





# **Report of the Auditor-General**

## **Report 6 of 2023**

### **Modernising SA public sector audit and strengthening audit independence**

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Tabled in the House of Assembly and ordered to be published, 26 September 2023

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First Session, Fifty-Fifth Parliament

By authority: M. Dowling, Government Printer, South Australia

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*The Auditor-General's Department acknowledges and respects  
Aboriginal people as the State's first people and nations, and  
recognises Aboriginal people as traditional owners and occupants of  
South Australian land and waters.*



**Auditor-General's  
Department**

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25 September 2023

President  
Legislative Council  
Parliament House  
ADELAIDE SA 5000

Speaker  
House of Assembly  
Parliament House  
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Dear President and Speaker

**Report of the Auditor-General:  
Report 6 of 2023 *Modernising SA public sector audit and strengthening  
audit independence***

Under the *Public Finance and Audit Act 1987*, I present to each of you this Report.

The report recommends the PFAA should be reviewed to clearly establish all the powers and features of contemporary public sector audit and strengthen the Auditor General's independence. In doing so, the matters raised in this report should be considered.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson  
**Auditor-General**



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# 1 Executive summary

## Recommendation

The *Public Finance and Audit Act 1987* (PFAA) should be reviewed to clearly establish all the powers and features of contemporary public sector audit and strengthen the Auditor-General's independence. In doing so, the matters raised in this report should be considered.

The position of Auditor-General is a crucial constitutional safeguard to preserve the financial integrity of the State's system of government.

In my opinion, the PFAA has provided a workable basis for most of the Auditor-General's statutory responsibilities. The scope of audit responsibilities provides for independent auditing and reporting across government, and some important changes were made in recent years to help ensure its ongoing effectiveness. However, the PFAA has had relatively few changes since it was passed in 1987, some 36 years ago. By contrast, the Audit Acts for the Commonwealth and other States have been periodically reviewed and updated to ensure the scope of audit work provided is meeting their Parliaments' requirements.

A review of the PFAA is a significant task and will ultimately be necessary to ensure South Australia's public audit legislation clearly provides for all the powers and functions of contemporary practice. This report provides some of the public audit principles that should be referenced in any such review. In my view, this review should also look to establish a dedicated Audit Act, in line with other jurisdictions.

## 2 Background

In my 2021-22 annual report,<sup>1</sup> I considered three matters that are essential to the Auditor-General's independence and to discharging the audit responsibilities that Parliament has assigned to the Auditor-General through the PFAA and other legislation:

- access to Cabinet documents
- budget arrangements for the Auditor-General
- level of funding for the Auditor-General.

Importantly, a key element of the background to these matters is that the PFAA no longer reflects contemporary arrangements for public sector audit when considered against other Australian examples or international benchmarks.

I consider it important to report to the Parliament now to draw together the current state of these matters and other experiences that highlight the limitations of existing legislation and the independence principles that support them, and to provide some context by looking at other jurisdictions.

This report is intended to inform the Parliament. It does not try to address all the matters that will need attention and resolution when our State's audit legislation is reviewed and updated.

I will provide a separate report on the Auditor-General's access to Cabinet documents, which is not covered in this report.

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<sup>1</sup> Auditor-General's Report 8 of 2022 *Annual report for the year ended 30 June 2022*, Part A, pp 15-27.

## 3 Examples of the need to modernise SA public sector audit arrangements

### 3.1 A Parliamentary Committee should have mandated responsibilities for the Auditor-General

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#### 3.1.1 Parliament's review of Auditor-General's reports

The Auditor-General reports to the Parliament. Under current legislation, no Parliamentary Committee has an express mandate to oversee and relate with the Auditor-General.

The principal practices that have developed between the Auditor-General and the Parliament are:

- the Parliament has set aside time to debate the Auditor-General's annual report, which is delivered by 30 September each year
- the Economic and Finance Committee requires the Auditor-General to appear before it annually, after the annual report is delivered
- the Budget and Finance Committee requires the Auditor-General to appear before it annually
- the Auditor-General attends the Estimates Committee for the State Budget.

In practice, the Auditor-General now reports to the Parliament several times a year. The reporting schedule is designed to ensure the Auditor-General can effectively meet the various statutory responsibilities under the PFAA.

A misalignment has emerged between this reporting frequency and existing practices that were designed around the annual report when it was the primary report to Parliament.

Clearly the Auditor-General's reports must be of a quality and relevance that warrants Parliament's attention. Equally important is certainty that the reports will receive this attention and that there is facility for Parliament to relate with the Auditor-General to examine the reported matters and recommendations.

The NSW *Government Sector Audit Act 1983* provides an example of express requirements that encompass the equivalent of our annual report and also other reports of the Auditor-General. In section 57(1) it establishes the Public Accounts Committee's functions, which include:

- (c) to examine the opinion or any report of the Auditor-General transmitted with the consolidated financial statements or laid before the Legislative Assembly with the financial report of an authority of the State (including any documents annexed or appended to any such opinion or report),*

*(c1) to examine each annual report and other report of the Auditor-General and report to the Legislative Assembly about any matter appearing in, or arising out of, the report ...*

### **3.1.2 Parliament does not have an active role in ensuring the Auditor-General has sufficient resources to meet its requirements**

In my 2021-22 annual report<sup>2</sup> I expressed the view that the current funding and budget arrangements for my Department undermine the Auditor-General's independence. The Auditor-General, although accountable to the Parliament and not to a minister, has the same funding arrangements as government agencies that are accountable to a government minister.

In my opinion, the funding arrangements for my Department should, at least periodically, be required by legislation to be reviewed by a Parliamentary Committee to ensure the Auditor-General is sufficiently funded to deliver the independent statutory responsibilities set by the Parliament in legislation.

I expand on this matter in section 5.

