ECONOMICS AND GOVERNANCE COMMITTEE

Members present:
Mr LP Power MP—Chair
Mr RA Stevens MP (teleconference)
Mr MJ Crandon MP
Mrs MF McMahon MP
Mr DG Purdie MP
Mr A Tantari MP

Staff present:
Ms L Manderson—Committee Secretary
Ms M Salisbury—Assistant Committee Secretary

PUBLIC BRIEFING—OVERSIGHT OF THE AUDITOR-GENERAL

TRANSCRIPT OF PROCEEDINGS

Monday, 13 November 2023

Brisbane

MONDAY, 13 NOVEMBER 2023

The committee met at 10.33 am.

CHAIR: Good morning. I declare this public briefing open. I would like to respectfully acknowledge the traditional custodians of the land, the Yagara-speaking people, where we are participating in this meeting today and pay our respects to elders past and present. We are extraordinarily fortunate to live in a country with two of the oldest continuing cultures in those of Aboriginal and Torres Strait Islander peoples whose lands, winds and waters we all share.

My name is Linus Power, the member for Logan and chair of the committee. Other members of the committee are: Mr Ray Stevens MP, member for Mermaid Beach and the deputy chair, who is joining us via teleconference; Mr Michael Crandon MP, the member for Coomera; Ms Melissa McMahon MP, the member for Macalister; Mr Dan Purdie MP, the member for Ninderry; and Mr Adrian Tantari MP, the member for Hervey Bay.

The purpose of today's briefing is to assist the committee with its oversight of the Auditor-General. The briefing is a proceeding of the Queensland parliament and is, of course, subject to the standing rules and orders of the parliament. I remind committee members that the Auditor-General and other participating officers are here today to speak to the committee about the operation of the Queensland Audit Office and matters within the mandate of the Auditor-General as set out in the Auditor-General Act 2009. Naturally, members should not put to the Auditor-General questions that are posed about the merits of particular government policy as the act makes clear that these are not matters on which the Auditor-General or QAO staff may comment.

The proceedings are being recorded and broadcast live on the parliament's website. Media may be present and they are subject to the committee's media rules and the chair's direction at all times. I also remind those present that you may be filmed or photographed during the proceedings. Your images may also appear on the parliament's website or social media pages. Before we proceed can we please ensure that all mobile phones are switched off or are on silent mode.

FLEMMING, Mr Patrick, Assistant Auditor-General, Queensland Audit Office

REARDON, Mrs Michelle, Assistant Auditor-General, Queensland Audit Office

WORRALL, Mr Brendan, Auditor-General, Queensland Audit Office

CHAIR: I now welcome witnesses from the Queensland Audit Office. Good morning. Thank you for agreeing to brief the committee today. I now invite you to make some opening comments after which committee members will have some questions for you.

Mr Worrall: Good morning. I am pleased to brief the committee on the Queensland Audit Office annual report for 2022-23 and four of my reports to parliament from the last two years. It has, indeed, been a privilege to lead the Queensland Audit Office over the last 6½ years. I thank our people, including our contract audit service providers, for their outstanding support and unyielding commitment. I am proud to work with such highly skilled experts who deeply care about delivering better public services for all Queenslanders.

There has been a number of changes to my independence over the last year and I look forward to working with the committee to support you with your expanded role, approving QAO's audit fee rates as well as the changes currently before the parliament in the Integrity and Other Legislation Amendment Bill 2023.

Our annual report for 2022-23 is my seventh and final annual report as Auditor-General. It was tabled in the parliament by the Premier on 21 August 2023. During that period we tabled 18 reports to parliament containing 82 recommendations on how public sector entities and local governments can improve their performance. We continued to report on entities' self-reported progress in implementing our recommendations and I tabled my second report on our resultant insights. I am also proud to say we received the Australasian Council of Auditors General Excellence Award for our report on delivering social housing services. Relationships are at the core of our strategy and we are more likely to influence performance improvement if we understand the unique requirements and environments of our clients' operating environment.

