

Strategic Review
of the
Queensland Audit Office

4 December 2023

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The Honourable Anastacia Palaszczuk MP
Premier and Minister for the Olympic and Paralympic Games
1 William Street
BRISBANE QLD 4000

Dear Premier

I am pleased to provide you with the 2023 Strategic Review of the Queensland Audit Office. The review addresses the Terms of Reference approved by the Governor in Council in June 2023 and was undertaken in accordance with the *Auditor-General Act 2009*.

This review finds that overall, the QAO's functions are performed economically, effectively, and efficiently. Queensland gets good value from its investment in the QAO. But, as with all organisations, there are opportunities for improvement. To this end, this report makes recommendations that seek to enhance the functioning of the Queensland Audit Office. It also makes several recommendations to further strengthen the independence of the Queensland Audit Office.

Yours sincerely



Professor Emeritus Ian O'Connor AC
Lead Reviewer

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1 Introduction to the Strategic Review

2023 marks 163 years since the appointment of the first Queensland Auditor-General. Perhaps more importantly it was the 30th anniversary of the establishment of the modern Queensland Audit Office (“QAO”). The 1993 change of the terminology from the Department of the Auditor-General to the QAO signified its important role in the post-Fitzgerald era as the public sector auditor rather than as a government department. It broadened its perceived and actual independence and its powers and responsibilities.

2023 is a very significant year for the future of the QAO. It saw significant legislative change which will strengthen the independence of the QAO and cement its role as a core integrity body, and the key assurance agency for Queensland. These changes are coupled with the appointment of a new Auditor-General in 2024, following the completion of Brendan Worrall’s seven-year term.

It is thus opportune that amid this change, the Five-Year Strategic Review of the QAO was undertaken. Every five years, a Strategic Review of the QAO must be undertaken under section 68 of the *Auditor-General Act 2009* (“the Act”). The strategic review, as defined in section 68(7) of the Act, includes:

- a) a review of the Auditor-General’s functions; and
- b) a review of the Auditor-General’s performance of the functions to assess whether they are being performed economically, effectively, and efficiently.

The Terms of Reference of the Strategic Review comprehensively encompass the functioning and operation of the QAO. The Terms of Reference are attached as Appendix 1. As well as considering the QAO’s discharge of its responsibilities for financial statement audits and performance audits of Queensland Government entities and associated reports, we give particular attention to the implementation of the recommendations of the 2017 Strategic Review of the QAO and of the 2022 Coaldrake Review - *Let the Sunshine in: Review of culture and accountability in the Queensland public sector*.¹

While the Act requires a review of the Auditor-General’s functions, the Terms of Reference refer mainly to the QAO rather than to the Auditor-General. Consistent with the 2017 Strategic Review we have used the term “QAO” in this report unless the context requires Auditor-General. We refer to the entities audited by the QAO as clients.

¹ The terms of reference for this review refer to the 2016 review as the review was commissioned in 2016. The report was submitted in March 2017. Throughout this report we refer to it as the “2017 Strategic Review” (https://www.qao.qld.gov.au/sites/default/files/2019-12/Strategic_Review_of_the_QAO_2017.pdf). Throughout this report we use the term the “Coaldrake Review” to refer to *Let the Sunshine in the Final report of the Review of culture and accountability in the Queensland public sector 28 June 2022*. <https://www.coaldrakereview.qld.gov.au/assets/custom/docs/coaldrake-review-final-report-28-june-2022.pdf>

1.1 Review Process

Ian O'Connor (Lead Reviewer) and Moore Australia (Murray McDonald, Robyn Speed and Michael Lam) were appointed by the Governor in Council on 22 June 2023 to undertake the review. We commenced work on the review in July 2023. (Brief biographies of the reviewers are included in Appendix 2.)

In undertaking this Strategic Review, the reviewers considered:

- the policies and processes of the QAO;
- the agenda and minutes of its various committees and operational groups;
- the extensive written and oral briefings prepared by the QAO;
- Reports of the QAO and other reports of Auditors-General in other Australian jurisdictions;
- QAO benchmarking data, in particular, the benchmarking reports of the Australasian Council of Auditors-General (ACAG) *Macro Benchmarking Survey 2022–23*²;
- the files of a selection of financial and performance audits undertaken by the QAO in recent years; and
- financial, performance audits and other reports for Parliament prepared by the QAO.

The reviewers (individually or as a team) met with the senior leadership of the QAO and the Chair of the QAO's Audit and Risk Committee. We invited all current staff to meet with the Reviewers in 8 staff cohort meetings. The staff meetings were well attended in person and on Teams. Staff also had the opportunity to submit written comments to the review.

We also emailed and invited comments on the Review from:

- former staff of the QAO who had exited the QAO from 1 January 2021 and who were employed for 12 months or greater; and
- all current Audit Service Providers.

We met with a selection of Ministers, CEOs and Directors-General of Departments, Statutory Authorities, Government Owned Enterprises, Local Governments, and relevant Integrity Bodies. We met with some senior audit staff from elsewhere in Australia. We also met with some former staff of the QAO and current Audit Service Providers.

The Lead Reviewer met early in the review with the Chair and Deputy Chair of the Queensland Parliament's Economic and Governance Committee (the "EGC")³. The reviewers also met with the EGC during the preparation of the report.

In addition to the briefing meetings with the QAO, over 55 meetings were held with individuals and groups of staff and other relevant persons. We engaged with a broad range of staff and stakeholders. We have not identified individuals or organisations as we promised them anonymity.

² We refer to this report throughout as the *ACAG Benchmarking Report*. The 2022-23 report was released on 15 September 2023. In earlier stages in undertaking the review we considered the 2021-22 Report and the draft of the 2022-23 report.

³ The Queensland Parliament's *Economic and Governance Committee* (EGC) is the parliamentary committee currently responsible for QAO (see Chapter 3). For the period 27 March 2015 to 29 October 2017, the relevant parliamentary committee was the *Finance and Administration Committee* (FAC).

1.2 Consultation

Section 70 of the Act requires that the Reviewers must provide a draft of the proposed report to the Minister (The Premier) and the Auditor-General for written comment within 21 days.

If the auditor-general or the Minister provide comments under subsection (2), the reviewer must-

- (a) if the reviewer and the person providing the comments can agree about how to dispose of a comment—incorporate into the report any agreed amendment necessary to dispose of the comment; or*
- (b) if the reviewer and the person providing the comments cannot agree about how to dispose of a comment—include the comment, in full, in the report.*

The draft report was provided to the Premier and Auditor-General on 9 November 2023. A response was received from the Auditor-General on 24 November 2023. His letter is included as Appendix 3.

1.3 Structure of the Report

This Chapter provides the introduction to the Review.

Chapter 2 provides an executive summary of the report and the full list of recommendations.

Chapter 3 introduces the QAO and discusses its scale, structure, governance, and strategic and operational planning.

Chapter 4 considers Financial Audits.

Chapter 5 considers Performance Audits.

Chapter 6 explores corporate issues - It considers whether the way that the QAO is organised and operates impacts its economy, efficiency and effectiveness.

Chapter 7 reviews the implementation of the recommendations of the 2017 Strategic Review, except for those recommendations related to the independence of the QAO.

Chapter 8 considers the response to the independence recommendations of the QAO 2017 Strategic Review and the Coaldrake Review.

The team from Moore Australia took prime responsibility for Chapter 4 on financial audits (McDonald and Speed) and Chapter 5 on performance audits (Lam).

1.4 Acknowledgements

The Reviewers acknowledge the excellent support from the QAO and Brendan Worrall, the Auditor-General, in the undertaking of this review. We are most grateful to Patrick Flemming and Kathleen Hayward from the QAO who coordinated prompt responses to our many queries and request for further information. In addition, we are grateful to the many staff, former staff and stakeholders who so generously shared their views with the review team.

2 Executive Summary including recommendations

The preceding five years have been a tumultuous period, domestically and internationally. Queensland has experienced a series of major natural disasters, a pandemic and the associated disruptions of business, government, trade, tourism and every aspect of domestic life.

The QAO has navigated these challenges and served the State well. This review finds that overall, the QAO's functions are performed economically, effectively, and efficiently. Queensland gets good value from its investment in the QAO. But, as with all organisations, there are opportunities for improvement.

The QAO is about to commence the next stage of its evolution. Recently passed legislation provides the QAO with enhanced independence and deepens the relationship with the parliament through the relevant Parliamentary Committee. This is further strengthened by the *Integrity and Other Legislation Amendment Bill 2023 (IOLAB)* which is currently before the Parliament. The commentary throughout this report is premised on the passage of this Bill and its full proclamation. (This is further discussed in Chapter 8.)

With the incumbent Auditor-General's fixed term concluding, and the appointment of a new Auditor-General⁴, it is an opportune time to provide feedback and recommendations to enhance the functioning of the QAO. This report aims to provide an enabling resource for the incoming Auditor-General.

This review's recommendations about structure, planning, governance and internal workforce issues are directed at the incoming Auditor-General. The review also makes some recommendations in relation to issues currently being addressed. We do this to emphasise the importance of implementation. We have also structured several recommendations to support the active engagement of the relevant Parliamentary committee (currently the EGC) with their new responsibilities and to facilitate a deeper engagement between the QAO and the Parliament.

Much has happened within the QAO since the 2017 Strategic Review. The QAO addressed the recommendations of the 2017 Strategic Review which is discussed in Chapter 7. It has had a major policy focus on enhancing the statutory independence of the Auditor-General and there has been significant progress in this regard (Chapter 8). The QAO underwent a major organisational restructure which aimed to pivot the organisation to be client-facing, rather than organised along product or service lines. It has implemented major new systems to support this (Chapter 6). Importantly it has successfully implemented a new software system – CaseWare – to support the conducting of financial and performance audits. It has also continued to develop and implement its excellent analytics strategy.

The 2017 Strategic Review noted that the QAO's relationship with clients were not always good. They ranged from *very good to poor*, but overall were probably *more good than are bad*.⁵ In this review we found clear evidence of significant enhancement in some aspects of the relationship. Almost without exception financial audits were highly valued by almost everybody. QAO's professionalism, its expertise, the approach of its staff, and the assurance it provided and the approach of QAO were highly regarded. This was reflected

⁴ Referred to in this Report as the *Incoming Auditor-General*.

⁵ 2017 Strategic Review pg 27.

in client surveys and in our interviews. Positive comments came from small and large entities, and from the Audit Service Providers (“ASPs”) who QAO contracts to undertake some audits. (Chapter 4)

However, the perception of the QAO in relation to performance audits was more mixed. While overall client survey results were largely positive (though less than with financial audits), interviews with clients were more critical. Concern was expressed by auditees as to whether audit teams had sufficient subject matter expertise, whether there had been sufficient consideration of audit scope and focus and whether recommendations were appropriate and affordable. (Chapter 5)

2.1 Chapter 3 The Queensland Audit Office

This chapter introduces the QAO and its functions.

It discusses the QAO’s vision and purpose, strategic plan, governance structure and planning and risk management process. It concludes that the QAO has an appropriate governance structure and processes. Risks are appropriately identified and managed. The Audit and Risk Management Committee (“ARMC”) operates very effectively. It is possible that some aspects of the governance structure may be overly complicated. We note that a major issue going forward for QAO will be bedding down the operational and strategic implications of the independence changes to the Act.

Recommendations

- 3.1 That the incoming Auditor-General should ensure that Strategic and operational plans take account of the changes to the *Auditor-General Act 2009*.
- 3.2 (opportunity for improvement) The QAO update its planning processes so that its forward-year operational plan is developed and approved before that year's commencement.
- 3.3 The Review endorses the recent recommendation (4) of the *Evaluation on the Queensland Audit Office’s System of Quality Management* stating that *Audit Quality Sub-Committee (a subcommittee of the ARMC) meetings should be minuted to evidence discussions held, action items noted and the acquittal of action items⁶* be implemented from 2024.
- 3.4 That the incoming Auditor-General should consider whether the current governance structure is optimal.
- 3.5 (opportunity for improvement) That the incoming Auditor-General consider opportunities to enhance the development of the Forward Work Plan via more direct external engagement with the senior leadership of government entities in identifying and developing the risks for the public sector.
- 3.6 That in identifying topics for future performance audits, the QAO consider any other recent external reviews of the topic and identify how the QAO’s performance

⁶ *Evaluation on the Queensland Audit Office’s System of Quality Management*. 18 October 2023. Recommendation 4.

audit would add further value to the understanding of the topic, which might include validation of entities responses to previous reviews.

2.2 Chapter 4 Financial audits

This chapter summarises the results of our review of financial audit files and any associated issues.

The conduct of financial audits is one of the primary functions of the QAO as detailed in the Act. The QAO performs these audits throughout Queensland on a wide variety of clients in accordance with QAO Auditing Standards.

Since the 2017 Strategic Review there have been several significant improvements to the auditing standards which have been incorporated into the QAO's methodology and the new audit software called CaseWare.

Our review found that overall the performance of audits was in compliance with the standards and QAO methodology. However, we noted some areas for improvement; particularly in the area of documentation.

We also met with many stakeholders from across all significant client sectors. The feedback from those stakeholders was overwhelmingly positive and that the audits provided useful and relevant feedback.

Recommendations

- 4.1 That the QAO provide additional training in respect of improvements to the level of documentation required on all files.
- 4.2 That the Auditor-General Auditing Standards be amended to require a review of and, if necessary, revision of the Standards annually.
- 4.3 The incoming Auditor-General should give consideration as to whether to engage with the Auditor-General of another state to perform the monitoring activities on the QAO's Quality Management System including inspection of completed audit engagements.
- 4.4 That consideration needs to be given regarding the move to Sustainability (ESG) reporting and what impact this will have on the QAO, its staff and their training requirements.

2.3 Chapter 5 Performance audits

This chapter summarises the review of Performance audits conducted and presented to Parliament in the past two years.

Performance audits by the QAO serve as a vital means of overseeing public entities' effectiveness, efficiency, economy, and compliance with legislative requirements in delivering their services, ensuring transparency for both Parliament and the public.

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The methodology and approach for this review involved several key steps. It included analysing selected Performance Audit files, reviewing internal and external reports, considering surveys/feedback, and conducting interviews with current and former staff members, and stakeholders.

The results of the review indicate that the QAO's Performance audits are sound and robust. However, we also identified areas where there are room for improvements.

Recommendations

- 5.1 That Performance Audit staff be reminded to follow the sign-off procedures in the Master Template and as stipulated in the current revision of the Performance Audit Methodology manual.
- 5.2 That CaseWare be used as the central document repository management system for all Performance audit documents and that all documents be uploaded as part of the working file.
- 5.3 The QAO should accelerate the development, approval and implementation of the Performance Audit Methodology manual.
- 5.4 That the QAO introduce sub-categories for time recording for each of the four phases of Performance Audit to have an additional analysis tool to assist management.
- 5.5 The QAO should consider increasing the engagement of Subject Matter Experts at the earliest opportunity in Performance Audits and this should be continued throughout the Performance audit process.
- 5.6 That entities ensure that the post-performance audit survey is completed at the conclusion of the audit and that the entities have clear protocols for signing off the survey to ensure that the recorded results accurately reflect the views of the entity.
- 5.7 That the QAO ensure the review duties of the Assistant Auditors-General in respect of Performance Audits be specified to reduce the potential duplication of review and responses.
- 5.8 That the QAO ensure that all Audit reports clearly state the type of assurance provided by reference to the specific Australian Auditing Standard and that the different types of reports be consistently structured.
- 5.9 The QAO should increase the number of follow-up audits of the implementation of recommendations and prioritise follow-up of high and significant risk recommendations.
- 5.10 That tailored training should be developed for the Performance Audit team, especially in the usage of CaseWare. In addition, consideration should be given to providing soft skill training, and project management training for senior members of the team.

- 5.11 The QAO should assess the staffing levels in the Performance Audit team and limit the reassignment of performance auditors to other reviews and involve Subject Matter Experts throughout the review process.

2.4 Chapter 6 Corporate issues

QAO delivers its statutory responsibilities through its people and the systems it has implemented to support them in fulfilling their responsibilities. This chapter considers whether the way the QAO is organised and operates impacts its economy, efficiency and effectiveness. There was a major restructure of the QAO in 2019 with the development and implementation of the 2019 *Think and Act OneQAO* strategy. It was a major organisational and cultural change. It sought to align the organisation around client needs rather than sectors or services.

OneQAO delivered significant efficiencies, broadened the professional experience of staff and enhanced its client orientation. In recent years some unintended consequences of the model became apparent which impacted the staff experience. QAO is currently pivoting OneQAO to provide more focus for staff, more consistent teams and line management as well as enhancing staff identity and autonomy. Staff will be organised into communities, and this resourcing model should provide a more team-based structure.

The report recommends that the incoming Auditor-General consider whether the internal organisation of the QAO could be enhanced.

Staff numbers have increased since the 2017 Strategic Review. The Audit staff are well qualified and are supported to continue their professional development.

The QAO is experiencing the same impacts from a very competitive labour market as many private employers of auditors and finance professionals. The QAO is experiencing a significant problem with increasing staff attrition, although it is low compared to most other state audit offices. For example, in 2022-23 over a third of the audit seniors or assistant managers left QAO. QAO has adjusted its forward recruitment program and utilised flexible remuneration arrangements available under its current employment framework to enhance its capacity to attract and retain staff.

The report also notes some issues in relation to the staff experience evident in recent Working for Queensland surveys.

The QAO has in place a comprehensive suite of plans to address workforce issues. These include the *Strategic Workforce Plan*, *Learning and Development Refresh* and systems around professional development and performance development. For a range of reasons, including COVID and the competitive labour market, implementation of the plans or strategies has been slowed or stalled. We noted the lower-than-average training hours for QAO professional staff compared to colleagues in other states and recommend resetting the training target.

This review found that in comparison to Auditors-General across Australia, QAO is relatively economical and efficient. Compared to other audit offices, the ACAG benchmarking data reveals:

- that the cost per audit hour charged to audit was the second lowest in the country.
- QAO consistently has the highest percentage of available hours charged to audit activities –68 % compared to 55%; and

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- the cost per unit output for State/ Commonwealth financial audit/ review opinions is slightly above the state and territory average.

The 2017 Strategic Review reported that inadequate financial resources were a major strategic issue for the QAO. The QAO did not take up the invitation by the government and the Parliamentary Committee to bring forward a major budget bid. All requests for fee increases by the QAO to the Treasurer were approved. The QAO and its staff have repeatedly told this review, that the resourcing issue is not affected by funding availability but due to being unable to attract appropriate staff in this competitive labour market.

Since the last review, the QAO has implemented a comprehensive communication strategy. Considerable investment has been made in training and coaching staff in clear written communication. QAO reports reflect a “house style”. They are clear, direct, readable and in plain English. They share a single voice. This commitment and outcomes are commendable. However, the commitment to plain English sometimes comes at the expense of communicating the complexities of an issue.

The QAO has in place appropriate administrative and information systems and processes to support the delivery of its functions. It has invested significantly in technology to facilitate the delivery of its audit program. It has a committed IT team ensuring that its systems are responsive to the needs of its staff and of its audit service providers.

Finally, this chapter considers the QAO’s performance data. QAO has in place a suite of internal performance indicators and measures. These are regularly considered by the Executive Management Group (“EMG”) and reported to the ARMC.

The recent changes to the Act seek to enhance the independence of the Auditor-General from the Executive and strengthen the role of the Parliament through the Parliamentary Committee. (These changes are discussed in more detail in Chapter 8.) For the Parliamentary Committee to be able to properly fulfil its responsibilities in this respect, it will need comprehensive information to inform its understanding of QAO responsibilities, aspirations, and performance. To properly carry out this responsibility, the Parliamentary Committee is dependent on the QAO to provide quality and timely information.

The QAO’s financial reporting to the Parliament is impeccable. It is important that its own performance reporting is also a model for public sector entities.

Several suggestions are made to enhance the QAO’s performance reporting. We also recommend that the QAO’s performance statement is independently audited.

Recommendations

- 6.1 a) The incoming Auditor-General consider whether the substantive role of the Deputy Auditor-General should be re-established.
- 6.1 b) The incoming Auditor-General consider establishing a designated leadership position for performance auditing.
- 6.2 The QAO set explicit success measures for the move to “Communities” to assess whether the transition achieves its intended outcomes. The QAO should report on the progress of this transition twice a year to staff, and the Audit and Risk

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Management Committee (ARMC) and highlight it in the six-monthly reports on Strategic Review implementation to the EGC.

- 6.3 (opportunity for improvement) QAO explore the opportunity to formalise its arrangements with its peak workforce to enable better long-term resourcing planning for peak audit periods.
- 6.4 That the QAO use as its comparator for the Working for Queensland surveys Public Service Offices under 500 employees.
- 6.5 That QAO provides staff with the option to make open-ended comments in the Working for Queensland Survey, and that the results be shared with staff.
- 6.7 That QAO review, revise and update the Strategic Workforce Plan, considering the current environment and the increased independence of the QAO.
- 6.8 That the Audit and Risk Management Committee considers undertaking an internal audit of workforce planning.
- 6.9 QAO implements the proposed improvements to their performance management and development processes and systems, and that the Audit and Risk Management Committee undertakes an internal audit of its implementation.
- 6.10 That the QAO introduce independent 360-degree performance evaluations for senior staff (Director and above) undertaken every 2 years after appointment to the role. [Potentially to expand beyond].
- 6.11 a) The QAO fully implements the Learning and Development Refresh Report (July 2021) with implementation progress to be monitored at six monthly intervals by the ARMC and highlighted in the six-monthly reports on the Strategic Review implementation to the EGC. Particular attention should be focused on enhancing the coaching capability of its staff.
- 6.11 b) The Strategic Review endorses the implementation of recommendations 6 and 7 of the *Evaluation of The Queensland Audit Office's System of Quality Management* (18 October 2023). These recommendations should be progressed as a matter of urgency.
- 6.11 c) The QAO reset the Audit Quality Indicator target for training and education hours for audit staff from the current 60 hours to the 2-year rolling average of the ACAG states and territories training hours for professional audit staff.
- 6.11 d) The Strategic Review endorses the QAO extending the Learning and Development component of the Graduate program beyond the graduate year. It recommends that the curriculum of the graduate year program be used to reconceptualise and implement the 70 -20 -10 model for other cohorts. The effectiveness of the above implementation should be evaluated by conducting a survey among the staff themselves to assess the quality of the change in training.
- 6.12 The incoming Auditor-General undertake a climate assessment of the QAO.

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- 6.13 a) The incoming Auditor-General reviews the overall QAO budget and reports that review's findings to the EGC.
- 6.13 b) That the appropriation budget of the QAO is not subject to efficiency dividends or equivalent.
- 6.14 QAO should ensure that the plain English language style adopted by the QAO does not come at the expense of clearly articulating complex issues.
- 6.15 QAO should ensure that its software systems are vendor-supported and that it develops and implements a plan to replace any non-vendor-supported system.
- 6.16 The Strategic Review endorses the implementation of recommendation 8 of the *Evaluation of The Queensland Audit Office's System of Quality Management* (18 October 2023). This recommendation should be progressed with urgency.
- 6.17 a) The QAO set a minimum response rate for the parliamentary survey to include the results in the performance report. The response rate should also be reported in the associated reports.
- 6.17 b) Given the increased engagement with Parliament due to recent changes in the Act, the incoming Auditor-General considers whether parliamentarians should be surveyed annually.
- 6.18 That QAO reports separate overall satisfaction scores for financial audits, and performance and other assurance audits.
- 6.19 QAO identify a suite of staff indicators for its annual report, with reporting of appropriate targets and benchmarks.
- 6.20 It is recommended that QAO review its SDS and other performance measures to enable better understanding and monitoring of its performance. It is recommended that measures equivalent to ANAO's measures 4, 5, 8, 9, 16 and 17 be added to their suite of performance indicators.
- 6.21 The QAO should undertake and publish an annual independent external audit of its performance statement. The QAO appropriation should include funding for an external audit of its performance statement.

2.5 Chapter 7 2017 Strategic Review

The QAO has made significant efforts to implement the recommendations of the 2017 Strategic Review. It identifies several recommendations that may require further attention.

2.6 Chapter 8 2017 The Independence Recommendations

The major recommendation of the 2017 Strategic Review was to take action to strengthen the statutory independence of the Auditor-General. There was no legislative response by the Government to these recommendations until the publication of the Coaldrake Review in 2022.

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Since the tabling of the Coaldrake Review Government has passed the *Integrity and Other Legislation Amendment Act 2022* ("IOLAA 2022"). It has introduced to the Parliament the *Integrity and Other Legislation Amendment Bill 2023* ("IOLAB 2023"). This Chapter assesses progress against all of the independence recommendations. However, this assessment is premised on the passage and proclamation of QAO relevant sections of the second integrity Bill. For this reason, the first recommendation is its passage and proclamation. We assess that most of the recommendations have been implemented or that there has been significant improvement in relation to a number of recommendations. Ten recommendations are made to further enhance the independence of the Auditor-General.

Recommendations

- 8.1 That all QAO relevant sections of the *Integrity and Other Legislation Amendment Bill 2023* be passed and proclaimed.
- 8.2 That the Queensland Independent Remuneration Tribunal set the remuneration and allowances of the Auditor-General and that relevant Acts be amended to give effect to this recommendation.
- 8.3 Twelve months before the commencement of the next Strategic Review, the parliamentary committee should identify terms of reference for the review.
- 8.4 a) That the Auditor-General advise the EGC of current Acts that include provisions that are not consistent with the Auditor-General's discretion under the *Auditor-General Act 2009* (and are not otherwise required under national agreements).
- 8.4 b) That Section 3.7.1 of the Queensland Legislation Handbook be amended to specifically require consultation with the Auditor-General where legislation is drafted that impacts on the statutory powers or responsibilities of the Auditor-General.
- 8.5 That the *Auditor-General Act 2009* be amended to give effect to recommendation 15 of the QAO's submission to the FAC inquiry.
- 8.6 Recommendation 16 of QAO's submission to the FAC Inquiry is no longer current and should not be followed up in any further review of the implementation of recommendations related to the QAO's independence.
- 8.7 Recommendation 17 of QAO's submission to the FAC Inquiry is no longer current and should not be followed up in any further review of the implementation of recommendations related to the QAO's independence.
- 8.8 The EGC should review the new budget processes in the *Integrity and Other Legislation Amendment Bill 2023*, section 29G, two years after their commencement. It should also examine the application of the new transparent budget management model in NSW and consider whether any aspects should be implemented in Queensland.
- 8.9 That Sections 53(3)(f) and 72A of the *Auditor-General Act 2009* be repealed.
- 8.10 (opportunity for improvement) That the Auditor-General include an overview of the Forward Work Plan as an appendix in the Annual Report.

3 The Queensland Audit Office

3.1 Overview

The QAO was established and operates under the Act. The QAO undertakes financial audits of all Queensland Government entities and can undertake performance audits of the “efficiency, effectiveness and economy” of the delivery by Queensland Government entities of public services. The QAO is also empowered to undertake audit investigations into concerns raised by anyone – including members of the public, parliamentarians, local councillors, and public officials. It may provide reports to Parliament on these matters.

The QAO states that its role is to

- *provide professional audit services, which include our audit opinions on the accuracy and reliability of the financial statements of public sector entities and local governments*
- *provide entities with insights on their financial performance, risk, and internal controls; and on the efficiency, effectiveness, and legislative compliance of public service delivery*
- *produce reports to parliament on the results of our audit work, our insights and advice, and recommendations for improvement*
- *conduct investigations about financial waste and mismanagement raised by elected members, public service employees, and the public*
- *share the wider learnings and best practice, from our work, with parliament, state and local government entities, and our professional networks, industry, and peers.*⁷

3.1.1 Activities

In 2022-23, the QAO reported undertaking 413 financial audits. Forty-two per cent of audits were undertaken by ASPs^{8,9}. It tabled 18 reports to Parliament.

