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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

**Conference**

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Committees**

**THURSDAY, 12 APRIL 2007**

**CANBERRA**

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**JOINT STATUTORY COMMITTEE OF  
PUBLIC ACCOUNTS AND AUDIT**

**Thursday, 12 April 2007**

**Members:** Mr Barresi (*Chair*), Ms Grierson (*Deputy Chair*), Senators Mark Bishop, Chapman, Hogg, Humphries, Murray, and Watson and Mrs Bronwyn Bishop, Mr Broadbent, Dr Emerson, Dr Jensen, Miss Jackie Kelly, Ms King, Mr Laming and Mr Tanner

**Terms of reference for the inquiry:**

To inquire into and report on:

Australasian Council of Public Accounts Committees

## PARTICIPANTS

<b>BARRESI, Mr Phillip, MP, Chair, Commonwealth Joint Committee of Public Accounts and Audit.....</b>	<b>1</b>
<b>BISHOP, The Hon. Bronwyn, MP, Member, Commonwealth Joint Committee of Public Accounts and Audit .....</b>	<b>1</b>
<b>BLAKE, Mr Howard Mike, Auditor-General, Tasmanian Audit Office .....</b>	<b>1</b>
<b>FERGUSON, Ms Lesley, Clerk, New Zealand Finance and Expenditure Committee .....</b>	<b>1</b>
<b>FONO, The Hon. Frederick, Leader of the Opposition, Solomon Islands.....</b>	<b>1</b>
<b>FOSKEY, Dr Deb, MLA, Deputy Chair, Australian Capital Territory Standing Committee on Public Accounts.....</b>	<b>1</b>
<b>GRALEY, Ms Judith, MP, Member, Victorian Public Accounts and Estimates Committee.....</b>	<b>1</b>
<b>GRIERSON, Ms Sharon, MP, Deputy Chair, Commonwealth Joint Committee of Public Accounts and Audit .....</b>	<b>1</b>
<b>HAWKER, The Hon. David, MP, Speaker, House of Representatives.....</b>	<b>1</b>
<b>JACOBS, Professor Kerry, Professor of Accounting, School of Business and Economics, Australian National University .....</b>	<b>1</b>
<b>JOHNSON, Mr Vaughan, MP, Deputy Chair, Queensland Public Accounts Committee .....</b>	<b>1</b>
<b>JONES, Mr Shane, MP, Chair, New Zealand Finance and Expenditure Committee .....</b>	<b>1</b>
<b>LAWLOR, Mr Peter, MP, Member, Queensland Public Accounts Committee .....</b>	<b>1</b>
<b>LIM, Dr Wee-Kiak, Member of Parliament, Singapore Parliament .....</b>	<b>1</b>
<b>LOBBAN, Dr Paul, Secretary, South Australian Economic and Finance Committee .....</b>	<b>1</b>
<b>LONEY, Professor Peter, Chair, Public Sector Governance and Accountability Research Centre, La Trobe University.....</b>	<b>1</b>
<b>MASUALLE, Mr Phumulo, Member, Eastern Cape Province Legislature, South Africa .....</b>	<b>1</b>
<b>MATEME, The Hon. Hunadi, Member, Limpopo Legislature Public Accounts Committee, South Africa .....</b>	<b>1</b>
<b>MATLADI, Mrs Ntebaleng Mavis, Chair, Public Accounts Committee, North West Provincial Legislature, South Africa .....</b>	<b>1</b>
<b>McPHEE, Mr Ian, Auditor-General, Australian National Audit Office .....</b>	<b>2</b>
<b>MOLONEY, Mr Thomas, Partner, KPMG Canberra.....</b>	<b>2</b>
<b>MULCAHY, Mr Richard, MLA, Chair, Australian Capital Territory Standing Committee on Public Accounts.....</b>	<b>2</b>
<b>MURPHY, Mr Colin, Acting Auditor-General, Office of the Auditor General for Western Australia .....</b>	<b>2</b>
<b>O'NEILL, Mr Simon, Deputy Auditor-General, South Australian Auditor-General's Department.....</b>	<b>2</b>
<b>QUIGLEY, Mr John, MLA, Chair, Western Australian Public Accounts Committee.....</b>	<b>2</b>
<b>SELOANE, Mr Michael, Chair, Gauteng Provincial Legislature Public Accounts Committee, South Africa .....</b>	<b>2</b>
<b>SMITH, Ms Phillippa, Deputy Controller and Auditor-General, New Zealand Office of the Auditor-General.....</b>	<b>2</b>
<b>SMITH, The Hon. Dr Lockwood, MP, Deputy Chair, New Zealand Finance and Expenditure Committee .....</b>	<b>2</b>

<b>STENSHOLT, Mr Bob, MP, Chair, Victorian Public Accounts and Estimates Committee.....</b>	<b>2</b>
<b>THOMAS, Dr Steve, Deputy Chair, Western Australian Public Accounts Committee .....</b>	<b>2</b>
<b>WATSON, The Hon Giz, MLC, Chair, Standing Committee on Estimates and Financial Operations, Legislative Council of Western Australia.....</b>	<b>2</b>
<b>WILSON, Mr Geoff, Independent Auditor, KPMG .....</b>	<b>2</b>

**Conference commenced at 9.33 am**

**BARRESI, Mr Phillip, MP, Chair, Commonwealth Joint Committee of Public Accounts and Audit**

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**SMITH, The Hon. Dr Lockwood, MP, Deputy Chair, New Zealand Finance and Expenditure Committee**

**SMITH, Ms Philippa, Deputy Controller and Auditor-General, New Zealand Office of the Auditor-General**

**STENSHOLT, Mr Bob, MP, Chair, Victorian Public Accounts and Estimates Committee**

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**WILSON, Mr Geoff, Independent Auditor, KPMG**

**CHAIR (Mr Barresi)**—For those who I did not meet last night, my name is Phil Barresi. I am the federal member for the seat of Deakin, which is down in Melbourne, and I am also the Chairman of the Joint Committee of Public Accounts and Audit in the Commonwealth parliament. I am very pleased that you are able to join us for the next three days here in Australia in the Commonwealth parliament. I extend a very special welcome to our international guests who have arrived from afar. I know it is a fairly big trek coming to Australia. There is a lot of distance between Australia and your own country. I also welcome those from the other Australian parliaments. You will be key players over the next two days with the papers you are presenting. No doubt all of us will learn from each other.