In the last financial year I met with key stakeholders from 117 public sector entities and local governments throughout Queensland. The value of our services and the level of engagement has been recognised in our independent surveys where we continue to retain high satisfaction scores from members of parliament, our audit clients and audit committee chairs. Financially, in 2022-23 our revenue and operational expenses tracked well against our budget. We remain financially sustainable, reflecting our ongoing focus on driving efficiency and improving how we manage our operations.

Since becoming Auditor-General almost 6½ years ago, CPI has risen 28 per cent to 30 June 2023, yet QAO's revenue has grown by only 11 per cent in this period, thereby delivering a 17 per cent efficiency dividend back to state and local government entities and ultimately the people of Queensland. This has been achieved through prudent financial management and investing in our people, toolkits and our data capabilities to deliver efficient and effective audits and reports to parliament. We have delivered a modest surplus each year since I became Auditor-General. The most recent biannual satisfaction survey from members of parliament indicates that 97 per cent of respondents were satisfied with our reports to parliament. Our client surveys for 2022-23 indicated a satisfaction rate of 84 points, which is above target and the prior year.

Audit quality is critical in ensuring our clients, parliament and Queenslanders have confidence in the independence assurance and the insights that we provide and we constantly deliver professional, high-quality audits. In October we published our fourth transparency report to share information on the way we audit, our internal practices and processes, and our determination to continuously improve. At this time the 2023 strategic review of the Queensland Audit Office is nearing completion. My office has been working with and responding to requests from Professor Ian O'Connor AC and Moore Australia audit. We received the draft report for comment last week, with the final report due to be tabled in parliament by the end of the year.

Moving on to the four reports to parliament being examined today, I do not intend to cover each in detail but instead will focus on the main themes and answer any questions that you may have. In my report *Establishing the Queensland Future Fund*, which was No. 11 for 2021-22, I emphasised a need for greater transparency around the government's arrangements for the Future Fund and the activities and the performance of key investments. It has been pleasing to see that the 2022 and 2023 audited financial statements for Queensland Treasury and Queensland Treasury Corporation have both included more details about the composition and activities of the fund. I will provide an update on how the Queensland government is managing its debt and investments in my *Managing Queensland debt and investments 2023* report, which is scheduled for tabling in early 2024.

Another key learning I have identified from our work across entities is a need for better planning and coordination. Lead agencies must establish clear policy positions and communicate these with stakeholders in a timely manner. This was crucial in ensuring all government entities make consistent and informed decisions and follow approved processes. For many years we have seen evidence of challenges arising from, or exacerbated by, machinery-of-government changes. The central agencies need to establish processes to better prepare and support departments for such changes, and recognise and respond to longer term impacts on culture and performance improvement. This can encompass strategy, systems, record keeping, financial statements and internal controls.

I hope my reports to parliament continue to be a catalyst for positive change and that the entities recognise the value of our audits and act on our recommendations not just those in our reports, but also the ones we make directly to the entities during our audit work. I appreciate the committee's support of QAO and the interest you take in our reports. We are happy to answer questions the committee has.

CHAIR: Thank you very much. I know it is going to be difficult for the deputy chair to be involved in the cut and thrust, but I believe he has a question.

Mr STEVENS: I am having a little trouble hearing the Auditor-General, but I am picking up most of it. My question is in relation to the feedback from the QAO staff. Mr Worrall, you mentioned that in the last survey in September 2022 there was a 76 per cent staff response and in all the figures you have quoted you have not given—or I cannot find—the per cent of staff response for this year. Obviously if a lot did not respond there has to be a reason for that. The other thing is how do your figures compare with other state audit offices?

Mr Worrall: In relation to the 2023 Working for Queensland staff survey we had an 88 per cent participation rate amongst our staff. In terms of how we compare against other audit offices, a large variety of performance indicators are tracked through the Australasian Council of Auditors General. We have common performance indicators across all Australian audit jurisdictions. Generally speaking, we would perform at either one or two across most of those indicators.

