing strategic plans, the organizational structure, goals, operational conduct, internal/external policies, operational management, corporate management and audit service provision of the QAO.

Particular reference is to be given to:

- Whether existing processes are appropriate to the QAO's audit mandate, the needs of public sector agencies and emerging public organisational structures;
- the effectiveness of existing processes, and in particular the effectiveness of the auditing standards issued by the Auditor-General, in fulfilling the audit mandate within the contemporary accountability requirements of Queensland's system of government;
- 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;

- the operational efficiency of QAO methodologies and the relative efficiency of in-house and contract audit service provision;
- the standard and quality of service provided to the Parliament, auditees and executive government;
- the structure of QAO, including the delegation and allocation of responsibility;
- management systems and processes used by the QAO, including:
  - appropriate internal and external performance indicators to monitor efficiency and effectiveness; and
  - internal communication and sharing of performance information;
- human resource issues, including formal and informal staff training and guidance;
- administrative systems and processes used by the QAO;
- whether the funding for the QAO is appropriately used to discharge the functions and objectives of the QAO;
- appropriate protocols for communication by and with the QAO;
- any other matters which impact on the economy, efficiency and effectiveness of the QAO.

The review should also take into account:

- consideration of comparative models, practices and procedures used by offices in other jurisdictions equivalent to the QAO;
- interviews with staff (including all staff who indicate that 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); and
- consultation with key government agencies.

**EXTERNAL AND INTERNAL PEER REVIEWS ON**  
**QAO FINANCIAL AND COMPLIANCE AND**  
**PERFORMANCE MANAGEMENT SYSTEMS AUDITS**  
**SINCE 1997 SHERIDAN REVIEW**

**May 2004**

## Timeline of External / Internal Reviews on QAO Operations since 1997 Sheridan Review

This document provides a summary of the external and internal reviews of QAO conducted by independent and QAO staff, since the 1997 Sheridan Review. A brief description / scope of the review and references to source documentation is provided in the tables below.

### External Reviews

These are reviews conducted by an independent party to QAO which cover the independent strategic review pursuant to s.72 of the *Financial Administration and Audit Act 1977* ('the Act'), review of the public sector auditing program and of QAO operations.

### Internal Reviews

These are reviews conducted by QAO officers such as auditors, Audit Policy and Reporting staff and / or the Audit Methodology Committee. Internal reviews encompass reviews of the public sector auditing program including audit methodologies and TeamAsset documentation of financial and compliance audits and performance management systems audits. Corporate initiatives and projects undertaken by QAO staff are also included in this section.

## Public Sector Auditing Program

External/Internal	Review	Scope/Description	References
External	2003 TeamAsset Quality Assurance Review – PwC	<ul style="list-style-type: none"> <li>high level quality assurance review over selected QAO TeamAsset financial and compliance audit files.</li> <li>In contrast to previous internal QAO reviews, which focused solely on the level of staff understanding of the TeamAsset software and documentation standards, the emphasis of this review was directed toward the adequacy of the audit work undertaken by QAO staff and the veracity of the accompanying audit opinion expressed in the independent audit reports.</li> <li>Scope of review covered all general audit areas undertaken by field audit staff, IS audit and Treasury Products.</li> <li>Purpose of the review was to provide timely feedback to QAO field auditors on the application of the current audit methodology, to identify areas of improvement, best practice and suggestions for improvement in light of the Independent Strategic Review (Dec 2003).</li> </ul>	<p>Report on the Results of the QAO 2002-03 TeamAsset Quality Assurance Review file 00-3584(2) folio 245</p> <p><b>Refer Appendix 1</b></p>
Internal	2003 PMSA Quality Assurance	<ul style="list-style-type: none"> <li>Review of the Performance audit of EPA was conducted by Group C.</li> </ul>	PMSA Quality Assurance review database