Today is a fairly full day. This room is the main committee room. It is very special us being here over the next two days because this room is normally used by the Prime Minister and the premiers to make their grand announcements at the end of the COAG meeting. We have bumped the Prime Minister away for the next two days and we have got this room. There will be an

opportunity for those who have not been in this great building to see a bit of Parliament House as well over the next two or three days.

It is my pleasure to be able to introduce the Speaker of the House of Representatives. He is one of the presiding officers—along with the President of the Senate—who graciously allowed us to use the Members Hall last night for our drinks. The Speaker of the House of Representatives is the Hon. David Hawker. He will be opening the conference for us today. Mr Hawker is the member for Wannon, a seat in rural Victoria. He has a longstanding commitment to the entire parliamentary committee process. Mr Hawker himself was chairman of a number of committees. Prior to being elected as the Speaker a number of years ago, he was Chair of the House of Representatives Economics, Finance and Public Administration Committee—a very powerful committee. That committee meets with the Governor of the Reserve Bank biannually. The Governor presents to the committee on various Reserve Bank matters. Certainly that is a very high-profile feature of that committee.

I know there are a number of people in this room from other parliaments who are either deputy speakers or on Speaker's panels. I am sure you understand the difficulty of being a Speaker. Since being the Speaker, David has had to adjust to all those new responsibilities, moving from the chair to the Speaker's role, but he is certainly a magnificent Speaker for us in this parliament. I count David as a friend because he is a Victorian, of course, and also because we have worked together for many years. Please join with me in welcoming the Hon. David Hawker, Speaker of the House of Representatives.

**The SPEAKER**—Thank you very much, Phil Barresi, Chair of the Australian Parliamentary Joint Committee of Public Accounts and Audit and, as Phil has said, the member for Deakin, which is a very notable seat in the great city of Melbourne. I welcome parliamentary colleagues, members from the many parliaments represented here today, representatives from the audit offices, distinguished guests, and ladies and gentlemen. I got the hint at the beginning of Phil's opening remarks that you have a very full day ahead and that we are not allowed to interrupt the time for the cocktail party tonight, so I will try to keep my remarks brief. But I do want to say a very warm welcome to you all here today, to the Ninth Biennial Conference of the Australasian Council of Public Accounts Committees.

This is a very important conference. One, I believe, that does play a very significant role in helping people right throughout the region to exchange ideas, to work together on matters of mutual interest and, most importantly, to help uphold the great system of democracy that we all value so much. The theme of this year's conference is 'Challenges facing contemporary public accounts committees', which is significant, as it is very important that public accounts committees continue to adapt their focus and processes to the rapidly changing role of government in our increasingly globalised world. I note that we have participants here today from parliaments and from audit offices not only in Australia but also in the region and beyond. We are very honoured that you have been able to attend this conference here today in Parliament House. Again I want to emphasise how welcome you all are.

I note that the Australasian Council of Public Accounts Committees conducts its business by way of biennial conferences, hosted in turn by the member public accounts committees, and that the previous conference was hosted in Brisbane by the Queensland parliament's Public Accounts Committee and the next conference will be hosted by our New Zealand colleagues in 2009. The

Ninth Biennial ACPAC Conference is being hosted by the Australian parliament's Joint Committee of Public Accounts and Audit, which is an excellent committee doing a wonderful job in the parliament. I would like to congratulate the chair, Phillip Barresi, the member for Deakin, on the great work that he does. Phil is supported very ably by the deputy chair, Sharon Grierson, who is the member for Newcastle. The committee have worked very hard with Russell Chafer to make sure that this conference is a great success.

I note there are many issues on the conference agenda, including the relationship between public accounts committees and the executive, which is a very significant issue for parliaments generally and one that we have to be mindful of all the time: that the executive is held to account by the parliament. I feel very strongly about this because I believe getting that balance right is all about how we make our democratic processes and our parliaments more effective in this very challenging world. You will be talking about contract management, project management and risk management in an era where we have increased devolution. Again, these are very important issues. You will be looking at the work of auditors, the role and the independence of auditors-general and the public accounts committee, and a range of accounting issues relevant to the modern public sector.

As Phil said, I have been on many committees during my time in parliament and have been very fortunate to chair, amongst others, the House of Representatives Standing Committee on Economics, Finance and Public Administration and the Defence Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. From my experience, I cannot overemphasise the importance of the work of committees, particularly the fact that they are bipartisan; they have members from both sides of parliament working together on very important issues. This is a side of the parliament that I always try and promote when I am talking to groups. I say that, contrary to some of the perceptions you might get from 20-second grabs on the television news, members of parliament do work together in a very constructive way. The work of our committees is something that I value—and I believe that all people should value—because it is a very significant part of the parliament. It is very important because we can have that accountability not only to parliament but, of course, to our voters. At the time that committee reports are tabled in parliament, they are probably the most up-to-date and most important references on that topic that you could get.

I also note that there is a proposed biennial public hearing by our Joint Committee of Public Accounts and Audit with the Commissioner of Taxation to look at developments in tax law administration. I greatly valued meeting with a regulator in that form whilst chairing the economics committee. We found this to be a very successful means of extending the effectiveness of the parliamentary committee in addressing many issues outside the normal specific inquiries and without the constraints of a lengthy formal process of inquiry. As Phil said, we had the Governor of the Reserve Bank before our committee twice a year. We also had other regulators before the committee on a regular basis, such as the Australian Competition and Consumer Commission and the Australian Securities and Investments Commission. By doing that, we could get straight to the point of talking to the regulators, finding out what they were doing and questioning them very directly about their specific work. That proved to be a very valuable tool for not only improving the relationship between parliament and the regulators but getting a better public understanding of what was going on.

