

**Division 12: Office of the Auditor General —**

Mr S.J. Price, Chair.

Ms R. Saffioti, Treasurer.

Ms C. Spencer, Auditor General.

Mr M. Cooper, Executive Director, Corporate Services.

Mr D. Lines, Special Adviser.

[Witnesses introduced.]

**The CHAIR:** The estimates committees will be reported by Hansard and the daily proof will be available online as soon as possible within two business days. The chair will allow as many questions as possible. Questions and answers should be short and to the point. Consideration is restricted to items for which a vote of money is proposed in the consolidated account. Questions must relate to a page number, item or amount related to the current division, and members should preface their questions with those details. Some divisions are the responsibility of more than one minister. Ministers shall be examined only in relation to their portfolio responsibilities.

A minister may agree to provide supplementary information to the committee. I will ask the minister to clearly indicate what information they agree to provide and will then allocate a reference number. Supplementary information should be provided to the principal clerk by noon on Friday, 31 May 2024. If a minister suggests that a matter be put on notice, members should use the online questions on notice system to submit their questions.

**Mr R.S. LOVE:** I refer to page 153 of budget paper No 2, volume 1 and the heading “Significant Issues Impacting the Agency”. One of the issues is the use of contract audit firms to meet the requirements of the Office of the Auditor General. Paragraph 2 refers to outsourcing additional audits that are usually undertaken by internal staff. Currently, those audit firms are undertaking 47 per cent of state government and 87 per cent of local government financial audits. If we look further across the page and look at “Public Sector Auditing” on page 155, we see the total cost of service. There are expected to be 255 full-time equivalents in the office. How many additional staff will it take for the Auditor General to have enough staff to end the reliance on contract firms—or is that not seen to be an ambition of government?

[9.20 pm]

**Ms R. SAFFIOTI:** The role of the Office of the Auditor General has increased significantly, particularly in relation to local government. That question is sort of speculative, as in, I do not determine who is appointed within the office. I refer that to the Auditor General in relation to how those staffing issues are managed.

**Ms C. Spencer:** Audit offices across Australia have always relied on contract audit firms, and that provides not only a balance of surge capacity at peak times for audit delivery, but also for us to benchmark our own quality and efficiency. With the increase in local government auditing, in particular—that is where our contract audit firms are mainly used—we have needed to go to a higher percentage of contractor audit firm usage than we previously did, and with a different range of firms. To the member’s question around how many staff are needed to end reliance on contract audit firms, that is not an objective. We would always see a mix of contract audit firms being in our service delivery model.

**Mr R.S. LOVE:** If that is the case, why is it highlighted as a significant issue impacting the agency if, in fact, the Auditor General is quite comfortable with the use of contracted auditors instead of internal staff?

**Ms R. SAFFIOTI:** I refer that to the Auditor General.

**Ms C. Spencer:** In terms of the ability to manage the costs of our audit delivery, when relying on contract audit firms, which we have had to do as a result of the tight labour markets and the inability to recruit, we are subject to the costs of those audit firms growing at a higher rate than our staff wages. That has increased the cost at a much greater rate because of that necessity to outsource a greater percentage. Those costs of a larger proportion of outsourced audits have increased the total cost of audit services beyond what would be the case with in-house staff.

**Mr R.S. LOVE:** I might chance a little diversion. We started talking about the complexity of local government audits and the like. I note also in the budget documents that when talking about those local government and state government audits, part of the problem for the efficiency of the audit is that the agency or the local government is simply not audit ready. Could the minister explain a little more about what that entails? Are any measures being undertaken to ensure that especially local government is audit ready? I can assure members that I hear just the opposite from local governments about the reason audits are delayed and expensive.

**Ms R. SAFFIOTI:** I refer to the Auditor General.

**Ms C. Spencer:** Audit readiness is making sure that when we walk in the door, there is a set of financial statements that are certified by the CEO, appropriate supporting documentation for each line item in those financial statements and the disclosures, as well as having key staff available at the agreed timeframe for the audit. Our audits are scheduled pretty much a year in advance because our audit teams and contract audit firms are booked week by week. It is really important that when a timeframe is agreed at audit planning, it is able to be met by both the audit office and the audited entity. What we have found, particularly in the local government sector coming in in recent years, is there has not been the commitment or the ability to meet those timeframes and documentation requirements for the audits. Sometimes there has been the need, all too frequently in my view, to come back at a later point and do those audits. When you put down some audit work, or have to pick something up again and have to schedule it, that adds to delays and costs.

A number of things that we are doing in the local government sector is being really clear on our performance expectations. We are putting out better practice guidance for financial statement preparation as well as audit readiness, and we are also reviewing our timeliness and holding ourselves to account and reviewing that. I am really pleased to say that audit completion rates by statutory deadlines for the local government sector have really improved in the last year. That is reducing the additional fees, because there has been that commitment from agencies as well as our really tight management of expectations and delivery within the office. I would like to see all the fees come down, because they are not an end in itself; this is part of the service in our system of government to make sure that we are delivering audits as efficiently as possible, but also agencies are not being distracted or diverted to an audit process and we can all get through it as efficiently as possible.

**Mr R.S. LOVE:** In the Auditor General's experience, is the pattern of lack of audit readiness correlated to the size of the local government, or is it not a factor that small local governments have been unable to comply with the requirements of the auditor?

**Ms R. SAFFIOTI:** I refer to the Auditor General.

**Ms C. Spencer:** Certainly, many of the smaller and regional local governments struggle with attracting and retaining specialist or financial skills, and that contributes to audit readiness. But surprisingly, it is not always the biggest metropolitan local governments that are most audit ready. This year, we saw the City of Nedlands late and disclaimed, which was really unanticipated. It is not always the case.

**Dr D.J. HONEY:** I refer to the line item "Audit Services" under "Spending Changes" at the bottom of page 152. The estimated actual in 2023–24 is \$3.5 million. It then drops to \$1.9 million and increases in the out years back to around \$3.5 million. What is the precipitous drop between the 2023–24 actual and the 2024–25 budget figures?

**Ms R. SAFFIOTI:** I refer to Ms Spencer.

**Ms C. Spencer:** That predominantly relates to the number of audits coming off contract or needing to be contracted out and locked in in the current 2023–24 year at that higher rate than is the case in 2025. I am hopeful that conditions will return to a more normal rate with that price growth and we will enter a more competitive market for professional services and those out years may not be quite as high as we see. We are always trying to keep those costs down.

**Dr D.J. HONEY:** Given that there was a mention of a 35 per cent or higher increase in the rates, would that allocation not have increased this year? I appreciate that coming off, but that means the office is renegotiating at a higher level. I could not quite understand why it has gone down rather than stayed the same or increased.

**Ms R. SAFFIOTI:** I refer that to the Auditor General.

**Ms C. Spencer:** For the current year that has reduced, given that some of those audits coming off contract, as I said, have been locked in, and it is the estimated number of audits coming on.

[9.30 pm]

**Ms R. SAFFIOTI:** I must just add that this is additional spending. It may be that there is already a bigger base in 2024–25, so the additional spending is not as great as the forward estimates. If the member looks at the actual total expenditure, it grows significantly.

**Ms L. METTAM:** I refer to the explanation of significant movements on page 154. What caused the delay in tabling some of the reports to Parliament?

**Ms R. SAFFIOTI:** I will refer this to the Auditor General.

**Ms C. Spencer:** We have experienced an increase in requests for extensions or delays for audit commencement, the provision of information or feedback on indicative findings or even a summary of findings. We think in the last few years that it has been a symptom of the sector being stretched, the level of activity and its own staff shortages. Instead of it being about one in five points in the audit process in which an extension or delay may be requested—whether that be for starting an auditor meeting—it is now close to 100 per cent. That affects our ability to conduct our performance audits, particularly in a timely way. That is also stretching into financial audits.

**Ms L. METTAM:** Does the Auditor General provide embargoed copies of the reports or briefings to the government before their release?

**Ms C. Spencer:** We have recently reviewed our process. Instead of providing an embargoed copy of the report one hour before tabling, we are now doing that approximately one day before tabling. We provide that to the Leader of the Opposition, the relevant minister and the Premier. I think that is it.

**Ms L. METTAM:** Of the reports tabled by the Office of the Auditor General, are there any that the government has disputed the findings of?

**Ms R. SAFFIOTI:** That is a pretty broad question. I do not remember every report tabled and the subsequent government response. I am sorry.

**Ms L. METTAM:** I understand that the Auditor General is an independent officer of the Parliament. There has been some commentary in the past about the Auditor General's reports by the Premier. I can refer to the comments made by the Premier. On one occasion, he claimed that the Auditor General's findings were inaccurate and that he disagreed with the findings. There were also comments made in May 2023 insinuating that the Auditor General may be a COVID denier. How important is it that the Auditor General is seen as an independent officer of Parliament and to what extent does the Treasurer feel that that role has been respected and maintained?

**The CHAIR:** Treasurer, before you respond to that, it is not really a budget-related question. You can choose to respond how you would like.

**Ms R. SAFFIOTI:** I see what the member is trying to do, but I think it is not really appropriate. The Office of the Auditor General is an independent office of the Parliament. I am really proud that we have increased funding to the Office of the Auditor General year upon year. I mean, it is entirely inappropriate. It does not relate to a line item and does not discuss the budget of the Auditor General.

**The appropriation was recommended.**