External/Internal	Review	Scope/Description	References
	Review – EPA	<ul style="list-style-type: none"> <li>Scope of review was to ensure that the audit was conducted in accordance with the <i>Guidelines for the Conduct of Audits of Performance Management Systems 2002</i>.</li> </ul>	<b>Refer Appendix 2</b>
Internal	2001-02 Intra Group Peer Review	<ul style="list-style-type: none"> <li>The 2001-02 Intra-group TeamAsset peer review was an extension to the peer reviews performed in December 2001, January 2002 and July 2002.</li> <li>15 audits across the five audit groups were selected for the review.</li> <li>purpose of the intra-group peer review was to gauge an audit team's level of understanding of the TeamAsset software and to determine adherence to the TeamAsset Reviewer's Checklist.</li> </ul>	<p>Report on the Results of the 2001-02 Intra Group Team Asset Peer Review at file 00-3584(2) folio 160</p> <p><b>Refer Appendix 3</b></p>
Internal	2002 TeamAsset Peer Review (September)	<ul style="list-style-type: none"> <li>Conducted by the Audit Methodology Committee (AMC)</li> <li>22 client files for the 2000-2001 audits which included a mix of audits from small, medium and large audits across all audit groups and clients.</li> <li>Purpose of review was to identify best practice techniques and methods within phases of TeamAsset and to provide recommendations on future training, required policies and appropriate methodology and TeamAsset developments.</li> <li>Outcomes – <ul style="list-style-type: none"> <li>TeamAsset Refresher Training</li> <li>The development of a Reviewer's Checklist, and</li> <li>The establishment of a Better Practice Client File</li> </ul> </li> </ul>	<p>AA 592 March 8 2002 and file 00-3584(2) folio 100</p> <p><b>Refer Appendix 4</b></p>
Internal	2001 Interim Peer Reviews (8 March 2002)	<ul style="list-style-type: none"> <li>The 22 files selected for review in the 2002 Live TeamAsset Peer Review was revisited from a planning perspective.</li> </ul>	<b>Refer Appendix 5</b>

External/Internal	Review	Scope/Description	References
		<ul style="list-style-type: none"> <li>Review was conducted by the Audit Methodology Committee and Audit Policy and Reporting staff.</li> </ul>	
External	2000 Team Asset Post Implementation Review – 19 March 2001	<ul style="list-style-type: none"> <li>Review performed by (PWC) on QAO's implementation of Team Asset.</li> <li>a report dated 5<sup>th</sup> December 2000 was issued by the PWC Partner outlining the results of their review.</li> <li>The review was based on the results of a review of a selection of audit files and discussions with key QAO personnel.</li> </ul>	AA 566 April 05, 2001  <b>Refer Appendix 6</b>
Internal	1999 QAO Peer Review 1998-1999 Financial Year	<ul style="list-style-type: none"> <li>28 October 1999 – the Deputy Auditor-General approved the peer review of 19 audits</li> <li>Pre-certification review – where a qualified audit opinion to a set of financial statements is reviewed for reasons of material non-compliance with prescribed accounting standards and/or other requirements.</li> <li>Post-certification review - a further means of ensuring the quality of audit performance and is performed following the certification of the financial statements with a view to identifying recommendations for future audits.</li> <li>Global issues from the peer review related to –               <ul style="list-style-type: none"> <li>Non-current assets</li> <li>Consistency in reporting significant issues to Parliament</li> </ul> </li> </ul>	APR Query 4.2000.11  <b>Refer Appendix 7</b>
Internal	1997-98 QAO Peer Reviews (Pre-certification and post audit reviews)	<ul style="list-style-type: none"> <li>14 audits were selected for review with equal coverage across the five audit group.</li> </ul>	File 00-2078(1) folio 246
Internal	1998 Peer Reviews – Post Audit Reviews of 1996-97 Financial Year Audits	<ul style="list-style-type: none"> <li>Review objectives are to assist with quality assurance and to improve processes where warranted.</li> </ul>	File 00-2078(1) folio 92
Internal	1997 Mini Review	<ul style="list-style-type: none"> <li>methodology involved strategy</li> </ul>	AG circular 08/1997

External/Internal	Review	Scope/Description	References
	of Certain Aspects of the Public Sector Auditing Program	<p>meetings, peer review findings and results of interviews with graduates</p> <ul style="list-style-type: none"> <li>• mini review of the overall functioning of the auditing program, Group relationships, training and development matters, application of the Audit Methodology and other issues staff believed were inhibiting their personal development and the efficient and effective discharge of audits.</li> <li>• Findings and thoughts to the EMG were submitted in a report 'Public Sector Auditing Program, Survey by the Auditor-General (May 1996)'.</li> </ul>	March 7, 1997
Internal	1997 Pre-Certification Review	<ul style="list-style-type: none"> <li>• Various audits were selected.</li> </ul>	File 00-2078(1) folio 75
Internal	1997 Post-Audit Reviews	<ul style="list-style-type: none"> <li>• Various audits were selected.</li> </ul>	File 00-2078(1) folio 74

## Schedule of Auditees Interviewed

Departments:

Housing  
Health (a)  
Local Government and Planning  
Queensland Audit Office (a)  
Public Works  
State Development and Innovation  
Transport  
Treasury (a)

Statutory Bodies/GOC's:

Cairns Port Authority  
Central Qld University  
Energex  
Ergon Energy  
Gladstone Area Water Board  
Gladstone Port Authority  
Golden Casket Lottery Corp Ltd  
Queensland Rail (a)  
Queensland Motorways Ltd  
Queensland Treasury Corporation (a)  
University of Queensland  
University of Southern Qld  
Toowoomba Grammar School

Local Government:

Brisbane City Council (a)  
Cairns City Council  
Caloundra City Council  
Cloncurry Shire Council  
Gold Coast City Council  
Mackay City Council  
Mt Isa City Council  
Noosa Shire Council

(a) Interviewed jointly by the reviewers. In all other instances a single reviewer undertook the interview.