While public accounts committees vary from parliament to parliament, their role is similar in many ways to that of other parliamentary committees in giving members the opportunity to scrutinise government activity. They can also conduct inquiries and give the public an opportunity to present their views and their own experiences to the committee. I would like to congratulate the Australasian Council of Public Accounts Committees on its role in facilitating a professional relationship between parliaments, in order to continue to improve the effectiveness of our public accounts committees, and, importantly, in assisting the public to appreciate the vital role played by our public accounts committees.

I wish you here the very best for a successful conference. While you are here please take the opportunity that Phil mentioned to have a good look around not only our house of parliament, which I think we are all very proud of, but also the nation's capital here in Canberra because I think you will find that it is well worth while and will certainly add a lot to your time here in Canberra. Thank you and all the best in your deliberations.

**CHAIR**—Thank you very much, David, for your introduction and for kicking off the conference for us in a fine style and in particular for reminding us of and reinforcing the role that committees have in your eyes as the Speaker. I remind delegates that half an hour has been allowed for each of the conference topics. I ask presenters to allow time within that half an hour for questions. The more that we are able to ask questions and learn from that, the more beneficial today will be.

Last night I ran through a whole list of nations that are here and I forgot to mention our good friends from Singapore, who have joined us as well. So I welcome the Singaporeans who are with us today. Also last night I passed on the apologies of Sharon Grierson, but she is with us today. Quite a few of you of course would know Sharon. As Deputy Chair of the Joint Standing Committee of Public Accounts and Audit she is certainly of great assistance to me. We also have with us the Hon. Bronwyn Bishop. Bronwyn is also no stranger to many of you. Over the next couple of days, you will have an opportunity to meet with both Sharon and Bronwyn. There may be another committee member, Senator John Watson, joining us later. It is a joint committee, so we have senators and members of the House of Representatives on it. I will just reinforce the role of Sharon and Bronwyn. Also Ian McPhee, the Auditor-General, is with us. A lot of you to know Ian. I have only been the chair for the last three months or so. I am starting to develop that passion for auditing and accounting. They tell me it is exciting and they tell me there is a real buzz about it, and I am starting to learn where that all lies. All those questions that you may have that I cannot answer because of my being a novice in this field will surely be answered by Bronwyn and Sharon.

Thank you, David. We do appreciate you opening the conference. David has specifically flown to Canberra to be with us this morning. We do appreciate that effort and your words of introduction today. Thank you, David.

[9.48 am]

**How public accounts committees, together with central agencies and auditors-general, can encourage better practice in contract management and risk management compliance with financial frameworks as responsibility is devolved to individual agencies**

**CHAIR**—As I mentioned a few moments ago, I have only been the Chair of the Joint Committee of Public Accounts and Audit for a short time. My two predecessors were the Hon. Tony Smith and the Hon. Bob Baldwin. Quite a few of you would know Bob, as he was at the last conference in Brisbane. They have moved on to more senior roles in the parliament so, in effect, I have inherited a lot of their good work. In David's words earlier, he was being very kind to me. The role that I have played has actually been very minimal up until this stage. It has really been the work of my two predecessors as well as Sharon, Bronwyn and the other committee members in putting this together, but it does fall upon me this morning to present a paper on behalf of the Commonwealth joint committee. You have a copy of that paper in your conference notes. The topic of the paper today is 'Enhancing financial and project management across the public sector: some recent developments' and it includes some recent developments that have taken place that this committee has been involved in.

In common with many jurisdictions over the past 15 years, the Commonwealth public sector has undergone a significant devolution of authority from central departments to individual agencies. There is little doubt that this process has led to a more flexible and responsive public service. However, as a parliamentarian tasked with overseeing the executive, it sometimes seems that there is a price to pay—namely, the challenge of ensuring that standards of compliance are maintained across a multitude of agencies. This then raises the question of how public accounts committees, auditors-general and central agencies can encourage better practice across the public sector in areas such as project management, risk management and compliance with financial framework legislation.

I intend to highlight a few recent aspects of the Commonwealth experience for consideration today and hope to hear from you during the discussion afterwards about some lessons we can draw from your jurisdictions. At the Commonwealth level, the trend towards devolution was formalised in major reforms to the financial framework legislation in 1997-98. In summary, the Financial Management and Accountability Act 1997, the FMA Act, gave chief executives the power to delegate to their officials many of the finance minister's powers under the act. Chief executives were thus given formal authority to manage the activities of their staff in relation to the financial framework. This replaced an antiquated system whereby thousands of individual public servants were directly delegated by the minister for finance.

Unlike the old legislation, which was generally silent on management performance, the FMA Act places particular responsibilities on chief executives for which they can be held directly accountable. The principal requirement of the FMA Act is that a chief executive must manage the affairs of their agency in a way that promotes the efficient, effective and ethical use of the Commonwealth resources for which they are responsible. The added complexities of the new financial framework, including the devolution of financial management to line managers, present

a challenge as to public accountability and they left the parliament even more reliant than before on the expert advice of our independent Auditor-General.

In common with other public accounts committees, our core duty is to review the Auditor-General's reports. The committee in this parliament have made a decision to take something of an activist role by increasing the number of audit reports we review and making particular priority those reports relating to poor project management and risk management and poor adherence to the Commonwealth's financial framework legislation. You will get an idea from our website of the reports that we have looked at. From a parliamentarian's perspective, this can sometimes feel like dripping water on a stone—hearing the same shortcomings repeatedly highlighted across different agencies—but we feel that, through our hearings and reports, the committee can play a leading role in emphasising to agencies that parliament places great importance on better practice in these areas. I believe that there is a marked difference for a chief executive in reading about the importance of compliance in a finance circular compared to answering questions about the agency's shortcomings in public from unhappy members of the parliamentary committee and having their own performance questioned by interested members of the public. We continue to flag to all agencies wherever possible that these are central issues for the parliament and the committee.