## **3.2 Auditing the whole of government financial statements should be a statutory requirement**

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South Australia is the only Australian jurisdiction where there is no statutory requirement for the Auditor-General to audit and issue an opinion on the State's whole of government financial statements.

The PFAA requires financial statements to be prepared by public authorities and the Auditor-General to audit the accounts. There is no requirement for the SA Government to prepare financial statements for the whole of government. South Australia is the only Australian jurisdiction where this requirement of government is absent in law.

The Australian Accounting Standards Board (AASB) has issued an accounting standard, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, for whole of government reporting. It is applied by all Australian governments and the SA Government uses it as the basis for the consolidated financial report, which I review but have no mandate to audit.

The absence of a mandate for the Auditor-General to audit the whole of government financial statements does not align with their importance. The accounting requirements in AASB 1049 are used as the basis for the budget framework. The consolidation of the general government sector is required by AASB 1049, and the results of this determine the key budget indicators of general government net operating balance, general government net lending and general government net debt.

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<sup>2</sup> Auditor-General's Report 8 of 2022 *Annual report for the year ended 30 June 2022*, Part A, pp 24-27.

## 3.3 Other priorities to modernise and strengthen audit independence

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### 3.3.1 Agencies to be audited

The PFAA defines the term ‘public authority’ and uses it to identify the entities that must:

- comply with Treasurer’s instructions
- prepare financial statements
- have their accounts audited by the Auditor-General.

It is timely to revisit whether all entities identified as needing to comply with the financial management rules set out in Treasurer’s instructions must also prepare separate financial statements and have them audited.

In practice, the PFAA’s definition of a public authority can be difficult to apply where statute does not explicitly refer to the Auditor-General’s mandate or whether an entity is an instrumentality of the Crown. This lack of clarity results in resources being committed by us and others in government to determining what accounts need to be prepared and audited.

The financial activities of some public authorities cannot practicably be separated and, as a result, at times more than one public authority’s financial activities are reported through a single set of financial statements. I consider this to be a practical application of the PFAA, however revising the requirements would give better clarity to financial statement preparers and the Auditor-General.

### 3.3.2 Appointment of the Auditor-General

The PFAA requires the Auditor-General to vacate their position at 65 years of age. South Australia is the only jurisdiction that has such a requirement. Consequently, if someone is appointed Auditor-General at, say, 45 years of age, they could hold the role for 20 years. This is inconsistent with the principles of audit rotation and independence. The age specification also practically limits who might apply for the position.

Legislation in all other jurisdictions appoints the Auditor-General for a fixed term (between five and 10 years) and specifies any reappointment restrictions. Considerations for setting an appropriate term include avoiding complacency if the term is too long and consistency with the Parliamentary term. In most jurisdictions the term exceeds one, if not two, electoral cycles.

On 14 September 2023, in the Legislative Council, the Attorney-General introduced the Statutes Amendment (Ombudsman and Auditor-General) (Terms of Office) Bill 2023. One purpose of the Bill is to amend the PFAA to remove the age restriction that requires the office of Auditor-General to be vacated if the incumbent attains the age of 65 years.

Debate on the second reading of the Bill was adjourned and it is scheduled for further debate on 26 September 2023.

If passed, the Bill provides that the Auditor-General is to be appointed for a set term for a period not exceeding seven years, but is eligible for re-appointment provided that the total term does not exceed 10 years.

While I support removing the age restriction, I do not support the proposed:

- undefined term of appointment being up to seven years
- approach to the possibility of reappointment.

In my view the appointment of the Auditor-General should be for a defined fixed term, preferably 10 years. There should be no possibility of reappointment after their term expires because it may compromise their independence. An incumbent could be reluctant to criticise, or the possibility of reappointment could be used, or be perceived to be used, by the Executive of the day to exert pressure on an incumbent.

If Parliament desires the possibility of reappointment, to preserve independence it should be made through a Parliamentary appointment process, rather than by the Executive of the day.

### 3.3.3 *Passenger Transport Act 1994*

The statutory threshold to audit and report under section 39(3f) of the *Passenger Transport Act 1994* on the probity of the processes leading to contracts being awarded for passenger services is too low in my view, and results in the inefficient use of audit resources. I have reported previously about the impact on our discretionary audit services of the passenger services contract obligations. I remain of the view that the threshold for this requirement should be markedly increased to be relative to other major government contracts. This will reduce the risk that matters warranting audit attention are displaced by outdated statutory limits.

### 3.3.4 No requirement to issue an Independent Auditor's Report

The PFAA requires the Auditor-General to audit the accounts of each public authority for each financial year. However it only requires the Auditor-General to make one statement in their annual report that 'the financial statements of each public authority reflect the financial position of the authority at the end of the preceding financial year and the results of its operations and cash flows for that financial year'. The PFAA should require the Auditor-General to issue an Independent Auditor's Report on the financial statements of each public authority.

### 3.3.5 Audit of other accounts

The PFAA allows the Auditor General to 'audit the accounts of a trustee, partner or other person (whether a body corporate or not) relating to functions carried out on behalf of, or in partnership or jointly with, a public authority or relating to functions carried out as the delegate or agent of a public authority.' This definition is quite limited and does not reflect alternative arrangements that the SA Government uses to conduct business. Modern Audit Acts provide 'follow the dollar' power to allow the Auditor-General to evaluate the way in which government funds are spent by organisations tasked to do so, such as non-government organisations or partner organisations.

### 3.3.6 *Adelaide Oval Redevelopment and Management Act 2011* (AORM Act)

The AORM Act required the Auditor-General to report every six months on the \$535 million redevelopment of the Adelaide Oval. While this reporting requirement is complete, there is an ongoing obligation for the Auditor-General to:

- monitor any future redevelopment activity on the Adelaide Oval that falls under the AORM Act
- report on this redevelopment activity if public money is made available to any entity for it.

In my view this is an unnecessary ongoing obligation, as any future redevelopment would be considered in my annual audit of the Adelaide Oval SMA Limited.

### 3.3.7 Review of the Auditor-General's performance

Modern Audit Acts generally provide powers for a Parliamentary Committee to appoint an external party to review whether an Auditor-General's office is achieving its objectives effectively, economically and efficiently. Currently the requirement in South Australia is only that the external auditor appointed by the Governor may undertake a performance audit of the Auditor-General's Department.

### 3.3.8 Other powers in modern Audit Acts

Examples of other powers and requirements embedded in modern Audit Acts that are not covered in the PFAA include:

- the power to delegate statutory powers/functions
- the requirement to comply or have regard to standards made or formulated by the Australian Auditing and Assurance Board
- the power to exempt entities from audit, used for low risk, very small audits
- powers to access Cabinet documents
- secrecy provisions
- joint audits/investigations with other public sector audit offices.

# 4 Independence principles for effective public sector auditing – International Organization of Supreme Audit Institutions

The International Organization of Supreme Audit Institutions (INTOSAI)<sup>3</sup> is a non-government organisation that has a special consultative status with the Economic and Social Council of the United Nations. INTOSAI is an autonomous, independent and non-political organisation. Its purpose includes acting as a recognised global voice and setting standards for public sector auditing.

This section explains INTOSAI’s principles and guiding criteria for independent public audit.

It also explains how the INTOSAI principles have been used in other Australian audit jurisdictions.

## 4.1 INTOSAI principles of independence

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INTOSAI has determined that eight core independence principles are essential requirements for effective public sector auditing. These were settled in the *INTOSAI Mexico Declaration on SAI Independence*.<sup>4</sup>

**Figure 4.1: INTOSAI’s eight core independence principles**

The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework.	Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.
The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties.	The freedom to decide the content and timing of audit reports and to publish and disseminate them.
The existence of effective follow-up mechanisms on SAI recommendations.	A sufficiently broad mandate and full discretion, in the discharge of SAI functions.
The right and obligation to report on their work.	Unrestricted access to information.

In Australia, these INTOSAI principles have been used to assess independence safeguards in public audit legislation. They are explained in more detail in Appendix 2.

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<sup>3</sup> <https://www.intosai.org/>, viewed July 2023. INTOSAI currently has 195 full members, five associate members and two affiliate members. The Australian National Audit Office is Australia’s representative and is a full member.

<sup>4</sup> INTOSAI–P 10 – Mexico Declaration on SAI Independence The XIX Congress of INTOSAI (2007, Mexico) identified and defined eight pillars for the independence and effective functioning of external government audit.



## 4.2 The Australasian Council of Auditors-General (ACAG)

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ACAG<sup>5</sup> is an association established by Auditors-General for sharing information and intelligence. Its membership in 2022-23 comprised the Australian Auditors-General for:

- Australian Capital Territory
- Australian National Audit Office
- New South Wales
- Northern Territory
- Queensland
- South Australia
- Tasmania
- Victoria
- Western Australia

and the Auditors-General for:

- New Zealand
- Fiji
- Papua New Guinea.

ACAG states that the role of an Auditor-General is an important one, and that each Parliament relies on its Auditor-General to provide independent assurance that governmental activities are carried out and accounted for in line with Parliament's intentions.

### 4.2.1 ACAG survey of independence of Auditors-General

In 2009, the legislative frameworks for public sector audit that then existed in New Zealand, the Commonwealth of Australia, and each Australian State and Territory were surveyed for the key factors that contributed to each INTOSAI independence principle. The survey has been repeated periodically by ACAG members, with the last one completed in March 2020. Results are publicly available on the ACAG website.<sup>6</sup>

ACAG uses a scoring system for the survey to rate each legislative framework against the principles. This results in a ranking of jurisdictions.

Since the last survey, audit legislation in several jurisdictions has been amended, although not in South Australia. Accordingly, some 2020 rankings are expected to change.

For the surveys performed to date, the extent to which each factor was subject to the control of Executive Government was given a score ranging from zero, where legislation was silent or the factor was directly controlled by Executive Government, to ten, where the factor was embedded within the jurisdiction's Constitution.

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<sup>5</sup> <https://www.acag.org.au/>, viewed July 2023.

<sup>6</sup> Robertson, Dr Gordon PhD, PSM 2020, *Independence of Auditors General: A 2020 update of a survey of Australian and New Zealand legislation*, <https://www.acag.org.au/files/Final%20Report%20on%20Independence%20of%20Auditors%20General.pdf>, viewed July 2023.

### 4.2.2 South Australia ranks ninth of the 10 jurisdictions in the survey of independence

In each of the ACAG surveys, South Australia has ranked ninth of the 10 jurisdictions covered. In the 2020 survey, six jurisdictions scored 327 or more points. At 262 points (up from 240 in 2013), South Australia was 80 points lower than top ranked ACT.