**Schedule of Audit Files Examined in Detail**

Departments:	Housing
	Treasury
Statutory Bodies/GOC's:	Golden Casket Lottery Corp Ltd
	Queensland Motorways Ltd
	Central Qld University
	University of Queensland
	Queensland Rail
Local Government:	Cairns City Council
	Noosa Shire Council

**SCHEDULE OF SPECIAL REVIEWS, COMPLIANCE REVIEWS AND PMS AUDITS  
REPORTED TO PARLIAMENT – 1996/97 to 2003-04**

**2003-04**

Name of Item	Report Details	Tabling Date	Required Requested By	Time taken to review (if available)	Cost (if available)	Compliance or PMS Audit?
Review of Performance Incentive Payments	Auditor-General's Report No. 1 for 2003-04	25/9/03	Auditor-General	15 Months	\$127 991	Compliance
Results of a Review of Governance at James Cook University and Queensland University of Technology	Auditor-General's Report No. 2 for 2003-04	25/11/03	Auditor-General	20 Months (13 Months for JCU and QUT Report)	\$281 308	PMS Audit
Review of Governance and Risk Management at the University of Queensland	Auditor-General's Report No. 9 for 2003-04	June 2004				PMS Audit

**2002-03**

Name of Item	Report Details	Tabling Date	Required Requested By	Time taken to review (if available)	Cost (if available)	Compliance or PMS Audit?
Performance Management Systems Audit of the Public Rental Housing Output, Department of Housing	Auditor-General's Report No. 1 for 2002-03	21/8/02	Auditor-General	20 Months	\$289,796	PMS Audit
Results of Governance and Risk Management Reviews of Local Governments	Auditor-General's Report No. 2 for 2002-03	23/10/02	Auditor-General	12 Months	\$169,117	PMS Audit
Results of Governance and Risk Management Reviews of Government Owned Corporations	Auditor-General's Report No. 2 for 2002-03	23/10/02	Auditor-General	20 Months	\$162,873	PMS Audit
Performance Management Systems Audit of the Regulatory Aspects of the Ensuring a Clean Environment Output, Environmental Protection Agency	Auditor-General's Report No. 5 for 2002-03	18/12/02	Auditor-General	6 Months	\$103 932	PMS Audit

**2001-02**

Name of Item	Report Details	Tabling Date	Required Requested By	Time taken to review (if available)	Cost (if available)	Compliance or PMS Audit?
Corporate Governance and Risk Management Review – Departmental Follow-Up	Auditor-General's Report No. 1 for 2001-02	17/10/01	Auditor-General	8 Months	\$78 642	PMS Audit
Performance Bonuses	Auditor-General's Report No. 2 for 2001-02	05/12/01	Auditor-General			Compliance

**2000-01**

Name of Item	Report Details	Tabling Date	Required Requested By	Time taken to review (if available)	Cost (if available)	Compliance or PMS Audit?
Review of the Administration of Grants and Subsidies – Follow-Up	Auditor-General's Report No. 1 for 2000-01 for Audits Performed for 1999-2000	12/12/00	Auditor-General	5 Months	\$54 312	PMS Audit
Audit of the Management of Reportable Gifts	Auditor-General's Report No. 1 for 2000-01 for Audits Performed for 1999-2000	12/12/00	Auditor-General	8 Months	\$34 068	PMS Audit
Audit of the Management of Official Travel and Hospitality	Auditor-General's Report No. 2 for 2000-01 for Audits Performed for 1999-2000	16/5/01	Auditor-General	24 Months	\$223 276	PMS Audit

**1999-2000**

Name of Item	Report Details	Tabling Date	Required Requested By	Time taken to review (if available)	Cost (if available)	Compliance or PMS Audit?
Review of Senior Public Service Appointment Processes	Auditor-General's Report No. 5 for 1999-2000	22/6/00	Auditor-General	7 Months	\$49 278	PMS

**1998-99**

Name of Item	Report Details	Tabling Date	Required Requested By	Time taken to review (if available)	Cost (if available)	Compliance or PMS Audit?
Competitive Procurement Practices within the State Budget Sector	Auditor-General's Report No. 1 for 1998-99 for Audits Performed for 1997-98	18/9/98	Auditor-General	N/A	N/A	PMS Audit
Department of Health – Drug Management	Auditor-General's Report No. 5 for 1998-99 for Audits Performed for 1997-98	18/5/99	Auditor-General	N/A	N/A	PMS Audit
Review of the Administration of Grants and Subsidies	Auditor-General's Report No. 6 for 1998-99	27/5/99	PAC and Auditor-General	6 Months	\$402 148	Compliance
Corporate Governance Beyond Compliance - A Review of Certain Government Departments	Auditor-General's Report No. 7 for 1998-99	15/6/99	Auditor-General	20 Months	\$119 858	PMS Audit