The role of the Auditor-General in encouraging better practice should be looked at through this process. We are all familiar with the work done by the audit officers in reviewing financial statements and with the value for money provided by government agencies. In the Commonwealth sector we look at assurance audits and performance audits as key parts of that audit process. The advisory work of the Audit Office in spreading expertise throughout the Commonwealth public sector is probably less well known, but is regarded by us as being of vital importance.

One of the initiatives that Ian McPhee has introduced, which certainly has our support, since the last ACPAC conference is publication of the *AUDITFocus* newsletter. *AUDITFocus* aims to capture some of the lessons from the Audit Office's work in a brief, user-friendly magazine which is more likely to attract the casual Public Service reader than an audit report. There is no doubt that Ian has structured that report in a way that is user-friendly, unlike some of the audit reports that we read where you have to wade through some of the language. The committee was pleased to see that the first edition of *AUDITFocus* contained a simple, one-page summary of essential skills for public sector managers in project and contract management. The summary spelt out step by step the factors that managers need to consider in risk management, governance and performance management. The *AUDITFocus* article also pointed out the Audit Office's more comprehensive publications in these subjects, including its better practice guides. These guides are directed at all Australian government entities and cover a range of governance issues. Some of these examples are listed in your conference papers.

The committee strongly supports the Audit Office using its work to promote better practice throughout the public sector. It is a prime consideration for the committee in our annual review or in the adequacy of the Auditor-General's budget. We are concerned that discretionary activities, such as the better practice guides, would be the first activities to be scaled back in the event of the Auditor-General receiving inadequate funding. Our concern was expressed to the parliament on budget day 2005 by the Chair of the Joint Committee of Public Accounts and Audit when he observed that a decrease in cross-agency advice by the Audit Office:

... for want of adequate funding, would strike the Committee as a case of “penny wise, pound foolish” ...

It is our expectation that the committee will continue to use a statutory role in reviewing the Auditor-General’s budget to safeguard the cross-agency advice he provides to other agencies.

Of particular interest to the committee are two recent better practice guides. These involved collaboration between the Audit Office and central agencies, a trend which we hope to continue to see wherever appropriate. The first of these guides was released in February this year by the Audit Office and the Department of Finance and Administration. It is entitled: *Developing and managing contracts: getting the right outcome, paying the right price*. The guide emphasises that the foundations for effective management of a contract are laid down when the contract is being developed. It includes checklists, examples and proformas that can be tailored to meet individual circumstances. Another significant issue is a recent cooperative effort between the Department of the Prime Minister and Cabinet and the Audit Office to develop a better practice guide for the implementation of government policy. This excellent joint publication entitled: *Better practice guide: implementation of programme and policy initiatives* seeks to identify best practice when implementing a new program or, in the words of the guide, ‘translating policy into reality’. The guide focuses on the up-front planning and development phases, leading to the readiness of initiatives for ongoing delivery. The comprehensive guide is accompanied by a short pocket guide that spells out a series of questions that chief executives need to be able to answer before a program is considered ready to be delivered.

We would also like to draw your attention to a recent example, where the committee has decided that scrutiny, as distinct from advice, by the Audit Office should be significantly expanded, with a focus on continuous review. This relates to project management by the Department of Defence. Following a series of critical reports by the Auditor-General on individual projects, the committee is presently undertaking a major inquiry into financial reporting and equipment acquisition by the Department of Defence and the Defence Materiel Organisation. Although the inquiry is ongoing, it has quickly become clear that it will be a significant benefit to the Audit Office to annually review progress in major defence capital equipment projects. The review by the Audit Office will be undertaken in a manner similar to those conducted by Great Britain’s National Audit Office.

The committee therefore released an interim statement of the inquiry late last year. We unanimously recommended that Defence produce a detailed annual report on progress in the top 30 capital equipment projects. That report in turn will be subject to published assessment by the Audit Office. I am pleased to advise that the government has endorsed our recommendation, and it will fund the Audit Office accordingly from the 2008-09 budget onwards. We believe that the annual progress report will put the Audit Office and the parliament in a much stronger position to review major defence projects while they are still in train, rather than looking at them in the rear view mirror via an audit and parliamentary review after failures have already occurred. Continuous monitoring, through the annual review, should also assist in promoting cultural change in the management of defence projects. We expect that this initiative will be well underway by the time of the next ACPAC conference, and that we will then be in a better position to provide a report on its progress.

I would like to now turn for a brief moment to the Department of Finance and Administration, which is responsible for the Australian government’s financial regulatory framework. One of the

department's main tools for providing policy guidance to other agencies is its finance circulars. These circulars are comprehensive in scope and are complemented by other activities to raise agencies' awareness of the financial framework. I note that one of those circulars suggests that agencies should provide regular reports to the committee on their progress in addressing outstanding recommendations of the Auditor General. Unfortunately, agencies' responses to this suggestion have of late been patchy. When our committee is re-established after the pending federal election we will, as a first order of business, write to all agency heads to remind them of the committee's role. We will request at that time that they submit, on a six-monthly basis, a report advising of actions taken to address audit recommendations. We would hope to thereby exert continuous pressure on all agencies to ensure that audit recommendations are being implemented.

One of the other significant recent developments by the department of finance has been the introduction of certificates of compliance, which are to be signed off by the chief executives of the FMA Act agencies. The certificate was introduced on a trial basis for reporting on the 2006 financial year, and it will be made permanent from the next financial year onwards. A proforma of the certificate is available on the department's website. The certificate consolidates a range of existing reporting requirements into a single document, providing a comprehensive overview of an agency's compliance during the previous year with the financial framework requirements. Details of any breaches must be provided, focusing on measures that have been taken to improve compliance. Importantly, the certificate must be signed by the chief executive. The responsibility for this signature cannot be delegated by the CEO to someone else. The committee believes that the certificate will provide a useful mechanism for highlighting to all chief executives their personal obligations under the FMA Act. As time progresses, the certificate should prove to be a useful addition to the tools available to us as we go about scrutinising the agencies' adherence to the financial framework requirements. While the committee is regularly reminded that individual CEOs are accountable under the FMA Act, we continue to encourage a greater monitoring role for central agencies. For example, our Audit report 407, which was tabled last September, reviewed investment of public funds by Commonwealth agencies. The Auditor-General found that, for a number of entities, there were shortcomings in their investment of public funds. The Audit Office argued that there is a role for central agencies to promote a shared understanding of the legal limits on agencies' investment activities. The department of finance responded positively to the recommendations; it developed a number of finance circulars and a training program on the FMA Act for other departments.