In terms of indicators relating to staff, from memory our staff turnover for the period would have been 19 or 20 per cent, which is up about five points from pre-COVID levels. Compared to some audit offices, it is still favourable. I think one audit office had a staff turnover of 30 per cent from memory. That is probably one indicator in which there is still room for us to improve. I do not think we would be in position one or two for that indicator in the ACAG benchmarking, but we are certainly better than some of the other offices.

Mr STEVENS: I will have to read *Hansard* for most of that, but I appreciate the opportunity to ask those questions.

CHAIR: Indicate via text to me if you have any follow-up questions. That might be easier.

Mr TANTARI: I have a question with regard to the work that performed by the QAO in particular, out of interest given my former occupation, with the Department of State Development, Infrastructure, Local Government and Planning. I note in your report that you mention the QAO presented a number of financial accounting workshops throughout Queensland. Can you advise the committee what was achieved and/or the focus of those workshops that you presented to the Local Government Finance Professionals and what does this mean for the ratepayers in those areas when those different tiers of government are working together?

Mr Worrall: There are a number of forums where we would interact with local government, including the department of state development and local government. Each year the department would run workshops in relation to financial reporting requirements for local government entities. Each year we would participate in that. I think traditionally, pre COVID, there were a number of workshops that would have been held in three or four locations around the state. I think that has been pared back a little bit, but we would participate in those. As you mentioned, there is also a Local Government Finance Professionals conference where we would from time to time participate. We would attend and may also provide briefings in relation to those. They would be matters relevant to local government. There might be specific valuation issues in relation to some of their infrastructure. This year at the Local Government Association of Queensland conference one of my senior directors also presented one of the sessions that they had. There is probably an ongoing dialogue that we would have with that sector.

Mr TANTARI: With regard to the effectiveness and efficiency measures in your report, it is noted that the QAO's performance regarding results of financial audits were about $21,000 above the SDS target and about $48,000 above last year's average costs. What are the mitigating factors as to why there were those cost increases?

Mr Worrall: There are probably a number of things going on. I think in relation to 2022-23, QAO, like a lot of industries, has definitely struggled from a resourcing point of view since 2021—since the start of 2021, in all honesty. Some of that is reflected in our higher turnover than what we have traditionally had. I think if you go back to the start of that financial year there was some work in relation to the 2022 audits that we would have normally had completed prior to 30 June 2022 which fell into the July-August period. That, in effect, drove some additional revenue for that period. The other mitigating thing would have been whenever there is a machinery-of-government change we would have had to do more work around that because there is a movement of assets and liabilities, appropriation and things like that which we need to audit. Some of that can be a little complicated so there would have been some additional fees that we would have levied on those entities impacted by the machinery-of-government changes. I think there were probably 11 agencies, from memory, that were impacted by that. I think they were the main drivers.

Another is our audit service providers. The challenges we have faced in relation to resourcing are also being faced by our service providers. For any contracts that we have been putting out since 2021, there has definitely been a rise in costs that we are experiencing. Some of that would have potentially flowed through to the 2023 year as well. The other thing that we do not have control over in that measure is the number of audits we do. That is an average across all the audits and that number can move a little bit from year to year. There might be new audits we do, but there might be some audits that are no longer required as entities may be wound up and things like that.

Mr PURDIE: You may have answered my question in that answer and you also touched on it in your opening address about the efficiency dividend or the extra that you made that you were able to return. Total income was $49.579 million, which is just over $3 million more than budgeted. Can you comment on that? I am mindful that you essentially just did.

Mr Worrall: You are quite right; I probably touched on that. Yes, we did exceed our revenue target and again that relates to additional work that we performed in that financial year. Some was in relation to that work that was not done in the 2022 year that we then had to pick up in July and August mainly in the year under review. That was part of that. The machinery-of-government change would have driven that. Any increase in contracting fees would have started to flow through as well. The timing of our financial audits is governed by statutory deadlines that the entities have to report to and we try to schedule that mainly in about three phases, but if there are things like machinery-of-government changes or resourcing issues or entities do not deliver that can push planned work into another financial year—like it did from the 2022 financial year into 2023.

