



ECONOMICS AND GOVERNANCE COMMITTEE

Members present:

Mr LP Power MP (Chair)
Mr RA Stevens MP (via teleconference)
Ms NA Boyd MP (via teleconference)
Mr ST O'Connor MP
Mr DG Purdie MP (via teleconference)
Ms KE Richards MP

Staff present:

Ms L Manderson (Committee Secretary)
Mr J Gilchrist (Assistant Committee Secretary)

PUBLIC BRIEFING—OVERSIGHT OF THE AUDITOR-GENERAL

TRANSCRIPT OF PROCEEDINGS

THURSDAY, 23 April 2020

Brisbane

THURSDAY, 23 APRIL 2020

The committee met at 10.30 am.

CHAIR: Good morning. I declare this public briefing open. As you may be aware from the broadcast, not all members of the committee are in the room today—many are participating via videoconference or teleconference—and all witnesses are participating via videoconference. I ask those who are watching online to bear with us as this is the first of our committee meetings to be conducted completely using this approach. I would like to begin the proceedings today by acknowledging the traditional owners of the land on which this meeting is being participated in today and pay my respects to all elders, past and present.

My name is Linus Power. I am the member for Logan and the chair of the committee. The other members of the committee are: Ray Stevens MP, the member for Mermaid Beach and deputy chair; Nikki Boyd MP, the member for Pine Rivers; Sam O'Connor MP, the member for Bonney; Dan Purdie MP, the member for Ninderry; and Kim Richards MP, the member for Redlands.

The purpose of today's briefing is to assist the committee with its oversight functions of the Auditor-General. The briefing also provides an opportunity to ask questions of the Auditor-General regarding the Auditor-General's annual report 2018-19 and forward plans and initiatives for 2019-20.

This briefing is a proceeding of the Queensland parliament and is subject to the standing rules and orders of the parliament. It is being recorded and broadcast live on the parliament's website. I ask everyone to turn mobile phones off or switch them to silent. Please place any microphones on mute unless you are speaking to prevent any audio interference from background noise.

FLEMMING, Mr Patrick, Assistant Auditor-General, Queensland Audit Office (via videoconference)

WORRALL, Mr Brendan, Auditor-General, Queensland Audit Office (via videoconference)

CHAIR: Good morning. In view of the briefing today being conducted via video, with the absence of nameplates and with more limited visual cues, I ask that you identify yourself by name when speaking, particularly when speaking for the first time or when speaking other than in response to a direct question. Committee members will also ensure they clearly identify themselves when asking questions to minimise any confusion for yourselves and for members of the public watching the broadcast, as well to assist Hansard in their transcription process. Brendan, I now invite you to make some opening comments, after which committee members will have some questions for you.

Mr Worrall: Thank you for the opportunity to discuss matters relating to the Queensland Audit Office. The first Auditor-General of Queensland commenced on 27 September 1860, meaning this year we celebrate 160 years of service to Queensland. Our past is steeped in the history of the state, and we are very proud of our contribution to Queensland. We are integral to Queensland's system of government, giving parliament and the public trusted, independent assurance over the government's financial management. We continue to evolve as the complexity and size of government changes. We audit over \$100 billion of revenue and \$300 billion in assets across state and local government entities.

While our primary focus is on financial management and accountability, we do more than audit compliance. We work closely with key stakeholders and provide advice to our 600 public sector clients on how they can improve their delivery of public services for Queenslanders. In 2018-19 we made 1,000 recommendations to audit clients, around 300 of which were significant, high-risk matters, meaning clients acted on them immediately.

In Queensland there is no other directly comparable organisation. While some members of the public may not fully understand our role, we continue to provide them with the quiet comfort that the system of integrity in the Queensland government and local governments is working.

We are currently going through our own change journey. We started this journey of change last year, before the world had heard of COVID-19.

CHAIR: Mr Worrall, we are having some audio problems here. We might get you to switch to teleconference as the audio problems are making it difficult. I am not sure whether that is being experienced by people watching the broadcast, but we are having problems. Could you please call in using teleconference? That might be better.

Mr Worrall: Just give me (inaudible). I will do that.

CHAIR: We will pause the broadcast.

Broadcast suspended from 10.35 am 10.41 am.

CHAIR: We will resume.

Mr Worrall: We are currently going through a change journey. We started this journey of change last year, before the world had heard of COVID-19. However, the current COVID crisis means we will need to further calibrate where we are as an organisation and where we are going. With the duration of COVID-19 being unknown, my executive team is identifying and planning for any risks to staff and the operations of QAO. I have issued and will continue to issue communications, both internally to staff and externally to our clients and audit service providers. Our external communications have included issuing a series of COVID related blogs on the QAO website providing information on how new working arrangements impact internal controls, cybersecurity and asset valuations.