While this action by the finance department is helpful, provides guidance to agencies and is certainly one which we appreciate as a committee, we felt that there would be benefit in progressing a little further. We recommended that Finance develop a central register on investments being undertaken by agencies and for the register to be updated annually. The information on such a register could include the amount being invested, each agency's investment and credit risk strategy, the investment vehicles being used, any fees being charged and the rate of return on the investments. As we note in our report, the development of such a register would allow the committee and other interested parties to keep track of investment of public monies. It should also facilitate sharing of information between agencies about their investment practices. For these reasons, we hope that the government's response to our recommendation will be positive. In any event, we will continue to assess the balance between advice and oversight from central agencies in our reviews.

Another initiative by the departments was phased in from last year's federal budget onwards. It is called the Gateway Review Process and is designed to improve the delivery of major projects. Gateway involves short, intensive reviews at critical points in a project's life cycle by a team of reviewers who are not associated with the project. The review team comprises accredited reviewers coordinated by the Department of Finance and Administration. Gateway applies to new projects undertaken by the FMA Act agencies which require cabinet approval and which satisfy certain financial and risk thresholds.

From this year's budget, all projects over the financial thresholds for which government approval was sought must go through the Gateway process. Projects deemed to be high risk against specified criteria must undertake a business case review before consideration by the government. From next year's budget, those projects that satisfy the financial thresholds and are deemed medium risk will also be subject to the same process. Our hope is that this comprehensive process will ultimately reduce the number of audit reports that we review that deliver bad news about project management. Our hope is that this comprehensive process will ultimately reduce the number of audit reports we review. As I say, we will certainly be ensuring that they are scrutinised.

An innovation trialled by the public accounts committee in this parliament has been a regular private meeting between the committee, the Secretary of the Department of the Prime Minister and Cabinet and the Australian Public Service Commissioner. It is an initiative, from my understanding, that was introduced by the committee's deputy chair, Sharon Grierson. We have this meeting with the Secretary of the Department of the Prime Minister and Cabinet and with the Australian Public Service Commissioner, who is also responsible for promoting leadership learning and development in the Public Service. Such meetings have been held in each of the past two years. The meetings have proved very fruitful in conveying our concerns about some agencies' failures to consistently meet their obligations. They have also helped inform the committee of the latest initiatives in enhancing Public Service management capacity. I expect that these meetings with the secretary of PM&C and the Public Service Commissioner will become an annual feature of the committee's work after the next election.

In conclusion, ladies and gentlemen, chief executives in the modern Public Service can hardly complain about a lack of advice from the Audit Office and central agencies as to best practice in compliance and program management. These initiatives have the committee's strong support and will continue to spread the message to agencies that adherence to these principles is expected by the parliament. Whether there needs to be a more vigorous policing role assigned to an existing or new agency remains open for future debate. An observation frequently made by members of the committee is that the public sector has many accountability and oversight mechanisms, but relatively little in the way of enforcements. The comment has been made that, if compliance breaches of the type regularly reported by the Auditor-General were to occur in the private sector, the organisations in question would attract the scrutiny of ASIC or another regulator.

Finally, at the Commonwealth level, the government has recently indicated that private-public partnerships are to be the preferred model for major projects. A future challenge for the Commonwealth public accounts committee—which many of you in state jurisdictions will have had more experience with than we have had—will be how to maintain standards and a chain of accountability as these projects are increasingly contracted out. Such issues will need to be considered by my committee in future years.

I thank you for your attention. My colleagues and I are certainly happy to field questions. I know that the Auditor-General, Ian McPhee, is also happy to take questions about his work. The committee will now accept questions from the floor.

**Dr THOMAS**—Sorry to roll two questions into one. The first question is: does the Commonwealth public accounts and audit committee initiate its own investigations? My second question is: is my understanding correct, Phillip, that you said that you were going to examine Department of Defence infrastructure contracts starting in 2008-09?

**CHAIR**—The answer to the first part of your question is, yes, we can instigate our own inquiries in any area that involves Commonwealth expenditure. We have already started the inquiries into defence projects, and we are looking at two specifically: one is the Tiger helicopter purchase, and the second one is the fast frigate upgrade. The financial year 2008-09 is when the extra money will be allocated to the Audit Office by the government so that they will have a rolling review of the top 30 defence projects.

**Dr THOMAS**—That is my point. Is there a reason why that is not occurring in the financial year 2007-08?

**CHAIR**—It is occurring. Ian will be able to answer this a little better than me, but he is going to have to manage it with his current resources until next year. Ian, would you like to elaborate on that?

**Mr McPHEE**—Knowing that both the government and the committee have supported this proposal to look at the top 30 projects, I have agreed to start some work with Defence to develop the style of report that we could produce to suit both the committee's and the government's purposes. We will then look at some of the risks around the projects and try to draw out insights, which are factors that lead to both stronger and weaker performance.

**Dr THOMAS**—But will you be examining projects specifically in the 2007-08 financial year, as there are a lot of big defence contracts that will be filled in that period of time?

**Mr McPHEE**—We will continue our practice of looking at particular projects. One of the reasons that this proposal has been put forward by the JCPAA is that the Audit Office has, over time, looked at individual projects but has not looked at the portfolio of projects globally. We have not had the resources to do that. So we will continue to look at individual projects and gear up in this coming year to be able to focus on the portfolio of defence projects at the same time.

