

Response to Public Accounts Committee Report No. 44

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

Background

The Public Accounts Committee Report was tabled in Parliament on 23 April 1998.

An interim response to the report was tabled in December 1998. This accepted all of the PAC recommendations, other than those recommendations relating to the extension of the Auditor-General's mandate to do with performance auditing. The Government indicated that a further response would be provided after consultation with affected agencies about performance auditing.

The following recommendations remain outstanding:-

That the *Financial Administration and Audit Act 1977* be amended to permit the Auditor-General to conduct performance audits that examine the economy, efficiency and effectiveness of the operations of public sector entities.

That the performance audit mandate extend to all public sector entities for which the Auditor-General is auditor.

That the *Financial Administration and Audit Act 1977* be amended to preclude the Auditor-General from commenting on Government policy objectives.

That the Auditor-General exercise discretion as to the degree of emphasis to be given to economy, efficiency and effectiveness in the conduct of a particular performance audit.

That the conduct of any performance audit be reported to Parliament in accordance with existing provisions in the *Financial Administration and Audit Act 1977*.

That the Auditor-General consult with the PAC prior to undertaking a performance audit.

That performance audits be undertaken by a specialised unit within QAO.

That the Auditor-General is appropriately resourced to meet the additional services that will be required under a performance audit mandate. Funding is to be incorporated in the QAO annual budget allocation. There should be no charge to auditees for a performance audit.

That QAO liaise with internal audit to minimise audit duplication.

Overview of response and reasons

The Government does not accept the recommendations of the PAC relating to performance auditing. The Government is committed to the continued improvement of the efficiency and effectiveness of the public sector through a range of management and accountability measures. The key objectives of the Government's approach to public sector efficiency are to:-

- promote measures to improve the efficiency and effectiveness in public sector management;
- encourage public confidence in public sector administration through appropriate accountability arrangements, including the independent role of the Auditor-General;
- ensure appropriate reporting arrangements to the Parliament through the Auditor-General.

The principal rationale for introducing performance auditing is enhanced accountability. The Government notes that Queensland has extensive accountability mechanisms for the public sector, of which audit is an important and integral part. Fiscal accountability mechanisms include—

- internal audit in each entity;
- external audit including compliance, internal control systems and performance management systems conducted by or under the control of the Auditor-General;
- performance standards under the Managing for Outcomes (MFO) framework;
- budget priority setting to ensure maximum economy, efficiency, and effectiveness;
- systematic parliamentary scrutiny through the Public Accounts Committee and the Estimates Committees.

In addition to these measures, there is a wide range of general accountability measures and institutions designed to open government to greater scrutiny, including freedom of information, judicial review of administrative decisions, the Criminal Justice Commission, and the Ombudsman.

The Government is of the view that improvement of the economy, efficiency and effectiveness of the public sector is essentially a management function. Performance auditing should be used as a management tool to improve efficiency in the public sector, rather than an accountability measure. There are sufficient accountability measures currently in place to ensure appropriate scrutiny by Parliament and public confidence in public sector financial management.

The Government is committed to extensive use of performance auditing by internal audit units and the Auditor-General as a means of improving public sector efficiency.

This is demonstrated by the recent involvement of the Auditor-General in reviews of the Expo 2002 bid and the Basil Stafford Centre.

However the Government does not believe that there is a need to extend the legislative mandate of the Auditor-General in order to improve accountability measures. Furthermore the Government is of the view that there are significant problems with the extension of the Auditor-General's role to conduct performance audits. In the Government's view these problems are not sufficiently addressed in the proposed PAC model.

Involvement of the Auditor-General in the policy debate

The Government is particularly concerned that the introduction of performance auditing by the Auditor-General will inevitably draw the Queensland Audit Office into partisan political and policy debate. The PAC report recognises this problem.

The PAC stated—

A major drawback in any argument for performance audit centres around the potential encroachment of commenting on Government policy issues by the Auditor-General. It is the distinction between commenting on policy and commenting on its implementation that is sometimes a grey area and has been the source of conflict in other jurisdictions.

The Premier [*Mr Borbidge*] acknowledged such concerns in his response to the Strategic Review report—

There is real danger that efficiency auditing exercises may overstep the mark in terms of criticism not only of management, but of government policy itself. Where this has happened in other jurisdictions, executive government—which quite properly maintains a monopoly on policy determination—has responded with consequent public disagreement with auditors-general ... It is in the interest of the Queensland polity and of the Auditor-General that such conflict be avoided.

The PAC suggested 2 safeguards against this drawback—

- an express, legislated prohibition against commenting or reporting on government policy objectives; and
- the Auditor-General consult the PAC prior to undertaking a performance audit, but that the Auditor-General not be subject to direction by the PAC or any other person.

The Government is not satisfied that the proposed legislative restriction would overcome the problems associated with the potential involvement of the Auditor-General in policy debate.

Performance auditing clearly has implications for government policy. The distinction between development of a policy object and its economic, efficient and effective

implementation is fine. Further consistent policy objectives may have performance difficulties that a performance audit would inevitably comment on, drawing the Auditor-General into political priority setting.

For example, a policy to construct adequate public housing in regional areas is a valid exercise of executive government policy making. So too is a policy that public housing use energy efficient methods such as insulation and solar hot water systems. However these objectives can only be achieved at a cost to efficiency and economy because the insulation and solar panels must be transported at considerable cost from Brisbane.

The Auditor-General would inevitably be drawn into a policy debate in examining the economy, efficiency and effectiveness of one or both policies, or be required to acknowledge explicitly every government policy relevant to each performance audit. Specific negotiations with individual agencies subject to performance audits would no doubt assist in identifying relevant policy boundaries. Such a requirement would place significant extra workload on both the QAO and individual agencies, and in any case still require interpretation by QAO of what is policy and what is not.

Relationship with the introduction of MFO framework

The Government has recently introduced accrual output budget under the *Managing for Outcomes (MFO) Framework*. Agencies are now in the first budget cycle under MFO.

The Government is concerned that the extension of the Auditor-General's mandate to examine economy efficiency and effectiveness against the outcomes approved in the budget may introduce more change in a system that is currently heavily committed to implementing major new accounting strategies.

Further, with MFO in its infancy, the skills of articulating outcomes and performance indicators are still being developed. The relationship between MFO and overall government policy objectives will strengthen over time, but several budget cycles would be required.



QUEENSLAND GOVERNMENT

Department of the Premier and Cabinet

Reference: P961/TO01

23 DEC 1998

Mr R Doyle
Clerk of the Parliament
Parliament House
George Street
BRISBANE QLD 4000

Dear Mr Doyle

Tabling of Response to the Public Accounts Committee on the Review of the Report of the Strategic Review of the Queensland Audit Office

The Public Accounts Committee of the 48th Parliament tabled the report of its Review of the Report of the Strategic Review of the Queensland Audit Office on 23 April 1998.

On 20 October 1998 the Premier advised the House that a detailed response by the Government was in the advanced stages of preparation and would be provided to the Clerk as soon as possible.

The Honourable the Premier has requested that the Government Response to the Review of the Report of the Strategic Review of the Queensland Audit Office (attached) be tabled in the Legislative Assembly.

You will note that a decision has been deferred on the issue of the performance auditing pending further consultation. A Government Response on performance auditing will be provided once this further consultation has been completed.

Would you please arrange for the attached Government Response to be tabled at your earliest convenience.

Thankyou for your assistance in relation to this matter. Should you have any queries please contact Ms Tracy O'Bryan, Principal Policy Officer, State Affairs Branch on ext. 44808.

Yours faithfully

[Original Signed]

S J Wébbe
Director
State Affairs Branch

Response by

The Premier

to

The Public Accounts Committee Report No. 44 on the
Review of the Report of the Strategic Review of the
Queensland Audit Office

BACKGROUND

The inaugural Strategic Review of the Queensland Audit Office (QAO) was completed in July 1997. The report of this Review made a number of recommendations regarding the operation of the QAO, including various legislative amendments. The Public Accounts Committee (PAC) subsequently endorsed most of these recommendations in its Report to Parliament of April 1998.

RESPONSE TO REPORT

This response defers consideration of the PAC recommendations on the audit mandate pending further consultation with all government departments and the Local Government Association of Queensland. For the purposes of this further consultation a paper entitled *Performance Auditing in Queensland* prepared by the QAO has been circulated to these agencies.

Once full and proper consultation has occurred with affected agencies, a further response will be provided to Parliament specifically on the issue of performance auditing in Queensland.

RECOMMENDATIONS

The following recommendations are accepted:

That the PAC not be involved in the annual resource requirements for the QAO and making recommendations on such to the Government.

That Treasury action be taken to ensure that the consultative requirement set out in section 68 of the *Financial Administration and Audit Act 1977* is sufficiently addressed each year.

That current arrangements whereby the Auditor-General has the freedom to determine establishment numbers and classifications within the confines of the QAO budget are appropriate.

That the current legislative reporting requirements provide sufficient scope and flexibility for the Auditor-General to report on a range of public sector issues. The extent to which the Auditor-General reports on public sector issues arising from the exercise of his mandate, is a matter for his discretion. Reporting must be restricted to the Auditor-General's mandate, and policy issues avoided.

That the Auditor-General be encouraged to continue reporting on public sector wide financial issues and the results of whole of government audits. The provision of best practice guidelines is commended and should continue.

That the existing formal consultation arrangements should be retained. That communication is encouraged at a macro level between the PAC, the Auditor-General, the PSC, and Queensland Treasury to achieve improvements in public sector management.

That the adoption or otherwise of the Strategic Review recommendations concerning the vision of the QAO is a matter for the Auditor-General's determination.

That the Auditor-General should consider an extension of audit procedures for a limited number of entities to include a check on tabled annual reports to ensure that the audit certificate is a faithful copy of that certified by the Auditor-General. Such entities would include those:

- which have been issued with a qualified audit certificate; and/or
- deemed to have a higher risk profile and where reliance by third parties may be greater.

That information technology initiatives be supported which will improve the discharge of the audit function.

The following recommendations are accepted with qualification:

That QAO liaise with internal audit to minimise duplication.

The external audit and internal audit functions are discrete and should on no account be blended. There is merit, however, in QAO external performance audit accessing internal audit documents at the discretion of the QAO. However, no additional powers are required to achieve this.

A response on the following recommendations concerning performance auditing in Queensland is deferred pending further consultation:

That the *Financial Administration and Audit Act 1977* be amended to permit the Auditor-General to conduct performance audits that examine the economy, efficiency and effectiveness of the operations of public sector entities.

That the performance audit mandate extend to all public sector entities for which the Auditor-General is auditor.

That the *Financial Administration and Audit Act 1977* be amended to preclude the Auditor-General from commenting on Government policy objectives.

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