The QAO’s responsibilities cover the state. In 2022-23, QAO staff and its ASPs undertook site visits for every financial audit (except for some minor water boards). In 2022-23, over 90 locations outside of Brisbane were visited, from the far north of Cape York and the Torres Strait Islands to the far west, and many places in between. It audited large and complex entities with many billions of dollars of income and assets to very small foundations and entities. QAO is unusual as a Queensland government entity in that it visits every state and local government entity every year. Table 3.1 provides a snapshot of QAO’s Activities in 2022-23.

⁷ <https://www.gao.qld.gov.au/about-us/our-role>

⁸ The Auditor-General undertakes audits of Queensland Government entities either directly through staff of the QAO or through private firms referred to as Auditor Service Providers (ASP) contracted by the Auditor-General. In either audit, opinions are signed by the Auditor-General or his delegate.

⁹ QAO Annual Report 2022-23 pg 13.

TABLE 3.1 QAO Activities for 2022-23

Total number of reports to Parliament	18
Performance audits	7
Sector reports	7
Other reports (investigations, internal controls, Auditor-General recs)	4
Total number of financial audits*	413
Total number of major certifications^	54
Breakdown of financial audits and major certifications	
Departments	52
Departments	27
Controlled entities	9
Major certifications	16
Local Governments	123
Councils	77
Controlled entities	46
GOCs	102
GOCs	11
Controlled entities	56
Major certifications	35
Statutory bodies	156
Statutory bodies	136
HHS	16
Universities	7
Water Boards & River Improvement Trusts	28
Hospital foundations	13
Grammar Schools	8
Other statutory bodies	64
Controlled entities	17
Major certifications	3
Jointly controlled entities	23
By arrangement audits	11

* Source QAO

^ Major certifications are other opinions issued other than entity financial statements. These include assurance reports (eg ASAE3402), Regulatory Information Notices (RINs) and Australian Financial Services Licences (AFSLs), as well as the Whole of Government Consolidated Financial Statements and Consolidated Fund Financial Report.

3.1.2 Resources

QAO's total income from continuing operations in 2022-23 was \$49.58 million. \$42.04 million was from cost recovery of audit fees and the bulk of the remainder was from the parliamentary appropriation (\$7.3 million). The parliamentary appropriation covers the Auditor-General's salary, performance audits, investigations, and reports to Parliament. Total expenses from continuing operations were \$48.4 million. Over half of the QAO expenses were employee costs. Another \$21.4 was paid for supplies and services - contractors and audit service providers¹⁰.

On 30 June 2023, QAO employed 196 staff (FTE 182). This is an increase since 2018 of 26 people and 20 FTE. In 2022-23, QAO used 15 ASPs to undertake financial audits. Staffing is discussed in more detail Chapter 6.

3.1.3 Independence

Section 8 of the Act provides that the Auditor-General is not subject to direction by any person about

- (a) *the way in which the auditor-general's powers in relation to audit are to be exercised; or*
- (b) *the priority to be given to audit matters.*

Section 24 provides similar guarantees of independence for the Deputy Auditor-General, save only that the Auditor-General may direct the Deputy Auditor-General. The Act provides that the Auditor-General controls the QAO.

As with the 2017 Strategic Review we heard no reports of, or saw any evidence of, any attempt to direct the Auditor-General in relation to matters set out in Section 8.

There has been significant legislative change since the last review, primarily as a response to the Coaldrake Review which recommended the implementation of the 2017 Statutory Review's "independence recommendations". The IOLAA 2022 amended the Act to recognise the Auditor-General as an officer of the Parliament, strengthening the independence of the Auditor-General (This came into effect on March 1, 2023). From 13 December 2023, QAO autonomy will be further enhanced, when QAO becomes the direct employer of its staff, with direct control over employment terms and conditions and not be subject to the PSC.

The Parliament is currently considering the second raft of the Integrity legislation (IOLAB 2023) which implements further recommendations of the two previous reviews. The details of these amendments are discussed in more detail in Chapter 8.

3.2 Vision, Purpose and the QAO Strategic Plan

The QAO strategic plan gives effect to its statutory responsibilities. The QAO's vision and purpose is commendable in its sharp focus and clarity of language. It shapes the activity of the QAO. The current QAO Strategic Plan (2021-25) appears below¹¹.

¹⁰ QAO Annual Report 2022-23 p. 13

¹¹ <https://www.qao.qld.gov.au/about-us/our-strategic-plan>

Queensland Audit Office Strategic Plan 2021–2025

Vision

Better public services

Purpose

Independent valued assurance and insights

Who we serve

Queenslanders through parliament, public sector entities, and local governments

Our values



Engage



Respect



Inspire



Deliver

Objectives	Strategic risks	Strategies	Indicators of achievement
We support and inspire our people, which includes our contracted audit service providers, to best serve parliament and our clients.	We do not attract, grow and retain the right people who uphold our values, and ethical and quality standards.	Attract, grow and retain our people to meet parliament and our clients' assurance expectations.	Our people are capable, uphold our standards, and feel respected and valued.
Those we serve trust and value our independent services and insights.	We do not maintain valued relationships nor adapt our services to meet changing needs.	Build trust in our relationships through listening and tailoring our responses.	Our relationships and independence are valued.
We use contemporary auditing practices to deliver independent services that are used to improve accountability and performance.	We do not sufficiently innovate and use technology to better understand our clients and deliver valued services.	Use data-driven innovation and solutions to enhance our assurance and insights to provide greater value.	Parliament and our clients benefit from our independent assurance services and the insights we provide.

3.3 Strategic and Operational Planning

The QAO’s strategic and operational plans and planning processes are appropriate. The four-year Strategic Plan is reviewed annually by the EMG. Major reviews of the Strategic Plan occur on an as-required basis. There has not been a major review of the strategic plan in recent years. The plan-on-a-page encapsulates the vision, purpose, values, three objectives, the associated strategic risks, and strategies. The core vision of “better public service” has remained unchanged for several years.

However, there were minor updates to the strategic plan over the past 3 years to reinforce the QAO’s strategic direction and to take account of changing external conditions and risks. The QAO reports that the changes were:

- *Over the years our people have expanded to include our audit service providers.*
- *In 2021-22, the changes reflect our continuing focus on data driven audits.*
- *Update in 2022-23 was to make clear the value of our independent services and expectations we have of our people, including contracted audit service providers, in upholding our values, and ethical and quality standards. ...*

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- ...recognise the importance and potential of data and analytics in improving audit efficiency, quality and recommendations provided to audit clients. We will better align the [data analytic] strategy to organisational and audit needs.
- We continue to highlight our biggest risk—about attracting and retaining the right people. Our people are our biggest asset, and we need to ensure that we recruit and keep a workforce with the best, most appropriate skills. Our resultant strategy takes this a step further to recognise that our people need to be able to meet parliament and our client's assurance needs.

Parliament has passed, or is considering, major legislative changes that seek to enhance the independence of the QAO (see Chapter 8). These changes should prompt a review of the Strategic Plan to ensure that it is fit for purpose for the new era.

The annual operational plan gives effect to the strategic plan. The annual operational plan is updated annually by the EMG in October at the completion of the main financial audit cycle. It covers the period from October to September. The new operational plan is not approved until after the expiry of the prior year's plan. QAO stated that this has limited impact as most of the strategic and operational initiatives roll forward into the coming year. QAO may wish to consider changing the period covered by the Operational Plan so that the coming year's plan is approved prior to the expiry of the current year's plan.

The operational plan clearly and explicitly sets the agenda for the year. It has sufficient detail, formally allocates management responsibilities, sets out appropriate timelines, the process and frequency of monitoring and the associated performance measures. There is clear evidence in the EMG agenda papers that it monitors the implementation of the operational plan, including its strategic and operational initiatives and performance measures. The Audit and Risk Committee also receives copies of the Management reports. Elsewhere in the report (Chapter 6) recommendations about the QAO's performance measures are made.

Recommendation 3.1

That the incoming Auditor-General should ensure that Strategic and operational plans take account of the changes to the *Auditor-General Act 2009*.

Recommendation 3.2 (opportunity for improvement)

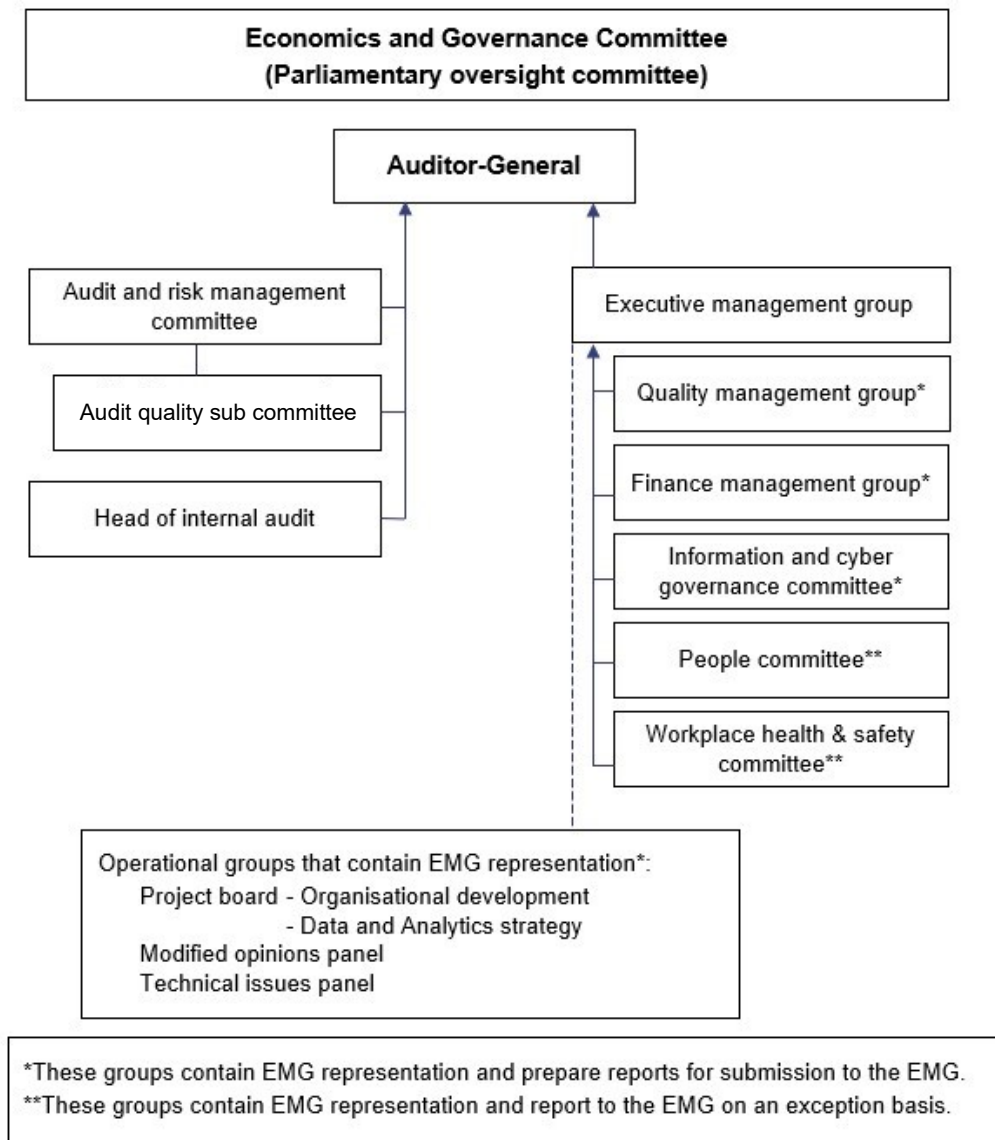
The QAO update its planning processes so that its forward-year operational plan is developed and approved before that year's commencement.

3.4 Governance and organisation

In 2019, the Auditor-General introduced '*Think and Act OneQAO*' – a significant cultural and organisational change. The resultant restructure of the QAO sought to deliver its core responsibilities better and to meet the challenges of the changing external and internal environment.

Think and Act One QAO aimed to create an integrated client-focused organisation to provide audit clients with a seamless, professional and efficient experience. It aligned the QAO around its major client groups – parliament, audit clients and internal users. The current governance structure is set out in Figure 3.1.

Figure 3.1 QAO Governance Structure 2023



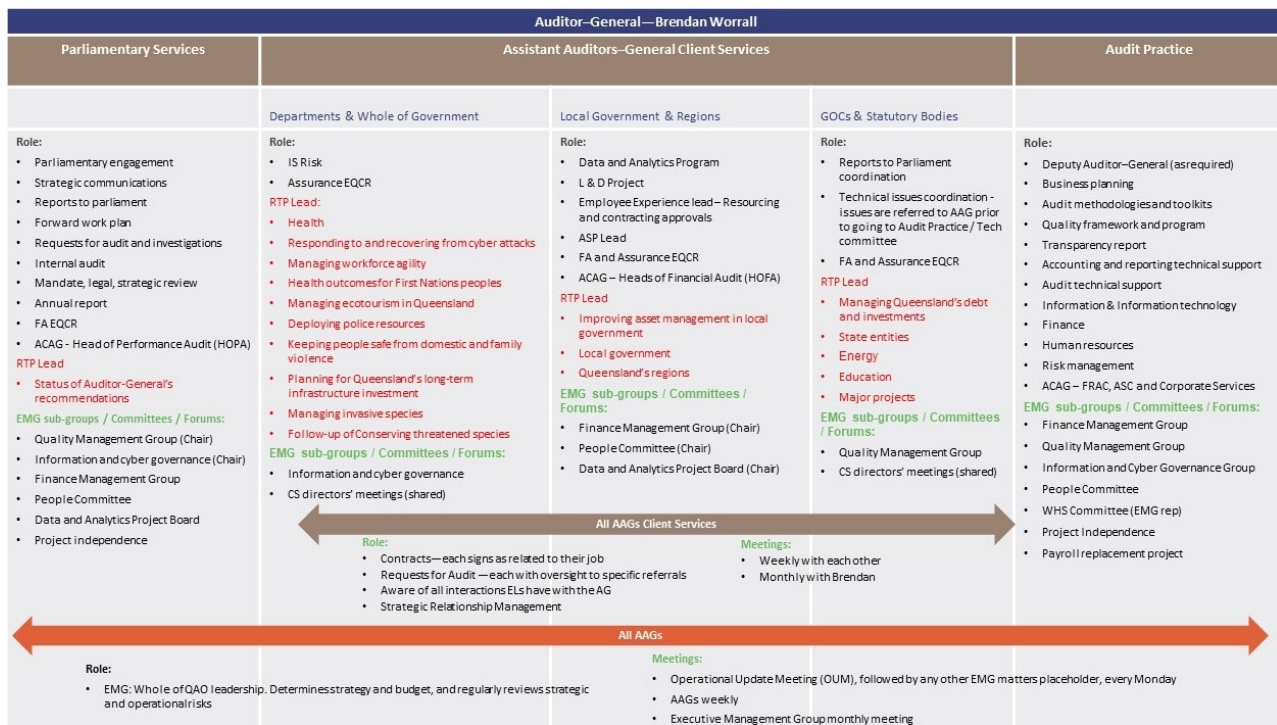
The governance framework for QAO is appropriately documented. The EMG has appropriate membership and terms of reference. It meets monthly, and meets expectations in relation to membership, agendas, minutes, agenda papers etc, and appropriate delegations.

The QAO has a comprehensive risk framework and risk register. It is regularly reviewed and monitored by the EMG. EMG is also actively focused on emerging risks. QAO is aware of the changing environment and expectations around professional auditing services, quality and independence. It is closely monitoring market conditions and risks regarding the availability and capacity of APSs collectively and individually. It will need to continue to do so with diligence. The ARMC reviews the approach to risk identification and management and assesses whether QAO’s risks are effectively managed, and recommendations implemented.

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The ARMC has an appropriate Charter, external membership, and an Audit Quality subcommittee. It provides excellent oversight and review of QAO. In November 2019, it established an Audit Quality Subcommittee to advise *ARMC on quality issues and responses across QAO's audit services*¹². The recently completed quality review recommended that the *Audit Quality Sub-Committee (a subcommittee of the ARMC) meetings should be minuted to evidence discussions held, action items noted and the acquittal of action items*.¹³

Figure 3.2 Organisational Chart including Committees, Groups and Boards



There are five EMG subcommittees and at least four operational groups, panels and project boards (see Figure 3.2). Some committees are project related but some are business as usual and may not need a committee. The review received feedback that there was some overlap of committees. EMG subcommittees were all advisory to EMG rather than having any delegated authority. This means there is some unnecessary double handling of issues, with matters ending up at EMG that could have been resolved elsewhere. Membership of several of the committees was primarily constituted by Assistant Auditors-General (AAGs). An AAG primarily responsible for an area does not necessarily chair the relevant sub-committee. Preparation and participation in committees consume a significant amount of senior staff time. The incoming Auditor-General should consider whether the internal governance and committee structure is optimal in enabling QAO to function economically, efficiently, and effectively.

¹² QAO Annual Report 2022-23, pg 28.

¹³ Evaluation on the Queensland Audit Office' System of Quality Management. 18 October 2023. Recommendation 4.

Recommendation 3.3

The Review endorses the recent recommendation (4) of the *Evaluation on the Queensland Audit Office's System of Quality Management* stating that *Audit Quality Sub-Committee (a subcommittee of the ARMC) meetings should be minuted to evidence discussions held, action items noted and the acquittal of action items*¹⁴ be implemented from 2024.

Recommendation 3.4

That the incoming Auditor-General should consider whether the current governance structure is optimal.

3.5 Economic and Governance Committee (“EGC”)

The EGC is the Parliamentary Committee responsible for the oversight of the Auditor-General.

The committee's role is to:

- *monitor and review the performance by the Auditor-General of the Auditor-General's functions*
- *report to the Legislative Assembly on:*
 - *any matter concerning the Auditor-General's functions or the performance of the Auditor-General's functions that the committee considers should be drawn to the attention of the Legislative Assembly*
 - *any changes to the functions, structures and procedures of the Queensland Audit Office (QAO) that are desirable for more effective operation of the QAO or the Auditor-General Act 2009*
 - *examine the annual report of the QAO and, if appropriate, comment on any aspect of the report*
 - *examine five-yearly strategic review reports when tabled and, if appropriate, comment on any aspect of the report and make recommendations.*¹⁵

The Committee has specific and increasing responsibilities under the Act related to the budget, the strategic audit plan, the selection and appointment of the Auditor-General and the five-yearly strategic review of the Auditor-General.

The Auditor-General appears regularly before the EGC. Recent and proposed amendments to the Auditor-General Act will necessitate a broader and more active engagement between the EGC and the QAO. Recommendations are made later in the report to assist the EGC in discharging this role.

¹⁴ *Evaluation on the Queensland Audit Office' System of Quality Management*. 18 October 2023. Recommendation 4.

¹⁵ <https://www.parliament.qld.gov.au/Work-of-Committees/Committees/Committee-Details?cid=167&id=2884>

3.6 Forward Work Plan

The Act requires the Auditor-General to publish a strategic audit plan (S38A) which sets out the performance audits (s37A audits) that the Auditor-General proposes to undertake in the following 3 years. The Act sets out requirements for consultation about the plan. The finalised plan must be published on the website by the end of the financial year.

As a result of recommendations of the 2017 Strategic Review QAO streamlined its approach to developing the strategic audit plan¹⁶.

From 2021, the three-year forward plan (commencing with 2021-24 plan) was renamed the 'Forward Work Plan' and is published as such. The renaming aimed to better reflect the purpose and content of the document, while still meeting the statutory requirement to publish a 3-year strategic audit plan. The Forward Work Plan sets out the Auditor-General's view of the key risks for the public sector, as well as the forward plan for the performance audits and areas of focus for other audits and reports.

The Auditor-General invites comment on the Forward Work Plan from heads of entities, Ministers, Parliamentary Committees, and the public. Our review of the responses to this invitation is that they are limited to commentary about the individual performance audits or their timing. The identification of the whole of government risks is internally generated within the QAO. This process could be enhanced by more external engagement by the senior leadership of government entities in the identification and development of potential risks for the public sector.

Stakeholders expressed concern about the choice of audit topics. They also expressed concerns that performance audit topics sometimes addressed issues that already been subject to recent external scrutiny, and in such cases, it was unclear what further value a performance might add. The QAO notes that in assessing possible topics they may select an area that has been recently subject to external scrutiny to provide an independent assessment of whether issues raised have been addressed by the entities. There was also concern that only a few of the performance audits focused on the economy of a program. QAO's view is that audits of economy are best undertaken where government programs have been found to be effective. Therefore, the QAO position is to prioritise effectiveness audits over audits of economy.

Recommendation 3.5 (opportunity for improvement)

That the incoming Auditor-General consider opportunities to enhance the development of the Forward Work Plan via more direct external engagement with the senior leadership of government entities in identifying and developing the risks for the public sector.

Recommendation 3.6

That in identifying topics for future performance audits, the QAO consider any other recent external reviews of the topic and identify how the QAO's performance audit would add further value to the understanding of the topic, which might include validation of entities responses to previous reviews.

¹⁶ The cost (compared to the amounts cited in the 2017 report) of preparing the Plan initially dropped after these changes but is again increasing.

4 Financial Audits

4.1 Introduction

Queensland Audit Office (QAO) audits help to ensure transparency, accountability, and integrity in the financial management of the Queensland government. Established under the *Auditor-General Act 2009*, this organization plays a pivotal role in safeguarding the interests of the citizens of Queensland by scrutinizing the financial operations of government agencies, statutory bodies, and local government entities. The primary purpose of the Queensland Audit Office is to provide assurance and oversight that public resources are managed efficiently and effectively while adhering to legal and ethical standards.

One of the core functions of the Queensland Audit Office is conducting financial audits. These audits involve examining the financial statements and transactions of various government entities to ascertain their accuracy, compliance with relevant legislation, and adherence to accounting principles.

The field of financial auditing has witnessed significant advancements over the last five years, driven by the rapid evolution of technology, changes in regulatory requirements, and a growing emphasis on data analytics. QAO was an early adopter and developer of analytics and continues to be a leader in its development and utilization of analytics in its audits.

Furthermore, there has been a growing focus on sustainability and environmental, social, and governance (ESG) reporting. Auditors are adapting to address the evolving demands of stakeholders who seek assurance on ESG disclosures, making it a prominent area of concern. Cybersecurity risks have also taken centre stage, with auditors increasingly scrutinizing organizations' IT systems and data security practices to safeguard sensitive financial and operational information.

To carry out its financial auditing duties throughout Queensland, encompassing both metropolitan and regional areas, the Queensland Audit Office (QAO) employs its in-house staff and engages private sector firms under contract to deliver audit services. These external service providers are formally referred to as contract auditors, as defined in the relevant legislation but the QAO now designates them as "audit service providers" or "ASPs".

It is also worth highlighting that the QAO successfully implemented a new software system in 2021, called CaseWare Quest, for conducting their audits.

4.2 Review methodology

Our review of the financial auditing responsibilities consisted primarily of a review of a sample of audit files and meeting with various stakeholders to obtain their feedback on the audits.

We have also reviewed the QAO's audit methodology with respect to changes in the accounting and auditing standards. In particular, we considered the response of the QAO to the introduction of the new Quality Management standards. We considered individual responses to client surveys and the consolidated responses to the survey as well as the ACAG benchmarking reports. We also reviewed their Quality reviews and transparency reports.

4.3 Review of audit files

4.3.1 File Selection

As part of the Strategic Review, we identified four financial audit files for review. These reviews were of audits that had been undertaken using the audit methodology and accordingly were all undertaken by staff employed within the Queensland Audit Office. These files were chosen to enable a review of a range of organisations from different sectors.

4.3.2 Our review of files

We selected one file from each of the following sectors:

- Government-owned Corporations
- Investment Entities
- Local Governments
- Universities

In our reviews, we checked compliance with the audit methodology and Australian Auditing Standards, including quality review requirements.

We did identify some examples where improvements could be made to documentation within the audit files. In accordance with Australian Auditing Standards (“ASAs”), the quality of documentation is meant to be such that a reasonable experienced auditor would be able to reperform the exact audit procedure performed and come to the same result. There were certain files where the level of documentation on file did not meet this requirement. For example, where items were traced to a bank statement, the date and amount traced was not noted in the documentation, however a blanket statement noting that the sample had been traced to the bank statement was made. Other examples noted was that an amount had been traced to supporting documentation, but no detailed information relating to which supporting documentation it had been traced to was noted.

We note that although additional documentation would not have resulted in a different audit opinion being issued, it is important that the level of documentation be improved.

The auditing standards also set out a number of assertions that every audit must perform procedures on to determine whether the assertions have been met in all material respects. For example, an auditor should check whether all transactions have been included in the financial statements. There were some examples where the procedures performed could not be matched to an assertion as per the auditing standards. This is noted as a housekeeping issue, however identification of assertions on workpapers could be improved upon.

In some instances, we observed that the items selected for sample testing were based solely on higher valued items, rather than providing an equal opportunity for each item in the population to be selected. This resulted from individual lower-value items, that were material in total, not being included in testing.

None of the above matters impacted the overall quality of the audit undertaken or the resultant audit opinion issued on those audits. We note that senior management are aware of the above issues, and we have been advised by the QAO that more emphasis will be given in internal training to improve documentation on files.

4.3.3 Implementation of CaseWare Quest

In the 2021 financial year the QAO implemented a new audit software called CaseWare Quest. Our enquiries revealed that there has been a lot of work performed in the implementation of CaseWare Quest, in the form of additional template working papers and mapping of existing forms within CaseWare Quest to the Auditing Standards. Additional staff training was performed on the usage of CaseWare Quest, and additional resources were provided to assist QAO staff with any issues related to the implementation of the new audit software.

Both financial audits and performance audits have been transitioned from the old audit software to CaseWare Quest, and the QAO believes that efficiencies have resulted since the implementation of CaseWare Quest.

4.3.4 Conclusion

On our review of the audit files, we found a generally high level of adherence to the QAO's audit methodology and ASAs.

We did, however, identify certain instances where there were opportunities for improvements in documentation and testing related to the audit files. It is important to note that these findings did not impact the final audit opinion issued but implementing these improvements would enhance the overall quality of the audit files.

Recommendation 4.1

That the QAO provide additional training in respect of improvements to the level of documentation required on all files.

4.4 Views of stakeholders

4.4.1 Stakeholder selection

An important part of our review was meeting with various stakeholders to obtain their views on the performance of the QAO. We conducted meetings with the following stakeholders:

- Financial audit clients
- Members of Parliament
- Current and former QAO employees
- Audit Service Providers

We also considered individual responses to client surveys and the consolidated responses to the survey as well as the ACAG benchmarking reports. We also reviewed their Quality reviews and transparency reports.

4.4.2 Financial audit clients

During the review, we engaged in discussions with a number of audit clients to discuss the audit process conducted by the QAO. Additionally, we examined various client surveys that the QAO had conducted over the past two years.

The majority of audit clients expressed their satisfaction with both the quality of work executed by the QAO and the level of communication they received from the QAO.

No substantial issues were brought to our attention by the audit clients, and many conveyed positive feedback for the way in which their audits were conducted.

In the previous Strategic Review conducted in 2017, audit clients had raised concerns regarding challenges associated with valuing infrastructure. It is worth noting that this particular concern did not resurface during the current review. However, we note the current status of the response to the previous review at 4.4.5 below.

In addition, as noted in previous reviews, the QAO annually solicits feedback from its financial audit clients. This is conducted by ORIMA Research, an independent firm acting on behalf of ACAG using a standard set of questions which allows comparisons among the various state audit offices.

The overall performance score for 2022-23 was 84 index points, a slight increase over the score of 82 index points for the comparable client group in 2021-22. The QAO's target is 80 index points, which it has now exceeded.

In comparison to other Australian audit offices, the QAO performed strongly and was among the two offices that saw an improvement in their overall performance score when comparing the 2022-23 fiscal year to the previous year.