**Ms GRIERSON**—I will add to that. That is why the committee is doing this major inquiry—to bring all those reports together and look at the general problems, not just each specific project. It was the view of the committee that in 2007-08 additional monies should be allocated to begin the benchmarking and setting-up of that process. But that was not consented to by the Prime Minister or the executive, but the Audit Office assures us that they can divert some of their resources this year to get that started. It is, I think, a really important process. Even though the committee has not completed its inquiry, we wrote to the Prime Minister saying that we were very keen to have the 30-project approach, as in the UK, and that was consented to. I would only say that, personally, I am a little bit disappointed that the process was pushed out to 2008-09.

**Mrs BRONWYN BISHOP**—I think there is another point we need to raise here, and it is an important one when we are looking at the question of transparency and accountability. That is that when you are dealing with Defence—and I guess I am speaking here as a former minister for defence—there is a much greater risk assessment involved than there is when dealing with other portfolios. Part of the way in which the committee is proceeding with the Auditor-General is to take into account risk factors in a slightly different way from what might have been done before. So it is a new concept, if you like; the project audits will continue.

Let me give you a specific example: we are looking at the Tiger project—the purchase of the attack helicopter. There was a period when the Auditor-General reported that delivery of a particular helicopter had been taken with certain things that had to be done left outstanding. What was really being discussed in the evidence was whether or not the delivery was taken early, with people knowing that the other things had to be done and with the formal delivery date having to be signed off on, or whether or not the Auditor-General had deemed the early delivery to be the final delivery.

There are a lot of points like that which are going to have to be refined when dealing with such a portfolio. In a way, we are going to have a bit of a learning curve both ways. I was particularly keen for the Auditor-General to look at the manner in which contracts are negotiated and to look at whether there are ways in which contracting can be done more efficiently so that the Commonwealth can benefit from that expertise.

We have embarked upon a very complex task, and it is one that should not be seen in any way to say, ‘We are the good guys who have got to look at those people who might have been erring.’ It is going to be a learning curve on both sides.

**CHAIR**—Okay. We are not going to get four answers for every question—but thank you very much.

**Mr SELOANE**—I am Michael Selokane from Gauteng in South Africa. I am more interested in the *AUDITFocus* newsletter. I want to know how useful that newsletter published by the Auditor-General is to the public and whether it is encouraging public participation. Could you briefly indicate how the public is engaging with the public accounts committee and with the Auditor-General?

**CHAIR**—I will ask Ian to answer the substance of that. We look at it simply as one additional resource available to the staff in various departments and agencies about what their responsibilities need to be with regard to financial management and the management of contracts. It is an additional resource that is available to them from the Audit Office that is written in language which is, perhaps, enticing for them to look at rather than, as I said in my speech, a report that sometimes you need to wade through at great length. Ian, if you would like to perhaps talk about the public interface in that regard.

**Mr McPHEE**—One issue that is never far from my mind is how to leverage the work that we do in individual agencies so that it benefits public sector improvement in all agencies. We came up with the idea of the newsletter because our reports are 100 pages long, many of them are pretty dry in parts—as you would probably appreciate—and it was important to capture, in a succinct way, the key messages for busy executives in the public sector. We have done our best

to drop the ‘auditspeak’ from the newsletter and to convey information in simple terms. It is only a very brief newsletter; we put out three a year. I will endeavour to get some copies for your information.

At this stage, our very strong focus is on the public sector. The newsletter is not for the benefit of the public, even though it is available to the public. It very much directed towards public sector managers as the experience that we have picked up as part of our audit program that will benefit all agencies; that is its particular focus. Of course, I provide copies to members of parliament as well.

**CHAIR**—Thank you, Ian. Are there any other questions?

**Mr STENSHOLT**—My name is Bob Stensholt and I am from the Victorian PAEC. What role does the federal committee have in auditing the Auditor-General and his office?

**CHAIR**—We do have a role in that. Each year—I have not done one yet, but in four weeks time I will have my first opportunity—I have to present the Auditor-General’s budget to the parliament and, before Peter Costello speaks, make a comment in the parliament about the accuracy of the figures showing the money that is available in the Auditor-General’s department and their ability to carry out their work. They present to us on a regular basis. Whenever we have inquiries or hearings into the various reports, Audit Office staff are there. They are scrutinised on the manner in which they have gone about doing their work. That is certainly part of the process. Sharon Grierson, who has had a lot more experience in this, will no doubt talk about some of the other things that we have done.

**Ms GRIERSON**—One of the most important things that came about when I was on the committee was the appointment of our Auditor-General, Ian McPhee. We have the right to review that. I think Ian was overseas at the time and the committee had a link-up with him. He was interviewed for the job. I think that was very appropriate and that was, perhaps, the beginning of ensuring that the Auditor-General is accountable. The other aspect is that an independent Auditor-General is appointed. In this term of parliament we reviewed that very closely, because one of the realities is that not many major firms want to take on the role of the independent Auditor-General. We do not get a lot of applicants for that. It requires particular expertise and particular involvement. We have also interviewed and met with the independent Auditor-General on several occasions, so we reviewed their appointment as well. We have regular and ongoing meetings regarding resources for the operational functions of the Auditor-General, and we scrutinise whether they are using their resources efficiently. In this modern age with a great shortage of experts, accountants and people who are quite expert in governance, it is very difficult to ensure that our audit committee has the resources that it has and retains them.

**CHAIR**—Bob, just to reinforce what Sharon was saying, it is the independent auditor’s responsibility, who is not a public servant but is from the private sector—it is Mr Geoff Wilson from KPMG, and I see KPMG people here today—to review the office of Auditor-General. He does a good job, Ian.

**Mr McPHEE**—He does indeed.

**CHAIR**—He keeps you on your toes.

**Mrs MATLADI**—I come from the north-west of South Africa. I listened to a very good presentation and followed all the information that you give to agencies about what is expected of them to comply with the FMA Act. Nevertheless, I missed one thing—that is, the procedure that the committee follows, especially with the agencies that have failed to adhere to the requirements of the FMA Act, as well as the resolutions of the committee. Could we get an outline of the follow-up steps that you take to see that adherence is maintained.

