



FINANCE AND ADMINISTRATION COMMITTEE

Members present:

Mr PS Russo MP (Chair)
Mr RA Stevens MP (Deputy Chair)
Mr DC Janetzki MP
Mr CG Whiting MP

Staff present:

Ms A Honeyman (Committee Secretary)
Ms K Shalders (Assistant Committee Secretary)

PUBLIC BRIEFING—STRATEGIC REVIEW OF THE QUEENSLAND AUDIT OFFICE

TRANSCRIPT OF PROCEEDINGS

WEDNESDAY, 19 APRIL 2017

Brisbane

THURSDAY, 19 APRIL 2017

Committee met at 3.29 pm

SMITH, Ms Phillipa, Lead Reviewer, Strategic Review of the Queensland Audit Office

CARPENTER, Mr Graham, Auditor, Strategic Review of the Queensland Audit Office

CHAIR: Thank you for this opportunity to meet with you again.

Ms Smith: Thank you. You have brought me here.

CHAIR: Yes, we did. I am Peter Russo, member for Sunnybank and chair of the committee. With me here today are David Janetzki; Ray Stevens, the deputy chair; and Chris Whiting, who is substituting for Jo-Ann Miller today. Would you like to make an opening statement?

Ms Smith: I will start and Graham can fill in the bits that I miss. We want to thank everybody for the opportunity to carry out this review. I have really enjoyed it and I hope Graham did too. Thank you for having confidence in us. I know that we were appointed by the government, but it was after consultation with the committee.

The process for the review is set out in the report, and I probably do not need to go over that. What I would like to say before I get on to the report and the recommendations we have made is that these are thoughts that I have come to over the last few days as I prepared a presentation for the ACPAC conference tomorrow where I have been asked to talk about strategic reviews. I thought, 'I am an outsider here. I am not part of any of the Australian offices. What do I think about the review that we have carried out?'

Where I am going to get to tomorrow—I feel I should warn the committee—is that I think the model is not wrong but it could be better. The reason for that is that when thinking about this review we were essentially carrying out or asked to carry out four reviews, and that is because of the way the legislation is. It was not that anybody had it in for us. The legislation asks reviewers to review the Auditor-General's functions. That could be a whole review on its own. The next one is efficiency and effectiveness. Those are two quite different areas. It is not that there is no connection between them but you look at different things. You ask different questions when you are examining each of those issues.

The fourth one, which got added on to the statutory requirements, is the independence matter which was before this committee, kind of ended up with us and fortunately I decided most of the work had been done, and that is what the report says on that. There is very good analysis by the QAO and by the other submitters to the committee. I think the material is all there.

Given four reviews and a limited time in which to do them, we focused—drawing heart from the fact that it is called a strategic review—on the effectiveness issue. That is what is strategic. That is not to say that we ignored the other areas by any means, but in reviewing the Auditor-General's functions there was probably only one issue that would have been worthy of reporting on and in the end we did not, and that is the question of whether the Auditor-General should audit not only financial reporting but also reporting of non-financial performance information.

In the end, the report is silent on that. Having looked at it in some detail and having looked at work that the office itself had done in the form of a performance audit, I decided that it is not something that I would recommend the QAO did right now. I think it is a very good thing for an audit office to do, but the reason I stopped short of recommending it and in the end did not even report on it is that the level of reporting of non-financial performance information across Queensland government agencies at the moment is pretty minimal, and I think it is probably too soon for the Auditor-General to be in there. That was inquiry No. 2.

We certainly did efficiency. It is all in the report. A question I will ask tomorrow as part of my presentation to the ACPAC conference is whether people you ask to look at strategic issues are necessarily the best people to also look at efficiency which involves trawling through an office's systems and looking at all sorts of benchmarks. We have certainly done it, but whether we were the most efficient people to do it I am not sure. The fourth angle was independence which I have already touched on.

To focus on the strategic questions, we came to the conclusion that there are three areas where we think attention needs to be paid. They are strategic in that we think they are impediments to the QAO fulfilling its own desires and its own aspirations and doing the best job that it can, and they are around its relationships with clients—absolutely in their hands to sort out. We have just been talking to the QAO and I think they understand that.