In relation to our performance audits, while that might result in about 10 reports to parliament, it only covers about $4 million of our audit fees. That is funded by appropriation. Again in those audits, once we get to the reporting phase we are not fully in control of that reporting phase because there is a consultation piece in relation to the draft report and then there is 21 days. If there are any differences that we are still working through with the entities we would rather take the time to work through those rather than rush that audit to a close and put a report in without working our way through that. Some of that control is a bit lost by us at that phase and, of course, any blowout in time results in more costs.

Mrs McMAHON: I wanted to have a look at the reported hours of training that the organisation does as referred to in the annual report. It indicated that staff do an average of 61 hours of training a year. That is just short of two weeks work. I wanted to get an idea what training is undertaken, whether that is mandatory training or whether it is personal development or professional development training. That is a big chunk out of someone's work year when you take into account leave. I just want to get an idea, generally speaking, where that 60-plus hours would be spent by a staff member?

Mr Worrall: There are a couple of things I would say just to set the scene. A lot of the auditors in QAO would be a member of a professional body such as CPA Australia, Chartered Accountants Australia and New Zealand or maybe the Institute of Internal Auditors. Each of those entities has set a minimum CPD requirement which generally is 20 hours minimum per annum or 60 hours over a triennium period so obviously we seek to go beyond that. We are hitting 60 hours. A lot of that delivery would be formal training, face-to-face delivery. There would definitely be technical components in relation to that. There might be self-development components as part of that. There is also some online training that they can access and that is probably more self-development. There are also formal courses that people may seek to undertake which we would approve if it is relevant to their work. That is the nature of it. There is also an on-the-job learning component as well.

We are seeking to change the mix of how we deliver our training. Traditionally, it has been a 70-20-10 mix—70 per cent has been formal face-to-face training, 20 per cent has been on-the-job training and 10 per cent has been self-learning. We want to flip that to being 70 per cent on the job, 20 per cent formal settings and 10 per cent self-learning—the 20 and 10 I might have mixed up. We have a process at the moment where we are trying to get more learning to be online and trying to create more space for on-the-job learning as well and starting to wind back our formal face-to-face learning. We do not think the 60 hours is too high. We think that is where it needs to be. If you think about the pace of change that is happening in society generally, that is happening for us as well. There is likely to be another pace of change that will impact on audit offices and auditors everywhere and that is in relation to sustainability reporting. There are developments that are happening at the international level where there are some reporting and auditing exposure drafts at the moment, but eventually they will filter their way down into the audit world as well.

CHAIR: Building on that, across jurisdictions, taking them out of the work they are doing for that level of training is pretty standard across the other audit offices?

Mr Worrall: I think the hours that we have done is probably at the lower end, in all honesty. Some of those other audit offices would report higher hours through their ACAG benchmarking than we do.

Mrs McMAHON: On something completely different: recommendations. The annual report indicated how many reports have been tabled and how many recommendations there are in total. I note that there is a dashboard where entities are allowed to self-report the achievement—ticking and flicking—of the recommendations. I was wondering if there has been an examination of the self-assessed achievement of recommendations or whether they actually meet the recommendations in the report? Is there a balance between an organisation going, 'Yes, we have done that', versus whether it actually met the intent of the recommendations within the report?

Mr Worrall: That is a good question. We have done two self-reporting reports to parliament and we will continue with that report on an annual basis. We provide no assurance in that report. Typically, we would do 10 performance audits a year or thereabouts and typically we would have capacity and funding to do one follow-up audit per year where we would actually go back and see that those recommendations actually have been acted upon.

I guess there are a couple of safety mechanisms. The audit committees of these entities should be tracking all of these recommendations through their audit committee and they should only be clearing those recommendations once their own internal auditors have provided assurance that it has been implemented. That is what should be happening. There are probably a couple of incidents already in our work where we realised with what has been reported in that self-assessment report that we have had somewhat of a different view on some of that. We recognise that it is not foolproof but I guess we want to continue to work with entities to make sure that they are honest in their reporting.