**CHAIR**—Thank you for that. All of us are concerned about enforcement. Our role is to review and make recommendations as much as possible. As I say, there is an element of, perhaps, embarrassment in having to be called before a public hearing and held accountable for the actions and performance of your department. But we do not have that enforcement role. All we can do is make recommendations. Fortunately, from my experience, the recommendations from the committee are followed to a great extent. I mentioned some of the things that the Auditor-General does in providing ongoing support through their office to ensure that compliance takes place. The Department of Finance and Administration has introduced other initiatives as well, which I went through and which also help in that process. Enforcement is a perennial problem that we all have.

**Ms GRIERSON**—A development in this term of parliament for the audit committee has been to recommend some three-monthly reviews of performance, not just bring down a report saying, ‘These are our recommendations for this general department or agency,’ but to actually say, ‘We would like reporting on these key factors and the implementation of that recommendation every three months or six months until the committee are satisfied.’ That is a new development that we have introduced in this term of parliament, to ask departments to come back and account for themselves on a regular basis, if there has been a particularly important issue, whether it is financial management or performance management.

**Mrs BRONWYN BISHOP**—At the end of the day, it is a persuasive mechanism. There is no sanction that you can take as a committee. However, there is always reporting to the parliament and making life difficult. We then have the other arm of accountability, which is the estimates committees that sit in the Senate, where they can very often pick up on recommendations from an Auditor-General’s report and the impact of this committee and cross-examine on those issues. That is another way of making people comply with what has to be done.

**Proceedings suspended from 10.26 am to 10.53 am**

**CHAIR (Mr Barresi)**—Ladies and gentlemen, in this second session of the conference we will be hearing from three presenters: the Chair of the Western Australian Public Accounts and Expenditure Review Committee, the Presiding Member of the South Australian Economic and Finance Committee, and the Chair of the Queensland Public Accounts Committee. They will be presenting papers this morning.

We delegates represent many jurisdictions and our committees have very different ways of working. I indicated in my presentation the way in which the Commonwealth Joint Committee of Public Accounts and Audit works. One of our common strengths, though, is the access we all enjoy to the expert work of our respective auditors-general. Our next two speakers will explore different models for PACs in reviewing the work of auditors-general and also, how we can best add value to their good work. Please make welcome our first speaker, John Quigley MLA, who will give us his perspective as chair of Western Australia's committee.

### **Different models for PACs in reviewing the work of auditors. How best to 'add value' to the work of auditors**

**Mr QUIGLEY**—Thank you very much. While the relationship between the public accounts committees and the auditors-general varies between the jurisdictions operating under the Westminster system of government, most are characterised by a level of cooperation and information sharing. Some important considerations, we believe, are: that the parliament as a trustee of the public interest has powers to scrutinise government action, thereby increasing accountability; that public accounts committees and their equivalent committees are primarily responsible for holding governments accountable for the expenditure of public funds; and that the auditors-general form the key independent body responsible for informing parliament of public sector accountability and performance. The complementary relationship with auditors-general has been developed by PACs in many jurisdictions and has the potential to play a crucial role in assisting parliament to scrutinise public expenditure.

Our paper examines the recent history of the relationship between the parliamentary accounts committee and the Auditor-General in Western Australia and considers how the Public Accounts and Expenditure Review Committee and other committees of the parliament may add value to the role of the Auditor-General. I will talk about approaches to value-adding. In 1996, the then Public Accounts and Expenditure Review Committee in Western Australia instituted a statement of understanding with the Office of the Auditor-General for Western Australia to facilitate mutual support between both organisations. The statement of understanding recognised the commonality of objectives and, in particular, that of ensuring that public moneys had been spent lawfully, effectively and efficiently. This signalled to future parliamentary public accounts committees the benefits of maintaining a cooperative relationship with the Auditor-General and recognised that a cooperative relationship was critical for both parties to remain independent whilst still supporting each other.

From this general agreement evolved three other models of value-adding that we can currently see operating in Western Australia. Firstly, I will discuss the audit report leading to an inquiry. The most common approach in Australia is for parliamentary committees—not just public accounts committees—with the capacity to generate their own-motion inquiries to scan the reports of auditors-general for potential topics for further inquiry. Committees can add value in a number of ways, including building on public attention following the release of the Auditor-General's report, adding weight to the Auditor-General's recommendations and seeking the government's commitments to a response. The key benefits of this model are that the value-added process can move outside of the public accounts committee's single-topic inquiries and that it can suit both the standing and select committees of either house of the Western Australian parliament. The key risk is that certain audit findings may slip through the net, as committees make selections based on time constraints and/or public interest with no overarching parliamentary process ensuring that the value is added to all audit findings with merit.

Secondly, I will discuss the model of the single inquiry leading to the audit report. In this model the parliamentary committee considers a course of inquiry based on its own scanning process but seeks the assistance of the Auditor-General to determine whether an inquiry may have merit and how best to frame an inquiry. The 2006 public accounts inquiry in Western Australia into local government accountability is an example where the committee sought the advice of the Auditor-General prior to developing the terms of reference. This model requires the auditors-general to step back from the detail of their past findings and instead draw on their expertise and knowledge. The committees can add value in ways that include applying lessons from past audits to new areas and spreading the load whereby the committee uses audit experience but does not do the work itself. A key risk of this model is that the quality of advice provided at the outset of an inquiry without backup from a discrete audit is, in our opinion, never going to be as highly regarded or as reliable in the public domain as true audit findings.

The third model, multiple audit findings leading to a committee report, involves a comprehensive approach to following up all audit findings leading to recommendations for action by government. By way of background, the parliamentary accounts committee of the 36th parliament, which was elected in 2001, reviewed the annual report of the Auditor-General and noted that neither the Auditor-General nor the public accounts committee had a formal method of monitoring the progress of agencies implementing recommendations. This was, of course, the concern that came straight from the preceding presentation this morning. The parliamentary accounts committee considered that direct monitoring of the uptake of the recommendations would add value and recommended that all government agencies subjected to a performance examination by the Office of the Auditor-General of Western Australia should report to the public accounts committee of our parliament within 12 months to detail the implementation or otherwise of the recommendations. I was very interested to hear the mention of compliance certificates by CEOs before, and that is something I will be taking back to Western Australia.