**1997-98**

Name of Item	Report Details	Tabling Date	Required Requested By	Time taken to review (if available)	Cost (if available)	Compliance or PMS Audit?
Sale of the State Gas Pipeline	Auditor-General's 1st Report for 1996-97	1/12/97	Auditor-General	N/A	N/A	PMS Audit
Management of Frequent Flyer Schemes						PMS Audit
Department of Emergency Services – Aviation Services						PMS Audit
Department of Health – Hospital Based Corporate Information System						PMS Audit
Department of Police – Rental and Assisted Housing						PMS Audit
Department of Training and Industrial Relations – Institutes of Technical and Further Education						PMS Audit

**1996-97**

Name of Item	Report Details	Tabling Date	Required Requested By	Time taken to review (if available)	Cost (if available)	Compliance or PMS Audit?
Use of Government Vehicles	Auditor-General's 995-96	26/11/96	Auditor-General	N/A	N/A	Compliance
SES Officers - Travel and Entertainment Expenses						Compliance
Use of Taxis by Government Employees						Compliance

Name of item	Report To Parliament			Review requested by	Time taken
	Number	Title	Tabling Date		
Results of the Audit of Certain Matters in relation to the Honourable the Member for Kallangur	No. 3 2003-04	Results of the Audit of Certain Matters in relation to the Honourable the Member for Kallangur	27-11-03	The Honourable the Premier (July 2003)	4 months
A Review of Grants and Other Incentives at the Department of State Development (including those provided to Berri Limited and Cutting Edge Post Pty Ltd)	No. 3 2002-03	A Review of Grants and Other Incentives at the Department of State Development (including those provided to Berri Limited and Cutting Edge Post Pty Ltd)	8-11-02	<ul style="list-style-type: none"> <li>• The Honourable the Leader of the Opposition</li> <li>• The Honourable the Premier (May 2002)</li> </ul>	6 months
Commercial-in-Confidence Arrangements	No. 2 2000-01	Results of Audits Performed for 1999-2000 as at 28 February 2001 incorporating the Audit of the Management of Official Travel and Hospitality	17-5-2001	Auditor-General March 2000	14 months
Audit of Certain Matters Associated with the issue of an Interactive Gambling Licence	No.1 1999-2000	Audit of Certain Matters Associated with the issue of an Interactive Gambling Licence	30-9-99	The Honourable the Premier and the Honourable the Treasurer July 1999	2 months
Review of Expo 2002 Bid	No. 2 1998-99	A Review of the Expo 2002 Bid and International Garden Festival 2000 Bid	19-11-98	The Honourable the Premier (11 August 1998)	3 months
Review of the International Garden Festival 2000 Bid	No. 2 1998-99	A Review of the Expo 2002 Bid and International Garden Festival 2000 Bid	19-11-98	The Honourable the Premier (25 August 1998)	3 months
A Review of Ministerial Expenses of the Former Minister for Families, Youth and Community Care and the Guidelines for Ministerial Expenses.	- 1998	Report of the Auditor-General on A Review of Ministerial Expenses of the Former Minister for Families, Youth and Community Care and the Guidelines for Ministerial Expenses.	Letter dated 3-4-98	The Honourable the Premier (16 February 1998)	2 months
A Special Audit of the Residents' Trust Accounts at the Basil Stafford Centre Wacol.	- 1997	Report of the Auditor-General on A Special Audit of the Residents' Trust Accounts at the Basil Stafford Centre Wacol.	Letter dated 8-12-97	Resolution of the Queensland Legislative Assembly (20 November 1997)	1 month

**Summary AO Pay Scales for the QAO (as at June 04)**

<i>Class Level</i>	<i>Annual Salary Range</i> \$	<i>QAO Staff Coverage</i>
AO1	20 817 – 24 485	N/A
AO2	28 651 – 35 583	Graduate Auditor
AO3	38 054 – 42 437	)
AO4	44 999 – 49 481	) Auditors
AO5	52 147 – 56 676	)
AO6	59 833 – 64 015	Audit Senior
AO7	66 950 – 71 787	Audit Principal
AO8	74 180 – 78 450	Audit Manager

Note: Directors of Audit, other Directors, Assistant Auditors-General, Deputy Auditor-General and Auditor-General are remunerated under the SES Scale.



Office of the  
*Auditor-General of Queensland*

Your ref:

Our ref: 00-4213(2)

10 September 2004

Mr H Smerdon & Mr R Anderson  
Strategic Review – QAO  
PO Box 383  
BRISBANE ALBERT STREET QLD 4002

Dear Mr Smerdon and Mr Anderson

I wish to thank you for the courtesies you have extended to me in the conduct of your review.