The second issue is around funding and what that means for the resourcing of the office. They are two issues and they are quite separate for performance audits and financial audits. Financial audits are within the QAO's own hands to sort out because they charge fees for those audits. Our argument is that we wonder if they are not a bit too efficient. We have suggested that they review their budget with that question in mind. For performance audits, that money comes from parliament and any increase in the budget would need to come from parliament through the budget process. The reason that I came to the view that they are under-resourced for performance audits is that they are trying to do too much with too little. Significantly increasing that resource will give them critical mass that will enable a lot more flexibility, and that will feed into some of these relationship issues that were part of the first issue.

The third area is independence which this committee already knew was an issue because you had your own inquiry into it. Our shared view is that this policy setting is not consistent with what a mature audit office should have in the way of independence. Those are my comments. Mr Chairman, does that address what you wanted?

CHAIR: Yes. We will have questions which I am sure will flush out the issues that concern the committee. Graham, would you like to add something?

Mr Carpenter: Yes. Just to let you know, we have had excellent cooperation in the short time he was here while commencing our work from the previous auditor-general, Andrew Greaves, the Acting Auditor-General, the Deputy Auditor-General and the senior staff. We have had very good cooperation. The previous auditor-general, harking back to the 2010 review—and I am sure you are aware I was one of the two people undertaking that review—set up what they called a portfolio report which was a tracking of what they had been doing on the recommendations over which they had direct control. That was invaluable for Phillippa and I in terms of material that was available internally. We obviously had to do a lot of work with that and test a lot of the information and views that were provided, but that was a very comprehensive document for us to draw upon. It also led us to other data and other information that was of benefit for us.

We have put some pages here including work of predecessor committees of yours in terms of the actions that arose out of the 2010 report which led to some significant changes in the mandate of the office and provided a range of comments relating to productivity and efficiency of the office. As Phillippa has briefly mentioned, we are of the view that the pressures that have been on have had an impact on the staff. The health and welfare issue in that survey that was undertaken as part of the service overall has them way down in the bottom quartile, so there are some staff issues. Efficiency is one thing but to reach a point where it is having an impact upon the staff and potentially on the quality of audit that is being provided is one issue that has come through, and we have recommendations in that regard.

From where I and Phillippa sit, these reviews are taken seriously within the QAO, and I think that is positive going forward with Brendan Worrall moving into the job in July. Phillippa did not mention it, but Brendan did turn up to the meeting that we have just held. I think that is a very positive sign of his interest, although he has a lot of work to do as he exits the firm where he is currently in an important partner role.

In terms of process, across the state we have had meetings with people in regional Queensland—in particular, Cairns, Gladstone and the Sunshine Coast—and we have had very good feedback from those meetings. There were some mixed views. We will probably talk more about some of the relationship issues and one of the other key recommendations. We did get some feedback. Overall there were positive views but there were also areas where there can be improvement within the operation of the office.

Mr STEVENS: Thank you, Phillippa and Graham, for your review and the great work that you have done. I have a couple of minor clarifications. One of your recommendations is that the Attorney-General should meet with the director-general or chief executive of the different departments that they are auditing. A number of years ago the close relationship between the major auditors and some of their clients led to some not so accurate reports being delivered to the business community, as you would be aware, with a couple of large legal actions on these matters. Do you think the fact that the Auditor-General meets with the directors-general impinges on him keeping at arms-length and independent?

Ms Smith: No.

Mr Carpenter: No.

Ms Smith: Lunch every week is a bad idea but we are saying that a meeting with either the deputy or the Auditor-General—they have work to do at the office. They cannot be out meeting everybody all the time, but at least once a year they have to be in touch with their major clients. One of the complaints that comes through both the formal client surveys that the office does and what we heard in our meetings is that the Audit Office does not understand my business. They do not understand my operating environment. They do not know what I am dealing with. Go out there and ask the director-general what they are dealing with. Go and listen. I really do not think that we are suggesting something which would lead to that kind of closeness and almost collusion that—you are absolutely right—did give rise to some real problems with private sector auditing.

Mr Carpenter: To add to that, that was an issue in regional Queensland as well. It sounds like I am running the backing for regional Queensland. They were saying that they just do not see the Auditor-General and deputy. As it was, they normally would have a trip in July but apparently that was cancelled last year with the Auditor-General departing to go to Victoria. The office does acknowledge that they do need to get the Auditor-General and the Deputy Auditor-General out there to contact the CEOs, heads of local government and so on to build that relationship. I agree with Phillippa: I do not think that will impinge on independence with the Auditor.

Mr STEVENS: Thank you for that. In terms of the performance audits, you have said that they were trying to do too much with too little. Is it possible with some of the performance audits that they are trying to do too much and they have scoped themselves too wide? I remember one performance audit they did in particular was in relation to attendance at school, which highlighted a lack of attendance by Indigenous students. I appreciate that anyone from the education department can tell you, but we spent \$400,000 per performance audit getting that result. Are they trying to do too much in performance audits?

Ms Smith: I think part of the problem is that, if you are the Auditor-General, you audit the entire public sector—or do in Queensland—which is necessarily an enormous range of business and issues arising from it. They have the strategic audit planning system—and I have questioned in the report whether it is a bit overcooked—where they try to say, ‘Out of 100 possible topics, we can only do 10 or 12, so we need to carefully calibrate one against the other.’ I have read a lot of their performance audits, but I did not read that particular one—and I should have because you have raised it before and I apologise. I cannot tell why that one got to the top of the pile.

Is it a legitimate interest for an Auditor-General to worry about the effectiveness of the education system? One of the indicators could well be attendance at school, or the qualifications that people leave with. Yes, I think that is something that an Auditor-General can be concerned about—the efficiency and effectiveness of education. Whether that is the exact right indicator, I do not know and I cannot comment further on it, because I have not read the report.

Mr STEVENS: Thank you.

CHAIR: Going back to the costs, you mentioned that there are two parts to it: the part that you have just been talking about—the performance audits and the need for more funding to go in there so that they can adequately deal with those audits and do more of them—

Mrs SMITH: Or do bigger ones, or do other ones, or do programs—yes, have more flexibility.

CHAIR: Yes, have more flexibility built in by having more funding to allow them to do that. The other aspect of it was that you talked about the financial audits. Basically—and correct me if I am wrong—they are self-funding in the sense that they go out, they do the audit and they bill the client. There was some comment that you have asked them to review that. Is that based on—

Mr Carpenter: There have been significant reductions in the level of audit fees for the financial audit clients. We had worked it out as a 1.1 per cent real reduction in audit fees since the previous strategic review. Their annual report says that they have had a 16.5 per cent reduction since 2012, I think it is, on a group of existing audits at that time compared to now. We have raised the issue based upon the survey report indicating that issues of concern among their staff puts them in the bottom quartile. We heard a lot of concerns about pressures with regard to the level of budgets for that and the availability of time for managers to work with on audits and pressure with that. Although we have not explicitly said these words, we are saying that efficiency and productivity is one thing, but you cannot keep squeezing when you have additional reporting requirements related to related parties, you are developing new audit techniques called audit analytics—which will require additional effort to be involved—and you have the potential reporting of key audit matters from a new audit standard that

will be required. They are having additional requirements coming through at a time when they have cut and cut the level of their audit fees. Admittedly, we asked them to improve their productivity at the previous strategic review, but we are suggesting that maybe they have gone a bit too far in that regard and that they should just pause for a moment and have a look at the budgets for their individual audits as to whether that is putting at risk the standard of audit that is being delivered. We are asking them to consider that.

CHAIR: Is it fair to say that, because of their added responsibility for the additional matters they have to look at under the audit process, they would be within their rights to charge more for their audits?

Mr Carpenter: They need to do their audit risk assessment, obviously. Each audit will vary depending upon past experience and the audit task that lies ahead. They need to make that particular judgement. They are hoping that, in time, the significant investment that has been made in what they call audit analytics—and others refer to it as data analytics—there will be some potential time savings from that, which may lead to something further. The feeling that we have is driven more from a welfare issue of staff who do not feel that they have sufficient time to do a quality job. That is what they were saying.

There is also another link that we have where the audit clients are saying, 'We would like to hear a bit more from the audit staff, including the senior auditors and audit managers and sector directors where relevant, on ways that we could do things better.' There is an issue as to whether, without touching on their independence, the learnings that the audit staff have from working in a number of different public sector entities, they can spend a bit more time. That was a complaint that we were hearing from audit staff including, dare I say it, in regional Queensland, who have their challenges because of they are based regionally. It is not a straight one-on-one issue here; it is the broader picture and it links in, as I said, to issues of staff welfare.

CHAIR: But boiling it down into billable hours, if the client requires them to spend more time with them and there are no other savings that can be built into the audit, does that equate to the client having to pay more for the audit?

Mr Carpenter: Certainly, that would be the case. The impression we have is that, if they did get that, they are not going to complain about it. The Auditor-General as part of his audit client plan makes a lovely little chart showing fees going down and audit committees, some of which I sit on, always say, 'This is terrific.' I guess we are challenging them by saying, 'Yes, it looks good there, but are we getting the quality of audit service that we believe we should be getting?'

CHAIR: When the Auditor-General's office engages with the client, do they give them a letter of engagement that estimates the—

Mr Carpenter: Yes.

CHAIR: They do?

Mr Carpenter: Yes, they do.

CHAIR: They are beholden to the same professional standards that most other professional bodies are bound by, too, by providing the client that information up-front?

Mr Carpenter: Yes, they do. Occasionally, if a major issue arises during the course of the audit the budget figure will need to be varied.

CHAIR: Did you see any evidence of the audits being compromised because of this pressure that is on the staff?

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

Mr Carpenter: Can I come back to the resourcing for performance audits versus the total resourcing needs of the office? We have already mentioned the quite significant reduction in fees overall for financial audits. Of course, that is leading to savings that are spread across all of their audit clients. Then there is an issue—and a recommendation—that we believe there should be a doubling of resources in performance audits. It is hard to capture those savings that have gone to all of these

other audit clients in order to put in the pot for performance audits. There is a bit of a dilemma there. I think there needs to be some recognition in government that the office has been very efficient and driven—I think is probably a good word—to deliver those savings. When the issue about resourcing is being considered, as I am sure it will be by your committee and by the government, that needs to be considered in the context of savings that are already being delivered.

Mr JANETZKI: Graham, you have just partially answered the question I was going to ask. I thought the request for a doubling of funding sounded like an ambit claim to me, but you believe it justifiable?

Mr Carpenter: I think it is driven from them working heavily on the performance audit side of the issue. I think Phillipa has already pointed out that it is to give them some more depth in the team that they have working but to also deliver more. With the issue of performance reporting, we met with a couple of ministers along the way. Whilst one of the ministers we spoke to was not happy that something was picked up by the media, which ran with it, they were very fair to acknowledge that there was some very good material of value for that department in the work that had been done. So they acknowledged the benefit. We have seen and heard—and Phillipa spent more time in that area than I did—the benefits from this work.

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

Ms Smith: Could I comment on that since I was responsible for that recommendation? My starting point was that parliament had given the Auditor-General the mandate to carry out performance audits. That was the result of the 2010 review. So it is a given for me that that is what the office will do. My question was: how effectively is the office doing that? I would say pretty good, given that they have been at it for only five years. How could it be better? They could stop trying to rob Peter to pay Paul. They could have a bigger resource so that you do not have two people on an audit getting stretched. You could have three doing a slightly more considered and comprehensive job. That is not to say that what they have been producing now is bad—it certainly is not. I am saying that it could be better and my suggestion was that, if you increase the resource, you can give them the flexibility to do what they are doing much better and much more effectively. It was not a question for us as to whether performance auditing was a good or bad thing; it is there and parliament made that decision five years ago.

Mr JANETZKI: I have a question about quality. Graham, you mentioned the quality of the audits. I have seen QAO in action in a former life and I have a concern. I know it is very difficult to speak specifically, but do you see any major shortcomings in risks not being identified that should be identified and tested?

Ms Smith: There is risk and there is risk. Do you have particular in risks in mind?

Mr JANETZKI: What I am trying to get at is the quality of the auditing. Notwithstanding the findings that you have made on resourcing, do you believe there are any concerns about risks that are not being identified and tested?

Ms Smith: There are several ways to look at that. The first is if we think about the financial statement audits, which is the bulk of their business—I will let the auditor speak in a moment—the non-auditor's view is that I do not think we have any doubt that they are doing a decent job concerning the risk to the veracity or the accuracy of the financial statement audit. Risks in the wider sense of what is shaky out there in the Queensland public sector, where is the accident waiting to happen, I do not think anyone, even the Auditor-General, could say hand on heart, 'No, we have it all covered.' Any government is a huge and complex system, and one of the advantages of the comprehensive strategic audit planning process is that they are out there looking for that risk and looking across the whole sector. Do they pick up everything? I do not know, even if out of the 90 good ideas they do 10 or 12.

Mr JANETZKI: My follow-up question relates to the findings you have made on potential under-resourcing. In view of the black swans, is the QAO appropriately trained? Are resources being put into training? I accept that they will never know all the black swans, but are they getting the training they need? Is the resourcing in that particular training and professional development sufficient?

Mr Carpenter: In our assessment, yes. They run a very positive graduate recruitment program and there is obviously significant training as part of that. They do encourage their staff to be professionally qualified and they support that. They do a fair amount of training internally on specific things such as audit analytics, which is also going to give benefit to them from a risk assessment perspective. In some cases the level of maturity is maybe not as good as what we would like it to be for departments and other bodies with their own risk registers and risk processes that they have, so they do get a chance to piggyback on that. I have seen that through various audit committees or boards that I sit on as well. They do have the benefit of that. The key, though, is making sure they articulate that from an audit risk, because it is mainly driven from the financial presentation side of it, so I think they are well-served from that.

In terms of training, I think that is always going to be an issue because things have changed. The way auditors now operate, especially with the emergence of audit analytics, is very different from the day when I had a green pen I can assure you, which is a good thing. So I think that they work there. I think they also have the benefit in that some 42 per cent, I think, of the audit effort is provided by the private sector, so they do interact quite closely and have some quite good relationships with the private sector so they get the benefit of learning what things are happening in the private sector for best practice.

Mr JANETZKI: I think there is a prevailing view that auditors in the QAO are underpaid. What is your opinion?

Ms Smith: There is a whole chapter on that. I think it is section 6. Yes and no. The junior grades are probably okay. The more senior grades really do have a problem because they are essentially a professional services firm. They are competing in the same private sector market for staff that other auditing firms are, and because of the public sector restrictions to which they are subject they cannot pay the market rate. Yes, there will be staff there that by some measure or other are underpaid. The greater problem are the vacancies they have because they cannot recruit to fill them. I have made the point somewhere in here that there is a problem with promoting from within the office because there comes a point at those senior grades where the staff stop accruing what is called time off in lieu. If they work overtime they have time credited for it, so they lose that. If they step up to a director's role for not much more money but a lot more responsibility, a lot of people say, 'Why would I do that?' It is at that senior level that there are vacancies.

To go back to your earlier question about training and risk in that wider sense, there is a real benefit in having an office which is dedicated to the public sector. Most of your training is done on the job. Something like 70-20-10 or something is the rule of thumb: 70 per cent on the job, 20 per cent formal—I have forgotten it now, but you learn by doing. You learn from your superiors. You learn from your colleagues, and they are stretched because they do not have the senior people to do the mentoring and training. 'Look, let's sit down and talk about that because we could both learn from it.' The pressure of work is such that you move on, and that restricts internal promotions. It is a real benefit to the Queensland public sector to hang onto those people. They are people who are dedicated to the public sector. They know about it. They are going to be the ones who know how the system works and spot the risk. They are in a bind. Is the office going to crumble by tomorrow? No, but it is just a constant stress for them.

Mr JANETZKI: What we have seen with the appointment of the new Auditor-General I think is a positive with the interplay between the public and private sectors. I think that is what needs to happen. I come from a banking and financial services background, and we saw junior auditors leave. That is my experience as well. The pay at the QAO is probably equivalent to the private sector and the industry, but to try and make positions attractive to the private sector and industry at that senior level I think is the challenge. I do not know whether there is anything else we can do apart from offering more money. Are there any other carrots that can be dangled to make senior positions in the QAO more attractive to private sector and industry?

Ms Smith: I think money would help.

Mr STEVENS: Two of your findings relate directly to what David has just been talking about in terms of vacancies and wage levels. As I understand it, the Public Service Commission currently puts people into different slots such as SO4, SO3 or whatever it is over there. Would it assist to have an external human resource employment agency independently review the Office of the Auditor-General and make recommendations in relation to appropriate salaries so that we could go forward? The government just basically says, 'Here is another 2.5 per cent for your overall budget. Work within that.' Would it assist to have an independent body come up with pay levels?

Ms Smith: The work has been done. Mercer did a reference and analysis. I would have to find it in here now, but 2014 rings a bell. They said, 'One of your problems is that you are stuck with eight levels.' I think there are 10 levels in public sector gradings. The QAO does not employ at the bottom two, so they have eight. They have two senior officer grades, yet the jobs do not fall into eight grades. They need five, I think, and wider salary bands. If you have eight grades you have pretty narrow bands which end up overlapping, and you have somebody in one band doing the same job as somebody in the band below and it is a muddle for them. I think it is an unnecessary distraction.

I have to declare that I am an outsider here. I have worked in the New Zealand Public Service for 20 years or more. All of the central control of human resources went 30 years ago and the world did not come to an end, so I find it—I am conscious that you are writing this down—baffling, really. If you trust someone to run a huge government department, or indeed an Audit Office, why can't they determine what their staff are paid? They have to do it within a budget. They cannot go mad. I am confronted by—this is so undiplomatic—I am confronted by a system that I find alien.

Mr STEVENS: Stifling?

Ms Smith: Yes, all right. By all accounts we have said that the QAO does a good job. It really does. They struggle with getting staff. There are an awful lot of resources going into managing a system which has 10 different grades in it. To move people you have to go to the Public Service Commission and so on. There has to be a better way.

Mr Carpenter: There are some section 122 contracts, but that is just selective. 'Selective' is probably not the right word. It requires a great deal of effort to work through and convince the Public Service Commissioner to have those. I think there was also some work with regard to what they call sector directors as well, but it does raise the issues that Phillipa has touched on. The primary competitors of the office are private sector firms, but we are operating within the overall framework for Public Service departments which are not appropriate for the nature of the professional office that they are.

CHAIR: In relation to the staffing issue, did you see any evidence that the Audit Office is losing staff to private companies or is it just simply, 'If I have to go and get a job in the audit field I can get paid more money down at the bottom of Creek Street than I can at this end of town, so I am not even going to apply'?

Ms Smith: They have lost some, but there are people who really want to work in the public sector. They are committed to it. They would rather not be working in a commercial firm, but there is only so far that you can play on that loyalty. I think the office is well aware of that.

CHAIR: Is it wrong to suggest that that loyalty is fast running out?

Ms Smith: People have mortgages.

CHAIR: And lives.

Mr WHITING: We have talked about the issue of fees for performing audits. I note on page 54 of the strategic review that the 2010 review said that the QAO should develop a more comprehensive program of benchmarking of audit fees for comparable entities. Has there been a process of benchmarking the QAO fees against audit fees in other states? Is that what I understand of the benchmarking? Is that something that has been done? How much do they charge in New South Wales, Victoria and places like that?

Mr Carpenter: There is sharing of related information, or benchmarking, between audit officers. That is called—

Ms Smith: The macro benchmarking survey.

Mr Carpenter: Yes, there is benchmarking. Information on the average audit fee per hour is information that is shared. There is significant sharing of information related to performance audits and the costs thereof and the fees associated with that. They also keep good data on what the private sector fees are. They have very good data. As I said, 42 per cent of their audit effort has been delivered by a private sector firm, and a competitive process is used to choose those who are doing that work there.

Getting back to where you originally started, the issue that was of concern in 2010 was what appeared to be some quite non-comparable audit fees. Local government was one area where it was standing out, and it seemed to be something that flowed from the amalgamation process for local government entities. It appeared in some instances, if there were seven local governments that were being put into one, suddenly the audit fee for the new one entity was the seven audit fees from a predecessor. There did not appear to be any real discipline to have a look at determining what the appropriate fee was.

We did some work as part of this review looking at what they do, and they now have more comprehensive electronic data of the fees charged for bands in the case of local government by groupings. They look at those and then assess if there is a variation. That is far more sophisticated than any information they had back in 2009 and 2010 with the previous review. I think they have done some good work in having a look at what is the appropriate fee. As I said earlier, it still has to be the basis of risk assessment on that, and obviously quality of systems controls will come into that as to the level of work that needs to be undertaken from an audit perspective. I think they have made very good progress in the last seven years with regard to understanding the appropriate level of fees for particular clients and they have also participated under the macro benchmarking process.

Mr WHITING: Following up on that, if there is some pressing for a more equitable charging of fees against clients there, it would obviously be useful to see what other states are doing as well. Under the macro one they are keeping a good view on that.

Mr Carpenter: Yes, agreed.

Mr WHITING: I appreciate that. Thank you.

CHAIR: I am going to move to the performance audit part of the review. They have a target of 100 per cent and you suggest that is unrealistic. Obviously 100 per cent in any field, without even going into the detail, is always ambitious. You have said to reduce it to 98 per cent. Why is 98 per cent more realistic than 100?

Ms Smith: I had to think of a number.

CHAIR: I did not mean to put you on the spot. I was just trying to understand it. Is there a better way of quantifying what they should be doing in the performance audit area?

Ms Smith: Yes, in that assessing effectiveness. I think it is an important thing to measure for several reasons. Firstly, it drives the office to make sensible recommendations. They have to be able to be implemented, and they have to be relevant. They should not be recommending things that the department would never or could never do because it is not within their controls, so it is a good discipline.

It is also important that entities that are audited—whether it is a financial audit or a performance audit—take very good notice of what the Auditor-General is recommending. Of course these recommendations do not come out of the blue. The department will see a draft for both types of audit, and they will work through what is coherent. The reason I thought it should be close to 100 per cent but less than 100 is that it is still a high standard but it stops everybody fretting when the world has changed and this is no longer relevant and then you have to write a whole paragraph in your annual report. It is just silly to try to measure that.

The other thing is that just occasionally there will be a recommendation which the Auditor-General is determined to make and thinks is the right thing to do but then the government says, 'Yes, we hear you but actually we're the government and it's not going to happen.' I can give you a live example of that, and it goes back to that auditing of non-financial performance information. The office did a performance audit about three years ago and they made three recommendations. The third one was that the Service Delivery Statements should be audited. In principle that is a good idea. The government said no. I cannot tell you all of the reasons for that but it would have been to do with cost and practicality. That is a legitimate thing for a government to say but it puts the argument out there. It is a very public recommendation by the Auditor-General and it is a public rejection of that recommendation by the government. That is a process of accountability working as it should. Why would you have a 100 per cent target yet allow that to happen? I would say that 97 per cent would be good too, but I just thought of a number.

CHAIR: You have explained it very well. I was just trying to get my head around it when I read it. The other thing is MPs having better use of them. I have been sitting here thinking about that. The Auditor-General normally comes down in a lunchtime in a sitting week. I do not want to be making excuses for me or any other MP but we sometimes get wedged between doing different things at lunchtime. I do not know if this is possible, but could those reports go to the relevant committee that it deals with for the committee to report on? That may facilitate the use of these audit reports. I am not trying to create more work for the committees. Do you feel there could be a different way of that information being presented? A lot of work goes into these performance audits. That is obvious from the ones I have had the opportunity to be involved with and read. It is a little bit sad that at the end of the day perhaps they are not—

Ms Smith: That they are not picked up by parliament as much as they could be. They do not quite die because the department will be working on the recommendations, so there is value being realised. We had this discussion with you when we met.

CHAIR: That is right.

Ms Smith: I do not know what the answer is. I am not good enough on your process but I think they do end up with the subject committees. I do not know what the answer is, but it seems important to us that the office, this committee and MPs generally keep talking about the best way to make use of them. There may be three or four different ways. Perhaps an MP wants a one-on-one briefing, and I am sure the office would arrange it. Just because you are not on, say, the education committee does not mean you might not be interested in the report because one of the entities may be in your electorate. There has to be a way of keeping live the discussion of how this can best be achieved. I think that is what I am saying here. I do not have the answer.

CHAIR: I was just fleshing it out. Obviously it is a bit of a hobby horse for me. They are very valuable and useful documents. That is the end of our questions.

Mr Carpenter: Thank you for having us. I hope it has been of value.

CHAIR: Yes, it has been. As the chair of the committee, I thank you for attending and for the comprehensive report. It will be very helpful for our work as a committee in this space. I look forward to your presentation at the conference tomorrow. The transcript will be provided to you in due course by the secretariat. I declare this part of the hearing closed.

Committee adjourned at 4.26 pm