The exact process undertaken by the public accounts committee is detailed in the paper that you have in your folders. This model adds value by adding weight to the Auditor-General's recommendations; seeking the government's commitment to a response; by optimising the division of labour between the Auditor-General and the public accounts committee, as the Auditor-General undertakes the investigative work that leads to the audit findings and the public accounts committee fulfils its functions of monitoring, overseeing and bringing to account; and,

finally, by preventing audit findings from slipping through the net by ensuring that all the Auditor-General's recommendations are followed up.

A limitation of this model is that it does not permit further inquiry and can appear superficial since it must cover a broad area. There is also the dilemma of when to stop tracking agencies' progress. The current public accounts committee resolved to report annually to parliament on the outcome of this process and tabled its first report in November 2006. We are of the belief that, if agencies are subject to further adverse comments by the public accounts committee in this further and discrete report of the committee, it will have a salutary effect on those agencies, bearing in mind that the Public accounts committee puts in its annual report, 'This is a separate report just on the follow-up actions that agencies have undertaken following an adverse or a critical finding by the Auditor-General.' We are still working together with the Auditor-General to finetune the way the reviews are undertaken and presented; however, the initial feedback has been positive. This process was instituted by the public accounts committee of the last parliament and established in cooperation with Mr Des Pearson, who has since left Western Australia to become the Auditor-General of Victoria. We are working with the Acting Auditor-General, Mr Colin Murphy, on this.

Recently introduced legislation in Western Australia has given a statutory basis to some aspects of public accounts dealings with the Auditor-General and may also add value to the work of the Auditor-General. The Auditor General Act 2006 came into operation in late January 2007 and introduces the new Joint Standing Committee on Audit, tasked with overseeing and being involved in the process of determining the appointment of future auditors-general and a limited role in determining the budget of the Office of the Auditor-General. The Joint Standing Committee on Audit is yet to be established; however, it is likely to be compromised—sorry, comprised; we're hoping to get through a few months before we compromise ourselves! It is likely to be comprised of members of the public accounts committee and members of the legislative council's—our upper house's—Estimates and Financial Operations Committee. The Auditor-General's independence is recognised in the act; however, the act increases the capacity of either house of parliament to request audits.

In summary, there are a number of ways in which public accounts committees and other parliamentary committees can add value to the work of auditor-generals. Of the models discussed, each has its benefits and limitations and will apply the best structure in the different circumstances. In practice, it is often a mix of all models that adds the most value. The challenge is to be aware of the nature of each player, understand the topics and choose the model that is fit for the purpose. Clearly, there are a number of other ways in which parliamentary committees and other committees can add value to the work of auditor-generals—and I have discussed those models.

The big issue is: how do you bring about compliance from agencies with the findings of the auditor-General and the work of the public accounts committees? Public accounts committees, we must remember, have powers that auditor-generals could only dream of: powers to compel evidence, powers to change government policy and powers to explore perspectives without the burden of the audit process. Auditor-generals have access to enormous amounts of information and can offer great wisdom. The challenge for all of us is to work closely with each other, understand when to work together and when to work apart, and thereby add the most value to the topics that we choose to explore.

I have come to the conclusion of the presentation of my paper and now come to the question and answer session but, before opening it up to questions, I invite my parliamentary colleague, the member for Capel, Dr Steve Thomas, to join me up here. Steve is my deputy chair and a very valued member of the committee. I also invite Mr Colin Murphy, our Acting Auditor-General, to join us, who may also have some useful input.

Whilst he is coming down, I would like to do a little advertorial while I am over here on the east coast about our next line of inquiry. The term of reference is the way infrastructure is funded in Western Australia, and we are talking about infrastructure that generates a royalty stream to the Commonwealth. I noticed that in the states here on the east coast there is a lot of controversy with the ports to get the coal out. We are having difficulties or challenges on our iron ore coast and gas coast up in the north-west and so we are having an inquiry to look at whether we are being properly funded, or whether there is a better formula that can be set up between the states and the Commonwealth for funding infrastructure projects. That is probably an advertorial and a little bit away from the nature of the paper, but I thought that, seeing as I was here with the other public accounts committees, some of you may be interested and may like to take up on that. I do not know if there are any questions from the floor this morning arising out of the paper that we have done. Well, the lack of questions reflects either a shallow paper or the fact that I have covered it in detail!

**Prof. LONEY**—In a couple of parts of your paper you talked about the primary importance of the independence of auditors-general's, which we would all agree with—although I noticed in one place you talked about 'true independence' and I would ask you to define that. Secondly, towards the end of your presentation you talked about recent changes which gave the committee the capacity to request audits in specific policy areas. What is the mechanism for that? Does the Auditor-General have to comply with that request; and, if they have to comply, is not that a constraint on independence?

**Mr QUIGLEY**—No. They have to have regard to the request of the public accounts committee; they are not constrained by our request. As to true independence—we have been talking about this; this came up in the paper that was delivered a little bit earlier on regarding audits of the defence department—you only have true independence if you have the resources to audit what you think needs auditing in the system. It is always a problem: has the Office of the Auditor-General been adequately resourced to examine all the agencies? It is only by adequately resourcing the Office of the Auditor-General that they will be truly independent, in our view.

**Prof. LONEY**—Yes.

**Dr MATEME**—In the absence of portfolio committees, I would like to know what mechanism is in place to address the issues before the Auditor-General and the public accounts committee pick them up. The Auditor-General and the public accounts committee come in when it has already happened. What mechanism is there to make sure that the load on the Auditor-General, or the number of reports from the Auditor-General, as well as the load on the public accounts committee get minimised? I am interested in this.

**Mr QUIGLEY**—I will invite my deputy chairman, