Queensland Government

Premier of Queensland

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Mr Steve Davies MP
Chair
Finance and Administration Committee
Parliament House
George Street
BRISBANE QLD 4000

Dear ~~Mr Davies~~ Steve

Thank you for your letter of 11 September 2013 about the Finance and Administration Committee's (the committee) inquiry into the legislative arrangements assuring the independence of the Queensland Auditor-General.

Given its role in advising the Treasurer in setting the fees that are chargeable by the Auditor-General under the *Auditor-General Act 2009* (the Act), my department has consulted with Queensland Treasury and Trade in collating information to inform this response. I trust that the information provided will assist the committee in its consideration of this matter.

Effectiveness of section 56 of the Auditor-General Act 2009

Process for approval of basic rate of fee increases

As the committee would be aware, section 56 of the Act provides for the Queensland Audit Office (QAO) to charge fees on a cost recovery basis to its clients for undertaking annual financial audits. That is, the hourly charge-out rates are set to recover the full cost of the QAO's financial audit services.

Proposed basic rate of fee increases for the new financial year are normally brought to the Cabinet Budget Review Committee as part of the annual State Budget process. In the past, there have been instances when the Auditor-General has approached the Treasurer directly for approval to increase the basic rate of fees.

QAO does not charge fees for its performance audits of public sector entities. The costs incurred from its performance audit activities are funded from the consolidated fund. The approved level of funding to cover performance audit activities is considered as part of the annual State Budget process. For the 2013–14 financial year, QAO will receive appropriation revenue from the consolidated fund totalling $6.558 million.

Review of basic rate of fees
The last increase to the basic rate of fees charged by the QAO was in October 2011 (3.9 per cent), following previously approved increases in 2010 (5.8 per cent) and 2009 (10.8 per cent).

On 10 May 2012, the Auditor-General wrote to the Under Treasurer advising that given the fiscal environment he would not increase fees for the following audit year (i.e. 2012–13) for government agencies and would instead seek internal efficiencies to manage costs.

For the 2012–13 Budget, QAO indicated that it intended to pursue further efficiencies in its financial audit processes, realising additional ongoing savings through the benchmarking of audit fees, working closer with agencies to improve the quality and reduce the costs of financial reporting, optimising its use of contracted-out financial audits through greater specialisation, and rationalising auditor travel arrangements. Additional savings were also expected to be found in corporate support functions.

In 2013, as part of the 2013–14 Budget process, the Auditor-General sought approval to increase the basic rate of fees for the 2013–14 audit year by 3.5 per cent. The request was not supported on the basis of the Government's fiscal repair priorities and the expectation that all government entities would continue finding efficiencies and identify savings to manage cost increases.

Maintaining the hourly charge-out rates at 2011 levels has had a positive financial impact on QAO's public sector clients in terms of maintaining, if not decreasing, audit service costs. The positive flow-on effects for QAO were acknowledged by the Auditor-General during the 2013 Estimates Hearings. That is, the need to find internal efficiencies has improved audit processes and resulted in the reduction of full-time equivalent positions (FTEs) without affecting service delivery.

Retaining the basic rate of fees at 2011 levels has allowed public sector agencies to deliver on the Government's fiscal repair mandate. It has also enabled the QAO to deliver more efficient and effective audit processes leading to reduced audit fees for its clients, all without compromising the independent operations of the office.

The Government acknowledges these achievements and the QAO's contribution to its fiscal repair mandate. Looking forward, it is noted that the Auditor-General has indicated that, although the resourcing of QAO was sustainable for the moment, over time further efficiencies would have to be found or the performance audit program reduced.

Findings from recent reviews
As the committee knows, section 68 of the Act requires an independent strategic review of QAO to be undertaken at least every five years. The last review of QAO was completed in 2010, and found that the current funding model of QAO had proven to be practical, robust and sustainable, with no reason to change the current structural arrangements (Conclusion number 7[i])[1].

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[1] Report of the 2010 Strategic Review of the Queensland Audit Office, March 2010

The strategic review report also noted that the QAO was a monopoly provider of audit services to government agencies with captive clients and that this might result in higher fees than would be expected in a contestable environment. In this context, the Treasurer fulfils an oversight role in scrutinising proposed fee increases.

The 2010 strategic review recommended that annual adjustments to the basic rate of fees continue, subject to the Treasurer's approval (Recommendation number 7[i]). It was also recommended that the annual adjustment to be determined by the Treasurer should be based on an assessment of wages, salaries and other costs relevant to QAO's operations, but should also take into account productivity and/or efficiency considerations (especially those relevant to the funding of core government departments) and any adjustment factor to reflect market movements in audit fees generally (Recommendation number 7[ii]).

Legislative arrangements for the independence and accountability of the Auditor-General and the QAO

The independence of the Auditor-General is preserved by section 8 of the Act, which specifically provides that the Auditor-General is not subject to direction by any person in relation to audit matters.

It is noted that section 35 of the Act provides that the Auditor-General must conduct audits at the request of the Legislative Assembly. However, in practice, this provision is rarely used.

When it was passed by the Legislative Assembly in 2009, the Act introduced new provisions to the terms and conditions of appointment for the Auditor-General with the aim of strengthening the independence of the office. For example, the Act provides that the rate of remuneration of the Auditor-General must not be reduced during the term of appointment without the Auditor-General's written consent and that the Auditor-General must not engage in any paid employment outside of the duties of the office (sections 11 and 13).

Further amendments to the Act were made after the 2010 strategic review of the QAO, to provide for a non-renewable, seven-year, fixed term arrangement for appointments to the position of Auditor-General (section 10). This arrangement strengthened the integrity of the office by not allowing political interference in the term of appointment.

Aside from the 'usual' accountability mechanisms that apply to all independent statutory office holders, such as the requirement to table annual reports and attend Estimates Hearings, the Auditor-General is held accountable to the Legislative Assembly through a number of provisions in the Act. For example:

- section 38A — the Auditor-General must submit a three-year audit plan of performance audits
- section 58 — the Auditor-General must provide reports on auditing standards
- section 68 — strategic reviews of the QAO must be conducted every five years.

How Queensland compares to the arrangements in New Zealand and other Australian jurisdictions

In relation to fee setting, the committee may wish to note that Queensland currently has a similar fee-setting mechanism as New South Wales (NSW) and South Australia, in that each respective Auditor-General is required to seek ministerial or government approval to increase the basic rate of audit fees. In Victoria, Western Australia, Tasmania and the Australia Government, audit fees are determined by the Auditor-General.

Queensland's legislative arrangements that outline the role, function, conduct of audits, accountability and audit reporting are similar to the general legislative provisions of other jurisdictions. As a general observation, the 2010 strategic review found that 'in comparison with Audit Offices in other Australian jurisdictions, the QAO generally ranks around average or just above for most key performance measures'.

In some jurisdictions, as in Queensland, the audit provisions have been separated from finance-specific legislation. The Australian Capital Territory (ACT) (*Auditor-General Act 1996*), Northern Territory (*Audit Act 2002*), Victoria (*Audit Act 1994*) and the Australia Government (*Auditor-General Act 1997*) have separate audit legislation. NSW (*Public Finance and Audit Act 1983*), Western Australia (*Financial Administration and Audit Act 1985*), South Australia (*Public Finance and Audit Act 1987*) and Tasmania (*Financial Management and Audit Act 1990*) do not.

Legislative provisions in the ACT, Australian Government and New Zealand similarly articulate the independence of the role and office. In other jurisdictions, including NSW and Victoria, the independence of the Auditor-General is implied rather specifically stated in the relevant legislation.

At the same time, there are legislative provisions in most jurisdictions, including Queensland, that support, or are consistent with, the principle of the Auditor-General's independence, which is reflected in provisions relating to, for example, the appointment and suspension/removal of the Auditor-General, duties and performance of the audit function, powers to investigate and obtain information, and communication and reporting protocols with the relevant minister and the parliament.

I trust this information is of assistance to the committee in its consideration of this matter.

Yours sincerely

CAMPBELL NEWMAN