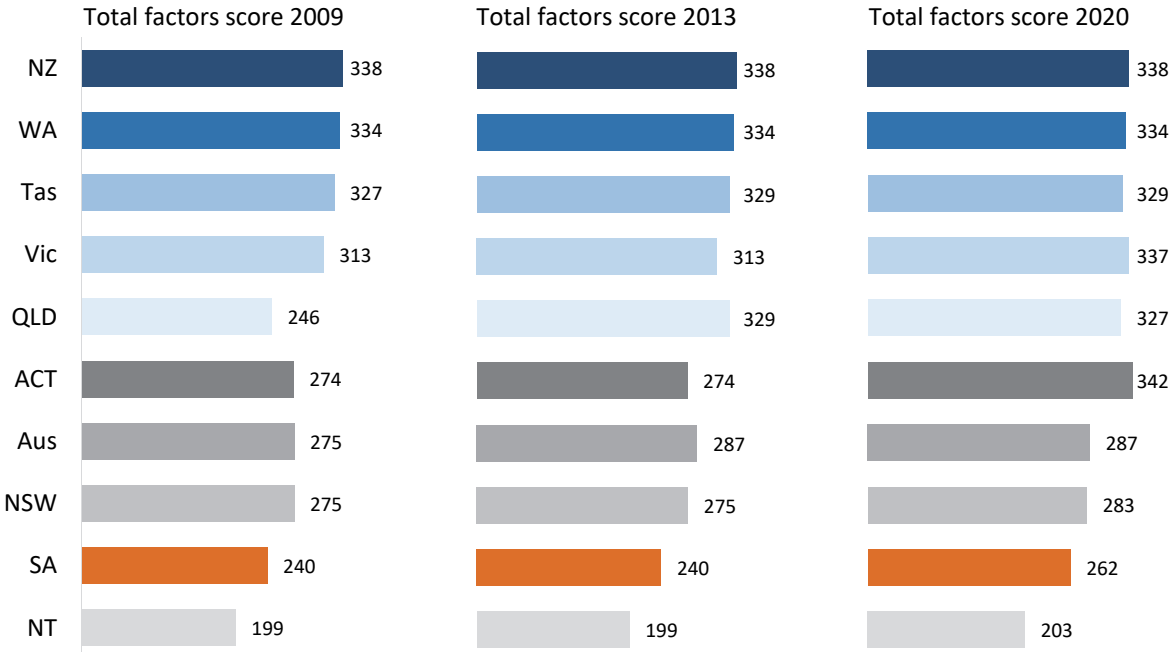
The survey acknowledged that, compared to the previous survey in 2013, substantial legislative amendments in South Australia had made a significant increase in independence. These PFAA amendments were initiated by my Department and discussed in my 2017 and 2018 annual reports. They expanded the Auditor-General’s mandate to include the examination of effectiveness and of publicly funded bodies, and publishing reports on these examinations.

South Australian legislation ranked particularly low for two INTOSAI independence principles:

- Principle 1: the existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework – in 2020 South Australia remained the most vulnerable to Executive Government influence.
- Principle 8: Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources – South Australia was one of the jurisdictions where the legislation is silent regarding the budget for the audit office, leaving it under the direct control of the Executive Government.

Figure 4.2 shows the changes in relative standing in the last three surveys.

**Figure 4.2: Overall independence scores for each jurisdiction**



The 2020 survey highlights the many areas of difference in how and to what extent each jurisdiction's audit legislation addresses the INTOSAI principles. The scoring differences attest to this. As mentioned, some jurisdictions have amended their audit legislation since the 2020 survey.

Reviewing the ACAG survey and any similar report is an ideal starting point to consider how well the PFAA stands up against public audit expectations and practice elsewhere in Australia.

A full review of the PFAA will be a significant task. Having considered this in 2015-16, we decided to instead seek the Department of Treasury and Finance's support for changes to specific elements of the PFAA, and to review of all of our practices as our priority before seeking support for a broader consideration of the PFAA.

## 5 Budget arrangements for the Auditor-General

### 5.1 The principle of the Auditor-General's independence and the *Public Finance and Audit Act 1987*

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Parliament decides the responsibilities of the Auditor-General, and most of them are prescribed in the PFAA. Other legislation establishes additional responsibilities, such as the statutory audits required for the Adelaide Oval and passenger transport service contracts.

It is fundamental that an Auditor-General is independent of the government and can act without direction or undue influence. The PFAA makes various provisions that support this principle of independence. Key among them is that it is a matter for the Auditor-General to decide how the audit responsibilities are performed. The PFAA provides:

- 24(6) *The Auditor-General is not subject to the direction of any person as to—*
- (a) *the manner in which functions are carried out or powers are exercised by the Auditor-General under this Act; or*
  - (b) *the priority that he or she gives to a particular matter in carrying out functions under this Act.*

The Auditor-General reports directly to the Parliament on the audits and examinations of State and local government agencies.

### 5.2 INTOSAI principles for independent public audit establish a role for Parliament in resourcing the Auditor-General

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INTOSAI principle 8 is:

*Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.*

The factors for principle 8 include:

*The Legislature or one of its commissions is responsible for ensuring that [supreme audit institutions] have the proper resources to fulfill their mandate.*

*[Supreme audit institutions] have the right of direct appeal to the Legislature if the resources provided are insufficient to allow them to fulfill their mandate.*

This INTOSAI principle and its factors set an international threshold to compare our State practice against. They have informed my view, conclusion and recommendations about Parliament having an express role in influencing funding for the Auditor-General.

## 5.3 Existing budget arrangements create risk for the Auditor-General's independence

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The budget process for the Auditor-General's Department is the same as it is for other government agencies. Budgets are settled through the Department of Treasury and Finance budget processes for consideration and approval by the SA Government. The Auditor-General's Department's budget is considered at the Estimates Committee, with the Premier being the responsible Minister.

The government of the day, not the Parliament, decides the Auditor-General's budget within its budget priorities and fiscal goals.

Like all agencies, our ability to meet Parliament's requirements is constrained by the resources made available to us, in our case for audit services. Parliament expects the Auditor-General to be financially prudent, indeed to demonstrate an exemplar state of care with public money.

There is, however, a fundamental difference between the Auditor-General and other departments.

Other departments must deliver the government's priorities and are funded accordingly. The Auditor-General is not responsible to a minister or for delivering government priorities. Rather, the Auditor-General is responsible and accountable directly to the Parliament to independently scrutinise, audit and report to the Parliament on how the Executive Government manages the public finances and the performance of State and local government agencies.

Yet Parliament does not have an express role in overseeing the funding for the Auditor-General.

In my opinion, the existing budget arrangements inherently undermine the independence of the Auditor-General and section 24(6) of the PFAA. The requirement to operate within limits to contribute to the SA Government's fiscal strategy directly affects:

- the manner in which functions are carried out or powers are exercised by the Auditor-General under the PFAA
- the priority that the Auditor-General gives to a particular matter in carrying out functions under the PFAA.

I have formed the view that to address this, Parliament, through an appropriate committee, should have an active role in assessing whether the Auditor-General is sufficiently funded to deliver their statutory audit responsibilities. I accept that having to operate within budgetary limits is reasonable, however there should be oversight on what those limits are.

## 5.4 Budget arrangements for integrity agencies: examples in other jurisdictions

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The matter of Parliamentary input into the budget process for public audit is settled in some jurisdictions (see section 5.4.1). Funding arrangements for integrity bodies were discussed

in two other States recently in a New South Wales Auditor-General's report in October 2020 (see section 3.4.2) and in Queensland's Coaldrake report (see sections 3.4.3 and 3.4.4).

#### 5.4.1 Parliamentary input: settled legislation

In several jurisdictions, legislation provides that the Parliament or a Parliamentary Committee can have input into the budget process, either by being consulted about or empowered to recommend on the audit office budget. For example:

- in the Commonwealth, the Joint Committee of Public Accounts and Audit can request draft estimates for the Auditor-General and make recommendations on them before the budget is set<sup>7</sup>
- in Western Australia, any recommendations about the Auditor-General's budget made to the Treasurer by the Joint Standing Committee on Audit must be considered<sup>8</sup>
- in Victoria, the Auditor General's budget is determined in consultation with a Parliamentary Committee.<sup>9</sup>

#### 5.4.2 New South Wales Auditor-General's report<sup>10</sup>

In 2020 the Auditor-General for NSW issued a report on an audit that assessed the effectiveness of the financial arrangements and management practices of four NSW integrity agencies.<sup>11</sup> One conclusion was that the central role of the government of the day in deciding annual funding for the integrity agencies threatened their independence.

That conclusion included this acknowledgement:

*The approach is consistent with the legislative and Constitutional framework for financial management in New South Wales, but it does not sufficiently recognise that the roles and functions of the integrity agencies that are the focus of this audit are different to other departments and agencies.*

The Auditor-General made a series of recommendations that acknowledged the responsibilities of the government of the day and encompassed Parliamentary oversight with principles of accountability and transparency. One was that:

*Parliament's role in the budget process should be expanded to ensure Cabinet is provided with more independent advice on the funding requirements for the integrity agencies.*

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<sup>7</sup> Auditor-General Act 1997, section 53.

<sup>8</sup> Auditor General Act 2006, section 44(1).

<sup>9</sup> Audit Act 1994, section 77.

<sup>10</sup> Auditor-General for New South Wales 2020, *The effectiveness of the financial arrangements and management practices in four integrity agencies*, 20 October.

<sup>11</sup> The audit report followed a Special Minister of State request for this audit under section 27(B)(3)(c) of the *Public Finance and Audit Act 1983*. Consequently, it did not consider or comment on the financial arrangements for the Audit Office of NSW.

### 5.4.3 Queensland's *Integrity and Other Legislation Amendment Act 2022*

The Coaldrake<sup>12</sup> report included a recommendation about setting budgets to enhance integrity body independence. The Queensland Parliament has since passed the *Integrity and Other Legislation Amendment Act 2022*. The primary purpose of this Act was to strengthen and enhance the independence of the Auditor-General, the Queensland Audit Office and the Queensland Integrity Commissioner.

Among the provisions passed was:

*56A (3) The auditor-general may increase the basic rates of fees once each financial year, with the approval of the parliamentary committee.*<sup>13</sup>

This provision was introduced with the following explanation:

*The Auditor-General's independence is further strengthened by removing the need for the Treasurer's approval of any proposed increases in basic rates of audit fees. Instead, the Auditor-General will be able to propose an increase to basic rates of fees once per financial year, which the parliamentary committee has to approve. In deciding to approve or not approve the proposed increase, the parliamentary committee may have regard to the government indexation rate and advice from the Treasurer. The parliamentary committee must provide a report to the Legislative Assembly detailing the reasons for approving or not approving any requested increase. Providing for the parliamentary committee to consider the government indexation rate and advice from the Treasurer enables the committee to consider broader economic factors that may impact on appropriate annual costs of audits to government.*<sup>14</sup>

The approval of audit fees in Queensland is important given that the Queensland Audit Office retains the audit fees it raises to fund its operations, unlike South Australia where the audit fees we raise are paid into the Consolidated Account.

### 5.4.4 Queensland's *Integrity and Other Legislation Amendment 2023*

The Queensland Parliament is also debating the *Integrity and Other Legislation Amendment Bill 2023*, introduced to Parliament in June 2023 to further amend the *Auditor-General Act 2009*.

Among the key proposed amendments are to increase the involvement of a Parliamentary Committee in developing and approving the Queensland Audit Office's budget.

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<sup>12</sup> Coaldrake P 2022, *Let the sunshine in: Review of culture and accountability in the Queensland Public Sector*, Queensland Government, <https://www.coaldrakereview.qld.gov.au/assets/custom/docs/coaldrake-review-final-report-28-june-2022.pdf>, viewed 1 August 2023.

<sup>13</sup> <https://www.legislation.qld.gov.au/view/html/asmade/act-2022-033#sec.20>, viewed 1 August 2023.

<sup>14</sup> Queensland Parliament Record of Proceedings: *Integrity and Other Legislation Amendment Bill*; Public Sector Bill, 29 November 2022, p. 3658.

The Queensland government considered the views of the Queensland Auditor-General on further strengthening the independence of the Auditor-General by expanding on the Coaldrake recommendation for funding. Their analysis highlighted the need to ensure any proposed amendments was constitutional.

The Bill introduces the following clauses on funding the Auditor-General:

*Division 6<sup>15</sup>*

*Funding proposals*

**29G Requirement for, and approval of, funding proposal**

- (1) *The auditor-general must—*
  - (a) *prepare a funding proposal for the additional funding; and*
  - (b) *give the funding proposal to the parliamentary committee and a copy of the proposal to the Minister.*
- (2) *Within the period stated in subsection (3), the parliamentary committee must review the auditor-general’s funding proposal and give the Minister a report approving 1 of the following—*
  - (a) *the auditor-general’s funding proposal;*
  - (b) *a funding proposal for a different amount or a different purpose, or both;*
  - (c) *a proposal that provides for no additional funding for the audit office.*
- (3) *For subsection (2), the period is—*
  - (a) *20 business days after the parliamentary committee receives the auditor-general’s funding proposal; or*
  - (b) *if, in the circumstances, the Treasurer decides the approval of a proposal under subsection (2) is required within a shorter period and has notified the parliamentary committee of the shorter period and the reasons for the shorter period—the shorter period.*

*Example for paragraph (b)—*

*The Treasurer may decide the approval of a proposal under subsection (2) is required within a shorter period so the Minister’s response to the proposal can be considered in the preparation of the State budget.*

- (4) *The parliamentary committee must prepare the report under subsection (2) in consultation with the appropriate officers of Queensland Treasury.*
- (5) *If the parliamentary committee does not give the Minister a report under subsection (2) within the period stated in subsection (3), the committee is taken to have approved the auditor-general’s funding proposal.*

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<sup>15</sup> <https://www.legislation.qld.gov.au/view/html/bill.first/bill-2022-048#sec.4>, viewed August 2023.



The Bill was referred to Queensland’s Economics and Governance Committee for detailed consideration and a report by 1 September 2023. A public hearing was held in July 2023. The Committee requested written submissions on the Bill by 21 July 2023. Another public hearing was scheduled for August 2023.

## 5.5 Budget arrangements: conclusion

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In my opinion, the budget arrangements for the Auditor-General in South Australia should be reconsidered by the Parliament to ensure the Auditor-General’s independence.

This conclusion is consistent with:

- the Auditor-General’s statutory functions
- international principles for proper public audit
- proposals and discussions in some other Australian jurisdictions.

A reasonable change might be designed around periodic independent scrutiny of the services provided and the budget. Alternatively, it may be that the budget setting process should be fundamentally changed.

## 6 Why the Auditor-General’s budget arrangements need periodic independent review

I have expressed the view that the existing budget arrangements inherently undermine the Auditor-General’s independence and section 24(6) of the PFAA.

Through the strategies we have implemented since I became Auditor-General, my Department has already been highly successful in reallocating resources within our existing budget (\$1.431 million/8.1 FTEs) to increase our performance audit activities in both the public and local government sectors and to build our data analytics capability. I do, however, acknowledge that no saving requirements have been imposed on my Department’s operations in that time.

The Auditor-General audits an ever-changing public sector. This report is a reflection on experiences, developments and legislative reforms in public sector audit across Australian jurisdictions that was prompted by the changing nature of public sector activity and accountability. These changes affect my Department’s resourcing needs as we seek to address the Auditor-General’s statutory audit responsibilities professionally, effectively and in compliance with relevant standards.

This section highlights some of the matters that are significantly impacting how audit functions are conducted by my Department and the priority we give to matters warranting audit attention. These in turn limit our ability to provide Parliament with the standard and scope of audit reporting warranted by our State’s public sector and local government activities.

### 6.1 Urgent resourcing needs

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#### 6.1.1 New mandated financial audit work – *First Nations Voice Act 2023*

In 2023, Parliament passed the *First Nations Voice Act 2023*. The Act was assented to in March 2023 and commenced in May 2023.<sup>16</sup> It establishes at least seven new bodies, and the Auditor-General is required to audit the accounts of the State First Nations Voice<sup>17</sup> and Local First Nations Voices<sup>18</sup> (a minimum of six regions).

This work must be completed annually and is additional to our existing financial audit workload. We assess that these audits will require two additional FTEs, to ensure Parliament’s requirement is met.

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<sup>16</sup> Except Schedule 2, clause 1 which applies from 1.7.2023 and Part 4 which applies from 1.1.2024 (The South Australian Government Gazette, 11 May 2023, p. 929).

<sup>17</sup> *First Nations Voice Act 2023*, section 34(2) – The Auditor-General may at any time, and must at least once in each year, audit the accounts of the State First Nations Voice.

<sup>18</sup> *First Nations Voice Act 2023*, section 18(2) – The Auditor-General may at any time, and must at least once in each year, audit the accounts of a Local First Nations Voice.

## 6.1.2 Achieving a highly secure and reliable ICT environment

We collect significant information and data that is required evidence for our audits. Given the range of information and data we hold, it is critical that we have a highly secure and reliable ICT environment.

We actively apply the South Australian Cyber Security Framework<sup>19</sup> to help preserve the confidentiality, integrity and availability of the information and data we hold.

It is well understood that the cyber security risk profile has increased globally in recent years. All public and private organisations are expected to respond to this growing risk area given the reliance we all have on information technology and the responsibility we have for the information and data we need to gather and use.

We have been progressively strengthening our ICT services and environment using existing resources. We need to maintain and continually improve this stance and position. The systems, personnel and resources needed for global standard ICT security are expensive, and this is now a significant cost pressure on our available resources.

To manage this risk, we have identified the need for one additional ICT senior technical officer.

## 6.2 Future resourcing needs

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We strive to deliver independent statutory audits at the level and quality of a contemporary Auditor-General's office. To do this, we must be able to satisfactorily respond to operational and professional changes. There are changes emerging that have significant implications for our comprehensive financial audit obligations. And while we have established a good foundation for performance auditing, we are not yet achieving the relative frequency of reporting that is being delivered in public sector audit nationally and internationally. We also want to take advantage of the latest developments in the use of data analytics in auditing.

The following sections expand on some of the changing audit demands.

### 6.2.1 Emerging climate-related and sustainability auditing and reporting

The first two International Sustainability Standards, IFRS S1 and IFRS S2, were launched in June 2023. These standards can be applied from 2024. They introduce requirements to disclose information about an entity's governance structures to manage sustainability and climate-related risks and opportunities, scenario analysis, and metrics about greenhouse gas emissions in financial reports.

The International Public Sector Accounting Standards Board (IPSASB) is also contemplating climate-related disclosures for the public sector.

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<sup>19</sup> The South Australian Cyber Security Framework has been prepared to standardise and guide the approach for establishing, implementing, maintaining and continually improving the cyber security posture of SA Government agencies.

Australian governments adopt accounting standards issued by the AASB. In August 2023 the AASB decided to formally respond to the exposure draft that the IPSASB is expected to issue in 2024 as part of its Climate-Related Disclosures project. The AASB concluded that it will 'deliberate, after it has considered the results of the IPSASB's project, the need to undertake a domestic project to develop requirements for NFP public sector entities to report the effect of climate-related risks and opportunities, and related government policies, on the Australian economy, environment and people (ie climate-related impact reporting).'

Whether and how Australian companies and governments adopt these standards is yet to be decided, but adoption in some form should be anticipated and we need to start preparing for this.

All of my counterparts in other jurisdictions are actively engaged in assessing the implications of these standards in the years ahead.

In my opinion, this is a matter of urgency because of the readily foreseeable long lead times to achieving competency for financial statement preparers and auditors.

## 6.2.2 Conducting performance audits

Parliament expects the Auditor-General to conduct performance audits with the purpose of examining the efficiency, economy and effectiveness with which public authorities use their allocated resources.<sup>20</sup>

In South Australia we commit proportionally far fewer resources to performance audit activities than the Commonwealth and other states because of our resource limits.

### Why performance auditing is an important part of the audit mandate for Parliament

Our performance audit team has produced reports on major projects, cyber security, personal services and local government. Performance audit work focuses on single, complex topics. For example, we are currently progressing a performance audit reviewing whether SA Government agencies are effectively identifying and managing climate change risks.

Our reports have identified multiple process matters. Our recommendations create the opportunity for State and local governments to improve their practices and achieve better value from their multi-billion dollar use of public resources. The potential benefit is many multiples above the cost of the individual audits.

Performance auditing means we can report on whether the extensive public resources and processes committed to public services are being managed effectively to achieve the expected outcomes.

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<sup>20</sup> PFAA, section 31(2).

Many personal public services aim to relieve complex and difficult challenges, sometimes described as wicked<sup>21</sup> problems. Our most recent audits of personal public services were in the context of agencies working through and emerging from COVID-19. They were about:

- **Access to mental health services<sup>22</sup>** – the State’s Mental Health Strategic Plan 2017–2022 identifies that at some point in their lives, 45% of South Australians will experience a diagnosable mental illness. A viable mental health and wellbeing service is essential to all South Australians, as even those who do not experience a mental health illness will likely be impacted by the people around them who do – family, friends and work colleagues.

We made several recommendations about key planning, monitoring and reporting processes that would help SA Health to demonstrate that it provides access to the right mental health services at the right time. The SA Mental Health Commissioners and Wellbeing SA responded positively to our audit and recommendations.

- **Gambling harm minimisation<sup>23</sup>** – Gambling is a legal activity. We looked at gambling harm because research estimates that around 10,000 South Australians engage in high-risk gambling and have experienced significant adverse consequences from it. The Parliament has enacted legislation that has the specific objective of minimising gambling harm, including legislation for the regulation of the State’s gambling industry.

We made several recommendations to address identified gaps in processes. If implemented, the SA Government would more effectively minimise gambling harm. The agencies involved acknowledged our work and how they would action our recommendations.

### 6.2.3 Increasing our use of data analytics

We have a five-year data analytics strategy that expands on our data analytics successes so far and sets us up for the future in areas like audit assurance analytics, data literacy and new reporting approaches.

We need to invest more in this area to achieve this strategy.

#### Why we should be using data analytics to improve audit outcomes

Data analysis is a means to vastly improve our ability to interrogate agency financial and related information. This is the prime development focus for our data analytics strategy.

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<sup>21</sup> The term ‘wicked problems’ was used to describe emerging policy problems that did not fit neatly with the conventional models of policy analysis used at the time. These problems were seen as having multiple possible causes, dynamics that were not linear and negative consequences for society if not addressed. <https://anzsog.edu.au/research-insights-and-resources/research/what-s-so-wicked-about-wicked-problems/>, viewed August 2023.

<sup>22</sup> Auditor-General’s Report 6 of 2022 *Managing access to mental health services*.

<sup>23</sup> Auditor-General’s Report 3 of 2023 *Gambling harm minimisation*.

Audits have traditionally involved small samples of transactions. Data analytics provides the opportunity to examine whole data sets. This gives auditors a better understanding of their clients and better information about audit risk through anomalies and trends, which can then be used to conduct audit procedures.

All Australian public audit jurisdictions are seeking to advance their capacity and capability in data analysis. For example, the Tasmanian Audit Office received an additional \$1.35 million over four years in the 2022-23 Tasmanian State Budget<sup>24</sup> to employ more staff to implement data analytics into audit processes.

## How we can use data to better inform Parliament

We published our first online data set in July 2023 with Report 5 of 2023 *Agency audit reports*.<sup>25</sup> The data is for the Flinders University, University of Adelaide and University of South Australia. It shows their revenue from fees and charges, and international and domestic student numbers, for the 10 years from January 2013 to December 2022.

This is a first step in providing better information for understandability, accountability and transparency.

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<sup>24</sup> 2022-23 Tasmanian State Budget, Government Services Budget Paper No 2, Volume 2. Funding is provided on a fixed term basis to employ additional staff in the Tasmanian Audit Office to implement data analytics into audit processes. The initiative will enable the Office to establish and embed processes, infrastructure and skills for the ongoing use of data analytics for financial and performance audits, providing more insights and value to the users of the financial statements and performance reports.  
<https://www.treasury.tas.gov.au/BudgetPapersHTML/Budget2022/BP2/2022-23-BP2-22-Tasmanian-Audit-Office.htm>, viewed August 2023.

<sup>25</sup> <https://www.audit.sa.gov.au/reports/agency-audit-reports-1>, viewed August 2023.

## Appendix 1 – Abbreviations used in this report

Term	Description
AASB	Australian Accounting Standards Board
AASB 1049	<i>AASB 1049 Whole of Government and General Government Sector Financial Reporting</i>
ACAG	Australasian Council of Auditors-General
AORM Act	<i>Adelaide Oval Redevelopment and Management Act 2011</i>
INTOSAI	International Organization of Supreme Audit Institutions
IPSASB	International Public Sector Accounting Standards Board
NFP	Not for profit
PFAA	<i>Public Finance and Audit Act 1987</i>
SAI	Supreme Audit Institution

## Appendix 2 – INTOSAI core principles on audit independence

INTOSAI recognises that Supreme Audit Institutions (SAIs) can only be objective and effective if they are independent from the entities they audit and protected from outside influence.<sup>26</sup> SAIs generally recognise eight core principles as essential independence requirements of proper public sector auditing. They are listed below, together with the factors that support them.

### **Principle 1 – The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework**

Legislation that spells out, in detail, the extent of SAI independence is required.

### **Principle 2 – The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties**

The applicable legislation specifies the conditions for appointments, reappointments, employment, removal and retirement of the head of SAI and members of collegial institutions, who are:

- appointed, reappointed, or removed by a process that ensures their independence from the Executive (see GUID 9030: Good Practices Related to SAI Independence)
- given appointments with sufficiently long and fixed terms, to allow them to carry out their mandates without fear of retaliation
- immune to any prosecution for any act, past or present, that results from the normal discharge of their duties as the case may be.

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

SAIs should be empowered to audit the:

- use of public monies, resources, or assets, by a recipient or beneficiary regardless of its legal nature
- collection of revenues owed to the government or public entities
- legality and regularity of government or public entities accounts
- quality of financial management and reporting
- economy, efficiency, and effectiveness of government or public entities operations.

Except when specifically required to do so by legislation, SAIs do not audit government or public entities policy but restrict themselves to the audit of policy implementation.

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<sup>26</sup> INTOSAI 2019, INTOSAI-P10 *Mexico Declaration on SAI Independence*, foreword by the Chair of the Subcommittee on Independence.



While respecting the laws enacted by the Legislature that apply to them, SAIs are free from direction or interference from the Legislature or the Executive in the:

- selection of audit issues
- planning, programming, conduct, reporting, and follow-up of their audits
- organization and management of their office
- enforcement of their decisions where the application of sanctions is part of their mandate.

SAIs should not be involved or be seen to be involved, in any manner, whatsoever, in the management of the organizations that they audit.

SAIs should ensure that their personnel do not develop too close a relationship with the entities they audit, so they remain objective and appear objective.

SAI should have full discretion in the discharge of their responsibilities, they should cooperate with governments or public entities that strive to improve the use and management of public funds.

SAI should use appropriate work and audit standards, and a code of ethics, based on official documents of INTOSAI, International Federation of Accountants, or other recognised standard-setting bodies.

SAIs should submit an annual activity report to the Legislature and to other state bodies – as required by the constitution, statutes or legislation – which they should make available to the public.

#### **Principle 4 – Unrestricted access to information**

SAIs should have adequate powers to obtain timely, unfettered, direct and free access to all the necessary documents and information, for the proper discharge of their statutory responsibilities.

#### **Principle 5 – The right and obligation to report on their work**

SAIs should not be restricted from reporting the results of their audit work. They should be required by law to report at least once a year on the results of their audit work.

#### **Principle 6 – The freedom to decide the content and timing of audit reports and to publish and disseminate them**

SAIs are free to decide the content of their audit reports.

SAIs are free to make observations and recommendations in their audit reports, taking into consideration, as appropriate, the views of the audited entity.

Legislation specifies minimum audit reporting requirements of SAIs and, where appropriate, specific matters that should be subject to a formal audit opinion or certificate.

SAIs are free to decide on the timing of their audit reports except where specific reporting requirements are prescribed by law.

SAIs may accommodate specific requests for investigations or audits by the Legislature, as a whole, or one of its commissions, or the government.

SAIs are free to publish and disseminate their reports, once they have been formally tabled or delivered to the appropriate authority—as required by law.

### **Principle 7 – The existence of effective follow-up mechanisms on SAI recommendations**

SAIs submit their reports to the Legislature, one of its commissions, or an auditee’s governing board, as appropriate, for review and follow-up on specific recommendations for corrective action.

SAIs have their own internal follow-up system to ensure that the audited entities properly address their observations and recommendations as well as those made by the Legislature, one of its commissions, or the auditee’s governing board, as appropriate.

SAIs submit their follow-up reports to the Legislature, one of its commissions, or the auditee’s governing board, as appropriate, for consideration and action, even when SAIs have their own statutory power for follow-up and sanctions.

### **Principle 8 – Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources**

SAIs should have available necessary and reasonable human, material, and monetary resources - the Executive should not control or direct the access to these resources. SAIs manage their own budget and allocate it appropriately.

The Legislature or one of its commissions is responsible for ensuring that SAIs have the proper resources to fulfill their mandate.

SAIs have the right of direct appeal to the Legislature if the resources provided are insufficient to allow them to fulfill their mandate.