During our meetings with clients, we were advised by some that they felt that the survey questions were out of date and the formatting was not very good and needed updating. We also noted that there was a wide variation across clients as to who completed the surveys, the amount of detailed feedback and the involvement of senior management in the sign-off of the survey. Consideration should be given to engaging with ACAG for an update of the survey and to provide audit clients with encouragement to provide more detailed comments in the free text space.

Other specific areas of feedback are discussed below.

4.4.3 Members of Parliament

The QAO presents its financial audit work to Parliament through sector reports, as detailed in section 4.13. To gauge its performance, the QAO seeks feedback from Members of Parliament ("MPs"), aiming to conduct this survey twice during each parliamentary term.

This survey assesses MPs' satisfaction with the services and reports provided by the Auditor-General and solicits their opinions on the service and reports its effectiveness. In the 2022-23 survey, the overall satisfaction and effectiveness score reached 97 index points, an increase from the previous 89 index points recorded in the 2020-21 survey.

Consistent with the views of other stakeholders, feedback from MPs was positive about financial audits. However, the response rate dropped significantly between the years 2021 and 2023. This is discussed further in chapter 6.9.

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The 2022 survey of Members of Parliament showed:

- 97% of MPs said that they were satisfied with the Auditor-General's reports & services;
- 92% of MPs thought that the reports and services of the QAO helped improve public sector administration;
- 97% of MPs said that the reports produced by the QAO communicated issues clearly;
- 92% of MPs thought that the QAO helped improve public sector administration;
- 90% of MPs thought that the QAO's reports were easy to understand; and
- Over two-thirds (68%) of QAO MPs agreed that the Auditor-General's performance audit reports addressed their key areas of interest to a high extent.

4.4.4 Audit service providers

We met with a number of ASPs including a regional provider. Generally, the feedback was positive, but whilst there is a competitive tender process, all noted that the fee levels agreed for the audits are below comparable fees in the private sector and that there were some difficulties in agreeing variations to the fee where there was extra work required compared to the original scope of the audit.

The Queensland Audit Office has approximately 20 private sector auditing firms who are contracted with them to perform audits. Contract arrangements are discussed further in Section 6.2.3.

During our review, we engaged with various Audit Service Providers (ASPs). These ASPs highlighted an enhancement in the sharing of information and audit templates by the QAO. ASPs also noted an increased level of communication with the QAO staff.

ASPs have now been granted access to an online SharePoint platform, known as "client hubs", for the purpose of exchanging documents with their clients. Refer Section 4.11.8 for further information.

Moreover, ASPs have been incorporated into additional training initiatives, bridging the gap between public sector and private sector audit knowledge. These training sessions now take place in both Brisbane and Cairns.

ASPs are also subjected to Quality Reviews. This is discussed further in Section 4.11.5.

Although the aforementioned changes have been implemented and received positively by the ASPs we interviewed, it was still widely observed that there is room for improvement in the understanding of the audit template documents, and a need for a greater variety of such templates.

The following were the results from the ASPs from surveys held:

	2020-21	2021-22	2022-23
QAO audit jobs[^]	79%	76%	82%
QAO workforce[*]	79%	79%	84%
QAO processes[#]	65%	67%	71%
Overall	74%	74%	79%

[^] general perceptions of working with the QAO

^{*} perceptions of dealing with QAO contacts e.g. contract managers and signing officers

[#] perceptions of dealing with the QAO processes e.g. workpaper templates, documentation required

4.4.5 Asset valuations

During the 2017 Strategic Review, clients raised issues pertaining to the valuation processes of infrastructure assets. The review identified several client-raised issues, leading to the formulation of recommendations by the Strategic Reviewer.

Refer to Section 7.3.3 for further information.

4.4.6 Changes in audit teams

Maintaining a stable audit team is of utmost importance for organisations. It ensures continuity in the audit process, allowing for a deep understanding of the company's operations and financial intricacies. A long-term partnership fosters trust and collaboration, enabling auditors to provide more effective and valuable insights. Moreover, stability in audit teams can enhance efficiency and reduce the disruptions that often accompany frequent changes, ultimately contributing to the overall financial health and transparency of the organization.

In general, audit clients expressed satisfaction with the limited frequency of changes in their audit team. Most clients enjoyed stability with their assigned audit team.

However, there were instances where significant changes in audit teams had occurred – either within a QAO audit team or by appointment of an ASP. In such cases, most clients anticipated challenges with the transition. There were also instances where changes in audit firms had occurred, and in such cases, clients were very satisfied with the changeover and noted that it had been handled very well.

However, on the other hand, a small number of clients noted that there had been significant changes in the QAO audit team which had had a negative impact on the efficiency of the audit. Generally, this was felt to be a result of the increased turnover of staff post-COVID and the ongoing difficulties in sourcing new staff. This is further discussed in Section 6.1.

4.4.7 Audit fees

In our discussions with audit clients, it was brought to our attention that, for the majority of them, their audit fees had remained consistent. However, in a few cases, clients mentioned that there seemed to be an increase in the time and other internal and external resources required to deal with the requests of the audit teams. In general, the consensus among those we met with was that the audit fees were considered reasonable.

When reviewing the Report on 2022-23 ACAG Benchmarking Process for the Australasian Council of Auditors-General (appendix on client survey benchmarking), it was also noted that the QAO clients were the most likely to agree that the audit fees are reasonable relative to the scale, complexity and financial risks of their operations, with a score of 77 index points.

4.4.8 Contact with the Auditor-General

In the 2017 Strategic Review the following recommendation was made:

“We recommend that, because client engagement should be led by the Auditor-General and the Deputy Auditor-General, the QAO institute an annual programme of visits so that either the Auditor-General or the Deputy Auditor-General meets the Director-General or chief executive of each major client each year.”

The Auditor General now engages in an extensive program of meetings. Particularly impressive were visits to every region in the state.

4.4.9 Understanding of the client's business

Auditors often face the challenge of comprehensively understanding a client's business due to its inherent complexity and the need for specialized knowledge. Each company operates in a unique environment with specific industry practices, financial intricacies, and internal control systems. Moreover, businesses continually evolve, making it essential for auditors to stay updated on changing operations, strategies, and market dynamics. To overcome this challenge, auditors need to invest time in client interactions, stay informed about industry trends, and adapt their audit approach to align with the specific nuances of each client's business, which can be costly.

A few audit clients expressed a concern that the QAO lacks a comprehensive understanding of their business. This was a concern of some, but not all, particularly in respect of the most complex clients that were interviewed. This was also noted as a concern in the 2017 Strategic Review. Most clients interviewed felt that the QAO has a good understanding of their business operations and worked well with audit service providers with expertise in the more complex areas to ensure risks in those complex areas were adequately addressed during the audit. However, we would encourage the QAO to proactively discuss this aspect during the planning for the next audit of all complex clients.

When reviewing the Report on 2022-23 ACAG Benchmarking Process for the Australasian Council of Auditors-General (appendix on client survey benchmarking), it was also noted that the QAO had the highest proportion of clients who agreed that the auditors understood their organisation, with a score of 93 index points.

4.4.10 Timeliness of advice

Overall feedback from stakeholders was there were no substantive issues in obtaining timely advice from the QAO in respect of queries in respect of accounting or auditing issues. Feedback was that this aspect had improved since the 2017 Strategic Review.

4.5 New auditing standard on Audit Risks

4.5.1 ASA 315: Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment

ASA 315 is an auditing standard issued by the Australian Auditing and Assurance Standards Board (AuASB) and is applicable to auditors conducting financial statement audits in Australia. It is part of the Australian Auditing Standards, which provide guidance and requirements for the performance of high-quality audits.

The objective of ASA 315 is to guide auditors in understanding the entity and its environment, including its internal control system, and to identify and assess the risks of material misstatement in financial statements. This standard emphasizes the importance of risk assessment as a fundamental step in the audit process.

ASA 315 provides auditors with a structured approach to risk assessment, ensuring that they have a comprehensive understanding of the entity and its operating environment. This knowledge allows auditors to design appropriate audit procedures to detect and respond to the risks of material misstatement in financial statements, ultimately contributing to the quality and reliability of the audit process in Australia.

Significant changes were made to ASA 315 effective for financial reporting periods commencing on or after 15 December 2021.

Some of the biggest changes in ASA315 relate to obtaining an understanding of the entity, including its internal controls and IT systems, risk assessment and the documentation thereof.

4.5.2 Implementation of ASA315

The implementation of ASA 315 has had a profound impact on the auditing profession, as it has led to a more systematic approach to evaluating internal controls, reducing audit risk, and enhancing the overall reliability of financial reporting.

The QAO did not find the implementation of this standard a challenge as they had already been applying certain aspects of ASA315, especially regarding the understanding of the internal control environment of the client. The QAO has an existing information systems risk audit group, which provides a range of information systems audit services, so was well placed when ASA315 was implemented.

A review of the files noted that ASA 315 had been adhered to within the audit files, with no significant issues noted.

4.5.3 Views of audit clients

No issues were raised on the implementation of ASA315 by clients.

4.5.4 Conclusion

No issues have been noted with the implementation of ASA315.

4.6 Data analytics

4.6.1 Progress since 2017 Review

Our review found that the QAO has a deep commitment to its Data Analytics programme and has continued to make significant investments in developing its capabilities. The 2017 Review recommended that the QAO undertake formal reviews of the programme to assess the benefits arising from the use of audit analytics.

An independent review of the QAO's internal Data and Analytics function was conducted in September 2021 by KPMG. The review compared the current state of the programme against the desired future state of the programme to prepare a gap analysis. This gap analysis was then used to prepare a Roadmap for the actions required by the QAO to progress towards the desired future state. In addition, a return on investment ("ROI") analysis was performed considering (a) the overall costs of the programme including staff, software licencing, hardware etc and (b) the quantitative and qualitative benefits of the programme.

The review found that

- based on KPMG's methodology, nearly all aspects of the programme had progressed past the initial maturity stages such that they were expected to be fully defined within 12 months and at a managed maturity level within 24 months
- "the benefits to the QAO both historically and into the future, exceed the past and ongoing costs of providing these 'data analytics' capabilities and thus provide a positive ROI to QAO and ultimately the State of Queensland"

Feedback from our interview from stakeholders revealed that on the whole the use of data analytics in those audits was perceived as beneficial.

4.6.2 Conclusion

Overall we believe that the use of Data Analytics by the QAO has been of benefit in the performance of its audit Mandates.¹⁷

4.7 Other auditing standards changes

Another significant audit standard that has been revised is *ASA540: Auditing Accounting Estimates and Related Disclosures*. This standard, issued by the AuASB, pertains to the auditing of accounting estimates and related disclosures in financial statements. ASA 540 provides auditors with a structured framework for evaluating the reasonableness of accounting estimates, such as fair value measurements, provisions, and complex estimates.

When reviewing the audit files, we noted that there were templates in place to address the additional requirements of *ASA540: Auditing Accounting Estimates and Related Disclosures*.

There have been no significant changes to the Australian Standards on Auditing since the last review of the QAO, with the exception of *ASA315: Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*, and the new Quality Standards, both of which have been addressed separately within this report.

¹⁷ Data and Analytics Review September 2021

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However, the AuASB has issued Guidance Statement GS 023 *Special Considerations – Public Sector Engagements*. The aim of the AuASB in issuing *Guidance Statement GS 023 Special Considerations – Public Sector Engagements* is to promote consistent application of AuASB Standards in the public sector to enhance the quality of public sector audit and assurance engagements and their resulting reports. The Guidance Statement was issued on 7 June 2022 by the AuASB and replaces GS 023 *Special Considerations – Public Sector Engagements*, issued in December 2021.

The QAO has served as a representative on the AuASB's Project Advisory Group (PAG), briefing both the AAG-AP and the AG. The guidance statement was developed by the AuASB in response to ACAG's request for additional guidance on applying the ASAs in a public sector context.

According to the QAO, the guidance statement has so far tackled three significant issues:

- Acceptance and continuance of client relationships where ACAG offices don't have the discretion to decline mandated engagements or withdraw from them.
- Going concern in public sector entities where the financial metrics are poor, but there is no evidence that the entity doesn't have the support of the government.
- Signing officer responsibilities specifically related to ASA220 considering that the term 'signing officer' is not used in the ASA.

Most ACAG offices adopted a similar approach in interpreting the standards but sought greater clarity to ensure the maintenance and adherence to appropriate actions and quality. The PAG assisted the AuASB with feedback, examples, and proposed wording changes for the guidance statement. The AuASB conducted multiple workshops with the PAG, addressing any issues notes.

The QAO had the chance to engage in a discussion with the AuASB regarding practical implementation. Additionally, they initiated conversations with other ACAG offices to compare and assess their approach.

The QAO found that the guidance statement validated the appropriateness of their approaches and provided support for their practices. As a result, QAO made minor adjustments to its existing audit methodology and training.

Directors received training on each matter, and updates were conveyed to EMG through the monthly brief from Audit Practice. Alerts were issued for the final two matters due to their higher impact on staff. QAO's approach to accepting and maintaining client relationships remained unaltered.

4.8 Auditor-General Auditing Standards

4.8.1 Background

The Act requires the QAO to set and table in parliament standards by which it performs audits. These standards, known as the *Auditor-General Auditing Standards*, require the adoption of standards issued by the AuASB to the extent they are consistent with the requirements of the Act.

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The Auditor-General may conduct audits under the Auditor-General Act that do not directly apply these standards. The Auditor-General will use their discretion over the scope of the audit and associated report content.

Examples of these audits are:

- conducting audits into financial administration at the request of the Legislative Assembly
- investigating matters raised about financial waste and mismanagement related to public assets and services
- sharing the insights or learnings from our audit work across government
- evaluating the risks and issues we believe government needs to manage now and, in the future,
- reports that set out the key facts, underlying assumptions, and summary information to help stakeholders understand complex issues and subjects.

The relevant AuASB standards are listed in the following table.

Standard number	Title	Issue date
ASRE 2405	Review of Historical Financial Information Other than a Financial Report	September 2022
ASRE 2415	Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation	March 2021
ASAE 3000	Assurance Engagements Other than Audits or Reviews of Historical Financial Information	September 2022
ASAE 3100	Compliance Engagements	September 2022
ASAE 3150	Assurance Engagements on Controls	September 2022
ASAE 3402	Assurance Reports on Controls at a Service Organisation	September 2022
ASAE 3500	Performance Engagements	September 2022
ASRS 4400	Agreed-Upon Procedures Engagements	December 2022
ASRS 4450	Comfort Letter Engagements	September 2020
APES 215	Forensic Accounting Services	July 2019

The Auditor-General Auditing Standards incorporate additional public sector requirements. The Standards apply to both financial and performance audits.

4.8.2 Keeping the Standards up to date

The Auditing Standards had been reviewed internally within the QAO in 2016 with the finding that no changes needed to be made. An Internal Audit Report on Quality Management undertaken in the QAO in February 2016, also concluded that the standards remain current but recommended the addition of a requirement for a formal review every three years.

Significant changes were then made to the standards in both 2019 and 2022.

The 2017 Review recommended that the Standards should be reviewed at least once every three years. However, given the speed at which changes in accounting and auditing standards are occurring we believe that the Standards should be reviewed annually and, if necessary, updated.

4.8.3 Conclusion

We believe that the current Auditor-General Auditing Standards are adequate to meet the audit mandates of the QAO.

Recommendation 4.2

That the Auditor-General Auditing Standards be amended to require a review of and, if necessary, revision of the Standards annually.

4.9 Accounting and reporting standard changes

It is important to keep abreast of significant changes to Accounting and Reporting Standards that may mean changes to reporting in the financial statements of audit clients of the QAO and, accordingly, may impact audit requirements.

There are currently no new Accounting Standards due to come into force in the next few years that are expected to have a significant impact on QAO clients.

4.10 Sector reports

The QAO regularly provides to Parliament reports summarising the results of the financial audits in the following sectors:

- Education
- Energy
- Health
- Local government
- Major Projects
- Managing Queensland's debts and investments
- State entities

In addition the QAO provide electronic dashboards on their website linked with the relevant sector report to illustrate the insights from their work for the following sectors:

- Education

- Energy
- Grants
- Health
- Local government
- Water

As with the 2017 Strategic Review, the majority of the feedback was positive, and the reports were considered useful.

Overall Sector Reports are well received by most stakeholders and provide a valuable service for the State of Queensland.

4.11 Quality within the QAO

4.11.1 Background

The QAO serves a vital role in upholding the integrity and transparency of financial reporting, and the quality of their work is essential to ensuring the credibility of financial statements. High-quality audits not only help identify inaccuracies and potential fraud but also provide valuable insights and recommendations to clients for improving their financial and operational processes.

Moreover, in an increasingly complex and regulated business environment, the QAO must adhere to stringent standards and professional ethics to maintain their reputation and the trust of clients and stakeholders. Quality is, therefore, not merely a desired attribute but an absolute necessity for audit firms. It impacts the firm's long-term sustainability, client satisfaction, and its ability to contribute to the overall economic stability by fostering confidence in financial markets. In summary, quality is the cornerstone of an audit firm's mission and is pivotal in fulfilling its responsibilities to clients and the public at large.

4.11.2 New Quality Standards issued

The AuASB recently released three revised Quality Management Standards.

According to their website the standards promote a robust, proactive, scalable, and effective approach to quality management and mark a significant evolution of the existing quality control standards.

The standards place greater responsibility on firm leadership for continuously improving the quality of their engagements and remediating when deficiencies are found. When effectively implemented, the standards should help ensure that a commitment to quality is at the heart of firm strategy and operations.

The suite of standards includes:

- ASQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*;
- ASQM 2, *Engagement Quality Reviews*; and
- ASA 220, *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

The above standards became effective from 15 December 2022.

4.11.3 Implementation of ASQM1

There are 8 mandated components to a system of quality management and ASMQ 1 identifies 38 quality objectives within those components that QAO must adopt. The mandated components are:

- The firm's risk assessment process;
- Governance and leadership;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Engagement performance;
- Resources;
- Information and communication; and
- The monitoring and remediation process.

QAO performed an evaluation of QAO's systems of quality management (QSoQM), as at 30 June 2023, to assess whether the objectives of the QSoQM are being achieved.

The evaluation was performed by the Senior Director of Audit Practice and concluded that, although several improvement opportunities had been identified, the *QSoQM complied with ASQM 1 and is effective*.

4.11.4 Audit and Risk Management Committee

In order to provide effective oversight of risk, control, compliance frameworks, and fiscal responsibilities the QAO has an established ARMC. It comprises 3 external members, two of whom have extensive audit experience in major audit firms.

In addition, the QAO also established an Audit Quality Sub-Committee of the ARMC to provide external advice, guidance and to challenge the QAO's audit quality activities. A recommendation (3.3) relating to this sub-committee is made in the previous chapter.

4.11.5 Transparency Reports

Under the *Corporations Act 2001* all individual auditors, audit firms and authorised audit companies ("auditors") must publish a transparency report on their website if they have conducted 10 or more audits of listed companies, registered schemes or authorised deposit-taking institutions etc.

A transparency report is designed to inform the market about those auditors and to be transparent about their quality management systems.

The Act prescribes a number of items that a transparency report must contain, including a description of the auditor's quality management system.

The QAO can be commended for voluntarily publishing a very detailed transparency report on its website which is very detailed and would assist stakeholders to understand how the QAO conducts its audit mandates.

4.11.6 Quality Reviews

The QAO released its Audit Quality Assurance Plan for the 2022-23 fiscal year in December 2022.

The responsibility for overseeing and reporting on audit quality lies with the Assistant Auditor-General – Audit Practice (AAG-AP). The quality assessments evaluate the effective application of the QAO's methodology.

The QAO conducts both in-progress reviews, referred to as "hot reviews," and post-completion reviews, known as "cold reviews." Hot reviews occur while an audit is ongoing, while cold reviews are performed on finalised audit files.

The selection process for these files ensures that at least one engagement is chosen for each engagement leader, unless otherwise approved by the AAG-AP. Files selected for quality review are normally those audit files with a higher risk rating. In the case of ASPs, the engagement partner is selected at least once in a three-year rotation.

A root cause analysis (RCA) is conducted for every moderate and high-rated audit quality finding. RCA is a method used to identify the underlying causes of quality findings and prior period errors, enabling the implementation of appropriate measures to prevent their recurrence.

Dependent on the findings of the quality reviews, technical alerts are distributed to the staff, and the annual technical training plan may be adjusted to focus on areas of concern. Additionally, templates within CaseWare Quest may be amended or enhanced. The results of the quality assurance root cause analysis are reported to the EMG on an annual basis.

The Quality Review team comprises senior-level QAO staff and an external consultant who is in the second term of their three-year contract.

4.11.7 Quality Management System Monitoring

Auditing Standard ASQM 1 became effective from 15 December 2022 and forms part of the Auditor-General Auditing Standards. Paragraph 36 requires that firms design and perform monitoring activities to identify deficiencies in their Quality Management systems. Paragraph 38 requires firms to include inspection of completed engagements in its monitoring activities. For the purposes of ASQM 1 the term "firm" refers to the QAO.

For the majority of large audits firms acting in the private sector this monitoring is conducted either by external consultants or by staff who are not employed directly by the firm but are employed by a national "head office" in order to address the considerations on the objectivity of the individuals conducting the monitoring activities.

Currently, the monitoring activities are being conducted on the QAO's financial audit or performance audit files by the QAO Senior Director of Audit Practice who meets the requirements regarding objectivity. However, based on current practice in the private audit sector we believe that the best practice would be to have the monitoring activities carried out by an external party. We understand that presently, agreements exist between the Auditors-General of various other states and the ANAO to conduct mutual external reviews. We believe that this agreement may be beneficial to the QAO.

Recommendation 4.3

The incoming Auditor-General should give consideration as to whether to engage with the Auditor-General of another state to perform the monitoring activities on the QAO's Quality Management System including inspection of completed audit engagements.

4.11.8 Audit Service Providers

As part of the QAO's QSoQM, performs regular reviews of Quality Management Systems of ASPs. During 2022-23 6 detailed reviews and 3 high level reviews were conducted.

Regular reviews of the ASP audit files are conducted to ensure that Auditor-General Auditing Standards are being complied with.

In addition, the QAO closely monitors the independence of ASPs and generally do not allow them to provide non-audit services without prior written approval of the Auditor-General. Approval of such services is only given if the services fall within the permissible services allowed by APES 110.

It was noted that the latest report on compliance with ASQM 1 recommended that: *Content owners, such as Client Service and Audit Practice directors should review material provided to ASPs via the PartnerHub on a regular basis to ensure accuracy and completeness of content published. Material includes templates, guides and advice.*

The Report also noted:

The intent to monitor and review PartnerHub content is evident, however, the frequency thereof is ad-hoc with no formal process in place to ensure accuracy or completeness of published content.

4.11.9 Conclusion

Our review of the quality process within QAO was found to be sound. Changes to the standards were being adopted. However, we do believe that there will be benefit to the QAO to have an external review.

4.12 Sustainability

At the end of June 2023, the International Sustainability Standards Board (ISSB) a sister body to the IASB, issued the first two sustainability reporting standards. These standards will form the basis of sustainability reporting in Australia. This is an emerging area of regulation and corporate reporting that will involve significant time investment to implement and will require extensive training for audit firms.

Sustainability Reporting is reporting that will sit alongside annual financial reports and will disclose how organisations are dealing with environmental, social and governance (ESG) issues that impact them. It will be more forward looking than financial reporting and include the risk and opportunities that these sustainability issues create for an organisation, their strategy to respond to these risks and opportunities and the potential impact on financial position and performance in the short, medium and long term.

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Queensland Treasury released a consultation paper on 27 June 2023 that outlines how sustainability reporting will be implemented in Queensland. Sustainability reporting disclosures will be required to be released at the same time as the annual report and will require tiered assurance. The proposals see a phased implementation of the standard as follows:

Proposed Reporting Thresholds

Meet any two of:	June 2025	June 2027	June 2028	
	Employees	500	250	100
	Assets	\$1b	\$500m	\$25m
	Revenues	\$500m	\$200m	\$50m

Auditors will experience a significant shift in their training requirements as the demand for Environmental, Social, and Governance (ESG) reporting grows. Sustainability considerations are becoming integral to corporate reporting, and auditors must acquire specialised knowledge and skills to assess ESG data effectively. This necessitates training that encompasses not only financial auditing but also an understanding of sustainability metrics, data collection, and the broader ESG landscape.

In our client discussions, all expressed their interest in understanding the QAO's perspective on sustainability.

As reporting standards continue to evolve, auditors must stay current with the latest regulations and best practices to ensure the accuracy and reliability of disclosures, reflecting the increasing importance of sustainability in today's business world. When discussions were held with staff, Sustainability reporting was noted as a concern as there was currently no plan in place to allow for training. The QAO advised that this will be implemented once the framework is finalised.

Recommendation 4.4

That consideration needs to be given regarding the move to Sustainability (ESG) reporting and what impact this will have on the QAO, its staff and their training requirements.

5 Performance auditing

5.1 Introduction

The QAO's Performance Audit assessments help in understanding whether public sector entities and local governments are delivering their services effectively, efficiently, economically, and in compliance with legislative requirements. The QAO's oversight is crucial for holding these entities accountable for their use of public resources.

The QAO's Performance Audit provides advice and recommendations to government departments, councils and agencies, enabling them to enhance their management objectives, processes and service delivery. Performance Audits play a crucial role in promoting accountability, transparency, and efficiency in government operations. Performance Audit helps identify areas for improvement, leading to better allocation of resources and, ultimately, improved public services.

Performance Audits aim to determine whether the State government programs are achieving their intended outcomes and objectives. This evaluation is done in relation to criteria such as efficiency, effectiveness, economy, and compliance with legislation and regulations. In reference to Standard on Assurance Engagements ASAE 3500 *Performance Engagements*:

In the public sector, the conduct of performance engagements by Auditors-General is legislated in the respective jurisdictions. While the legislative requirements may have either a narrow or broad scope, ordinarily performance engagements include examination of economy, efficiency or effectiveness:

- *in terms of management systems or an entity's management in order to contribute to improvements;*
- *of the operations of an entity or an activity of an entity;*
- *of the internal controls applied by an entity in relation to an activity;*
- *in the implementation of government policies or programs and the application of government grants;*
- *in terms of financial prudence in the application of public resources; and*
- *of administrative arrangements.*

ASAE 3500 also provides the following definitions, and may have broader application in the public sector and should not be seen as limiting existing legislative arrangements or custom:

- *Economy* means the acquisition of the appropriate quality and quantity of resources at the appropriate times and at the lowest cost.
- *Efficiency* means the use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.
- *Effectiveness* means the achievement of the objectives or other intended effects of activities at a program or entity level.

Performance audits ensure that programs are operating in compliance with relevant laws, regulations, and policies.

The reports of performance audits are tabled in Parliament.

5.2 Review Methodology and Approach

Our methodology and approach for this review involves several key steps. This included analysing Performance Audit files, reviewing internal and external reports, considering surveys/feedback from stakeholders, and conducting interviews.

For Performance Audit file reviews, we randomly selected the files to review based on reports submitted to Parliament over the last two years. All the Performance Audit files were centrally stored and organised using CaseWare, which superseded QAO's former ASPIRE system. During the review, we examined essential documents, assessed the timing of approval by various reviewers, and ensured the consistency of methodologies as per the Performance Audit Methodology ("PAM") manual. This review specifically focused on Performance Audit reports and the review did not include reviewing of files relating to Audit Briefs and Insights reports. We conducted our review by examining a range of internal and external reports, which included, among others, the 2017 QAO Strategic Review and its associated recommendations, the Forward Work Plan, and the Strategic Audit Plan.

Interviews conducted included Performance auditees across the various departments and agencies, as well as current and former staff.

5.3 Review of Performance Audit files

5.3.1 File review

We selected five files from the reports submitted to Parliament to assess the compliance of these files with PAM. The Performance Audit files in CaseWare were structured and organised into four key sections: Planning, Conduct, Reporting and Manage Value - Closing. Also included at the beginning of the file was a section with respect to audit management, which included monitoring budget, timeframes, meetings, minutes, notes, and the Significant Decisions log. There were a number of critical documents which were all on file, specifically the QA certification, Finalise audit file, EQCR Certification, EQCR review confirmation, that were all signed-off by the appropriate reviewer.

Overall, the CaseWare files reviewed displayed a well-organised structure, with every document in the file being signed off by the Engagement Leader and/or the Engagement Quality Control Reviewer ("EQCR"). The CaseWare file structure has been designed to incorporate Tags, which serve to identify the responsible official reviewer for document signoffs.

5.3.2 Sign-Off by Reviewer

A CaseWare Master Template ("MT") has been set up for Performance audit by including critical documents which require sign-off review for the authorised officer. Tags are affixed to these documents in the MT to signify their need for review and approval. Generally, official reviewers have completed the sign-off process for critical documents.

However, there were certain instances where the designated reviewer had not adhered to the sign-off requirements outlined in the MT, particularly at senior levels of management. Furthermore, we observed delays ranging from one to two months between document submission by the preparer in CaseWare and the required reviewer. It was also observed

that EQCR signoffs occasionally had occurred a few days before or after the report was presented to Parliament.

Additionally, discrepancies were identified where the sign-off requirements specified in the MT did not correspond with the actual sign-off in the audit files. It's important to highlight that the MT was specifically designed for the purpose of Performance Audits, aimed at simplifying and streamlining the sign-off procedures.

While CaseWare enables document lockdown following the EQCR's final sign-off, we identified instances where modifications were made after this point, suggesting potential weaknesses in the control process.

The QAO is presently revising the Performance Audit Methodology manual, customising it for its integration with CaseWare. Particular focus is being placed to emphasise- the significance of the MT, ensuring the completion of vital documents and forms, along with the approval by authorised reviewers. The review and sign-off process stands as a crucial component in the utilisation of CaseWare, enabling management to provide review comments and feedback to staff while enhancing transparency in the audit process.

Recommendation 5.1

That Performance Audit staff be reminded to follow the sign-off procedures in the Master Template and as stipulated in the current revision of the Performance Audit Methodology manual.

5.3.3 Document Management

In 2021, CaseWare was introduced as the designated system for Performance Audits and as the exclusive repository for all audit documentation. CaseWare maintains an audit trail that records the last updater and modifier details, as well as dates that forms and documents were completed and reviewed providing transparency of the audit process.

However, this review found a lack of clear evidence pertaining to the receipt and review timing of documents, particularly during the Conduct Phase. There were instances where external documents were uploaded and reviewed within a single day, raising questions about the comprehensiveness of the review process.

Although each document is screened for relevance before uploading, CaseWare, as the central repository, should be used more consistently. Its role as a centralised repository facilitates evidence of managerial reviews, where upload dates and review dates can vary. This consistency is essential for maintaining transparency and evidence of review in the audit process.

The utilisation of CaseWare offers concrete evidence of document review. The audit trail precisely records who accessed the document, when it was accessed, and any modification made. This transparency enhances the document review and sign-off processes, ensuring transparency and accountable approach.

Recommendation 5.2

That CaseWare be used as the central document repository management system for all Performance audit documents and that all documents be uploaded as part of the working file.

5.3.4 CaseWare and Performance Audit Methodology

CaseWare has been implemented for more than two years. However, we noted that the PAM manual has not been updated to incorporate the changes from the previous system, ASPIRE. All references in PAM are still directed towards ASPIRE. It is noteworthy that not all processes in PAM are outdated. Management has informed us that they are currently in the process of updating the PAM manual to align it with the new requirements for CaseWare and to simplify some of the processes. CaseWare was initially implemented with a primary focus on financial audit, and the current efforts aim to adapt it for Performance Audit needs.

However, discussions with staff revealed that the PAM manual and CaseWare do have differences. The absence of a dedicated CaseWare PAM poses challenges, especially for new staff who joined after the implementation of CaseWare. Interviews held also highlighted that CaseWare training, and training in general, was heavily skewed towards financial audit and lacked relevance for Performance Audit. Given the substantial differences in requirements between financial and performance audits new performance audit staff should not undergo the same CaseWare training as financial auditors.

The QAO should develop a distinct training program tailored specifically for performance auditors, ensuring that the training content is relevant to their needs and doesn't solely focus on financial audit processes. This is further discussed at Section 5.6 below.

Similarly, the QAO should accelerate the development of the PAM manual for CaseWare. This will provide clear guidelines and references for new or existing Performance auditors at the QAO, serving as a valuable resource during the process of conducting a performance audit.

Recommendation 5.3

The QAO should accelerate the development, approval and implementation of the Performance Audit Methodology manual.

5.3.5 Time Charged to Performance Audit

Evaluating the efficiency, effectiveness, and economy of an audit can be approached through various methods. One such method involves examining the time dedicated to the audit activities. For performance audits at the QAO, there are four time-recording charge codes: Planning, Conduct, Reporting, and Manage Value and Closing. Currently, these codes lack detailed sub-categories, making it challenging to identify specific activities consuming significant time in each phase.

Discussions among staff have raised concerns where certain tasks in the Planning phase disproportionately consume time.

The introduction of sub-categories within charge codes could offer a more detailed breakdown of time allocation. This nuanced analysis would enable management to assess engagements and staff performance more effectively. Such detailed scrutiny could pinpoint areas for senior management improvement or enhancing the staff appraisal processes.

Recommendation 5.4

That the QAO introduce sub-categories for time recording for each of the four phases of Performance Audit to have an additional analysis tool to assist management.

5.3.6 Use of Subject Matter Experts

Subject Matter Experts (“SMEs”) play a crucial role in performance audits due to their specialised knowledge and expertise in the specific fields or areas being assessed. SMEs possess in-depth knowledge about the subject area, including industry standards, best practices, and technical nuances.

Performance audits often involve analysing complex data sets. SMEs possess the necessary skills to interpret intricate data, making sense of technical details and translating them into meaningful insights for auditors and stakeholders. They can explain the industry standards and norms, enabling auditors to assess whether the audited entity is performing within acceptable parameters. This context is vital for a well-rounded evaluation. Their validation adds credibility to the audit report, reassuring stakeholders that the assessments are accurate and based on expert knowledge.

Their expertise ensures a comprehensive understanding of the auditee’s processes or programs and associated risks. They can assist with the assessment of the effectiveness and efficiency of operations within their domain, help in identifying the causes of issues or inefficiencies within their area of expertise and allow for targeted recommendations. They can contribute to the development of practical and realistic recommendations, as SMEs should be abreast of the latest developments, technologies, and best practices in their field. Their knowledge ensures that the audit assessments are contemporary and reflective of current industry standards.

We note that SMEs are sometimes utilised in QAO’s Performance Audits. The decision to involve a SME is made during the planning phase when the audit team devises the methodology and approach for the selected topic. Determining when, who, and what topic to engage an SME on may presents a challenge for the Performance audit team. This is particularly true when the topic under review is sensitive, requiring careful selection and even sometimes international recruitment.

During our review and discussions, we found that in one of the selected files, the SME was only engaged in the later stages of the Conduct phase, by which point 75% of the allocated hours had already been expended. In another case, an SME was only engaged during the Reporting phase to validate findings and assess the sensitivity of the recommendations.

The QAO currently does consider the involvement SMEs at the initial planning stage in accordance with PAM. Depending on the review topic, SMEs could either become integral parts of the audit team or serve as external contractors, providing valuable insights and

advice at specified intervals throughout the engagement process. However, we believe that the QAO should increase the involvement of SMEs at the initial planning stage.

It is advisable to bring SMEs into the fold during the environmental scan phase when topics for inclusion in the Strategic Audit Plan and the Forward Work Plan are being deliberated. Having external experts validate these subject areas could significantly enhance their selection process, providing an independent perspective that adds substantial value.

Furthermore, enlisting SME assistance in shaping the First Year Topic holds merit. Given that these topics set the tone for performance reviews in the upcoming year, additional input from experts could significantly influence the direction and scope development. The audit scope is pivotal, guiding the establishment of audit criteria and identifying associated risks, making the early engagement of SMEs particularly beneficial.

Recommendation 5.5

The QAO should consider increasing the engagement of Subject Matter Experts at the earliest opportunity in Performance Audits and this should be continued throughout the Performance audit process.

5.3.7 Client Feedback

The examination of the Client feedback survey for the files reviewed, revealed a notable trend regarding the question, "Did the auditors adequately understand our organisation, including its operating environment?" A majority of responses fell into the "Neither Agree nor Disagree" or "Disagree" categories, indicating a potential scepticism regarding the auditors' expertise.

With other survey questions, most responses tended to fall into the "Agreed" category, indicating general satisfaction in those areas.

Just as the QAO seeks feedback after each financial audit, QAO solicits feedback from its performance audit clients. This is conducted by ORIMA Research, an independent firm acting on behalf of ACAG using a standard set of questions that allows comparisons among the various state audit offices.

The overall performance score for 2022-23 was 73 index points, a decrease over the score of 77 index points for the comparable client group in 2021-22. It was the third-lowest score for Australian states in 2022-23, but only 1 index point below the average.

Although the client survey yielded predominantly positive results, albeit to a lesser extent than financial audits, client interviews conveyed a more critical perspective. Clients expressed concerns about the audit teams' level of subject matter expertise, the adequacy of audit scope and focus, and the suitability and affordability of recommendations. Some clients were concerned that there was insufficient emphasis on cost-effectiveness. Concerns were also expressed regarding the auditors' limited understanding of the intricacies of the issue being addressed in the audit. This may have had an impact on each stage of the audit process, ranging from the selection of the topic, the scope of the audit, the audit itself, and the development of recommendations.

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During interviews with the auditees, when asked why the survey responses didn't align with their interview comments, a common explanation was the reluctance to express dissatisfaction to avoid aggravating the QAO. Some mentioned that they hesitated to challenge the recommendations, as they did not want to create friction with the QAO. It was commonly noted that the QAO seemed overly focused on finding instances of non-compliance or fault.

There is a disconnect between the submitted survey results and discussions held during client interviews. The QAO advises that when ORIMA Research forwards the post-audit survey to the contact officer at the entity, the Auditor-General emails the CEO advising them about the survey and encouraging them to complete it. The contact officer for the audit is asked by ORIMA Research to discuss the survey with the CEO and other relevant management prior to its submission. It is important that client survey feedback accurately reflects the entity's views. Entities should review their processes of preparing responses to the ORIMA survey to ensure that it accurately reflects their views.

Recommendation 5.6

That entities ensure that the post-performance audit survey is completed at the conclusion of the audit and that the entities have clear protocols for signing off the survey to ensure that the recorded results accurately reflect the views of the entity.

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5.3.8 Performance Audit Engagement Duration

The Table 5.1 below shows a sample of reports presented to Parliament in the last two years, with details of the Reporting period, Approved budget vs Actual, Variance, and Duration (months) budget vs Duration (months) actual and Variance.

Report	Report No.	Approved Budget \$	Actual \$	variance	Duration (months) budget	Duration (months) actual	variance
Improving asset management in local government (Performance)	2: 2023–24	\$ 561,230	\$ 588,655	\$ 27,425	8	17.0	9.0
Managing invasive species (Performance)	1: 2023–24	\$ 369,574	\$ 411,498	\$ 41,924	8	17.4	9.4
Implementing machinery of government changes (Audit Brief)^	17: 2022–23	\$ 85,000	\$ 96,832	\$ 11,832	6	7.6	1.6
Health outcomes for First Nations people (Performance)	14: 2022–23	\$ 585,000	\$ 598,261	\$ 13,261	9	13.2	4.2
Growing ecotourism in Queensland (Performance)	12: 2022–23	\$ 355,000	\$ 329,677	-\$ 25,323	9	18.6	9.6
Protecting our threatened animals and plants (Performance)	9: 2022–23	\$ 153,568	\$ 247,206	\$ 93,638	8	12.4	4.4
Managing workforce agility in the Queensland public sector (Performance)	6: 2022–23	\$ 346,450	\$ 295,086	-\$ 51,364	8	12.9	4.9
Keeping people safe from domestic and family violence (Performance)	5: 2022–23	\$ 485,000	\$ 547,159	\$ 62,159	9	17.4	8.4
Improving grants management (Audit Brief)^	2: 2022–23	\$ 98,600	\$ 209,201	\$ 110,601	5	6	1.0
Delivering social housing services (Performance)	1: 2022–23	\$ 405,000	\$ 408,659	\$ 3,659	10	10.6	0.6
Contract management for new infrastructure (Performance)	16: 2021–22	\$ 344,500	\$ 326,395	-\$ 18,105	8	13	5.0
Establishing the Queensland Future Fund (Audit Brief)	11: 2021–22	\$ 80,000	\$ 48,609	-\$ 31,391	8	6.3	-1.7
Regulating dam safety (Performance)	9: 2021–22	\$ 323,507	\$ 385,527	\$ 62,020	8	12.2	4.2
Improving access to specialist outpatient services (Performance)	8: 2021–22	\$ 294,000	\$ 260,593	-\$ 33,407	8	7.7	-0.3
Regulating animal welfare services (Insights)	6: 2021–22	\$ 170,000	\$ 166,010	-\$ 3,990	5	9.3	4.3
Managing Queensland's transition to renewable energy (Insights)	5: 2021–22	\$ 240,000	\$ 312,467	\$ 72,467	6	9.8	3.8
Measuring emergency department patient wait time (Performance)	2: 2021–22	\$ 235,148	\$ 379,707	\$ 144,559	5	25.3*	20.3
Enabling digital learning (Audit Brief)	1: 2021–22	\$ 155,600	\$ 156,645	\$ 1,045	6	6.4	0.4

* COVID-19 impacted both QAO and our client's resources during the audit

^ audits related to areas of internal control focus – classified as performance audits for ACAG benchmarking.

The ACAG Macro Benchmarking Survey 2022-23, indicates that the QAO's cost per unit output for performance audits is the second lowest in Australian jurisdictions and that the average time elapsed for performance audits is consistent with the ACAG average. However, we note that the QAO's Performance Audit data in Table 5.1 reveals that, except for the audit on "Measuring emergency department patient wait time", which was impacted by COVID-19, and the Audit Briefs and Insights, eight out of the eleven audits exceeded the approved budget in terms of expenditure. Furthermore, all eleven Performance audits exceeded the planned duration, with four of them extending by more than eight months. The current process for conducting Performance audits presents a substantial challenge for the QAO, particularly the Performance audit team. Investigating the specific causes for budget overruns in terms of expenditure and time exceeds the scope of the current Strategic Review.

However, through discussions with both internal and external stakeholders, several points were raised in an effort to elucidate the potential rationales for the existing processes at the QAO:

- Resource constraints - Insufficient staffing due to prolonged engagements and waiting periods pose a challenge. When QAO staff members are left waiting, they are reassigned to alternative jobs. Reassigning them back to complete an audit becomes challenging due to competing resource needs. The interruptions require staff to invest additional time re-familiarising themselves with the project, impacting multiple engagements as they are shifted back and forth.
- Scope Changes - Performance audits may experience scope changes leading to delays. Altering focus or adding extra elements complicates the analysis, extending both the timeline and the budget.
- Limited cooperation and a delay in responses can hinder data collection and the overall audit process. Delays occur when responses to queries are slow or when there is resistance to sharing information.
- Challenges in accessing relevant and reliable data can prolong the audit process. Gathering, cleaning, and validating data can be time-consuming, especially if the data sources are dispersed or of inconsistent quality.

Consequences of Long Engagements and Delays include the following:

- Audit Fatigue due to Prolonged Engagements - Extended projects and frequent delays heighten the risk of audit fatigue, where staff feel constantly drained and struggle to re-engage with the review. This exhaustion results from being repeatedly diverted from core tasks to assist with new engagements. This sentiment was echoed in several interviews. Audit fatigue compounds budget and time related issues as staff must repeatedly familiarise themselves with the audit file after each delay. This can lead to reduced focus, inefficiencies, and a lack of clarity when addressing specific issues.
- Stakeholder Fatigue - Prolonged audits can also lead to stakeholder fatigue, causing disengagement or reduced cooperation. This fatigue among stakeholders can impede the audit process significantly.
- High Staff Turnover - Lengthy engagements often experience higher staff turnover rates, disrupting the audit process's continuity and knowledge transfer. Interviews have highlighted instances where engagements had to be delayed due to staff turnover.
- Changing Context - Extended audit durations can lead to shifts in the context of the audit, impacting the relevance of its focus, findings, and recommendations.
- Data Accuracy and Organisational Changes - The accuracy and reliability of data collected at the audit's onset might be questioned due to its age and potential changes within the audited entity, such as shifts in management or the development of new policies. These changes can affect the relevance of the audit's findings and

recommendations. Delayed implementation of recommendations can diminish their potential impact on organisational improvement.

- **Challenges in Finalising Reports** - Prolonged engagements pose challenges in finalising reports. Crafting a coherent and relevant final report becomes daunting as the audit timeline extends, potentially diminishing the findings' relevance over time.
- **Resource Constraints and Staffing Challenges** - The QAO Performance audit team is generally small as compared to the financial services team. The engagement team generally consisting of two to three staff members (excluding reviewers and sponsors). Typically, two staff members conduct the Performance audit. Delays often lead to the re-allocation of junior staff to other engagements, leaving senior managers to handle both the Performance audit and administrative tasks. This process is neither efficient nor cost-effective, given the higher charge-out rate for senior staff. The QAO note that recent changes should address this issue – this is discussed further in Chapter 6.

The earlier Recommendation 5.6 in respect of the earlier and more frequent engagement of SMEs should assist in the Performance audit process of scope and criteria development. In the next Chapter issues in relation to resourcing and staffing are further discussed.

5.3.9 Delegation of Tasks

Throughout our interviews, the feedback has consistently highlighted the need for streamlining the current Performance Audit report review process to expedite the report's completion. The Performance Audit reports submitted to Parliament mark the culmination of the performance audit process. To ensure these reports meet the necessary standards for presentation to both the auditee and Parliament, several review procedures are undertaken. Following the review and finalisation of the report by the Engagement Leader, it undergoes scrutiny, comments, and questioning by the AAG responsible for the audit. Progress reviews may occur during the report's development. This iterative process might involve multiple rounds, contingent upon the responses to comments and queries.

Currently, there are three AAGs Client Services who are responsible for the conduct of audits and one AAG Parliamentary Services who is responsible for oversight of reports to Parliament.

Once the AAG Client Services approves the Performance Audit report, it undergoes another round of review by the AAG Parliamentary Services, providing a different perspective. Comments and queries from this stage are addressed by the audit team, often with input from the AAG Client Services for validation before resubmission. This process might involve multiple revisions based on responses. While the AAG Parliamentary Services holds the primary responsibility for these inquiries, staff often seek guidance from the AAG Client Services when composing responses.

Upon completion, the draft report is submitted to the Auditor-General for review, involving two rounds of scrutiny. The first review generates comments and questions, while the final review, usually conducted by both the Auditor-General and AAG Parliamentary Services ensures the report's readiness for submission. Throughout this process, the team collaborates with the AAG Client Services and the Engagement Leader to address comments and feedback. The report is then sent back to the Auditor-General through the AAG Parliamentary Services, sometimes leading to further inquiries, initiating another iteration.

Our internal interviews highlighted concerns about the time-consuming nature of this review process. While it is essential for ensuring the report's suitability for Parliament, there is a general lack of clarity regarding the specific review responsibilities of the AAGs. To address this, the QAO should clarify the specific reviewing duties of AAGs, outlining their purposes and how they contribute to the Auditor-General's assessment. Each AAG's review should be distinct, avoiding duplication of efforts.

There is also a need for designated professional leadership in Performance Auditing by clarifying the roles of AAGs or the appointment of a designated leadership position. Having a designated AAG for Performance Audit could streamline the review process by defining clear and specific reviewing duties. This is discussed further in Chapter 6.

Recommendation 5.7

That the QAO ensure the review duties of the Assistant Auditors-General in respect of Performance Audits be specified to reduce the potential duplication of review and responses.

5.4 Audit Brief and Audit Insights reports

The Performance Audit reports produced by the QAO are generally performed in accordance with the Auditor-General Auditing Standards and the Standard on Assurance Engagements *ASAE 3500 Performance Engagements*, issued by the Auditing and Assurance Standards Board. This standard establishes mandatory requirements and provides explanatory guidance for undertaking and reporting on performance engagements. The conclusions in the report provide reasonable assurance that the objectives of the audit have been achieved.

Audit Brief reports, on the other hand, are conducted "in accordance with the Auditor-General Auditing Standards," incorporating relevant standards on assurance engagement issued by the Auditing and Assurance Standards Board. However, the specific assurance standard used for Audit Briefs is not explicitly mentioned. While Audit Brief reports contain recommendations, they do not specify the level of assurance, such as *ASAE 3000* or *ASAE 3500*.

The Audit Insight report on *Managing Queensland's transition to renewable energy* does not specify the ASAE standards under which the audit was conducted or the type of assurance it provided. In contrast, the Audit Insights report for *Regulating animal welfare services* explicitly states that it is audited in accordance with the Standard on Assurance Engagements *ASAE 3500 Performance Engagement*. This inconsistency in the level of audit assurance provided in different Insights reports may dilute the credibility of the findings and recommendations.

All three types of reports—Performance audits, Audit Briefs, and Audit Insights—begin with a generic statement from the Auditor-General, affirming that all audits and reports to Parliament adhere to the Act. The statement asserts compliance with the Auditor-General Auditing Standards and relevant Australian standards for assurance engagements. However, not all Audit Insights reports specify the ASAE Standards used to provide the level of assurance for the audit. There is inconsistency to the generic statement made.

From the Table 5.1, the actual cost and time spent on Audit Briefs and Audit Insights report can be substantial or equivalent to some Performance audit budget and time.

Recommendation 5.8

That the QAO ensure that all Audit reports clearly state the type of assurance provided by reference to the specific Australian Auditing Standard and that the different types of reports be consistently structured.

5.5 Self Assessment Follow-up

The 2022 status of Auditor-General's recommendations provides for positive statistics regarding the implementation status of the Performance audit recommendations. This includes:

- 454 individual recommendations
- 64% fully implemented
- 29% partially implemented
- 3% not implemented
- 4% no longer applicable
- 17 entities reported fully implemented our recommendations
- 14 reports to parliament tabled 2018-19 and 2019-20 have outstanding recommendations
- Entities reported implementing 41% of the 111 outstanding recommendations from the 2021 report

The departments and agencies subject to scrutiny by the QAO encompass a diverse range of subject matters, each unique to its respective department or agency. The resulting Performance audit reports come with recommendations that necessitate response and implementation. Monitoring and assessing the progress and effectiveness of these recommendations may prove challenging given the current structure of the QAO's Performance audit team. Resource limitations, including constraints on staff, time, and budget, can impede the team's ability to conduct comprehensive follow-up reviews.

Conversely, government departments and agencies face their own set of challenges in fully implementing agreed recommendations. These challenges encompass various factors, such as competing priorities that might divert attention and resources away from prior audit recommendations. Additionally, some implementations require financial and human resources that might not be readily available, leading to cost-benefit considerations. Clear lines of responsibility for follow-up can be lacking, especially in complex bureaucratic structures, making it difficult to assign ownership for tracking and implementing recommendations. Furthermore, complex recommendations requiring significant effort may face resourcing and other issues, impacting the willingness to pursue follow-up actions. Moreover, changes in personnel, especially in key positions, can disrupt follow-up efforts, as new staff may not be familiar with the recommendations or their status.

The absence of robust monitoring and reporting mechanisms can make it challenging to assess the status and impact of the audit report's recommendations. The reliance on Self-Assessment is not always a reliable source of confirmation. Our feedback has indicated that when recommendations are followed up by QAO, the end results can sometimes be different to what the entities' reported Self-Assessment represented.

Overcoming these challenges requires the QAO Performance team to have a dedicated process to perform follow-up reviews, clear assignment of responsibility, and adequate resources. Effective follow-up is crucial for ensuring that audit recommendations lead to meaningful change and improved performance.

The dual challenges faced by both the QAO's Performance audit team and government entities underscore the importance of dedicating adequate resources, clear lines of responsibility, and effective communication to facilitate the initial development of appropriate performance audit recommendations and the meaningful implementation of the recommendations.

The QAO should contemplate increasing the number of follow-up process for Performance audit recommendations. Relying heavily on self-assessment has its pros and cons. It's crucial to pinpoint high-risk recommendations and proactively promote more follow-ups within state government departments and agencies. This proactive stance might influence other government entities to be more thorough in the process of reaching agreement to recommendations and their implementation.

The budget implications of undertaking additional follow-up audits are noted in Chapter 6.

Recommendation 5.9

The QAO should increase the number of follow-up audits of the implementation of recommendations and prioritise follow-up of high and significant risk recommendations.

5.6 Training - Performance Audit

Providing the appropriate staff training is essential to ensure that the Performance audit team possesses the necessary knowledge, skills and mindset to conduct audits effectively and make a meaningful contribution to the success of One-QAO. The QAO has advised that ACAG's Introduction to performance audit training is mandatory for all performance audit staff. Other ACAG performance audit training on areas such as root cause analysis, disseminating audit findings etc. is conducted twice a year and staff are advised of the opportunity to attend.

Based on discussions, there's a widespread perception that the current training provided, particularly concerning CaseWare usage, methodology, and approach, primarily caters to financial audit requirements, leaving little to no context or content for Performance audit staff. As part of the redevelopment of the PAM and application of CaseWare, tailored training specific to Performance audits will be implemented. QAO's training and its *Learning and Development Refresh* are discussed in the next chapter.

Management should fast-track the implementation of specialised training programs tailored for Performance audits and CaseWare usage in the Performance audit context. Clear communication about the upcoming training initiatives should be disseminated to the existing Performance audit team, ensuring they are well-informed. Additionally, efforts should be made to ensure that new staff members receive training that precisely matches their roles and responsibilities in Performance audits.

Beyond technical training, it is essential to provide soft skills training to improve staff members' interactions with external stakeholders.

Moreover, the QAO should consider offering Project Management training to senior Performance audit staff. Considering the extended duration of Performance audits, often exceeding 9 months, Project Management skills can aid in organising the audit process and allocating resources effectively.

Recommendation 5.10

That tailored training should be developed for the Performance Audit team, especially in the usage of CaseWare. In addition, consideration should be given to providing soft skill training, and project management training for senior members of the team.

5.7 Staff Resources

The 2017 Strategic Review recommended a significant increase of resourcing for performance auditing. As discussed in the following chapter the QAO did not pursue additional resources.

Performance staff numbers have remained relatively flat since the last review. This has resulted in a series of challenges and resource restrictions within the Performance audit team. The consequences of this staffing issue may have significant and impact on both the staff and external stakeholders, for example:

- Inadequate staffing coupled with prolonged Performance audit durations has burdened the team, causing burnout, and stress.
- The shortage of staff has resulted in delays in conducting audits, affecting deadlines and the timely reporting of findings.
- Insufficient staff can lead to incomplete audit coverage, missing risks and areas that require scrutiny.
- Understaffing may compromise the quality of audits.
- Limited staffing has hindered optimal resource allocation, resulting in inefficiencies during the audit process.
- Insufficient staff has strained relationships with auditees and stakeholders due to delayed responses and inadequate communication.
- The shortage of staff makes it challenging to conduct thorough follow-ups on audit recommendations, reducing the effectiveness of the audit process.
- Limited staffing can hinder in-depth analysis, particularly in complex or technical subjects, due to a lack of expertise in specific areas.
- Constantly working under staff shortages has lowered morale, leading to decreased job satisfaction and a potential increase in staff turnover.
- Performance staff reallocated to different audit functions due to increased workload over the peak seasons.
- Senior staff members are compelled to perform tasks typically assigned to junior staff due to resource constraints in long-term engagements.

These challenges may create a sense of frustration and negativity within the Performance audit team and may affect the overall efficiency and effectiveness of the audit process.

Recommendation 5.11

The QAO should assess the staffing levels in the Performance Audit team and limit the reassignment of performance auditors to other reviews and involve Subject Matter Experts throughout the review process.

5.8 Staff Feedback

The following Chapter 6 considers staff well-being and culture, including staff attrition and the results from the Working for Queensland survey. It was evident to the reviewer there is significant concern felt by staff engaged in Performance Audit.

Several of these concerns have been articulated both directly and indirectly throughout the points outlined above. Some staff felt that performance audit lost its identity and value with the One-QAO restructure. The notion of pooled resources was believed to favour the financial audit team, particularly evident during the peak financial audit period. Performance audit staff found themselves reassigned to assist with financial audit tasks, leading to significant delays in ongoing Performance audit projects.

When advertising for auditors, the advertisement was not permitted to distinguish between whether it was for a Performance or Financial auditor— leading to the wrong candidates applying for the wrong position.

The Performance Audit team faced a setback with the departure of a crucial senior member, leaving the team without a designated representative. This absence led to a lack of guidance and strategic direction, hampering the team's efficiency.

Staff culture is discussed further in Chapter 6.

5.9 Conclusion

The strategic reviewers found that QAO Performance Audits are fundamentally sound and generally valued by its clients. However, there are several improvement opportunities noted throughout our review.

6 Corporate Issues

This Chapter is internally focused on the QAO. It considers whether the way the QAO is organised and operates impacts its economy, efficiency and effectiveness. QAO delivers its statutory responsibilities through its people and the systems it has implemented to support them in fulfilling their responsibilities.

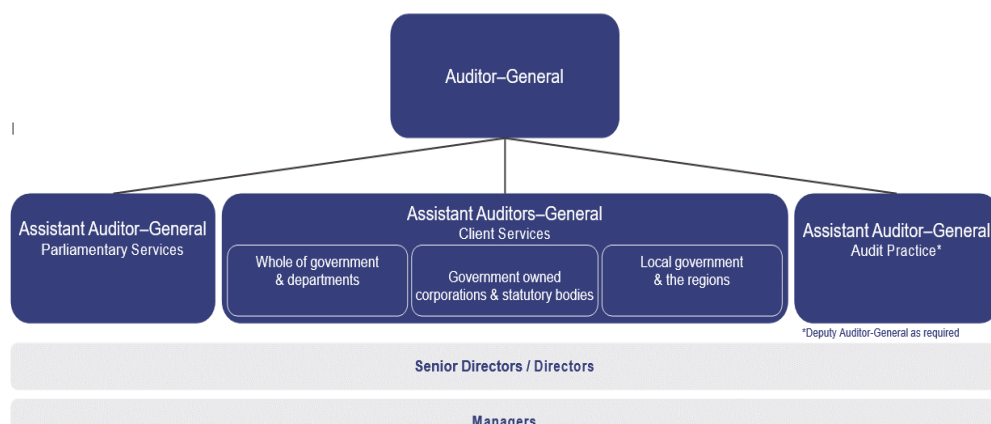
6.1 Structure

6.1.1 One QAO

In 2019, ‘Think and Act OneQAO’ was introduced – a significant cultural and organisational change. It aimed to pivot the QAO to an integrated client-focused organisation to provide audit clients with a seamless, professional, and efficient experience. The *OneQAO* resulted in a major organisational restructure and a significant cultural change. It aligns the QAO around its major client groups – parliament, audit clients and internal clients – the business. Figure 6.1 sets out the current Organisational structure.

Figure 6.1

Current organisational structure



Consequent to the OneQAO restructure, staff were no longer organised into sector or industry specialisations or performance and financial auditing. A changed resourcing allocation model accompanied it supported by the “Retain” resource management system. This sought to maximise staff utilisation throughout the year. Different areas of the QAO have different busy periods, and this model allowed staff to be allocated according to the needs of the business. It also provided staff with a broader range of audit experience and allowed better setting and monitoring of budgets and workflows. It significantly enhanced the efficiency of QAO.

QAO reports that initially, significant benefits were realised from the shared resourcing model, along with improved staff satisfaction evident in the Working for Queensland survey. These benefits include:

- *better integration across QAO, sharing knowledge and experience and working together*
- *better utilisation/smoothing of work so people are not over-utilised while others have limited work. We can work together to balance workloads¹⁸.*

¹⁸ QAO Lead Schedule – Retain System for resourcing [Updated]

However, it had unintentional consequences which QAO recognised after the Working for Queensland Survey 2022 and an all-staff meeting in November 2022. QAO reported that the issues included:

- *lack of connection within teams – some staff were changing teams regularly as they moved from job to job every few weeks. This resulted in teams not getting to know each other, and managers not appreciating staffs' strengths and weaknesses.*
- *learning and growth – constantly changing managers and teams also resulted in managers seeing lots of different staff for short periods. This challenged them to be able to properly invest in the learning and growth of all staff they worked with.*
- *performance management – with ever changing managers, the quality of constructive performance conversations has diminished. Managers work with employees for a short period before they are assigned to their next job. Managers are less likely to address performance issues when an employee is only with them for a short period of time.*
- *workload – staff were feeling under increased workload pressure. This was exacerbated when staff were unable to complete their allocated work from one job, before they were moved to a next assigned job, resulting in 'carryover work'.¹⁹*

In addition to these issues, the Reviewers noted frequent reports of:

- loss of sector/industry expertise – while the shared resourcing model provided the opportunity to develop a breadth of audit experience, it also limited individuals' opportunity to create a depth of knowledge in a particular sector or industry;
- loss of capacity or autonomy of managers to allocate appropriate staff to appropriate/ audits tasks; and
- diminution of the visibility, expertise, distinct identity, and support for performance audit in QAO, resulting in performance auditing getting "lost" in the organisation.

The organisational structure is nominally flat with five AAGs reporting to the Auditor-General. Paradoxically it was reported that because of the matrix lines of accountability, many issues and reports are handled by multiple officers at multiple levels – and often at the same senior level. This causes delays in resolving issues or signing off reports. For example, the report to parliament preparation and review process was said to be cumbersome with multiple layers of EMG review. Similarly, Performance Audit's scope and draft and final reports often require sign-off by multiple AAGs before they proceed to the Auditor-General for approval. Another reported impact is that matters are referred up for approval even when an officer has the appropriate delegation. Many staff report not feeling that they or their seniors are empowered to make decisions but rather leaving it to the next layer up in the hierarchy.

When matters are constantly referred up for consideration, it places significant time pressure on senior staff members, causing delay and frustration across the organisation.²⁰

Current and former staff supported the re-establishment of the Deputy Auditor-General role.²¹

¹⁹ QAO Lead Schedule – Retain System for resourcing [Updated]

²⁰ There are also a significant number of internal governance mechanisms for the report team that seem unnecessarily complex with large amounts of time taken to prepare internal material.

²¹ The role of the Deputy Auditor-General is provided for in the legislation and is occupied. However, the incumbent position in the structure is an AAG who occupies the position of the Deputy AAG in the absence of the Auditor-General.

Nor is there a designated leadership role for performance auditing. The AAG (Parliamentary Services) represents QAO on the ACAG performance leadership group but is not responsible for internal leadership of performance audits. As noted in the previous chapter staff have expressed a need for such leadership and representation.

Recommendation 6.1 a)

The incoming Auditor-General consider whether the substantive role of the Deputy Auditor-General should be re-established.

Recommendation 6.1 b)

The incoming Auditor-General consider establishing a designated leadership position for performance auditing.

6.1.2 Communities

Commendably, the QAO recognised the seriousness of the issues outlined above and took interim steps to improve the situation in 2023. Notably, the number of reporting lines that staff had to team leaders reduced on average in 2022-23 from 6.7 to 4.2, and to engagement leaders from 5.7 to 4.3. In addition, QAO worked on introducing a new model for the 2024 audit cycle.

Throughout 2023, QAO focused on developing a new resourcing approach designed around a more team-based structure. It will be implemented for the 2024 audit cycle. QAO Staff refer to this new approach as the “Communities Model”. QAO states that some of the principles of the structure include:

Staff will be assigned to a Home Community where staff will work with the same Engagement and Team Leaders for most of their year.

- *Each Community will have a variety of jobs across 2 – 3 industry segments.*
- *Each community will have no more than two financial year ends.*
- *Engagement leaders will have control over how the staff in their teams are deployed and when.²²*

There are six communities and three communities of practice. One of the Communities of Practice is Performance Auditing. It is hoped that this will strengthen the identity of professional support for performance auditors.

It is commendable that QAO responded promptly to these concerns, which were increasingly impacting its capacity to deliver its services. This development of the Communities model has occurred during significant other changes in the QAO, including detailed discussions and legislative changes relating to the QAO’s independence. The change to the communities’ structure is substantial, although some staff believe it does not go far enough to address the underlying concerns. To the Reviewers, it appears to be a move in the correct direction, but the transition is occurring after the completion of this Review. Therefore, the Reviewers are unable to comment on the impact of its implementation. Explicit success measures must be set and carefully monitored for this transition and any issues identified must be addressed.

²² QAO Lead Schedule – Retain System for resourcing [Updated]

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This Review was informed that it will be monitored through the Working for Queensland survey. The QAO should identify which items from the survey will be indicative of success and determine whether they are sufficient.

Recommendation 6.2

The QAO set explicit success measures for the move to “Communities” to assess whether the transition achieves its intended outcomes. The QAO should report on the progress of this transition twice a year to staff, and the Audit and Risk Management Committee (ARMC) and highlight it in the six-monthly reports on Strategic Review implementation to the EGC.

6.2 Staffing

The 2017 Strategic Review recommended increased staffing for the QAO to enable it to deliver its mandate. As a result of this recommendation, staff numbers increased from 170 employees (162.7 FTE) in 2018 to 196 (182.3 FTE) on 30 June 2023. The QAO is however delivering more work inhouse than in 2017.

Table 6.1 QAO employees by level and gender

	Number of employees		% Female	
	2018	2023	2018	2023
QAO	170	196	52	55
QAO Directors (all)	25	26	36.0	34.6
Audit cohorts	141	162		53
Undergraduate		2	-	50
Graduate	9	8	78	38
Auditor	31	30	55	67
Audit Senior/Senior Analyst		24		58
Assistant Manager	35	27	46	48
Audit Manager	24	24	50	58
Senior Manager	20	25	45	60
Director/Senior Director	22	22*	36	27

QAO staff are well qualified. All financial audit engagement leaders and team leaders (i.e. Senior Directors, Directors, Senior Managers and Managers) have professional audit qualifications. Ninety-one per cent of financial audit staff are either currently studying for or holding at least one professional membership. Seventy-two per cent of all staff are studying or have at least one professional membership (see *table 6.2*).

Table 6.2 QAO staff qualifications

Qualification	FA staff	All Staff [^]
CA	68*	79*
CPA	48*	63*
CISA (ISACA)	-	3
GAICD	4	9
MBA	2	4
Other Masters	19	25

*3 staff have both CA and CPA qualifications

[^] some staff have multiple qualifications which are included in the count for different categories

6.2.1 Attrition

Staff attrition has increased since the last review (see table 6.3). This is regrettable, but attrition rates remain below the 2023-23 average for all Australian audit offices of 26%²³. High attrition is plaguing Audit offices and the audit profession across the country.

There is a very high level of turnover in the auditor, audit senior and assistant manager levels. This is concerning because they comprise the “engine room” of QAO, with about 44% of audit staff.

Table 6.3 Average Tenure and Attrition of QAO Staff

	Average tenure (years)			Turnover (%)	
	2018	2023	Var %	2018	2023
QAO	8.3	8	-4%	13.5	20.9
QAO Directors (all)		12		16.7	11.5
Audit cohorts		7.1			20.4
Undergraduate	-	0.4		-	100 [^]
Graduate	0.8	0.7	-13%	Low	12.5
Auditor	2.9	2	-31%	22.7	20
Audit Senior/Senior Analyst		3.4			34.8
Assistant Manager	6.3	5.9	-24%	14.9	34.6
Audit Manager	12.3	10.6	-14%	9.4	4.2
Senior Manager	11.7	11.8	1%	13.2	13
Director/Senior Director	14.4	12.3	-15%	6.1	9.5

[^] started 2022-23 year with 4 undergraduates. 2 of these left QAO, 2 were promoted and a further 2 recruited. Turnover calculation is based on the number who left as a percentage of the balance at 30 June 2023.

²³ The Australasian Council of Auditors-General (ACAG) *Macro Benchmarking Survey Final Report 2022-23*. 15 September 2023. Measure 18.

The QAO is experiencing the same impacts from a very competitive labour market as many employers. There is evidence that staff attrition is a particular problem in the auditing profession²⁴. Government audit offices report that they experience competition in retaining staff from other public and private sector organisations. State audit staff are particularly attractive to the relevant sections of state government entities to recruit, given their deep knowledge of the requirements of the State Audit Office. Fifty-eight per cent of exiting QAO staff went to another public sector position. QAO reported that these positions may offer better work/life balance and less stress than working as an auditor in the QAO. The QAO undertakes exit interviews with departing staff and reports to the People Committee and EMG. The *Working for Queensland* survey also offers some insight into issues associated with attrition. This survey is discussed later in this chapter.

Since the last review, the QAO has implemented flexible remuneration arrangements to assist in both the attraction and retention of staff – a major improvement. Where appropriate, active efforts are made to retain existing staff by leveraging existing PSC directives for attraction and retention.

QAO has also implemented a forward-looking recruitment program. On the recommendation of EMG, the Auditor-General has just approved new delegations that allow the recruitment program to keep up with or ahead of appointment needs, rather than responding solely based on departures.

The Reviewers found that across QAO, a key issue of concern was “the lack of resources” which translated to “lack of staff”. The Reviewers were assured by staff at every level of QAO that this lack of resources was not due to an inadequate budget but related to the difficulty in recruiting and retaining the right staff in a very competitive labour market.

6.2.2 Contractors

By the nature of its work, QAO has peak periods related to end-of-year audits. It meets these peaks using ASPs and contractors. In 2022-23 a total of 21 persons were retained as contractors for 923 hours in the period April to August. Eight of them were retained for three months and 7 people stayed for all 5 months. The total hours and number of persons retained in this category has declined over the last 3 years. A number of the contractors have previously been employed by QAO.

The QAO requires contractors to complete an induction and their work is monitored. Some QAO staff expressed concern that some contractors did not have appropriate experience or skills, or that they were introduced to an audit late in the process. This put pressure on managers to ensure that the work was completed, and it impacted other staff working on the audit. QAO indicated that each year, 2 to 3 contractors will be terminated because their performance is unsatisfactory.

Several contractors are regularly retained by QAO each year. With QAO employing its own staff from December 2023, it may be worth the QAO exploring a more formal arrangement in relation to this peak workforce – offering a cohort of contractors the guarantee of multi-year appointments for the relevant periods. This will ensure a greater proportion of contractors are familiar with the QAO and its approaches. In this sense, Contractors can be conceptualised as the individual equivalent of ASP – and a core part of *OneQAO*.

²⁴ for example see <https://www.accountingtimes.com.au/profession/professionals-quit-their-jobs-in-tight-labour-market> <https://www.odyssey-resources.com/2023/05/key-drivers-for-australian-accounting-firms>

Recommendation 6.3 (opportunity for improvement)

QAO explore the opportunity to formalise its arrangements with its peak workforce to enable better long-term resourcing planning for peak audit periods.

6.2.3 Audit Service Providers

The QAO like all government audit offices delivers its audits through its in-house staff and with the assistance of external audit firms (Audit Service Providers). Approximately 42% of the financial audits are undertaken by ASPs. Feedback from ASPs in interviews and from the annual surveys indicate that they are reasonably comfortable with their relationship with QAO. There are slightly lower levels of client satisfaction.

In Quarter 2 2019 QAO made significant changes to the recruitment and contracting arrangements. They significantly streamlined the pre-qualification and tendering process. They also reduced the number of ASPs to enable better support and enhancement of the quality. Feedback from ASP s indicated that these changes have been well received.

6.3 Culture

6.3.1 Values

The QAO has a well-articulated set of values. They are organised around four themes – engage, respect, inspire and deliver.

Engage

- Collaborating to achieve shared outcomes
- Listening to understand, and communicating clearly and openly
- Being balanced, objective and purposeful
- Respect
- Appreciating and caring for others
- Sharing our knowledge and skills
- Recognising achievement

Inspire

- Seeking and sharing better ways of doing things
- Embracing innovation and being progressive
- Encouraging and motivating others

Deliver

- Taking responsibility and being accountable
- Ensuring our work is quality driven and acting with integrity
- Being action orientated and achieving results

These values are expressed in a manner that provides explicit behavioural guidance to staff. The values are appropriate to the delivery of its vision and purpose.

6.3.2 Staff well-being

The 2020's have been a difficult period for all organisations. The direct and indirect disruptive impact of COVID-19 on staff and organisations has been widespread. QAO quickly pivoted to ensure its services could be delivered and its staff supported through the periods of COVID-19 restrictions.

Staff are central to the QAO delivering its functions effectively, efficiently, and economically. Recognising this, QAO seeks to pay careful attention to the perceptions of its staff. It formally seeks staff feedback through regular internal pulse surveys and through participation in the *Working for Queensland* survey of all Queensland Government entities. The results are considered by the EMG, and it reports back to staff through a range of methods, the results of the surveys and the actions to be taken in response to the results.

The overall employee engagement score in 2022-23 was 62 per cent. This is similar to the 63 per cent in 2021-22. It was also similar to the overall engagement average score for Public Service Offices of 500 or less staff ("PSO"). It is about 5% higher than the all-Public Sector average. However, given the scale of QAO and its focused purpose, the appropriate comparator for the QAO to benchmark against is Public Service Offices of 500 or less staff. The overall engagement score is constituted by the following five items.

These items and their ratings were:

- 71% (69 % in 2021-22) are proud to tell others that they worked at QAO. (84% 2020/21)
- 65% (66%) are motivated by QAO to help it achieve its objectives
- 61% (60%) would recommend QAO as a great place to work
- 61% (66%) QAO inspires them to do the best in their job.
- 55% (55%) report a strong personal attachment to QAO.

QAO staff value significant aspects of their work. Compared to other PSO employees they believe that they have high job autonomy, job clarity and job significance. Like other PSOs they believe that their Organisation has a positive impact on the lives of people in Queensland (84%) and that their own work has a positive impact (80%). Staff also have a high regard for the Executive Group.

However, there were several concerning facets of the responses, although there was some evidence of some improvements over the previous year.

- 35% (38%) of respondents indicated they often or always needed to work long hours, with 32% (41)% feeling burned out by their work. This compared to a PSO average of 24% feeling burnt out.
- 41% (60%) feel they were often or always given unachievable deadlines (11% more than PSO). 23 % (30%) felt overloaded with work.
- 30% (34%) feel their work leaves them emotionally exhausted.
- 51% (56%) have or are applying for new roles outside of QAO, mainly in the public sector.
- 24% (36%) want to leave within 12 months.
- 28% (24%) have adequate professional development discussions. PSO average is 36%
- 35% (29%) have adequate performance discussions. PSO average is 45%
- 36% (44%) promotion process based on clear criteria. PSO average is 45%

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In previous years the QAO had allowed staff to submit free text responses in the *Working for Queensland* survey. This enables an elaboration of responses to set questions. As the Coaldrake Review noted

*The Review is clear that every staff member should have the opportunity to provide such qualitative comments, and good managers will want to receive them, and then take action to address them. A commitment to openness and integrity also requires that these results be shared openly with staff.*²⁵

Unfortunately, due to an administrative error, QAO did not enable free text comments for the 2022-23 survey. However, it has a history of publishing responses to its Pulse surveys, *Working for Queensland*, and other staff surveys. The QAO should ensure that going forward, staff can make qualitative comments in the *Working for Queensland* survey.

The results reported above are consistent with other indicators such as the attrition data and the rationale for the move to Communities.

Recommendation 6.4

That the QAO use as its comparator for the Working for Queensland surveys Public Service Offices under 500 employees.

Recommendation 6.5

That QAO provides staff with the option to make open-ended comments in the Working for Queensland Survey, and that the results be shared with staff.

6.4 Workforce Development

6.4.1 Strategic Workforce Plan

Recognising the significant transformation with the *OneQAO* project, QAO prepared a detailed analysis of the resulting changes in QAO's internal and external operating environment, *particularly the growth of automation, the changing nature of auditing and the need for organisational agility to be successful in a challenging and changing environment*²⁶.

The plan provided guidance on the workforce *"it will need to deliver its future business objectives"* and the necessary workforce initiatives to achieve its objectives²⁷. Unfortunately, the implementation of, and refresh of, the Strategic Workforce Plan appears to have been a victim of COVID-19. It was developed 6 months before COVID disrupted QAO's patterns of work. The Reviewers were advised:

*In June 2022, the EMG agreed to defer the refresh of our Strategic Workforce Plan to 2022-23. In October 2022, we included the refresh in our Operational Plan for 2022-23. However, shortly after this, in December 2022, the legislative changes to transition staff to employment under the AG Act were made. We deferred updating the Strategic Workforce Plan while we focused on the transition of staff to the AG Act by December 2023.*²⁸

²⁵ Coaldrake review, p 83.

²⁶ QAO strategic workforce plan 2019-24. Pg 1

²⁷ QAO strategic workforce plan 2019-24. Pg 1

²⁸ Email QAO 10/8/2023

QAO advised that the operational steps to determine staffing levels and improve the performance management system continued to be implemented – *re-aligning client services communities, and significantly investing in data – both innovative, auditor-driven tools to make audits more efficient and growing the capability of our workforce*²⁹.

The Strategic Workforce Plan has not been evaluated. An internal audit was planned for 2020-21 but this was deferred for the reasons noted above. It remains on the Internal audit plan “reserved topics list”.

Recommendation 6.7

That QAO review, revise and update the Strategic Workforce Plan, considering the current environment and the increased independence of the QAO.

Recommendation 6.8

That the Audit and Risk Management Committee considers undertaking an internal audit of workforce planning.

6.4.2 Performance development and management

QAO has appropriate policies and systems for performance development and management. Given the matrix structure of QAO, staff at the lower levels may work on multiple teams under the *OneQAO* model. To facilitate performance development, staff were allocated a staff manager, separate from the staff member responsible for performance management.

QAO has now moved to realign the reporting relationship. This was to address the perceived weakness that the staff manager didn't really understand the individual and what was happening in their work life.

*The Director Employee Experience (DEE) has been operationally responsible for the staff manager program and allocations of staff managers is done in consultation with relevant AAGs. The DEE owns the framework and ensures the staff manager concept is explained to staff when they commence at QAO and as their role changes.*³⁰

Cognology was implemented as the underlying system to support the performance management system. The internal audit report on performance management revealed issues with the documentation of performance and development discussions in Cognology³¹. This finding is consistent with the Working for Queensland survey results on performance management and development reported above.

QAO reports a focused set of actions to remedy the concerns. These include actions:

- to improve awareness and understanding of the process
- to improve monitoring of the completion of key process elements
- planned future enhancement of the system, and

²⁹ Email QAO 10/8/2023

³⁰ QAO Lead schedule *Retain system for resourcing staff*

³¹ QAO Employee Performance Management Internal Audit Report - Audit Number: 2023-04 April 2023 I

- enhancing the skills of managers in the provision of constructive feedback and coaching, as well as the development of clear performance measures and expectations.

At the time of writing, there is clear evidence of action and outcomes on the first 2 points. It is too early to comment on the planned future enhancements – although they are correctly focused.

QAO has relied heavily on Cognology to embed the performance development and management process in the QAO. Cognology is a system – not a framework in itself. It can record and prompt the interactions but unless the underlying skills to facilitate performance development are embedded in the QAO it cannot change the culture.

The success of the QAO depends on its workforce. The leadership of QAO is central to embedding the culture of the organisation, modelling facilitative practices such as coaching and the use of feedback in informing professional development and performance improvement. To facilitate the ongoing professional and leadership development of QAO the introduction of 360-degree evaluations of senior staff (Director level and above). This evaluation should be completed every 2 years after appointment to the Senior leadership. After some experience with the systematic implementation of an independently administered 360-degree survey the QAO should consider whether it extends this to further levels in the organisation.

Recommendation 6.9

QAO implements the proposed improvements to their performance management and development processes and systems, and that the Audit and Risk Management Committee undertakes an internal audit of its implementation.

Recommendation 6.10

That the QAO introduce independent 360-degree performance evaluations for senior staff (Director and above) undertaken every 2 years after appointment to the role.

6.4.3 Learning and development

As part of its *Think and Act OneQAO* program and recognising learning and development as an important foundation for QAO to deliver its function and be an attractive place to work, QAO requested BDO to review its Learning and Development programs. BDO delivered its report in July 2021.³²

The BDO *Learning and Development Refresh Report* analysed current practices and recommended an improved approach. It concluded that the balance of the QAO's Learning and Development was skewed to the didactic delivery of set training programs. It recommended a change in emphasis, placing the employee at the centre of their learning, as well as an ongoing system of reviewing how learning is delivered. Recommendations also included improvements to on-the-job learning, coaching, and staff mentoring during projects.

³² BDO QAO Learning and Development Refresh July 2021.

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Although the QAO had an expressed commitment to a 70/20/10 learning approach, the report said it lacked a framework and structure. *The 10% [didactic structured block training] is how learning is predominately delivered at QAO, effort needs to be placed in putting in structure around the 70%*³³.

It recommended shifting the balance away from learning from coursework and training, to facilitating learning from challenging experiences and developmental relationships. *This involves improving skills to deliver effective on-the-job coaching and mentoring, tailoring a range of learning programs that can be delivered on-demand.*³⁴

The report and its recommendations were accepted by the EMG in September 2021. The resulting Learning and Development framework is appropriate, however as in other areas, the implementation was slow to commence and is slow to implement or has stalled.

A Project Initiatives Board was created to oversee the Learning and Development project. The Project Board approved the implementation of the Plan in March 2023. For a range of reasons, including staff turnover and attracting appropriate staff to lead Learning and Development, progress has been slow. This Review was informed that the recruitment of a new Learning and Development manager and Director of Employee Experience, and closer monitoring of the project, appears to be now leading to some progress on implementation.

Given the delays in implementation, it is not surprising that our consultation with staff found that many of the issues raised by staff in the BDO review are still current. This is particularly the case for fixed cohort-based block training, rather than the more individualised, just-in-time training. On-the-job learning depends on the supervisor or manager having sufficient capacity, including skills and time, to focus on coaching, monitoring and development. There are limited, appropriate, learning and development opportunities for non-financial audit staff. The particular training and learning issues for performance auditors was discussed in Chapter 5.

The just completed *Evaluation on The Queensland Audit Office' System of Quality Management* found that while

the reviewer noted evidence of oversight provided over staff training needs, it appeared that the review was performed less regularly/ad-hoc. The reviewer noted no formal process to ensure that these monitoring checks are completed regularly.

³⁵

The evaluation made 2 recommendations:

- 6. Implement a tool to ensure that QAO can regularly monitor staff training needs and attendance to identify individuals that have outstanding training requirements.*
- 7. Formalise a periodic training needs analysis process. (This is a deliverable of the current L&D Refresh project.)*³⁶

Given the delays in implementing the Learning and Development Refresh, it is not surprising that QAO reported the lowest average training hours for professional audit staff in 2023-23, at 61 hours. It was the second lowest in 2021-22 at 70 hours.³⁷ As QAO is

³³ BDO QAO Learning and Development Refresh July 2021. pg 26

³⁴ BDO QAO Learning and Development Refresh July 2021.

³⁵ *Evaluation On The Queensland Audit Office' System Of Quality* pg 32

³⁶ *Evaluation On The Queensland Audit Office' System Of Quality* pg 3

³⁷ The Australasian Council of Auditors-General (ACAG) *Macro Benchmarking Survey Final Report 2022-23*. 15 September 2023. Pg 81.

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redefining itself as a learning-focused organisation, committed to embedding coaching in its organisational culture, it should aspire to invest more in learning and training. The QAO informed the Reviewers that its training hours appear low because of its switch to the 70-20-10 model because the ACAG indicators do not capture practices such as “coaching” in the indicator.

From the 2021-22 audit year, we included an allocation for on-the-job training in audit tasks plans to allow time for this coaching/mentoring to occur, but this is not captured as training for ACAG benchmarking (in accordance with the survey criteria)³⁸

QAO Transparency Report states that QAO’s training target for its Audit Quality Indicator for training hours per FTE audit professional – financial and performance audit is 60 hours.³⁹

Similar to Audit Offices in other jurisdictions, QAO encourages staff to complete further training and qualifications. Currently, 21 QAO staff (approximately 12% of all staff) are studying for CPA or CA qualifications, 1 staff member studying the Australian Institute of Company Directors (AICD) course, and 1 staff member studying for Certified Information Systems Auditor (CISA) qualification with ISACA. QAO provides study leave⁴⁰ and covers the financial costs of successfully completed awards and Professional membership.

There is a particular opportunity to rebuild the learning and development program by modelling the 70/20/10 approach in the graduate program. The graduate program has excellent features including regular meetings and events for the cohort. However, it commences with a two-week, didactic training block, primarily focused on financial audit regardless of the non-financial auditors in the cohort. There is ongoing discussion within QAO of extending the graduate program beyond the conclusion of the graduate year. If appropriately conceptualised and delivered, it could embed learner-centred training and coaching in the initial three years of QAO employment. This would result in a significant cohort of staff being engaged by the 70/20/10 model in a relatively short period of time.

Recommendation 6.11 a)

The QAO fully implements the Learning and Development Refresh Report (July 2021) with implementation progress to be monitored at six monthly intervals by the ARMC and highlighted in the six-monthly reports on the Strategic Review implementation to the EGC. Particular attention should be focused on enhancing the coaching capability of its staff.

Recommendation 6.11 b)

The Strategic Review endorses the implementation of recommendations 6 and 7 of the *Evaluation of The Queensland Audit Office’s System of Quality Management* (18 October 2023). These recommendations should be progressed as a matter of urgency.

³⁸ QAO email 25/10/2022.

³⁹ QAO Transparency Report 2022-23 (Draft). pg 40

⁴⁰ 635.5 hours in 2022-23.

Recommendation 6.11 c)

The QAO reset the Audit Quality Indicator target for training and education hours for audit staff from the current 60 hours to the 2-year rolling average of the ACAG states and territories training hours for professional audit staff.

Recommendation 6.11 d)

The Strategic Review endorses the QAO extending the Learning and Development component of the Graduate program beyond the graduate year. It recommends that the curriculum of the graduate year program be used to reconceptualise and implement the 70 -20 -10 model for other cohorts. The effectiveness of the above implementation should be evaluated by conducting a survey among the staff themselves to assess the quality of the change in training.

6.4.4 Culture again

The preceding sections on organisational structure, staff well-being, attrition, professional development and performance management and learning and development raised a number of interrelated issues. Chapter 5 identified some particular issues experienced by performance auditors. The QAO has sought to address its organisational needs with plans such as the *Strategic Workforce Plan*, the *Learning and Development Refresh* and so on. Overall, they coherently identified issues facing the QAO and proposed high-level strategies to address them. Implementing the various plans has often proved slow.

The Working for Queensland survey provides one snapshot of the internal culture of an organisation. Because it is designed to be administered across a broad range of organisations it is not necessarily sufficiently fine-grained to allow a detailed understanding of an organisation. Nor to develop the necessary responses to enhance organisational functioning.

The incoming Auditor-General will inevitably revise the QAO's Strategic and Operational Plans and will consider the structure of the QAO. To inform and support these developments and the response to this Strategic Review, the incoming Auditor-General should commission a deep dive organisational climate assessment, which should involve comprehensive staff interviews and focus groups as well as surveys.

Recommendation 6.12

The incoming Auditor-General undertake a climate assessment of the QAO.

6.5 Workload Trends and Fees

The numbers of Financial Audits and Performance Audits have remained relatively constant since the last review. The number of opinions has remained relatively stable as have the number of reports to Parliament. The reviewers were advised that *QAO charge-out rates have gone up, in a cumulative sense, 19% over the period 1/10/2016 to 1/10/2023. This is lower than the CPI increase for the same period (24.9% from 1/10/2016 to 1/10/2023) and has not resulted in across-the-board fee increases for clients at that level*⁴¹.

⁴¹ QAO Lead Schedule Hourly Rates - 2023 updates.

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Over the above period, total fees charged to continuing audit clients have increased by 11.4%. Fees for audits contracted out have increased at a higher rate than those performed by QAO due to the cost pressures being experienced. While a small number of persons consulted did raise concerns about QAO fees, overwhelmingly audit clients believed that fees were reasonable. This is also reflected in the client surveys.

As discussed in Chapter 4, recent changes in Australian Auditing Standards have resulted in a significant increase in additional hours required to complete an audit. However, the review noted that hours on financial audits have been broadly consistent with prior years. This has been attributed to consistent enhanced use of the analytics by audit teams that allows them, in the Auditor-General words” to “work smarter and not harder”.

The Auditor-General may also investigate financial waste and mismanagement raised by Members of Parliament, Local Government Councillors, state and local government employees, and the public (these are referred to as ‘requests for audit’). Requests for audit have increased from 70 in 2018-19 to 79 in 2022-23. Most of the requests come from the general public. The QAO advised the reviewers that it has improved its systems to triage all requests received and invest time upfront to determine whether any further investigation is warranted.

From 2020-21, QAO has published a summary of the requests for audits received from Queensland Members of Parliament and Local Government Councillors on the QAO website. QAO states that this provides transparency around the information received and informs stakeholders about why and how these matters are audited.⁴²

The average cost per finalised investigation per year has varied considerably (\$2,000 - \$8,900) depending on the *urgency and complexity of matters raised and the seniority of staff involved*.⁴³

In comparison to Auditors-General across Australia, QAO is relatively economical and efficient. Compared to other audit offices, the ACAG benchmarking data reveals that

- The cost per audit hour charged to audit was the second lowest in the country at \$171 compared to \$193. It has been consistently the second lowest since 2018-19.⁴⁴
- QAO consistently has the highest percentage of available hours charged to audit activities –68 % compared to 55%.⁴⁵
- The Cost per unit output for State/ Commonwealth financial audit/ review opinions is slightly above the state and territory average (\$108,000 to \$101,000) but slightly below when ANAO is included. These comparisons position the QAO in the middle of the rankings, with some jurisdictions being higher and some lower.⁴⁶

⁴² QAO Annual Report 2022-23. pg.20

⁴³ QAO Lead Schedule - Workload trends

⁴⁴ The Australasian Council of Auditors-General (ACAG) *Macro Benchmarking Survey Final Report 2022-23*. 15 September 2023. Pg 50.

⁴⁵ The Australasian Council of Auditors-General (ACAG) *Macro Benchmarking Survey Final Report 2022-23*. 15 September 2023. Pg 23.

⁴⁶ The Australasian Council of Auditors-General (ACAG) *Macro Benchmarking Survey Final Report 2022-23*. 15 September 2023. Pg 54.

6.6 Budget and Resources

The QAO has a comprehensive framework and associated systems for developing its annual budget. It has appropriate systems to carefully monitor its revenues and expenditures at every level. Its positive budget outcomes and the consistent delivery of its services reflect the active management of its budget. Across the period covered by this Strategic Review, the QAO has returned annual surpluses which it uses to fund strategic technology (and other) investments and capital updates.

The 2017 Strategic Review expressed considerable concern that QAO was underfunded and recommended doubling the funding for performance audits and to review whether the fees charged for financial audits were sufficient.⁴⁷ The Government and the Parliamentary Committee invited the QAO to make submissions for additional funding (other than the regular increases in the charge-out rate). The QAO did not make such a submission and all requests to the Treasurer for increases in the charge-out rate have been approved.

However, the QAO was subject in 2020-21 to a reduction of its funding as a result of the Queensland Government savings and debt plan. As noted in Chapter 3 approximately 85 per cent of the QAO's income is fees charged to entities for their financial audits. The remaining fifteen per cent is directly appropriated by the Parliament to cover the Auditor-General's remuneration and expenses and for performance audits, investigations and reports to Parliament. Treasury applied the wage savings target against the fee-for-service work as well as those wages funded by the appropriation. It removed the total savings from the appropriation allocation. This resulted in a nine per cent reduction in the appropriation budget. In effect, this reduced the allocation to the lowest level since 2016-17. It only recovered to 2019-20 levels in the most recent financial year (2022-23).

Given the small proportion of total QAO income available for activities directly funded by the Parliamentary appropriation, it is preferable that the QAO not be subject to efficiency dividends or like funding reductions. The New South Wales Government has just announced that its Audit Office and other integrity agencies would be excluded from efficiency dividends.⁴⁸

Some of the issues identified in this Review relating to audit quality, performance reviews, staff engagement, staff attrition and low average staff training hours appear to reflect an emphasis on efficiency – of doing more with less. And while an emphasis on efficiency is always important in an organisation like the QAO, it must be considered in the broader strategic sense, to ensure that investments that relate to properly embedding the foundations for future success are not overlooked. Similarly the concerns raised in the previous chapter on performance audit suggest resourcing may be an issue.

The slow rollout or stalling of initiatives such as the 2021 Learning and Development Refresh recommendations and strategic workforce initiatives may also reflect under-investment because of budget pressures. As noted, the availability of funding was not raised with the Reviewers as an issue. The key issue raised was the difficulty in attracting and retaining staff, an issue shared by all state audit offices and many private sector auditors.

⁴⁷ 2017 Strategic Review *Recommendation 5.7 (v)*

⁴⁸ <https://www.nsw.gov.au/media-releases/putting-integrity-at-heart-of-the-nsw-government>

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However, there are enough concerns in this report to encourage the incoming auditor general to consider whether the overall budget of the QAO, including the appropriation budget, needs to be reset.

Recommendation 6.13 a)

The incoming Auditor-General reviews the overall QAO budget and reports that review's findings to the EGC.

Recommendation 6.13 b)

That the appropriation budget of the QAO is not subject to efficiency dividends or equivalent.

6.7 Communication – Internal and external

Since the 2017 Review QAO has implemented a comprehensive refresh of its internal and external communication strategy. There has been consistent systematic attention to implementing the changes for all internal and external communications. For staff, this includes ongoing attention to identifying, adopting and evolving the channels and modes of communication. This includes face-to-face (and hybrid) engagement with all staff, as well as cohorts of staff, using targeted emails, blogs, SharePoint sites, and messaging systems. The QAO is to be commended for this approach, evidenced in QAO's internal response to COVID and most recently in the communications around Project Independence - the transition of QAO to being the employer of QAO staff. In our meetings with staff, we were assured that the communication was clear and responsive.

Considerable investment has been made in training and coaching staff in clear written communication. QAO reports reflect a "house style". They are clear, direct, readable and in plain English. They share a single voice. This commitment and outcomes are commendable.

However, there is some concern that the commitment to clear, direct plain English reporting sometimes comes at the cost of communicating the complexity or nuances of an issue. A simple example of this was the following statement in the 2022-23 Annual Report:

The last strategic review of QAO was in 2017, with the report tabled in parliament on 23 March 2017. The reviewers concluded that QAO is fundamentally sound and a valuable part of the Queensland public sector. They made 32 recommendations. As of 30 June 2023, QAO has fully implemented 28 of the recommendations and partially implemented the remaining 4.⁴⁹

Chapter 8 considers the implementation of 2017 Strategic Review. A recent internal audit review on the implementation of 2017 recommendations found that 11 of 32 had not been implemented, though with a satisfactory reason for non-implementation.

In its preparation of reports, it is recommended that clear communication is not at the expense of communicating the complexity of issues.

⁴⁹ QAO Annual Report 2022-23 pg 30.

QAO surveys of clients, ASPs, audit committee chairs, and members of parliament are consistently positive about QAO's communication. Similarly, the Auditor-General's active and extensive outreach program to regional Queensland is commendable.

QAO's uses its website to actively share its reports, and learnings from its reports, in its better practice resources, including factsheets, blogs and an increasing number of interactive dashboards. QAO tracks the extent of utilisation of these resources. There is evidence of a significant increase in engagement with the reports – 74,279 views of reports to parliament in 2022-23 compared to 64,973 in 2021-22.⁵⁰

QAO's engagement and outreach with stakeholders, including hosting a range of events for ASPs, finance managers, audit committee chairs and chairs and deputy chairs of parliamentary committees, are well received and positively evaluated.

Recommendation 6.14

QAO should ensure that the plain English language style adopted by the QAO does not come at the expense of clearly articulating complex issues

6.8 Management and Information Technology Systems

The QAO has in place appropriate administrative and information systems and processes to support the delivery of its functions. It has invested significantly in technology to facilitate the delivery of its audit program. It has a committed IT team ensuring that its systems are responsive to the needs of its staff and of its audit service providers.

The increasing reliance on IT systems to support its work increases the QAO's exposure to cyber threats and other IT issues increasingly experienced by all entities. The QAO frequently calls attention to these threats in its individual audits and sector reports, highlighting the need for vigilance and regular monitoring, often recommending, *security of information systems needs to be strengthened*.⁵¹

QAO does regularly evaluate its internal and external threat monitoring and evaluation processes and ensures that the systems supporting these processes are regularly reviewed. It is important that its software systems are vendor-supported and that QAO have an explicit systems roadmap to ensure this is the case.

QAO recently completed its first ASQM 1 report undertaking its first evaluation under the new standard which was implemented on 15 December 2022. In relation to IT systems, the evaluation found that the systems were secure. This is consistent with the recent Internal Audit report on the ISMS and essential 8 strategies assessment⁵². The ASQM1 report noted *that the current process for the obtaining, developing and replacing technological resources is based primarily on the professional judgement of the CITO. There is no formal sourcing strategy, policy or procedure, with few controls besides the monitoring provided by the EMG*.⁵³

⁵⁰ QAO Annual Report 2022-23. Pg26.

⁵¹ For example in the annual sector reports: QAO Education 2022.

⁵² QAO Internal Audit Report Information Security Management System and Essential Eight Strategies Assessment 18 September 2023.

⁵³ *Evaluation on The Queensland Audit Office's System of Quality Management* (18 October 2023) pg 37

It recommended:

*Development of a strategy for identifying current and future technological needs (inclusive of IT team resources, hardware, and software) and identify the necessary resources to address these needs. In addition, consolidation of the various life expectancies of hardware and software will allow for better planning for replacement. These items fulfil technological requirements of the business, and having a consolidated understanding of what requirements are met, and which may be outstanding (e.g., a formal documented sourcing strategy), will allow for any gaps or future gaps to be identified and addressed. (Recommendation 8)*⁵⁴

Part of the development of such a road map will require QAO to determine its future approach to the cloud.

Recommendation 6.15

QAO should ensure that its software systems are vendor-supported and that it develops and implements a plan to replace any non-vendor-supported system.

Recommendation 6.16

The Strategic Review endorses the implementation of recommendation 8 of the *Evaluation of The Queensland Audit Office's System of Quality Management (18 October 2023)*. This recommendation should be progressed with urgency.

6.9 Performance indicators and SDS measures

QAO has in place a suite of internal performance indicators and measures. These are regularly considered in the EMG and reported to the ARMC. They are also reported in the body of the Annual Report and the Service Delivery Statement (“SDS”) measures are included in the Financial and performance statements in the Annual Report. It also participates in the extensive program of ACAG benchmarking including ORIMA client surveys.

These indicators and measures serve important management functions, enabling QAO to track and adjust the performance and quality of its services and monitor its revenue and expenditures. They also provide the Parliament and its relevant oversight committee – the EGC – with a comprehensive overview of the performance of the QAO.

The recent changes to the *Auditor-General Act, 2009* seek to enhance the independence of the Auditor-General from the Executive and strengthen the role of the Parliament through the Parliamentary Committee. (These changes are discussed in more detail in Chapter 8.) For the Parliamentary Committee to be able to properly fulfil its responsibilities in this respect, it will need comprehensive information to inform its understanding of QAO responsibilities, aspirations, and performance. To properly carry out this responsibility, the Parliamentary Committee is dependent on the QAO to provide quality and timely information.

⁵⁴ *Evaluation on The Queensland Audit Office's System of Quality Management (18 October 2023)* Recommendation 8

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The QAO's financial reporting to the Parliament is impeccable. It is important that its own performance reporting is similarly a model for public sector entities.

There is an opportunity for QAO to improve its performance monitoring and reporting by reconsidering whether its performance indicators suite should be expanded or changed.

The current suite of Performance measures reported to Parliament in the annual report appears below in Table 6.7.

Table 6.7 Overview of 2022–23 performance ⁵⁵

Measurement	Result
Member of parliament satisfaction with our services *	97 per cent – exceeding our target of 80 per cent, and up from 89 per cent in 2020–21
Number of audit opinions	414
Audit clients' overall satisfaction with our services*	83 index points for satisfaction – over our target of 80 per cent, and up from 82 points in 2021–22
Meeting audit committee chairs' needs and expectations	98 per cent – on par with the prior 2021 survey
Number of reports to parliament	18 reports tabled, containing 82 recommendations
Average time to produce reports to parliament on the results of our financial audits*	8.4 months – over our target of 6 months
Average time to produce reports to parliament for our performance audits*	11.9 months – over our target of 9 months, and similar to the ACAG average of 11.4 months
Average life cycle costs of reports to parliament on the results of financial audits*	\$151,000 – over our target of \$130,000
Average life cycle cost of reports to parliament for our performance audits*	\$320,000 – under our target \$395,000 and lower than the ACAG average of \$404,239
Average cost per hour of work charged to our audits	\$170.6. ACAG average – \$187.79
Percentage of our total paid hours charged to audit work	55.8 per cent. ACAG average – 45.57 per cent
Number of parliamentary committee briefings	10 briefings on 14 reports to parliament
Number of requests for audits received	79 requests – assessed within an average of 25 days, improving on 31 days in 2021–22
Data analytics project milestones	Built 5 new tools to improve efficiency and insights
Views on our website of our reports to parliament	74,279 users (*not including our employees)

⁵⁵ QAO Annual Report 2022-23 pg 12 and SDS measures pg 59

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Measurement	Result
Views of our resources (blog, fact sheets, and better practice guides, including our maturity models)	30,658 users (*not including our employees)
Additional SDS measures reported in the performance statement Average cost of financial audits – State entities (\$'000)	93 above the target range of \$80,000 - \$90,000
Average cost of financial audits – Local government entities (\$'000)	83 above the target range of \$70,000 - \$75,000

Most measures are relevant, and informative and where appropriate are reported against the ACAG benchmarks. This ensures the reporting of consistent comparable data. Two of the measures do raise concerns.

6.9.1 Member of Parliament satisfaction with services (SDS measure)

Through an independent company, QAO surveys Parliamentarians twice per parliamentary term. In 2022-23 the QAO reports an increase in overall satisfaction from 89% to 97%. While this is correct it does not report that the response rate was much lower for 2023. 26 out of 93 MPs responded to the survey, a response rate of 28 per cent. This was lower than 44 % in 2021 and 47 % in 2019. Some jurisdictions set minimum response rates for results to be included and will report the target as not being met if the response rate is not met. Response rates may also be seen as a measure of engagement.

Recommendation 6.17 a)

The QAO set a minimum response rate for the parliamentary survey to include the results in the performance report. The response rate should also be reported in the associated reports.

Recommendation 6.17 b)

Given the increased engagement with Parliament due to recent changes in the Act, the incoming Auditor-General considers whether parliamentarians should be surveyed annually.

6.9.2 Audit clients' overall satisfaction

QAO delivers two major services – financial audits, and performance and other assurance audits, (referred to generally as performance audits). They are separate products, and they are the subject of separate client surveys. The reported result is a blending of the results of financial and performance and assurance audit clients' survey responses. QAO states that it does this to have an overall view of client satisfaction. Methodological issues could be raised about the soundness of blending the results of different surveys with different questions. ACAG does not report this indicator in its Benchmarking report.

Regardless of the methodological issue, a clearer view of client satisfaction is provided by considering the outcomes from the separate surveys and benchmarking the results to other jurisdictions. This is evident from consideration of the previous year's survey data

showing quite different results for the two service lines. (The results are consistent with our consultation with external stakeholders)

Table 6.8 QAO Overall satisfaction by type of audit

Audit clients	2019-20	2020-21	2021-22	2022-23
Combined	80	81	82	83
Financial	81	82	82	84
Performance and Assurance	78	77	77	74

Recommendation 6.18

That QAO reports separate overall satisfaction scores for financial audits, and performance and other assurance audits.

6.9.3 Additional measures - Staff

The reporting of staff data in the Annual Reports varies from year to year and often lacks surrounding comparative or benchmarking data to assist the reader or Parliamentary Committee in understanding the implications of the reported data. There is inconsistency as to which metrics are included from year to year. This results in a lack of context at best, and a distorted picture at worst.

By way of example, the 2022-23 Annual report states on pages 2 and 6 that audit staff completed an average of 61 training hours per person, but it does not report that this was the lowest average training hours in the country. The national comparison is arguably relevant to interpreting the meaning of the QAO indicator.⁵⁶

There is also inconsistency as to what and how staff satisfaction data is reported. The proportion of women in senior leadership is reported, but there is no comparison to other jurisdictions. And it's not clear as to whether the lack of women in senior roles is considered a strategic priority for the QAO.

Recommendation 6.19

QAO identify a suite of staff indicators for its annual report, with reporting of appropriate targets and benchmarks.

6.9.4 Additional measures – Financial and performance audits

The current SDS measures may speak to efficiency, but there are limited measures of effectiveness, impact or quality. The ANAO suite of performance indicators is worthy of consideration by QAO.

ANAO states:

The ANAO's performance framework allows us to monitor and measure:

- *what we did (output);*
- *how well we did it (quality and/or efficiency); and*
- *what the benefits were (impact)*⁵⁷.

⁵⁶ As note above QAO's audit quality target for this indicator. It is recommended above that this is increased.

⁵⁷ ANAO annual report 2022-23, p 21

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As well as cost and satisfaction measures reported by the QAO, measures such as the following ANAO measures would assist the EGC and Parliament to better understand the operations, outputs and impacts of the QAO.

Measure 4. Percentage of moderate or significant findings from mandated financial statements audit reports agreed to by audited entities.

*ANAO states it measures the percentage of findings and recommendations to which entities agree without qualification, as entities are more likely to fully address findings and implement recommendations that are agreed without qualification.*⁵⁸

Measure 5. Percentage of moderate or significant findings that are addressed by mandated audited entities within 24 months of reporting.

ANAO reports that it utilises this indicator to measure the impact that the ANAO's audit work has on public administration... This measure captures findings (significant and moderate) that are addressed by audited material entities within 24 months, resulting in improvements to the public sector control environment. The commitment to improvements in public service is similar to QAO's commitment to better public services.

QAO does not support this indicator as they believe the client's implementation of QAO's recommendations to address their risk reflects the client's performance, not QAO's. This is particularly the case for the many small entities that QAO audits who may have limited capacity or resources to respond.

This limitation could be addressed by limiting the measure to include only government departments, GOCs and large statutory authorities.

Measure 8. Percentage of recommendations included in performance audit reports agreed to, without qualifications, by audited entities.

As for Measure 4 ANAO believes that entities are more likely to fully address findings that are agreed upon without qualification. In Queensland this indicator would also ensure more detailed attention by both the QAO and the entity in the development of recommendations.

Measure 9. Percentage of ANAO recommendations implemented within 24 months of a performance audit report being presented.

ANAO's justification of Measure 9 is similar to its justification for Measure 5, as is QAO's disagreement with this indicator. As noted for Measure 5 this could be addressed by limiting the measure to include only government departments, GOCs and large statutory authorities.

Measure 16. The ANAO supports the Australian Government sector to improve public sector performance. [*This is a composite of 5 measures. One is provided as an example.*] Reporting mechanism 4. Percentage of performance audits that include observed improvements in entities' processes during the audit.

Measure 17. The ANAO's independent Quality Assurance Program indicates that audit opinions and conclusions are appropriate.

⁵⁸ ANAO corporate plan 2023-24.

The QAO notes, and the Reviewers agree, that this is included in its transparency report. However, it would be appropriate to develop a framework that summarise this outcome in its Performance Statement.

The summary report of each measure helpfully links it back to ANAO’s Corporate Plan and Budget Portfolio statement as illustrated by Figure 6.2

Figure 6.2 Summary reporting of ANAO Performance Measure⁵⁹

Measure 9	Percentage of ANAO recommendations implemented within 24 months of a performance audit report being presented	
Source	ANAO Corporate Plan 2022–23 Portfolio Budget Statements 2022–23, Program 1.2, p. 102	
Result	Achieved a result of 77% against a target of 70%	MET

The Queensland Government’s performance statement policy requires agencies to consult with the DPC and Treasury *on the proposed performance information to be presented in the SDS Performance Statement each year as part of the annual review process. This process is mandatory, regardless of whether there are changes proposed to performance information*⁶⁰.

Given the enhanced independence of the QAO it would be appropriate for the QAO to engage with EGC on changes to its performance information.

Recommendation 6.20

It is recommended that QAO review its SDS and other performance measures to enable better understanding and monitoring of its performance. It is recommended that measures equivalent to ANAO’s measures 4, 5,8, 9, 16 and 17 be added to their suite of performance indicators.

6.9.5 Independent audit of the annual performance statement

The 2017 Strategic Review commended the QAO for engaging in an independent external audit of its performance statement to give reasonable assurance that the information was not materially misstated. An audited performance statement was included in the 2016-17 financial statements. This initiative was not continued for reasons of cost and because Queensland was not moving to the auditing of performance statements. Because of the significance of QAO, its financial and performance statements should be a model for the Queensland Public Sector.

Recommendation 6.21

The QAO should undertake and publish an annual independent external audit of its performance statement. The QAO appropriation should include funding for an external audit of its performance statement.

⁵⁹ ANAO annual report 2022-23

⁶⁰ SDS: Performance Statement Requirements pg 5

7 Implementation of the Recommendations related to the 2017 Review

The terms of reference of this review require the consideration of the implementation of

- recommendations from the 2017 Strategic Review
- recommendations of the former Finance and Administration Committee (“FAC”) report on the 2017 Strategic Review⁶¹
- the Government’s response to the FAC’s report ⁶², particularly to the extent to which they have been implemented and whether they are achieving the desired objectives.

This Chapter primarily focuses on the implementation of the recommendations of the 2017 Strategic Review, except for the Independence recommendations (Recommendations 6.3 ii and 8.6 i). The Independence recommendations and those of the Coaldrake Review are discussed in the next chapter. This chapter also considers the recommendations of the Parliamentary Committee and the Government’s response to the Committee’s recommendations.

7.1 The 2017 Strategic Review Recommendations

The 2017 Strategic Review made 32 recommendations. Five recommendations were classified by 2017 Reviewers as Strategic, 17 as Operational and 10 as ‘Opportunities for improvement’. The QAO has made sustained efforts to implement the 2017 recommendations. This is commendable. Three recommendations required legislative change, and one recommended increased government funding. Thus, implementing these four recommendations was not in QAO’s direct capacity to control. These recommendations are discussed in the next chapter.

As noted in the previous chapter, QAO considers that it *has fully implemented 28 of the recommendations and partially implemented the remaining 4*.⁶³

In preparation for this Strategic Review, Internal Audit completed a review of the implementation of the 2017 recommendations. The Internal Audit review concluded that as of October 2022:

- *11 of 32 recommendations were not implemented, with adequate reason provided supporting the recommendations not having been implemented; and*
- *21 of 32 recommendations were implemented in full*⁶⁴. At the time of writing, another four recommendations (see Chapter 8) relating to legislation have been addressed in some form.

QAO has presented this Review with extensive evidence supporting its implementation of the 2017 recommendations or reasons for being unable to implement them fully. The complete list of the 32 recommendations is included in Appendix 3. This section briefly considers the recommendations that Internal Audit determined were not implemented, but with adequate reason. (As noted, the independence recommendations are discussed in the next chapter.) Three non-implemented recommendations do not require further action and are noted later in the chapter. Three require some further consideration.

⁶¹ <https://documents.parliament.qld.gov.au/tp/2017/5517T2042.pdf>

⁶² <https://documents.parliament.qld.gov.au/tp/2018/5618T474.pdf>

⁶³ QAO *Annual Report 2022-23*, pg 30.

⁶⁴ Strategic Review Recommendations – Internal Audit Report Audit Number: 2023-01 27 October 2022, pg. 4

7.2 Recommendations not implemented with adequate reason – requiring further consideration

7.2.1 Strategic Recommendation 5.7 (v)

Funding for performance audits be doubled to give the QAO:

- greater flexibility to engage earlier and better with its performance audit clients;
- more scope to engage expert resource for audits and to increase sector expertise among its staff; and
- the capacity to deliver a wider range of assurance on the performance of Queensland public sector agencies.

In considering this recommendation, the Parliamentary Committee commented *The committee agrees that an increase in funding could assist the QAO to undertake more audits and to address the resourcing issues, the committee sees no evidence of why or how the reviewers reached the recommendation for a 100 per cent increase in the current funding.*

The committee recommended

*Recommendation 3: QAO prepare a detailed analysis of any additional funding it requires and ensure the Committee is included and aware of any approaches to the Treasurer/ CBRC for future funding increases.*⁶⁵

The Government accepted the Committee's recommendation.

The Government supports the QAO preparing a detailed analysis to demonstrate a case for any additional funding it requires to address staff resourcing issues and enable the QAO to undertake more performance audits. The case for any additional funding required by the QAO should form part of the QAO's future Budget submissions.^{66s}

The QAO did not follow up on these recommendations. As the Internal Audit report noted *QAO has stated that additional funding will instead be considered on an as-needed basis during the development of annual strategic audit plans. A doubling of funding is considered to be not required unless a specific business case against each strategic audit plan is developed.*⁶⁷

In the previous chapter, it was noted that there is evidence of budget stress having a potentially negative impact on the quality and timeliness of QAOs work and the well-being and capability of staff. As recommended in Chapter 6 incoming Auditor-General should take up the invitation in the Parliamentary Committee and Government response to the 2017 Strategic Review to present a detailed funding case to the Committee. This is consistent with Recommendation 6.13 b) from the previous chapter, which also recommended that the QAO not be subjected to efficiency dividends.

⁶⁵ <https://documents.parliament.qld.gov.au/tp/2017/5517T2042.pdf>

⁶⁶ <https://documents.parliament.qld.gov.au/tp/2018/5618T474.pdf>

⁶⁷ Strategic Review Recommendations – Internal Audit Report Audit Number: 2023-01 27 October 2022.

7.2.2 Opportunities for Improvement 5.7 (ii) and 5.7(iii)

We recommend that the QAO includes as part of any follow-up audit, assessment of the cost of implementing the recommendations made in the original audit.

We recommend that the QAO include in its performance audit methodology a requirement that the client be asked for an estimate of the cost of implementing proposed recommendations.

These recommendations relate to performance audit. They were not implemented. QAO advises (and the Internal audit accepted) that, in essence, the recommendations were not feasible or wanted by those subject to the performance audit.

Contingent on QAO clients' capacity and capability. QAO has explored this with clients who noted that they are unable to provide the cost of implementing recommendations due to their own system, capacity and process limitations⁶⁸.

These 2017 recommendations were essentially a response to concerns expressed to the 2017 Strategic Review that there were inadequate discussions about proposed recommendations and that the recommendations often did not consider the costs of recommendations, or the broader context of the issues being audited. This was also consistent with feedback received by the 2023 Lead Reviewer. Further evidence was sought from QAO to support their non-implementation of this recommendation. There was limited documented written evidence to support this, although there it was reported that there was some recollection of conversations held with a senior QAO staff member.

QAO's current performance audit methodology does require the discussion of recommendations (including costs) with clients⁶⁹. The proposed new methodology will similarly stress this requirement. The Lead Reviewer was informed that the extent of this conversation varies between performance audits.

The recommendations in the preceding chapter to include new performance indicators for performance audits aim to encourage this outcome. Recommendation 6.20 on acceptance of recommendations applies.

7.3 Recommendations not implemented with adequate reason – no further action required

7.3.1 Operational recommendation 4.4 (i)

The QAO adopt a policy that handwritten notes on Integrated Public Sector Audit Methodology files be phased out and that notes be in a digital format to enable ease of reading by other audit staff and for review purposes.

The implementation of Caseware has reduced the need for handwritten notes. The internal audit report noted:

⁶⁸ Strategic Review Recommendations – Internal Audit Report Audit Number: 2023-01 27 October 2022, p 12

⁶⁹ Section 3.1.2

Phasing out of handwritten notes is not operationally feasible for QAO. QAO has instead developed a policy to state that the level of documentation should be succinct, able to be re-performed and sufficient to enable an experienced auditor to understand.⁷⁰

We concur that no further action is required on this recommendation.

7.3.2 Operational recommendation 5.4(iii)

The QAO phase out the inclusion of handwritten notes on ASPIRE files and that notes be in digital format to enable ease of reading by other audit staff and for review purposes.

The Internal Audit report similarly comments from 4.4(i) apply.

No further action is required on this recommendation.

7.3.3 Operational Recommendations 4.3(i)

The Better Practice resource for Valuing public infrastructure, once formally issued, be subject to review by the end of 2017 to assess feedback from stakeholders, including audit clients, as to its application and usefulness.

The Parliamentary Committee noted that at the time of preparing its report, consultation on the guide had been completed. The committee recommended:

Recommendation 1: That the Auditor-General ensure that the Queensland Audit Office Better Practice Asset Valuation Guide is available in a timely manner.

The Government supported the Committee's recommendation.⁷¹

QAO decided to delay the publication until the new AASB standard and guidance material was released. The AASB standard was issued in December 2022. QAO had advised that the resource was to be released in early 2024 as an Audit Guide only. The Auditor-General has determined that the Guide will not be issued as it potentially introduces "requirements" that goes beyond the accounting standards and introduces the International Valuation standards and sets the QAO up as a "standard setter".

7.4 Other recommendations from the Parliamentary Committee and the Government's Response

The Parliamentary Committee considered the 2017 Review report and made six recommendations. In addition to its recommendations 1 and 3 (discussed above) it made the following four recommendations.

- 2 *That the Premier and Treasurer advise all Ministers and departments of the need to and expectation that they will ensure timely preparation and submission of financial statements to the QAO.*

- 4 *The committee recommends Ministers outline to their agencies the importance of the implementation of the QAO's performance audit recommendations, in accordance with any prescribed timelines.*

⁷⁰ Strategic Review Recommendations – Internal Audit Report Audit Number: 2023-01 27 October 2022.

⁷¹ <https://documents.parliament.qld.gov.au/tp/2018/5618T474.pdf>

- 5 *That the Premier, in consultation with the Minister for Innovation, Science and the Digital Economy and Minister for Small Business, consider amendment of section 53 of the Auditor-General Act 2009 or any other alternatives to allow the Department of Science, Information Technology and Innovation to access and utilise the QAO held audit analytics data of government departments.*
- 6 *That the Minister for Innovation, Science and the Digital Economy and Minister for Small Business update the House with respect to the development of the whole-of-government data solution capability.*

The Government supported the Parliamentary Committee's recommendations and took action to implement the recommendations⁷².

Recommendation 5 is discussed further in the next chapter.

⁷² <https://documents.parliament.qld.gov.au/tp/2018/5618T474.pdf>

8 The Independence Recommendations

8.1 Introduction

The 2017 Strategic Review and the Coaldrake Review dealt in detail with the independence of the QAO. Both considered recent history, and made recommendations designed to further enhance the independence of the Auditor General.

The need to ensure the independence of the Auditor-General has long been recognised. In Queensland, the Auditor-General Act contains some important protections in this respect, protections which are all the more important given the State's unicameral system. In particular, the legislation provides that the Auditor-General is not subject to direction by any person about the way in which that officer's powers in relation to audit are to be exercised. Nor can there be direction regarding the priority given to audit matters.⁷³

The basic principle of audit independence is that an auditor must be independent as far as possible of the entity he or she is auditing. The auditee must not be able to influence the scope of the audit work or the reporting of the auditor's opinion. In the case of an Auditor-General, the auditee is primarily executive government.

Best practice in the independence of Auditors-General concerns an Auditor-General's independence from the Executive. In essence, the intention is to ensure that an Auditor-General:

- *is not appointed or dismissed by executive government, and that his or her remuneration is set independent of the executive government;*
- *has sufficient resources to discharge his or her functions, and that executive government cannot limit resources; and*
- *has the discretion to decide what work to carry out, and the scope, timing and reporting of that work, without interference from executive government.*

In a parliamentary democracy such as Queensland, best practice is that an Auditor-General is an independent Officer of Parliament and matters such as appointment and resourcing of the Auditor-General are the responsibility of the Parliament.⁷⁴

There was no legislative response to the 2017 Strategic Review's independence recommendations until 2022. Since the tabling of the Coaldrake Review in 2022, there has been significant legislative action with IOLAA 2022 (assented to 12 December 2022, and parts of which have been proclaimed,) and a Bill currently before the house, (IOLAB 2023).

8.2 INTOSAI Principles

The 2017 Reviewers assessed the Auditor-General's independence against the internationally accepted INTOSAI principles (principles from the International Organisation of Supreme Audit Institutions). They concluded that:

The current legislative framework is not appropriate for an audit office in a mature democracy. We refer to the Auditor-General's independence at this point because the lack of flexibility in the employment of staff, as well as being a major business

⁷³ The Coaldrake Review pg 19

⁷⁴ 2017 Strategic Review pg 121

*issue, is a practical example of the consequences that flow from the QAO's being part of the public service. A further example is the Auditor-General's inability to set basic rates for audit fees without the Treasurer's approval.*⁷⁵

Since 2009, ACAG (The Australasian Council of Auditors General) has published and updated an assessment of Australian Auditor General Acts compliance with the INTOSAI standards. The most recently published assessment is *The Independence of Auditors-General* was published in 2020.⁷⁶

This 2020 Review found that QAO's independence "score" had dropped slightly and that some other states and territories legislation had enhanced the independence of their Auditors-General. This meant that QAO's relative position compared to other Australian jurisdictions had fallen three places, from second in 2013, to fifth in 2020. The current and proposed legislative changes should lift QAO's overall independence score in the next survey, although its relative position could be impacted by changes in legislation in other jurisdictions.

In this chapter, recommendations for legislative changes are assessed as being Met, Improved or Significantly Improved, or Not Met. In some cases, it is recommended that further action be taken to progress some recommendations. It also recommends further actions going forward for the parliamentary committee.

As noted above, the 2017 Review made strong recommendations that aimed to enhance the Auditor-General's independence. Recommendation 8.6 9 (i) dot point 2 encompasses the recommendations in the QAO submission to the unfinished 2013 parliamentary inquiry:⁷⁷

*the Auditor-General's independence be strengthened in line with the suggestions made by the QAO in its submission to the Finance and Administration Committee's inquiry into "the legislative arrangements assuring the Auditor-General's independence."*⁷⁸

The Coaldrake Review made five recommendations concerning the Act, which were consistent with the 2017 Review, and specifically recommended:

*Other outstanding recommendations from the 2013 FAC Inquiry and 2017 Strategic Review be implemented.*⁷⁹

Because the recommendations are consistent or overlap, and because they are conceptually underpinned by the principles of auditor independence established by INSOTAI, this chapter reports progress on all the recommendations considered "independence recommendations" against this framework.

The QAO's submission to the FAC inquiry into the legislative arrangements assuring the Auditor General's independence was similarly organised around these principles. It forms the base for the organisation of this assessment. Relevant recommendations from the Coaldrake Review and the 2017 strategic review are noted and grouped together under the original QAO submission recommendations to the FAC inquiry. In total, there are 25 separate recommendations or groups of recommendations.

⁷⁵ 2017 Strategic Review pg 12

⁷⁶ ACAG *The Independence of Auditors-General – A 2020 update of a Survey of Australian and New Zealand legislation.*

⁷⁷ The Inquiry was not complete – parliament closed

⁷⁸ 2017 Strategic Review pg 14

⁷⁹ Coaldrake Review pg 23

It should be noted that the assessment below is premised on the passage and full proclamation of the QAO sections of the second integrity bill - IOLAB 2023. Because of this assumption, the first recommendation relates to this matter.

Recommendation 8.1

That all QAO relevant sections of the *Integrity and Other Legislation Amendment Bill 2023* be passed and proclaimed.

8.2.1 INTOSAI Principle 1 – The existence of an appropriate and effective constitutional/statutory/ legal framework

Recommendation 1: *Recognising the Auditor General as an “independent officer of the parliament in the AG Act.* **MET**

Related recommendations

8.6 (i) We recommend that: the Auditor-General become an independent Officer of Parliament - *Strategic Review 2017*

The independence of the position of the Auditor-General be strengthened, extending its scope and according to its status as an Officer of the Parliament - Coaldrake summary recommendation (page 3)

The Auditor-General become an independent Officer of Parliament - Coaldrake detailed recommendation (page 23)

Comment

As of March 1, 2023, the Auditor-General is an officer of Parliament (Auditor-General Act 2009, s 6(2)).

Recommendation 2: *Requiring the Auditor-General and the Deputy Auditor-General to take an oath of office, administered by the Speaker or the Clerk of Parliament.* **MET**

Comment

The Act (sections 11A and 25A) provides for the administration of the Oath of Office. The Auditor General and Deputy Auditor General took the oath of office on 8 March 2023.

Recommendation 3: *The Queensland Independent Remuneration Tribunal determining the remuneration and allowances to be paid to the Auditor General. This would also need to be recognised in the Queensland Independent Remuneration Tribunal Act 2013.* **NOT MET**

Comment

IOLAB 2023, clause 5, amends section 11 of the Auditor General Act to require Parliamentary Committee approval of the Auditor-General’s remuneration and terms and conditions, prior to their appointment being made. This improves on the status quo, which requires only “consultation with” the Parliamentary Committee on remuneration.

While the IOLAB 2023 provisions are an improvement, independent determination of remuneration is far preferable, as it removes the negotiations over remuneration from the executive arm of government. The remuneration of Auditors-General in the Commonwealth, the ACT, NSW and WA is set by an independent remuneration tribunal.

It is recommended that the relevant amendments be made to the Act and *Queensland Independent Remuneration Tribunal Act 2013* to enable the remuneration and allowances of the Auditor General to be determined by this independent authority. If the amendment is not able to be made before the appointment of the new Auditor-General, provision should be made for this determination to be made after the appointment of the incoming Auditor-General. This provision should provide that the determination should not reduce the conditions of the original appointment.

Recommendation 8.2

That the Queensland Independent Remuneration Tribunal set the remuneration and allowances of the Auditor-General and that relevant Acts be amended to give effect to this recommendation.

Recommendation 4: *The Auditor-General being entitled to take leave upon giving notice to the Speaker or the Chair of the Parliamentary Committee, rather than requiring the approval of the Minister. MET*

Comment

Section 15 of the Act requires notice for leave to be provided to the Speaker rather than the Minister.

Recommendation 5: *The Parliamentary Committee appointing the strategic reviewer and deciding the terms of reference for the review under Part 4 of the Auditor General Act. Significant improvement*

Comment

IOLAB 2023, clause 15, amends the Act to require Parliamentary Committee approval for the terms of reference for a strategic review, and for the appointment of the strategic reviewer. This is a significant strengthening of the current provisions which only require consultation. However, it is still the Minister who instigates the appointment and terms of reference and the QAO's position is that the role of 'minister' for QAO should be replaced by the Speaker.

Under the new legislative provisions enhancing the independence of the Auditor-General, the EGC scope and extent of engagement with the QAO will increase. By the time of the next Strategic Review, the EGC will be well-placed to identify key issues that it believes the Strategic Review should address. There is nothing in the Act that precludes the parliamentary considering at any time possible terms of reference for the strategic review. It is recommended that the committee take the initiative and identify terms of reference for the review.

Recommendation 8.3

Twelve months before the commencement of the next Strategic Review, the parliamentary committee should identify terms of reference for the review.

Recommendation 6: *Requiring the strategic reviewer to provide their report on the review directly to the parliamentary committee, rather than the Minister. MET*

Comment

IOLAB 2023, clause 16 amends the Auditor-General-Act 2009 to require the strategic review report to be given to the Parliamentary Committee, and for the Chair to table the report in the Legislative Assembly within three sitting days. While the amendment still provides for the report to be given to the Minister, it is provided to the Committee directly, and at the same time, rather than via the Minister. In this and, in a number of the following recommendations, the Auditor-General would prefer for the report not to be provided to the Minister. I have assessed recommendations as being met if the Parliamentary Committee receives the report directly and not via, or subsequent to the Minister. The Auditor-General's view is that the recommendation is only partially met. In either case it is a significant improvement to the current position.

8.2.2 INTOSAI Principle 2 – The independence of SAI⁸⁰ heads and members (of collegial institutions) including security of tenure and legal immunity in the normal discharge of their duties

Recommendation 7: Requiring the Parliamentary Committee to manage the selection and appointment process for the position of Auditor-General. Significant improvement

Comment

IOLAB 2023, clauses 4 and 5, amend the Act to establish the Parliamentary Committee as the approving entity for the Auditor-General's terms and conditions, remuneration, recruitment process and submission to Governor-in-Council for appointment. This is a significant improvement on the current act which only provides for consultation with the Parliamentary Committee.

Clauses 4 and 5 require the parliamentary committee to approve, on application from the Minister,

- the selection and process for the appointment of the Auditor-General
- the appointment of the person as Auditor-General.
- the remuneration, allowances, and terms and conditions of office for the Auditor-General.

If approval is not granted within 20 business days after receiving the request from the Minister, it is taken to be automatically approved. The Auditor-General supported these amendments but considered the approval timeframe to be limiting. *"I appreciate the intent of this requirement is to ensure the appointment process is not unduly delayed. However, this could also be perceived as a limitation on the independence of the process. As the recommendation to the committee is made by the Minister, if there is no actual approval by the committee this could be seen as an appointment by the Minister not the committee."* (detailed submission by the Auditor General to the EGC the IOLAB, 2023)

The process for recruitment will continue to be managed by the responsible Minister and administering Department. As noted above the Auditor-General's position is that role of the Minister should be replaced by the Speaker.

Recommendation 8: Requiring the Auditor-General to be appointed by Governor-in-Council on address by the Legislative Assembly. Significant improvement

⁸⁰ Supreme Audit Institution

Comment

IOLAB 2023, clause 4, amends the Act to establish the Parliamentary Committee as the approving entity for the candidate prior to submission to the Governor-in-Council for appointment. This is a significant improvement on the current Act which only provides for consultation with the Committee.

Recommendation 9: *Restricting the Auditor-General's employment in the public sector for two years after their term.* **MET**

Comment

IOLAA 2022, section 10, inserts a new section 19A to prohibit a person from holding office in or being employed by a public sector entity for two years following the conclusion of their term as Auditor-General.

Recommendation 10: *Recognising in the Auditor-General Act that a person acting in the role of Deputy Auditor-General may also act as Auditor-General in the absence of both the Auditor-General and Deputy Auditor-General.* **MET**

Comment

IOLAA 2022, section 13, inserts a new section 25B in the Act which provides for the Auditor-General to appoint a person to act as the Deputy Auditor-General during any vacancy in the office for a period when the deputy is absent. Section 24B(8) of the *Acts Interpretation Act 1954* specifies that a person formally acting in an office has all the functions and powers of the office. Together these sections provide that an acting Deputy Auditor-General may also act as Auditor-General in the absence of both the Auditor-General and the Deputy Auditor-General.

8.2.3 INTOSAI Principle 3 – A sufficiently broad mandate and full discretion, in the discharge of SAI functions

Recommendation 11: *Clarifying the Auditor-General's mandate for auditing trusts created and/or used by public sector entities in performing their functions.* **MET**

Comment

IOLAB 2023, clauses 12 to 14, inserts new sections 34A and 60A, and amends section 37, to clarify the public sector trusts that the Auditor-General is to audit.

Recommendation 12: Amending the Auditor-General Act to enable Parliament to request but not require the Auditor-General to conduct audits of matters relating to the financial administration of public sector entities. **NOT MET**

Comment

An amendment to section 35 (Audits at request of Legislative Assembly) was included in the Integrity and Other Legislation Amendment Bill 2022 when introduced but was omitted by Parliament during the second reading debate.

Recommendation 13: *Providing the Auditor-General with the discretion to initiate performance audits of government owned corporations.* **MET**

Comment

IOLAA 2022, sections 16 to 18, removed the restrictions on the Auditor-General in relation to Government-owned corporations. The Auditor-General may initiate performance audits of government-owned corporations.

Recommendation 14: *Reviewing other Queensland legislation to ensure any requirements for the Auditor-General to conduct audits are consistent with the discretion provided to the Auditor-General under the Auditor-General Act.* **Improvement**

Comment

Schedule 1, IOLAB 2023 removes references to the Auditor-General in a small number of other Acts. The government has indicated that some relevant departments will include required amendments in their own omnibus Bills, but that references within legislation identified as being consistent with the Auditor-General's functions in the Act will remain, without amendment. They also stated that any national law references cannot be removed without agreement across all relevant jurisdictions as they provide consistency across all Auditors-General in Australia.

Recommendation 8.4 a)

That the Auditor-General advise the EGC of current Acts that include provisions that are not consistent with the Auditor-General's discretion under the *Auditor-General Act* (and are not otherwise required under national agreements).

Recommendation 8.4 b)

That Section 3.7.1 of the Queensland Legislation Handbook be amended to specifically require consultation with the Auditor-General where legislation is drafted that impacts the statutory powers or responsibilities of the Auditor-General.

8.2.4 INTOSAI Principle 4 – Unrestricted access to information

Recommendation 15: *Identifying that the Auditor-General's powers to access information is not limited by any rule of law relating to legal professional privilege. Disclosure of information to the Auditor-General should not otherwise affect the operation of the rule of law relating to the privilege.* **NOT MET**

Comment

This recommendation has not yet been addressed. The Queensland Ombudsman has a similar provision in the *Ombudsman Act 2001* (section 45) providing such a power⁸¹. Alternatively, the provisions in the Commonwealth's *Auditor-General Act 1997* (section 30) or New South Wales's *Government Sector Audit Act 1983* provide suitable legislative models.

Recommendation 8.5

That the *Auditor-General Act 2009* be amended to give effect to recommendation 15 of the QAO's submission to the FAC inquiry.

⁸¹ See also the recently tabled *Casino Control and other Legislation Amendment Bill 2023*.

Recommendation 16: Giving the Auditor-General discretion in deciding whether to make information available to a commission of inquiry. **NOT MET and no longer relevant**

Comment

It is unclear why the Auditor-General should have a blanket discretion to not make information available to a properly constituted commission of inquiry. This discretion is not afforded to other public authorities. The Auditor-General did not wish to continue to pursue this recommendation.

Recommendation 8.6

Recommendation 16 of QAO's submission to the FAC Inquiry is no longer current and should not be followed up in any further review of the implementation of recommendations related to the QAO's independence.

8.2.5 INTOSAI Principle 8. Financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources

Recommendation 17: Establishing the Auditor-General as a corporation sole under the Auditor General Act. **NOT MET and no longer relevant**

Comment

This recommendation dates from an Electoral and Administrative Review Commission report from September 1991. The Auditor-General agree that this recommendation would have no impact on the independence of the Auditor-General and is longer relevant.

Recommendation 8.7

Recommendation 17 of QAO's submission to the FAC Inquiry is no longer current and should not be followed up in any further review of the implementation of recommendations related to the QAO's independence.

Recommendation 18: *Establishing the Auditor-General as the employer and employing QAO staff under the Auditor-General Act and not the Public Service Act.* **MET**

Related recommendations:

The Auditor General Act 2009 (Qld) be amended to allow for the Auditor General's employment of QAO staff under that Act, rather than under the Public Service Act 2008 (Qld) (From the Coaldrake Review, page 23)

6.3 (ii) That the Auditor-General Act 2009 be amended:

- *to provide for the Auditor-General's employment of QAO staff under that Act rather than under the Public Service Act;*
- *to give the Auditor-General the authority to employ the staff necessary to carry out the Auditor-General's functions; and*
- *to enable the Auditor-General to determine the remuneration and other terms and conditions of employment of QAO staff (2017 Strategic Review, page 13)*

Comment

IOLAA 2022, section 14, provides that the staff of the audit office are employed under the Auditor-General Act, rather than the Public Sector Act 2022. It also provides for the

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Auditor-General to set remuneration and terms and conditions in accordance with industrial relations laws rather than under the *Public Sector Act 2022* and Public Sector Commission directives.

The new *Public Sector Act 2022*, introduced and debated in conjunction with IOLAA 2022, also included provisions to reinforce the employment independence of the Auditor-General. These sections automatically commence on 13 December 2023.

Recommendation 19: *Giving the Auditor-General authority to appoint the staff necessary to exercise the Auditor-General's functions.* **MET**

Comment: as for 18 above

Recommendation 20: *Enabling the Auditor-General to determine the remuneration and other terms and conditions for the appointment of QAO staff.* **MET**

Comment: as for 18 above

Recommendation 21: *Involving the Parliamentary Committee in the process for setting the QAO's budget, including:*

- *Requiring the Auditor-General to provide the annual estimates for the QAO to the parliamentary committee*
- *The estimates being considered by the Parliamentary Committee and tabled in Parliament with such modifications the committee thinks fit*
- *Including the annual estimates for the QAO in the Appropriation Bill for the Parliament*
- *Adopting the same processes for any supplementary funding requested by the Auditor-General during the year.* **Significant Improvement**

Related recommendation:

The independence of integrity bodies in Queensland be enhanced by aligning responsibility for financial arrangements and management practices with the Speaker of Parliament and the appropriate parliamentary committee, rather than the executive government. (Coaldrake Review, page 93)

Comment

The amendments in IOLAB 2023 significantly increase the Parliamentary Committee's involvement in determining of the QAO Budget. In particular, it provides that:

- applications for increases of in-year (ie supplementary) funding, and
- applications for increases in the core funding.

Applications will be submitted to the Parliamentary Committee, as well as the Minister. The Parliamentary Committee must provide the Minister with a report that either supports, varies or does not support the submission. The Committee must consult Queensland Treasury in its consideration of the proposal. If the Committee does not report within 20 business days, it is deemed to have supported the proposal.

The Minister is to then progress the proposal through normal funding processes, and table a response to the Committee's report when the funding proposal is implemented (e.g. included in the Appropriations Bill or allocated to the QAO). If the funding differs from the report from the committee, the Minister's response is to include reason for the difference.

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These changes provide for significant involvement of the Parliamentary Committee in the funding for QAO. It also provides for transparency of QAO budget requests and the Government's response to them.

However, the amendments in IOLAB 2023 **do retain** the involvement of the executive in setting the budget for the QAO, rather than it being determined by the Parliament as recommended by various previous reviews.

The Government has determined that: *“The annual budget for the QAO will remain in the general Appropriations Bill. Inclusion in the Appropriations (Parliament) Bill would require an amendment to the Queensland Constitution.”*⁸²

This is contested by the Auditor-General, who in his submission suggests additional ways of ensuring more financial independence, as has occurred in other jurisdictions, without impacting their constitutions. The Economic and Governance Committee did not comment on this part of the submission.

Since this Review commenced, the NSW government has announced it will implement a transparent budget management model for the Auditor-General and other Integrity Offices.

“Under the new model, the agencies have been permanently removed from the Department of Premier and the Cabinet Office financial management processes and excluded from efficiency dividends. Other permanent measures to ensure agency independence include:

- *a specialist integrity agency unit within NSW Treasury to manage representations of agency funding needs and provide agencies with information on their funding outcomes.*
- *the ability for agencies to review Treasury's advice to Cabinet on funding bids and provide their own advice directly to Cabinet.*
- *transparent reporting of Cabinet budget decisions impacting agencies to the relevant supervising committee of the Parliament.”*⁸³

The changes to the budget arrangements as set out in IOLAB 2023 are substantial. They will require the Economic and Governance Committee to be further engaged with the QAO and to better understand the QAO's business and processes. Both the QAO and EGC will need to negotiate new processes and procedures to give effect to this change – with its enhanced engagement with the Parliament.

The new arrangements should be reviewed two years after the commencement of the provisions set out in IOLAB 2023. This review should consider whether the changes meet their objectives. They should also consider whether aspects of the new NSW budget processes outlined above should be implemented in Queensland.

Recommendation 8.8

The EGC should review the new budget processes in the *Integrity and Other Legislation Amendment Bill 2023, section 29G*, two years after their commencement. It should also examine the application of the new transparent budget management model in NSW and consider whether any aspects should be implemented in Queensland.

⁸² Queensland Government, email to lead reviewer, 12 July 2023.

⁸³ (<https://www.nsw.gov.au/media-releases/putting-integrity-at-heart-of-the-nsw-government>)

Recommendation 22: Removing from the Auditor General Act 2009 the requirement for the Treasurer to approve the basic rates of audit fees. **Significant Improvement**

Related recommendation:

8.6 (i) Recommend that:

subsections 56(3) and 56(4) of the Auditor-General Act be repealed. (The repealing of these subsections deals with the setting of fees.) (2017 Strategic Review)

Comment

IOLAA 2022, s 19 and 20, included amendments to the *Auditor General-Act 2009* removing the requirement for the Treasurer to approve basic rates of fees. However, it also introduces a new s.56A which will only allow the Auditor General to increase the basic rates of fees once each financial year, with approval from the Parliamentary Committee.

Recommendation 23: *The Auditor-General providing the QAO's annual report to the Speaker or Clerk for tabling in Parliament, instead of the Minister.* **MET**

Comment

IOLAB 2023, clause 19, inserts new section 72AA to provide for the Annual Report to be provided to, and tabled by, the Parliamentary Committee. In addition, the report must be provided to "the Speaker, the appropriate Minister and the Treasurer". While the report is tabled by the Chair of the Parliamentary Committee rather than the Speaker, it is consistent with the greater role given to Parliament through the Parliamentary Committee. The Reviewer has determined that the recommendation is met as it is consistent with the intention of the recommendation for the greater involvement of Parliament. For similar reasons as discussed above the Auditor-General's position is that the recommendations are only partly implemented

Recommendation 24: *Appointing the external auditor of the QAO by resolution of the Parliament on the recommendation of the parliamentary committee.* **MET**

Comment:

IOLAB 2023, clause 17, amends section 71 to require Parliamentary Committee approval before a nominee for external auditor may be submitted to the Governor-in-Council for appointment. While the appointment is not via a resolution of Parliament it is approved by the Parliamentary Committee. The Reviewer has determined that the recommendation is met as it is consistent with the intention of the recommendation for the greater involvement of parliament. For similar reasons as discussed above the Auditor-General's position is that the recommendations are only partly implemented.

Recommendation 25: *Requiring the external audit of the QAO to report on the results of audits performed directly to Parliament or to Parliament through the Parliamentary Committee – MET*

Comment

IOLAB 2023, clause 18, amends section 72 to require the external auditor to provide their report to the Parliamentary Committee, the Premier, the Treasurer and the Auditor-General. The Chair of the Parliamentary Committee will be required to table the audit report in the Legislative Assembly within 3 sitting days. For similar reasons as discussed above the Auditor-General's position is that the recommendations are only partly implemented.

8.3 Additional Matters

8.3.1 Sharing of information

2017 Strategic Review Recommendation 4.8 (iv)

The QAO consult with the Chief Information Officers at the Department of Science, Information Technology and Innovation, Department of Premier and Cabinet and Queensland Treasury to determine the viability of a data centre arrangement for the secure repository of whole of government data including financial data and, once it is established, the QAO cease to provide services to audit clients in regard to the access to data and the provision of reporting tools such as QlikView dashboards to audit clients.

MET

The Parliamentary Committee was impressed by the data analytics capacity of QAO and recommended enhanced sharing of QAO data:

That the Premier, in consultation with the Minister consider amending s.53 of the AG Act or any other alternatives to allow the DSITI to access and utilise the QAO held audit analytics data of government departments. (Recommendation 5).

The Committee did note that data collected by QAO should be solely for audit purposes.

The QAO did work with relevant Departments to share its expertise however was concerned that providing access to its data could be perceived to impact on its independence.

Sections 53(3)(f) and 72A of the Act were amended to allow sharing of information between QAO and Treasury “only for the purposes of whole-of-government budgeting and monitoring. The intent was to build upon QAO’s data extraction and analytics capability. The Auditor General expressed concern on the impact of this legislation on the independence of the Auditor-General. A memorandum of understanding was agreed between the QAO and Queensland Treasury on the access to and utilisation of QAO information under this section of the Act. Queensland Treasury has not sought, and does not intend, to access information from QAO under Section 72 A. The MoU has now lapsed.

The aforementioned 2020 *The Independence of Auditor-Generals* report adversely mentions this amendment and Queensland’s independence score fell as a result.

Recommendation 8.9

That Sections 53(3)(f) and 72A of the *Auditor-General Act 2009* be repealed.

8.3.2 Strategic Audit Plan (Forward Work Plan)

The 2017 Strategic Review recommended as an *Opportunities for improvement* that:

The QAO’s strategic audit plan prepared under section 38A of the Auditor-General Act 2009 be required to be reported to the Legislative Assembly. (Recommendation 5.8. (iv))

NOT MET

Comment

The strategic audit plan is now known as the Forward Work Plan. The Act does not require it to be tabled but does not preclude it. As discussed previously in this report the Auditor-General consults widely on the draft. In particular, the draft plan is forwarded to the Chair of the EGC. The Chair forwards it to the other portfolio committees and co-ordinates the response to the Auditor-General. The Auditor-General publishes the finalised plan on the website. It was likely recommended to further align the QAO with Parliament.

The intent of this recommendation could be met by the Auditor-General including an overview of the Plan as an Appendix in the Annual Report.

Recommendation 8.10 (opportunity for improvement)

That the Auditor-General include an overview of the Forward Work Plan as an appendix in the Annual Report.

8.4 Conclusion

There were a total of 25 separate recommendations resulting from the 2017 Strategic Review, the Coaldrake Review, including the QAO submission to the FAC inquiry. This assessment finds that 14 of the recommendations have been implemented and there have been improvements or significant improvements in relation to six other recommendations. The Auditor-General's view is that ten have been fully implemented and there have been improvements in relation to ten other recommendations. Five have not been implemented. Two of those recommendations are either no longer necessary or appropriate. One additional issue was identified relating to the insertion of new section in the Act. Ten recommendations have been made to further strengthen the independence of the Auditor-General in Queensland.

The significant legislative change offers a challenge and opportunity to the Parliament through the Parliamentary Committee, and the QAO to work to strengthen the independence of the QAO and its engagement with the Parliament.

Appendix 1: Terms of reference

INTRODUCTION

The Queensland Auditor-General and the Queensland Audit Office (QAO) carry out independent audits of the Queensland public sector and related entities. The scope of the Auditor-General's audit mandate includes annual financial audits and scheduled performance audits.

SCOPE

In accordance with section 68 of the *Auditor-General Act 2009* (the Act), a strategic review of the QAO is to be conducted at least every five years. The strategic review, as defined in section 68(7) of the Act, is to include:

- a) a review of the Auditor-General's functions; and
- b) a review of the Auditor-General's performance of the functions to assess whether they are being performed economically, effectively and efficiently.

The reviewer will have the powers vested in them under section 69 of the Act in order to conduct the review.

The appointed strategic reviewer (the reviewer) will be required to generally assess and provide advice and recommendations about the functions and the performance of the functions of the Auditor-General and the QAO, in order to assess whether they are being performed in accordance with the requirements of the Act.

The strategic review is to examine all structural and operational aspects of the QAO, as well as its relationship with public sector entities, relevant Ministers, the Treasurer and the Parliament of Queensland.

The strategic review is to consider the:

- recommendations from the 2016 strategic review
- recommendations of the former Finance and Administration Committee report on the 2016 strategic review
- the Government's response to the Finance and Administration Committee's report, particularly to the extent to which they have been implemented and whether they are achieving the desired objectives
- reforms being implemented by the Queensland Government in response to Professor Peter Coaldrake's Report *Let the Sunshine in: Review of culture and accountability in the Queensland public sector* (the Coaldrake Review), including through the *Integrity and Other Legislation Amendment Act 2022* and the proposed second Bill to progress reforms.

METHODOLOGY

In conducting the strategic review, the reviewer is to have regard to the QAO's existing governance framework including strategic and operational plans, the organisational structure, corporate and operational management, operational conduct, internal/external policies, and audit service provisions of the QAO.

The reviewer must also consider the potential impact of reforms being implemented in response to the Coaldrake Review in relation to the QAO's independence, structure, and budget.

The reviewer is to give particular reference to:

- a) whether existing processes are appropriate to the QAO's audit mandate, the needs of public sector agencies and emerging public sector organisational structures
- b) the effectiveness of existing processes, and in particular the effectiveness of the auditing standards issued by the Auditor-General and the performance audits, in fulfilling the audit mandate within the contemporary accountability requirements of Queensland's system of government
- c) examination of trends in the workload of the QAO, including an examination of current and past methodologies relating to practices and procedures employed by the QAO
- d) the operational efficiency of QAO audit methodology and relative efficiency of in-house and contract audit service provisions
- e) the standard and quality of service provided to the Parliament, audit clients and executive Government
- f) the structure of the QAO, including the delegation and allocation of responsibilities
- g) management systems and processes used by the QAO, including
 - i. appropriate internal and external performance indicators to monitor efficiency and effectiveness
 - ii. internal communication and sharing of performance information

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- iii. human resource issues, including formal and informal staff training and guidance
 - iv. administrative systems and processes used by the QAO
 - v. whether the funding of the QAO is both appropriate and appropriately used to discharge the functions and objects of the QAO
 - vi. appropriate protocols for communication by and with the QAO
 - vii. any other matters which impact on the economy, efficiency and effectiveness of the QAO
- h) evaluating the effectiveness of the recommendations made by the QAO in audit reports and the costs and benefits associated with their implementation
- i) evaluating the QAO's understanding of Queensland public sector and related entities core business, functions and operations being performance audited, taking into account feedback provided by entities the subject of performance audits.

The strategic review should also take into account:

- consideration of comparative models, practices and procedures used by offices in other jurisdictions equivalent to the QAO, with particular focus on jurisdictions with a performance audit mandate
- the results of the Economics and Governance Committee oversight of the Auditor-General including related reports and transcripts of Estimate hearings and the Committee's report on its consideration of the Integrity and Other Legislation Amendment Bill 2022
- the impact of the reforms in the *Integrity and Other Legislation Amendment Act 2022*, including the QAO's preparations to implement the reforms.

It is anticipated the review will:

- conduct interviews with staff (including all staff who indicate they wish to be interviewed by the appointee) and former staff of the QAO, both individually and in focus groups (interviews with former staff are optional)
- consult with key Government agencies including the Department of the Premier and Cabinet and Queensland Treasury, particularly in relation to the Strategic Audit Plans for the performance audits of the QAO
- consult with other key stakeholders, including accounting firms that conduct business with the QAO.

PROPOSED TIMEFRAMES AND KEY DELIVERABLES

The final review report is to be given to the Premier and Auditor-General within six months of the commencement of the review.

As required under section 70(1) of the Act, the reviewer must give a copy of the proposed report on the strategic review to the Premier and the Auditor-General prior to finalising the report. Under section 70(2) of the Act, the Premier and the Auditor-General may, within 21 days after receiving the proposed report, give the reviewer written comments on anything in the proposed report, in which case the reviewer must comply with section 70(3) of the Act.

In accordance with section 70(4) of the Act, the final review report is to be presented to the Premier and the Auditor-General in a suitable format for tabling in the Legislative Assembly. This should occur no later than ten business days after complying with sections 70(1) and 70(2) of the Act. The final review report must be substantially the same as the proposed report, apart from any changes made under section 70(3).

Sections 70(6) and 70(7) of the Act provide that the Premier must table the strategic review report in the Legislative Assembly within three sitting days after receiving the report, and that the report be referred to the Economics and Governance Committee for examination, who may comment on any aspect of the report and make recommendations.

Appendix 2: The Review Team

Professor Emeritus Ian O'Connor – Lead reviewer

Professor Emeritus Ian O'Connor AC held the post of Vice-Chancellor and President of Griffith University from 2005 to 2018. He is currently Chair of the Queensland Art Gallery Board of Trustees, a position he has held since March 2017. He is also Chair of AARNet Pty Ltd. Professor O'Connor has served as a consultant to, or as a member of, various Government and non-Government bodies including as Chair of the Higher Education Standards Panel from 2018 to 2021.

Murray McDonald

Murray McDonald has over 40 years of experience in providing auditing services. He is a Fellow of Chartered Accountants Australia and New Zealand (“CAANZ”), a Registered Company Auditor and a Registered SMSF Auditor. He has been involved with a wide variety of clients including local governments, government owned corporations, government departments, other government statutory bodies, building societies and credit unions, manufacturing businesses, superannuation funds, public and private companies, private schools and “not for profit” organisations. He is also a member of the CAANZ Queensland Public Practice Panel and the Moore Australia Audit and Assurance Committee.

Robyn Speed

Robyn Speed has over 17 years of extensive audit experience. As a member of Chartered Accountants Australia and New Zealand (CAANZ) and a Registered Company Auditor, Robyn possesses a deep understanding of contemporary audit practices and methodologies. Robyn's expertise spans various industries, encompassing mining, manufacturing, retail, education, registered clubs, automotive dealers, property, and services.

Michael Lam

Michael brings with him more than 35 years of experience in delivering consulting services in Governance, Risk Management, Information Technology, and Internal Audit. He is Chartered Accountants of Australia and New Zealand, as well as being a Certified Information Systems Auditor (CISA). Michael's expertise spans both the private and public sectors, and he has previously worked in a prominent software company before returning to the consulting profession. He currently serves on two Not-for-Profit Boards.

Appendix 3: Response from the Queensland Audit Office to the proposed report



Your ref:
Our ref: 12676

OFFICIAL

24 November 2023

Professor Emeritus Ian O'Connor AC
(by email)

Dear Ian

2023 Strategic Review of the Queensland Audit Office

Thank you for your report on the 2023 Strategic Review of the Queensland Audit Office (QAO). We are immensely proud the review concluded that QAO has served the state well and that Queensland gets good value from its investment in QAO.

It has been my privilege to lead QAO over the past 6 and a half years. All our people, including our contracted audit service providers, work diligently towards QAO's vision of *better public services*. I thank them for their professionalism, expertise, and agility. I also wish to thank parliament, our audit clients and stakeholders for their work with us and for hearing our recommendations, insights, and advice. I also appreciate the time our people and clients took to speak with you during the review.

I welcome the overall conclusion that QAO's functions are performed economically, effectively, and efficiently. This reflects our focus on ensuring resourceful operations, value for money services, and remaining financially sustainable. The Brisbane consumer price index (CPI) has risen 25 per cent over the past 6 years, however, QAO's audit revenue from continuing clients¹ has grown by only 11 per cent. This translates to a 14 per cent efficiency dividend that we have delivered to state and local government entities, and ultimately the people of Queensland.

The report recognises the transformation QAO has undergone since I introduced the *Think and Act One* QAO operating model in 2019. QAO pivoted from a structure that was based on service lines to one based on who we serve: parliament; entities; and our own people. This model built on our strengths, and ensured we provided more consistent, seamless, and client-focused services. A less hierarchical organisational structure, including having a Deputy Auditor-General only when the Auditor-General is on leave or overseas, has enabled a more collaborative and flexible approach. This includes improved engagement within QAO and with our clients. Our agile operating model was instrumental in minimising disruption to our services through the pandemic and continues to serve parliament and entities well.

The positive outcomes from these changes clearly demonstrate the value we gained, and delivered, by pivoting to who we serve. This is evidenced by the high satisfaction ratings in our independent client surveys. In our 2022–23 results, members of parliament gave us a 97 per cent satisfaction rating, our audit clients gave us 83 index points, and our audit committee chairs gave us 84 index points – all exceeding our performance targets. I provide the results of these ongoing surveys in QAO's annual reports.

¹ Clients QAO audited for the financial years 2016–17 to 2022–23, excluding QIC Limited and Cross River Rail Delivery Authority due to significant changes in their operations during this time.

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The review concluded that our performance audits are fundamentally sound and valued by our clients, and I note the feedback related to this service area. Performance audits by their very nature can be a challenging activity for some entities given we focus our audit topics where we see the greatest need for improvement or where there is the most to learn. In selecting our topics, we consider the key risks or issues facing state and local government entities and where we can provide the most value. We work closely with clients during these audits to ensure we carefully consider all input we receive. We will continue to engage early and consult widely on our audit program, so we examine what matters most to Queenslanders.

Relationships have been at the core of QAO's strategy, and effective client engagement is part of our comprehensive system of quality management. Upholding our values and quality standards remains ingrained in how we operate. Our quality framework ensures we meet professional requirements, maintain the confidence of parliament and the public, and deliver results that are outcomes focused.

I accept the 38 recommendations directed to QAO. We will now work to address these recommendations, including implementing the 13 that relate to matters QAO is already attending to.

I note the recommendations directed to the incoming Auditor-General about QAO's structure, planning, governance, and internal workforce matters. I support the review's recommendations to the Queensland Parliament and the Economics and Governance Committee (EGC) to further strengthen the independence of the Auditor-General's role and support active engagement of the EGC given its new responsibilities. The state's audit office has fought for strengthened independence for many years and it has been rewarding to see this progress during my tenure. In meeting parliament's needs, QAO better meets those of the public.

While I support the recommendations made to parliament and public sector entities, I recognise that these are not within QAO's power to act on. Most of these recommendations require legislative changes, which will further enhance the Auditor-General's independence when fully implemented. Changes to the budget management model for integrity agencies in New South Wales, as outlined in the report, would protect the independence of QAO if adopted in Queensland. It would reduce involvement of the executive government in setting our budget, per the recommendations also made in prior inquiries and reviews of QAO.

I also note your assessment of previous recommendations to remove limitations on the Auditor-General's independence, including when seeking access to information subject to legal professional privilege. I have recently written to the Premier and the Economics and Governance Committee seeking support to address this matter by timely amendment of our legislation.

Thank you for your insights into QAO's operations. I appreciate the professionalism shown by you and Murray McDonald, Robyn Speed and Michael Lam from Moore Australia Audit (QLD/NNSW) during this review. I look forward to seeing what the future holds for QAO and its integral services to Queensland.

Yours sincerely



Brendan Worrall
Auditor-General

Appendix 4: The recommendations of the 2017 Strategic Review of the QAO

No.	Para No.	Recommendation
Strategic recommendations		
1.	4.3 (iv)	We recommend that, because client engagement should be led by the Auditor-General and Deputy Auditor-General, the QAO institute an annual programme of visits so that either the Auditor-General or the Deputy Auditor-General meets the Director-General or chief executive of each major client each year.
2.	5.7 (v)	We recommend that the QAO's funding for performance audits be doubled to give the QAO: <ul style="list-style-type: none"> greater flexibility to engage earlier and better with its performance audit clients; more scope to engage expert resource for audits and to increase sector expertise among its staff; and the capacity to deliver a wider range of assurance on the performance of Queensland public sector agencies.
3.	6.3 (i)	We recommend that, given: <ul style="list-style-type: none"> the results of the Working for Queensland survey in 2016 which indicate that an unacceptably high number of its staff consider that their workload is having a negative effect on their health; and additional audit requirements for 2016-17; the QAO undertake a review of the 2016-17 fees budget for financial audit services for financial audits: <ul style="list-style-type: none"> to determine whether it is realistic; to ensure that it can maintain audit quality; and to consider optimal resourcing for the 2016-17 audits, including the mix of QAO staff, contracted-in staff and contract auditors.
4.	6.3 (ii)	We recommend that the <i>Auditor-General Act 2009</i> be amended: <ul style="list-style-type: none"> to provide for the Auditor-General's employment of QAO staff under that Act rather than under the <i>Public Service Act</i>; to give the Auditor-General the authority to employ the staff necessary to carry out the Auditor-General's functions; and to enable the Auditor-General to determine the remuneration and other terms and conditions of employment of QAO staff.
5.	8.6 (i)	We recommend that: <ul style="list-style-type: none"> the Auditor-General become an independent Officer of Parliament; the Auditor-General's independence be strengthened in line with the suggestions made by the QAO in its submission to the Finance and Administration Committee's inquiry into "the legislative arrangements assuring the Auditor-General's independence; and subsections 56(3) and 56(4) of the <i>Auditor-General Act</i> be repealed.
Operational recommendations		
6.	4.3 (i)	The Better Practice resource for Valuing public infrastructure, once formally issued, be subject to review by the end of 2017 to assess feedback from stakeholders, including audit clients, as to its application and usefulness.
7.	4.3 (ii)	The QAO continue to produce Better Practice resources to benefit the Queensland public sector and continue to look for ways to enhance the use of those resources by its clients.
8.	4.3 (iii)	The QAO review its practice of requiring hard copy signed financial statements from regional audit clients and accept electronic copies to ensure timeliness in the finalisation of the audit. We recommend that, if necessary, the Act be amended to allow the Auditor-General to accept electronic copies of signed statements.
9.	4.4 (i)	The QAO adopt a policy that handwritten notes on IPSAM files be phased out and that notes be in digital format to enable ease of reading by other audit staff and for review purposes.

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No.	Para No.	Recommendation
10.	4.6 (i)	We recommend that the QAO specifically assess the exemptions of Hospital and Health related foundations to determine whether the assessment of small and low risk continues to apply.
11.	4.8 (i)	The QAO closely monitor the results of the implementation of audit analytics taking place within the QAO to identify the costs and benefits of audit analytics in the delivery of audit services both for financial audits and for performance audits.
12.	4.8 (ii)	Formal reviews of the audit analytics programme be undertaken by the QAO following the audits for each of the next three financial years to assess the benefits arising from the use of audit analytics compared to the cost of same, including costs directly incurred by audit clients.
13.	4.8 (iii)	Actions continue to be taken to ensure that contract auditor firms will be able to integrate audit analytics into their audit methodology in providing audit services for the QAO.
14.	4.8 (iv)	The QAO consult with the Chief Information Officers at the Department of Science, Information Technology and Innovation, Department of Premier and Cabinet and Queensland Treasury to determine the viability of a data centre arrangement for the secure repository of whole of government data including financial data and, once it is established, the QAO cease to provide services to audit clients in regard to the access to data and the provision of reporting tools such as Qlikview dashboards to audit clients.
15.	4.10 (i)	The QAO Auditing Standards be revised to incorporate a section setting out the criteria on which the Auditor-General may determine which Queensland public sector entities will be subject to Australian Auditing Standard ASA701 <i>Communicating Key Audit Matters</i> .
16.	4.10 (ii)	The QAO Auditing Standards be amended to require a review of and, if necessary, revision of the Standards at least once every three years.
17.	4.12 (i)	We recommend that the QAO undertake a review of the additional audit requirements for 2016-17 including: <ul style="list-style-type: none"> • those related to new accounting standards, especially the expansion of audit effort required for audit of related party disclosures; • the impact of the roll out of audit analytics including transition costs; • the time required related to audit clients for whom key audit matters are expected to be incorporated within the audit opinions; • to determine whether the overall fee budget for financial audit services for audit clients is realistic, also taking account of the results of the Working for Queensland survey.
18.	5.4 (i)	We recommend that the Auditor-General amend the Auditor-General of Queensland Auditing Standards to incorporate guidance on the requirement that the Auditor-General refrain from commenting on the merits of government policy.
19.	5.4 (ii)	We recommend that the QAO include in its performance audit methodology guidance on the restriction on questioning the merits of government policy.
20.	5.4 (iii)	We recommend that the QAO phase out the inclusion of handwritten notes on ASPIRE files and that notes be in digital format to enable ease of reading by other audit staff and for review purposes.
21.	5.5 (i)	The QAO reduce to 98% its performance measure target for "performance audit recommendations implemented".
22.	5.5 (ii)	The QAO continue to work with the Finance and Administration Committee and the Parliament to improve its communication and engagement with MPs on its performance audit reports.
23.	5.7 (i)	In 2017, the QAO select three audits planned to start in 2018 and explore opportunities for early engagement with the entities to be audited to: <ul style="list-style-type: none"> • identify what value the client expects from the audit; • consider the scope, audit objectives and timing of the audit; and • assist the client in commencing planning and resourcing for the audit.
24.	5.7 (ii)	The QAO include as part of any follow-up audit, assessment of the cost of implementing the recommendations made in the original audit.
25.	5.7 (iii)	The QAO include in its performance audit methodology a requirement that the client be asked for an estimate of the cost of implementing proposed recommendations.
26.	5.7 (iv)	In 2019, the QAO review the efficiency and effectiveness of the operation of the steps proposed in recommendation 5.7(i).

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No.	Para No.	Recommendation
27.	5.8 (i)	In its refinement of its criteria for selecting performance audit topics, the QAO consider whether there is adequate emphasis on improving public sector performance.
28.	5.8 (ii)	The QAO consider whether it can improve the economy of its strategic audit planning process, perhaps by increasing focus on improvement of public sector performance.
29.	5.8 (iii)	The QAO consider scheduling a performance management systems audit of a GOC or GOCs.
30.	5.8 (iv)	The QAO's strategic audit plan prepared under section 38A of the <i>Auditor-General Act 2009</i> be required to be reported to the Legislative Assembly.
31.	7.10 (i)	The <i>Auditor-General Act 2009</i> be reviewed to identify provisions that are outdated and that impact on the efficiency and effectiveness of the QAO, and steps be taken to seek amendment of the Act.
32.	7.10 (ii)	Consideration be given to including in the Act a provision requiring regular review of its provisions.

Glossary

AAG	Assistant Auditor-General
AASB	Australian Accounting Standards Board
ACAG	Australasian Council of Auditors-General
Act	<i>Auditor-General Act 2009 (Qld)</i>
ANAO	Australian National Audit Office
APESB	Australian Professional and Ethical Standards Board
ARMC	Audit and Risk Management Committee
AuASB	Australian Auditing Standards Board
ASA	Australian Auditing Standard
ASAE	Australian Standard on Assurance Engagements
ASP	Audit Service Providers
ASQM 1	<i>Auditing Standard Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i>
ASRE	Auditing Standards on Review Engagements
ASRS	Auditing Standard on Related Services
Coaldrake Review	<i>2022 Coaldrake Review - Let the Sunshine in: Review of culture and accountability in the Queensland public sector</i>
EMG	Executive Management Group
EQCR	Engagement Quality Control Reviewer
FAC	Finance and Administration Committee
FTE	Full Time Equivalent
GOC	Government Owned Corporation
INTOSAI	<i>International Organisation of Supreme Audit Institutions</i>
IOLAA 2022	<i>Integrity and Other Legislation Amendment Act 2022</i>
IOLAB 2023	<i>Integrity and Other Legislation Amendment Bill 2023</i>
MP	Member of Parliament
PAM	Performance Audit Methodology
PSO	Public Service Offices
QAO	Queensland Audit Office
SDS	Service Delivery Statement
SME	Subject Matter Experts
2017 Review	The 2017 Strategic Review of the Queensland Audit Office undertaken by Phillipa Smith and Graham Carpenter