I have reached out to central government agencies and offered to support them by providing some of my highly skilled staff to assist them in identifying residual risks in their various community support programs. I believe I can do this and, by putting appropriate mechanisms in place, still maintain my independence. At the audit engagement level, we are revisiting our risk assessments and audit strategies where entities have been impacted by the pandemic. I have also collaborated with other integrity agencies to issue a joint advisory to our clients.

Focusing on our clients is a key part of our change journey. I would like to introduce Patrick Flemming. Pat is one of our new assistant auditors-general who is responsible for parliamentary services. He will be attending committee briefings with me and is dedicated to engaging with committees and meeting your requirements. You may know Pat from when he led our local government sector.

I understand that the purpose of the briefing is to assist the committee with its oversight of my functions as the Auditor-General. I will briefly cover the following areas: annual report, new operating model, strategic direction, strategic audit plan and progress against the 2019-20 budget.

I turn now to the annual report of 2018-19. In 2018-19, we successfully refurbished our accommodation and moved to activity based working. Many of you saw this when you visited our offices last year. The new way of working is enhancing our collaboration and our staff and client experiences and has set us up to be able to seamlessly work from home during this pandemic. Our IT systems and security were designed for a mobile workforce, and all of my staff have laptops and mobile phones so have been able to work from home effectively over the last four to five weeks.

I have continued to travel throughout Queensland to meet with clients and stakeholders, to understand what they need from us. This, of course, is now on hold but will be continued when it is safe to do so. I am committed to listening to any concerns our clients and stakeholders may have and finding ways for us to achieve more mutually beneficial outcomes. I appreciate seeing firsthand how our clients work.

While we reflected on our performance and achievements, we also reflected on improvement opportunities, particularly with client engagement. We must connect with our clients and build trust over the longer term. We must help our clients to trust us so they are more willing to listen to our advice to help them deliver better public services.

In turn now to our new operating model. An overarching and guiding tenet for the continued evolution of QAO is Think and Act OneQAO. This means keeping a focus on our vision and ensuring that we operate and behave as a consistent, seamless and client focused service provider. This applies both internally and externally and will assist us to always consider how we can be a more flexible and responsive organisation. I have a handout for you detailing the new operating model and the new QAO leadership team.

I turn now to the strategic direction. The QAO strategic plan has been tweaked to incorporate our focus on meeting stakeholder assurance needs. Our vision stays the same: better public services. As part of our new operating model we reviewed our values. These changed values guide us in the way we work with our clients and internally. We engage, we respect, we inspire and we deliver.

The strategic audit plan for 2020-2023 was published in December 2019 and will likely need to be recalibrated given the direct and indirect impacts of COVID-19 on public sector entities and public sector services. We will reassess our proposed audits to see if these topics remain relevant in light of the pandemic or whether alternative topics need to be prioritised. I put on hold the performance audit program at Queensland Health and hospital and health services. This impacts two audits in progress: *Planning for sustainable health services in Queensland* and the follow-up report on report No. 3 of 2014-15 titled *Emergency department performance reporting*. While we are trying to progress other commenced performance audits, as you would expect in the current environment we are experiencing some delays. We will liaise with you on any proposed changes to the 2020-2023 strategic audit plan once there is a bit more certainty regarding ongoing COVID-19 impacts.

In regard to progress against our 2019-20 budget, QAO operations have been impacted by COVID-19, which has the potential of a significant flow-on financial impact to our business. As you would expect, we monitor our cash flows closely. Our cash flow modelling indicates that we will be in a sound position until the end of June if there are no changes to the existing statutory financial reporting deadlines for both state and local government entities and only a small number of client entities' financial reporting timetables are impacted. The biggest cost I have is labour. If we are not completing work that can be charged to our clients then our ability to fund our ongoing operations will be impacted. Some 86 per cent of QAO's revenue is fee for service, and we are working with our clients to mitigate, as much as possible, the impact on our operations.

The actions I have taken to mitigate these cash flow impacts include: working with our clients and our audit service providers to ensure we can progress audits remotely through the secure exchange of information with client entities; looking closely at operating expenses and recasting budgets to eliminate or postpone discretionary expenditure; utilising my staff's skills across all parts of the business rather than just on certain products; and directing all staff to take five days recreation leave between 15 June and 28 August 2020. I have also placed around 10 per cent of staff on the mobilisation register and made direct offers to directors-general to mobilise my staff to agencies that may need them. I am also aware of several statutory bodies and councils that are seeking audit fee relief during this time. If granted, this will further impact my cash flow position. We continue to review our projections as circumstances change and keep the Under Treasurer apprised of our actions and financial position.

Lastly I wanted to talk on other initiatives. This is really in relation to future reporting. One of the focuses of the introduction of the new operating model is to help us maximise our impact leading to better public services. As part of this, we are introducing some new audit related products. QAO examines many organisational and service delivery issues and we have realised that not all of these should automatically lead to a full performance audit. In the future, some of our reviews will lead to a standard performance audit, which you are familiar with, but other reviews may lead to shorter and sometimes less evaluative reports. For example, we may want to highlight risks that need to be managed in the future rather than auditing what has happened in the past. There may be occasions when, in the interests of timely accountability and public knowledge about a given topic, we simply set out the facts. Overall, we think we can achieve significant impacts by increasing the range of deliverables from our reviews.

A new initiative is that we are looking at tabling a report on the progress of public sector entities in implementing our audit recommendations from prior years, starting with recommendations from performance audits. We are in the process of developing an enhanced process and an online tool that will enable us to better gather self-assessments from entities on their progress in implementing recommendations from our reports. Unfortunately, I have put this project on hold as I do not think it is the right time to launch this for our clients. These additional product lines may result in minor updates to the Auditor-General Auditing Standards, but I will keep you informed on any proposed changes. I am happy to answer any questions the committee may have regarding our operations. Thank you.

Mr STEVENS: Good morning, Brendan. I am sorry I could not be there with you, for obvious reasons. My first question is in relation to the independence of the Audit Office that you have alluded to. How you would see that being further enhanced so that it lifts the standard of the independence of the Audit Office? Secondly, given that there will be some serious ramifications in relation to employment opportunities for auditors et cetera, following the economic consequence of COVID-19, will that put you in a better position to address the staffing issues you have had problems with for quite some time?

Mr Worrall: I assume the first question is in the broader context of the independence of the office?

Mr STEVENS: Yes.

Mr Worrall: The strategic review of QAO which was tabled in March 2017, before I commenced in the role, made some recommendations around that and the committee had a report in relation to that. There are some administrative amendments to the audit act that we would like to progress that would enhance some of those independence matters that were highlighted in the strategic review. We continue to work with the executive around the appropriate timing of any amendments to the Auditor-General Act.

Mr STEVENS: You have mentioned you require legislative changes. What is the particular hold-up to those legislative changes?

Mr Worrall: The current environment means it is probably not the right time to progress those. Once we get through this period I would like to engage with the executive to progress those, so hopefully in 2021 we can actually make those amendments.

Mr STEVENS: Thank you.

Mr Worrall: In relation to your second question, which was more around staffing of QAO, it was another finding of the strategic review that we had to increase our staffing levels to better manage the work-life balance of our staff and also deliver on our mandate. I would say that we have largely achieved that since that strategic review. I think when I joined the office, the staffing levels were around the low 160s. As of today, our full-time equivalents are sitting at around 196 staff, which is probably around where they need to be. In terms of what that means with regard to the impacts of COVID-19, I think it will become more of an employer market than it has been in the past. Should we need to find additional staff or if people leave, I think the market is actually going to be attractive for us over the next while.

Ms RICHARDS: You commented on local government asking for some audit fee relief. Did I hear that right?

Mr Worrall: Yes, you did. I would not say it was just local government. I think at any given time there are some clients, particularly smaller clients, that sometimes may struggle with audit fees. I think under the current environment their own revenues are being impacted by the pandemic. I expect that we will see a little bit more of that. You did hear me right. There already has been a little bit of noise from a small number of local governments and a small number of quite small statutory bodies.

Ms RICHARDS: Fee relief directly related to the impacts of COVID?

Mr Worrall: Yes, that is exactly right. Obviously I will need to receive those formally and consider those. Any fee relief that I give obviously will have an impact on my own financial circumstances, because I will not be able to generate the revenue that I thought I could from those entity audits. By the same token, I will be trying to balance having an empathetic ear with my own financial management.

CHAIR: The COVID-19 pandemic has obviously created very different roles and needs for departments. It has created budgetary uncertainty and challenges for various departments as well as—we debated this last night in the House—significant unplanned financial outlays. Does that have a big impact in terms of your office's engagement? Obviously it is especially important that we get value for money and that programs are well audited, but is there a big challenge in financial management and reporting during this time?

Mr Worrall: That is a good question, and I think it raises a number of different issues. The response that government agencies are making to the pandemic is something that we have engaged with those agencies about. With new relief packages that are being put out, we have made overtures that we would rather have a look at those while they are in the design phase so that if there are any residual risks they have not thought of we can at least highlight those risks to them, as opposed to coming into play after the event. That is not about redesigning anything for them; it is just really highlighting any risks they may not have thought about. That is one level of response.

In relation to our audits of the entities, all of our engagement leaders realise that they will have to reassess the audit risk in the current year, particularly where those agencies are being impacted by the pandemic—whether their normal operations are being impacted or whether those agencies are particularly involved in pushing out other relief matters. I think both of those things have the potential to change the audit risk and we need to be able to respond to that in the current audit year, because a lot of that money, for example, is going out in the current year. They are audit related impacts.

At the office level, coming back to the financial reporting timetable, that is a risk for entities themselves. Their own disruptions impact their own financial reporting timetable which will have an impact on QAO, because these reporting timetables would have been locked in with these entities prior to now. We are working closely with every entity and with our audit service providers around this. We are in constant contact around that. I have issued a couple of direct communications to all chief executives and also to all audit service providers. We do realise that we need to be as flexible as we can to try to work around any issues they may be experiencing, given that some of their staff, if not all of their staff, will also be working from home. At the moment I think those entities are largely on track, but if that starts to go pear-shaped at the entity level that will definitely have an impact on QAO because suddenly I will have staff who will not be gainfully employed. That will mean the work we had planned is not getting done and that will have a financial impact on QAO, as I indicated.

The other thing that I mentioned in the brief was: I think we need to recalibrate our strategy audit plan to cater for the world that our client entities are now operating in in relation to any relief packages. Priorities have changed for them as well. In the new world, they will be under pressure to find savings. There is an opportunity for QAO to refocus some of our audit plan, not only on relief packages but also on more efficiency type audits than we have done in the past, to help entities identify savings in the environment we are in.

We are also communicating with our audit clients through a series of blogs that we have put out. We have put out a series of blogs, given that some of the audit risks have changed during the pandemic—things around the valuation of non-current assets, financial assets and cybersecurity in a heightened risk environment with a whole lot of people suddenly not working at their normal premises and things like that. We have already put out about three different blogs. We will continue to do that as well. All the integrity agencies put out a joint advisory the week before last to all chief executives at both the state and the local government levels around matters that they need to be mindful of in this new operating environment that everybody finds themselves in.

CHAIR: We did a tour of the office last year and you gave us an overview of the IT set-up. Just from memory, it would seem that not so much the hot-desking but the concept of being able to move your entire IT with you and being adaptable to any workstation would almost be designed for this circumstance, where we are asking people to work from home or to socially distance. Is the IT bearing up well in this challenge?

Mr Worrall: That is a good question. When we made that decision to move to activity based working, this was never really in the game plan. Our motivation for activity based working was greater collaboration amongst QAO staff and to break down any internal barriers we may have had under the old operating model. As part of that we had to mobilise our support staff. All the client-facing staff had laptops and mobile phones but the support staff did not. Typically they had desktops and landlines. We got rid of all of those 12 months ago.

In the transition to working from home, we had started a trial. By the end of this week we will have been working from home for five weeks. We started a trial six weeks ago with a quarter of the office working from home. We started on a Wednesday. On the Wednesday we had a quarter, on Thursday a different quarter, on Friday a different quarter and then on the Monday a different quarter. Then on the Tuesday we all worked from home to really stress-test the systems. On the Tuesday night the Prime Minister said in his announcement that if people can work from home they should be working from home, so that evening around 9.30 I emailed staff and said, 'That's it, we are working from home because we are a workforce who can work from home.' We were able to transition into that.

The only technical issue we had was on that very first day when we all worked from home. We had some VPN issues through CITEC, and they were able to resolve those straightaway. We had no technical issues working from home. We have already used a two-stage authentication process. As part of the cybersecurity audit we did on other entities, we did that on ourselves as well in the lead-up to that audit to make sure that we were on top of our game as well. That has gone well. I think, if anything, we are probably better placed than a lot of other Public Service entities in that regard and we are just fortunate that we took those steps to introduce activity based working.

Mr O'CONNOR: The briefing on the SPER ICT report identified some pretty serious failings in governance. I think the quote from the briefing was that governance over this program was not effective from inception. There were a number of recommendations to try to improve that in future. A key one was getting Treasury and the Department of the Premier and Cabinet to make sure that those major ICT projects were established with appropriate governance arrangements. I note that the implementation time frame for that was not until quarter 4 of 2020-21. That seems like a long time for me. Could you comment on why it is so far off? This is over a year since this report was requested.

Mr Worrall: That is the topic of our next briefing. Could we park that until then?

CHAIR: We will deal with that in the next briefing. As there are no more questions regarding this section, we thank you for the information you have provided today. Thank you very much to our patient Hansard reporters. A transcript of these proceedings will be available on the committee's parliamentary webpage in due course. I note there are no questions taken on notice. I declare this public briefing closed.

The committee adjourned at 11.07 am.