Mrs McMAHON: Following on from that, the dashboard is a good tool and it indicated that it is getting a lot of hits. Is the quality assurance of the achievement of those recommendations on the dashboard reported by the entity or is that checked by the Audit Office before it is included in data?

Mr Worrall: Like I said before, we provide no assurance about the quality of the status of those recommendations. That assurance is being provided by the chief executive or the board, if there is a board, of those entities. The chief executive or the board has to approve what they are reporting. If there are any issues around the quality of what has been reported then that really comes to the chief executive or the board of those entities.

Mr CRANDON: Mr Worrall, you have looked at the attrition issue. I have spoken on this in the past as well. I have some concerns around where to from here. I suppose the question from me is: how are you coping or how will you cope going forward? You are talking about machinery-of-government changes and we have seen some recent machinery-of-government changes. After an election, which is looming, and regardless of who forms government after the election, there is typically a swathe of machinery-of-government changes. In your forward planning—and I talk of the collective; the QAO 'how are you' collectively—how are you planning for the future and for the next financial year in particular, because there is a bit of a lump in the road every term? How are you going with regard to your numbers and the cost of bringing in new people? Recently we spoke to an auditor who confirmed that it is an industry-wide issue. How are you going in that regard? Where are you going with your planning?

Mr Worrall: There are a few things that I can say about that, and Michelle may want to jump in at some point. Resourcing has probably been one of the main operational focuses of the organisation for the past three years because we have definitely been under pressure from a resourcing point of view as have our peers and as has the audit industry. We have continually worked at that. Just in this year or just in recent months we have made some more changes to that. We have now moved staffing up to what I would call an establishment level of auditors that we need to deliver our work. We now have an approved internal establishment of what resources we need. Within that establishment we are actually trying to get ahead of the game and anticipate further attrition and anticipate things like elections and machinery-of-government changes that will come out of those things so that we have more resources than technically we may need at that point of time knowing that we are likely to have surprises like machinery-of-government changes and that attrition will occur. There is no doubt that will continue to occur. That is one key thing we are doing.

A couple of years ago we appointed a director of employee experience. That is not a HR director; that is a director of employee experience. This is really trying to make sure that staff are settled, staff are getting the support they need in terms of both training and development and the resources that they need to deliver on work. We very much actively manage people's hours. We do not want people to work harder; we want them to work smarter. We have continued to invest in new toolkits, data analytics, refining our methodologies.

We are trying as much as possible to relieve the pressure on our staff to the extent possible. We continually try to smooth our workload so if we can do work earlier we want to do work earlier. However, we cannot control that. A good example is probably right at the moment where a number of local governments have not met their statutory deadline, more so than normal. That creates pressure on us because normally, come 31 October, we would be pretty much done and dusted with that sector but that is not the case at the moment. That comes back to us to continually work on that sector longer than we had planned to do. This is why we now want to get ahead of the game and have a bit of padding for these sort of events.

Mr CRANDON: With those local government entities, what strategies are there going forward? It was a surprise to you, from the sounds of things, that you had a higher number than usual. What strategies are you putting in place to maybe give them earlier reminders and that kind of thing? Do you have anything planned for the future to make sure that they deliver or that more of them deliver on time?

Mr Worrall: A small number were probably a surprise, but, typically, there would be at least half a dozen each year that would struggle with the deadlines. For some there are valid reasons but they too, as an industry, are under pressure from a resourcing point of view. There is no doubt about that. In some ways, the ones in regional and remote parts of the state are probably even more challenged in attracting and retaining staff. There are probably other issues around housing and things like that that play into that as well.

At the end of the day, we continue to work with those entities as much as possible. We try to be as flexible as much as possible. At the end of the day, we cannot perform miracles at the very end of the statutory deadline if the audit evidence is just not there. I agree: it is a challenge and it is a continued risk for us.

CHAIR: There being no further questions, I thank you for the information that you have provided here today. I thank the Hansard reporters and broadcast staff for their assistance. I note that a transcript of our proceedings will be available on the committee's parliamentary webpage in due course. With that, I declare this public briefing closed.

The committee adjourned at 11.09 am.