

28 October 2103

Mr Steve Davies MP
Chair Finance and Administration Committee
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Dear Mr Davies

RE: Finance and Administration Committee - Inquiry into the legislative arrangements assuring the Queensland Auditor-General's independence

Thank you for your invitation to Stephen Horne President and Chairman of the Board, The Institute of Internal Auditors – Australia, calling for a submission on the *Inquiry into the legislative arrangements assuring the Queensland Auditor-General's independence*.

The Institute of Internal Auditors-Australia is the national professional body representing the internal audit profession. We are responsible for leading the direction of the internal audit profession in Australia.

Our purpose is to provide knowledge, training, advocacy and representation to promote the standing of the internal audit profession, as well as to develop internal audit best practice within workplaces. IIA-Australia is the local affiliate of the global Institute of Internal Auditors which represents more than 170,000 members in 165 countries around the world. IIA Global sets the global standards for internal audit which are internationally recognised as the authoritative source for internal audit practice.

The position of Auditor-General has influence on the work of internal audit and we are pleased to make the following observations.

From our global experience, the current legislation is comparable to the world's better legislation. We believe many countries envy Queensland and Australian Standards. It is a good, workable Act which stems from the 1977 Financial Administration and Audit Act which we understand was a leader when enacted and was the model for much of Australia's current legislation.

It would be useful for the Auditor-General to comment on the continuous improvement activities in his report to Parliament under s58 Reporting on auditing standards.

The Auditor-General does provide agencies with his forward plan, but unless he discusses matters directly with CEOs, there is no published link to strategic departmental or government risks, so perhaps greater transparency would be useful.

- **The effectiveness of section 56 of the Auditor General Act 2009**
s56 provides the basis for the Auditor-General to set and charge fees. In practice the Auditor-General charges fees for audits related to his forming an opinion on the financial statements of agencies; performance audits are funded by appropriation. In essence, this section provides for the Auditor-General to operate with autonomy, but this needs to be in the context of cost effective and efficient delivery. There are a number of observations relevant to this section:
 - While charging of fees is consistent with a "user pays" principle, Queensland Government agencies have no choice about their external auditor (this is legislated). The Auditor-General does agree the fee with the client at the beginning of the audit and adjusts it when his audits identify any new risks and issues
 - Recommendations from the most recent strategic review of the Queensland Audit Office included benchmarking of audit fees. The Auditor-General has reported that this recommendation is progressing through a joint project commissioned by the Australasian Council of Auditors General with expected implementation by 31 December 2013
 - The Auditor-General has recently reported his office has achieved a reduction in fees by increasing the efficiency of audit procedures and targeting audit risks better, but notes the average cost of audits remains higher than that of other audit jurisdictions.
 - There is anecdotal evidence agencies see audit fees as too high.
 - It appears that the full mandate for performance audits is providing positive results for both the Auditor-General and agencies.

The setting of fees should be left with the Auditor-General to decide as a business decision in the context of cost effective and efficient delivery of service. There could be more transparency in the way the Auditor-General informs agencies of how it has constructed its fees. The publishing of an audit fee charter would assist.

The information from the audit fees benchmarking project embarked upon by the Australasian Council of Auditors General could inform future fee setting decisions. We are increasingly seeing the publishing of benchmark data and achievement level for public sector agencies. In simple terms, how does the Auditor-General demonstrate value for money to the Parliament and the people of Queensland?

- **The legislative arrangements for the independence and accountability of the Auditor-General and the Queensland Audit Office**
The Act provides a basis for independence and accountability of the Auditor-General - s8 specifically provides for independence by preventing any person directing the Auditor-General about the way in which the Auditor-General's powers in relation to audit are to be exercised; or the priority to be given to audit matters.

The current legislative arrangements should be maintained as a minimum.

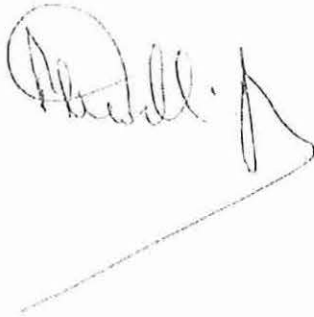
- **How the Queensland arrangements compare to the arrangements in New Zealand and other Australian jurisdictions**
- **How the Queensland arrangements compare with international best practice**
The Queensland arrangements do appear in the most part to model those applying to the Commonwealth Auditor-General. They are not as explicit as the provisions of the

Commonwealth legislation which defines the Commonwealth Auditor-General as an independent officer of the Parliament (Auditor-General Act 1997 - Sect 8), as well as enabling the Commonwealth Auditor-General complete discretion in the performance or exercise of his or her functions or powers, and in particular, the Auditor-General is not subject to direction from anyone in relation to whether to conduct, the way it is conducted, and the priority of a particular audit.

An Auditor-General's independence and freedom from interference is paramount and is reflected in INTOSAI's Mexico Declaration on Supreme Audit Institutions Independence of 2007. Following this and the Commonwealth example, it is suggested that the Queensland Auditor-General should be defined as an independent officer of the Parliament.

If you would like to discuss any of these matters I would be happy to oblige. I will be in Brisbane on 14/15 November and it may be appropriate that we meet if you have any time available.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Jones', with a long, thin horizontal line extending from the bottom of the signature.

Peter Jones
Chief Executive Officer