The Queensland Audit Office (QAO) and I will consider thoroughly all of your recommendations and conclusions as part of our ongoing program of continuous improvement within the Office.

**Overall comment**

Your report is very encouraging when you say *"At the outset we believe it is important to state our strongly held view that QAO has made significant progress in the past seven years..."* and *"...that -*

- *QAO operates as an efficient and effective public sector auditing practice;*
- *QAO is well-organised and well-managed;*
- *QAO has embraced the final agreed recommendations of the Sheridan Report and has systematically and thoroughly undertaken their implementation;*
- *considerable progress has been made in developing and strengthening relationships with key stakeholders;*
- *communication within QAO and with key stakeholders and auditees has been significantly improved;*
- *there is a coherency in and commitment to the vision and strategic direction of QAO;*
- *there is a much greater awareness of the auditee as a client, which has seen a marked improvement in the relationship between QAO and auditees;*
- *the independence of the Auditor-General to undertake the audit task continues as a cornerstone of our system of Government."*

Your positive overall assessment and your many positive comments and conclusions are a reflection on the calibre of QAO staff with whom I have been fortunate to have had the privilege to work.

In particular your conclusions on QAO's financial and compliance audits (my core business for the annual audit of 800 public sector entities) are very pleasing when you state –

*"Our conclusions are that QAO*

- has acted upon the comments and recommendations of the 1997 Sheridan Review;*
- has maintained and improved the quality of financial and compliance audits and the opinions and reports issued thereon;*
- has implemented an ongoing program of improvement to financial and compliance audit methodology and processes;*
- financial and compliance audit methodology and processes are robust and well suited to this task which is the core business of the QAO."*

During my term as Auditor-General of Queensland I have concentrated on 6 principal areas to ensure QAO remains effective and relevant, being -

1. Function – to maintain a strong and independent audit office.
2. Organisation – to create an even more modern, progressive and dynamic organisation going forward and to make QAO a better place to work.
3. Client – to foster a client focus with a recognition that QAO has one primary client, the Parliament of Queensland, and more than 800 secondary clients accountable to Parliament.
4. Improvements in the public sector – to not only identify deficiencies but to point the way ahead towards improvements in public administration at an entity, industry or sector level.
5. Staff – to broaden and to develop staff.
6. Style - to discharge my responsibilities in a firm but fair, polite, positive and constructive manner.

Above all, I have endeavoured to develop QAO's organisational capability for the future and to improve public administration in Queensland to essentially make the system work better. I am pleased that your findings appear to be consistent with my objectives.

I also acknowledge and accept your conclusions in relation to a number of areas where you believe *"...that there are opportunities for further development of -*

- the Performance Management Systems audit mandate and the possible future adoption of a Performance Audit mandate;*
- A greater QAO presence for the benefit of auditees in regional and remote areas of Queensland;*
- The relationship with the Parliament through the Public Accounts Committee;*
- The provision of enhanced training and development for staff;*
- More flexible remuneration structures for QAO staff;*
- Enhanced communication protocols with key stakeholders, including the media."*

Your endorsement of the Office's role is welcomed through your recommendation for additional resources to be provided for professional development, increased staffing for performance management systems audits and an increased regional presence.

Of the 38 recommendations and 119 conclusions made in your Report, I have confined my comments to the more critical issues from the public interest perspective of the people of Queensland and clarification of the role and responsibilities of the Office of the Auditor-General and QAO.

### **Performance Management System Audits and Performance Audits (Section C.1.2 refers)**

Since its inception in 1993 QAO's performance management systems (PMS) audit approach has resulted in extensive coverage across the public sector due to its sector-wide focus (27 PMS audits). In the interests of timely reporting and value for money in printing costs, small PMS audits are incorporated into general audit reports.

While your conclusions and associated comments take into account factors such as the limited resources allocated by the Government at the time the legislation was amended in 1993, I should emphasise the number of difficult special audits performed, as well as the increase in the number and complexity of the more traditional financial and compliance audits undertaken during this period. As you indicate in your report, any significant broadening of the PMS audit coverage would necessitate a fresh look at the strength and composition of resources and the additional funding implications.

Previous calls from other independent reviewers for a wider audit mandate for the Queensland Audit Office have been rejected by Queensland Governments on 3 previous occasions - in 1987 (Report on Public Sector Bodies), in 1993 after the Electoral and Administrative Review Committee (EARC) review of public sector auditing (following the Fitzgerald Report) and more recently in 2000 after the previous (1997) strategic review of QAO.

In my Report to Parliament dated 13 March 2000 (No 4, 1999-2000) I informed Parliament that I had written to the Premier advising that –

*"Although I am disappointed with the Government's decision I intend to continue to be an advocate for an expanded performance auditing mandate in the Queensland public sector but at the same time assure you that I will continue to do the best job that I can for the Parliament and the State within my existing audit mandate."*

My position remains unchanged. Notwithstanding your recommendation not to seek an extension in the mandate at this time, I remain firmly of the view that an efficiency or performance auditing mandate for the QAO would be in Queensland's best long term interests as exists in other Australian States which all have the wider performance or efficiency audit mandates.

The main limitation of the current PMS audit mandate is that it focuses on the systems but does not address the overall performance. The *Financial Administration and Audit Act 1977* places specific responsibilities on the accountable officers for stewardship and performance of public sector entities. A performance audit mandate would complement this role and would provide for greater accountability to Parliament and the community through the provision of independent and expert advice on the degree of economy, efficiency and effectiveness achieved in public sector resource management and administration.

Without an independent audit review of performance, Parliament has little option other than to rely on the assurances of public sector agencies that their services are being delivered effectively and efficiently.

Although your report mentions that PMS audits may not have been conducted as Parliament would have intended, my auditing standards have been tabled with Parliament. Parliament has not communicated any concerns relating to these standards.

I acknowledge your proposal, as a plan for going forward, to increase the PMS resources available to QAO. In the absence of a legislative amendment to extend QAO's mandate, your recommendations represent an improved capability for QAO (through the additional resources proposed) and a positive step. You are advocating an approach to go forward without closing the door on a wider mandate in the future.

Your report also represents an opportunity for Parliament to reaffirm its support for the PMS mandate and to clarify its expectations of agencies to have in place effective performance management systems.

#### **Audit Coverage (Section C.1.4 refers)**

Client claims of over-auditing, too much emphasis on probity matters and calls for less public reporting of such matters evidently warrant clarification. I therefore support your recommendation for QAO to continue to address these auditee concerns through education and communication.

Client assertions regarding probity, propriety and compliance that "...there is a belief amongst auditees that QAO has been overly zealous in its emphasis of these issues..." and the conclusion that "QAO should continue to seek to resolve low-level probity issues and issues of minor materiality by agreement with auditees rather than by public reporting and by resorting to such reporting only as a 'last resort'" are a vindication of my approach to the job.

In accordance with longstanding QAO audit practice, many issues which are immaterial are resolved with audit clients and are not reported publicly. On occasions though, some issues need to be raised in my reports to Parliament because the findings are material or the matters remain unresolved. In the context of the total audit mandate involving more than 800 reporting entities where the audits of all entities are undertaken every year, the number of specific issues publicly reported is relatively small.

Commissioner Mr Justice Fitzgerald (1989) was previously critical of the Audit Office when he pointed to practical limitations upon the ability of the Auditor-General to supervise properly the financial administration of the Government -

*"The Auditor-General's reports to Parliament, other than in exceptional circumstances, have been basically formal and contained little by way of critical comment... Limited attention has been paid to specific items of expenditure."*

*"These self-imposed limitations should be reviewed if the Auditor-General is to become an effective check on the abuse of public money..."*

The misuse of taxpayers' money is rarely immaterial. I am not prepared to turn a blind eye to material items. If I had acceded to client wishes, audit findings of a serious nature would not have been reported publicly.

I have always followed the fundamental premise that Parliament is my primary client (on behalf of the people of Queensland) and that the 800 public sector entities that are the subject of my audits are secondary clients who are responsible to Ministers and accountable to the Parliament. For this purpose I have endeavoured to maintain a strong and independent audit office and my approach to the audits of the 800 entities reflects an audit 'of them' and not 'for them'.

I intend to continue on in the same way where I report to Parliament on probity and other significant matters, as necessary, in the public interest without fear of favour, while treating clients fairly and by reporting findings in a fair and balanced way.

QAO's auditing standards which incorporate probity, propriety and compliance have been tabled in Parliament.

QAO has a responsibility to raise awareness of emerging issues amongst audit clients and has sought to do this by publishing a variety of information documents (Inform magazine, better practice guides, questions and answers, etc) and by holding periodic client information sessions that cover topical accounting and financial reporting issues.

In response to your findings, I will arrange for a review of our educational strategies to ensure emerging issues are covered in a timely and accessible manner. Additional education and communication will be provided on QAO's coverage of issues of probity and propriety. Where individual organisational policies are non-existent or lacking in sufficient guidance to allow for consistent application, the need for QAO commentary on such issues will continue to be benchmarked against other guidance such as ministerial policy or other appropriate benchmarks.

#### **Audit Coverage (Section C.1.4 refers)**

Although the resolution of complex accounting and financial reporting issues is the client's responsibility, QAO's communication and education will also re-emphasise the need and our willingness for early engagement by audit clients on complex issues. While QAO can and should be able to assist in some cases, the clients are and should remain directly responsible and accountable for such matters.

#### **Client Service Plans (Section C.2.3 refers)**

I acknowledge that there is scope for refinement in QAO's practices for more timely presentation of Client Service Plans. In accordance with current QAO practice the Client Service Plan undergoes a review each year to ensure that it reflects contemporary audit practices and the specific requirements of public sector entities. This practice will continue in future with renewed emphasis on ensuring that it is tailored for each audit depending on the industry in which the organisation operates and any other particular circumstances that need to be taken into account.

An integral element of the intended communication process is negotiation of the timing of the presentation of the Client Service Plan with the audit client. This issue and the role of the Client Service Plan in the audit process will be emphasised in the coming year in the context of QAO's overall client communication and information awareness strategy.

Client Service Plans are usually presented at Audit Committee meetings. Where Audit Committee meetings are not held until late in the new calendar year, there may be a perception of the plans being delayed. In future greater attention will be directed towards improved timeliness and where Audit Committee meetings are delayed, QAO officers will forward a copy of the relevant Plan for comment to the Chief Executive Officer.

Staff training to ensure consistency of the audit process including application of the Client Service Plan will continue to be part of QAO's staff training and awareness program.

#### **Internal Audit (Section C.3.2 refers)**

Your report provides a timely opportunity for Parliament, Ministers, Treasury Department and public sector agencies to reaffirm the importance and valuable contribution internal audit can make to governance, accountability and improved practices.

I will ensure QAO continues to do as much as it can to foster the improved quality of internal audit.

### **Parliament and the Public Accounts Committee (Section C.4 refers)**

I agree that your conclusions and the recommendation impacting on the Public Accounts Committee (PAC) are ultimately for the PAC and Parliament to consider.

### **Communication (Section E refers)**

I am pleased that you have recognised in your report that *"...the independence of the Auditor-General to undertake the audit task continues as a cornerstone of our system of Government."*

In my view your proposal (pages 65 and 68 refer) for QAO to enter into a memorandum of understanding or protocols to clarify the relationship with Queensland Treasury (i.e. Executive Government) has the potential to compromise my audit independence. I will however be pleased to continue to work with Queensland Treasury and other relevant agencies to ensure clarity of responsibilities.

Independence is the essential foundation of the external auditing profession in both the public and private sectors. The absolute independence of the Office of Auditor-General is integral to the integrity of the entire government processes by providing the necessary checks and balances and is essential to good government in Queensland, where one House of Parliament operates. For a Parliamentary watchdog to be effective in protecting the public interest, independence, both perceived and real, is absolutely essential. There are no degrees of independence.

### **Communication (Section E refers)**

Your recommendation that I review the style and presentation of reports to Parliament *"to ensure that each report fully informs and that the need for explanatory briefings to other stakeholders, including the media, is not required"* and that I should *"develop in consultation with the Public Accounts Committee on behalf of Parliament, a set of protocols for dealing with the media, particularly in regard to reports to Parliament"* will be helpful in clarifying the respective expectations of all stakeholders.

In the interim, I will continue to ensure my reports fully inform and are as readable as possible, continue to incorporate executive summaries and 'at a glance' sections in my reports to Parliament, and to brief Ministers and the Public Accounts Committee as has been my practice throughout my term as Auditor-General.

I accept your recommendation for *"publishing with each report, a separate short précis publication for broader public consumption"* and this will be implemented as soon as possible.

### **Shared Services Participation (Section F refers)**

I do not believe that it is appropriate for QAO to fully participate in the shared services initiative by having its financial transactions processed by Parliament House as this could jeopardise my audit independence.

In my view, the proposal is not compatible with the Auditor-General's statutory responsibilities and, if implemented, would compromise my independence. I will however continue to explore participation in those areas where I believe that my independence will not be compromised. Quite fundamentally, it is not possible for an auditor to do his or her job and audit themselves independently, while acting as both player and umpire at the same time. I believe it is universally understood in the accounting profession that the auditor and the audit client must be separate.

Proposals for QAO's participation comes at a time when the private sector auditing profession is taking determined steps to resurrect its independence and to cement the trust and confidence of the investing community.

I have written formally to advise the Premier and the Chair of the Parliamentary Public Accounts Committee of my views. A copy of my letter to the Premier dated 5 May 2004 is attached.

I believe that I have presented my case clearly after taking independent legal advice and will accept Parliament's decision on the matter.

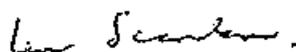
### **The Future**

Given that I will complete my term of Office on 16 December 2004, an incoming Auditor-General will no doubt benefit considerably from the insights in your report as a valuable and timely reference source.

While I will endeavour to do all that I can to ensure a smooth transition and handover to the new Auditor-General, it would be particularly helpful for the new Auditor-General and me if the Government were to seek further advice from you on the sections in your report dealing with probity, client service plans, gender and equity and shared services. This would ensure a thorough and shared understanding of the requirements and more readily facilitate their implementation. The establishment of a suitably agreed and understood basis for going forward will also assist in the next review of QAO in five years time.

For my part I will ensure that QAO considers thoroughly your report in order to maximise the benefits of your work. I will continue to build on our achievements and to work to improve in those areas you have identified and, in fact, all areas of our audit and business practices. Your report will serve as a useful document to guide and assist us for the future benefit of Parliament and the people of Queensland.

Yours sincerely



Len J Scanlan  
Auditor-General of Queensland



Office of the  
*Auditor-General of Queensland*

COPY

Your ref:

Our ref:

00-3871 KH

Mr J Findlay 3405 1115

5 May 2004

The Honourable P D Beattie, MP  
Premier and Minister for Trade  
15<sup>th</sup> Floor, Executive Building  
100 George Street  
BRISBANE QLD 4000

Dear Mr Premier

I am writing to inform you of my reservation over the adverse implications for the independence of the Office of the Auditor-General and the Queensland Audit Office (QAO) by participating further in the Shared Services initiative. Consequently, after careful consideration, I have considered that the most appropriate course of action is for me to withdraw from full participation in the current Cluster 6 arrangements.

As an advocate of promoting business efficiencies, including shared services arrangements, I have been prepared since the outset to explore all options which could result in potential savings for QAO but which would not in any way impair my independence, whether real or perceived. As such, I have ensured that QAO has remained involved with the activities of Cluster 6, with the Legislative Assembly, Governor's Office and Ombudsman, but always subject to the proviso that involvement will not compromise the independence of the Office of the Auditor-General and QAO.

My consideration, however, of further participation in the next phase of the current Cluster 6 arrangements has made it more apparent that ongoing participation in the shared service arrangements would seriously affect my actual and perceived independence, with the risks associated with self-review being the greatest threat to my independence.

I have advised the CEO Governance Committee of my concerns with ongoing participation in this initiative through the Cluster 6 status report on 24 March 2004. The Shared Services Implementation Office has been informed of my concerns and I have also alerted the Chair of the Parliamentary Public Accounts Committee and QAO's Strategic Reviewers.

To assist me in reaching my decision on participation, I commissioned an options paper to fully consider the extent of acceptable involvement QAO could have without compromising my independence. My reservations to further participate were endorsed unanimously by QAO's Executive Management Group and the QAO Audit and Risk Management Committee (which comprises QAO and external representatives, including QAO's external auditor appointed by Executive Council).

The Committee, while endorsing the option that QAO should not participate and should be exempted from the process, requested that the following principles be conveyed to Government –

- QAO is in favour of promoting business efficiencies in whatever form, including shared services;
- Participation in a shared services arrangement should not undermine the independence of QAO, including perceptions of self-reviews; and
- QAO participation should be in line with arrangements in other Audit Offices.

As you would appreciate, I must act, and be seen to be acting, independently in exercising all of my powers and duties. Independence is the essential foundation of the external audit function in the public and private sectors.

If QAO were to participate more fully in the shared services initiative, all documentation relating to QAO's financial transactions would be processed and retained by the Legislative Assembly as the Shared Service Provider (SSP), and as such QAO's transactions would be the responsibility of the SSP. As a result, a conflict of interest may be perceived between myself as an independent officer and my role as auditor of all public sector entities, of which the Legislative Assembly as an SSP is one.

As you are aware, under the *Financial Administration and Audit Act 1977* I must not audit QAO. Under this arrangement, however, in carrying out the audit of Cluster 6, QAO would be in effect conducting an audit of its own transactions with adverse consequences for audit independence. In particular, if the audit findings were adverse it would also raise practical difficulties for the public reporting of the audit results. Under such circumstances, I would be unable to effectively counter criticism of the proposed audit arrangements with QAO's participation in the Cluster.

The issue of the independence of the Auditor-General and the ability of an Audit Office to participate in shared services arrangements has been or is being considered in other States. The Office of the Auditor-General Western Australia has already sought and been granted exemption from shared services arrangements on the grounds of conflict of interest between the functions and duties of the Auditor-General and his independence. The Audit Office of New South Wales is currently working through similar independence issues with the NSW Government.

Of note, the overall savings which were initially anticipated by QAO through participating were less than one full-time equivalent employee.

I am still nevertheless committed to achieving business efficiencies and intend, for example, to pursue QAO's implementation of the payroll system used by the Legislative Assembly.

I would be pleased to discuss this with you at our meeting scheduled for this Friday, 7 May 2004.

Yours sincerely

**ORIGINAL  
SIGNED**

L J SCANLAN  
Auditor-General of Queensland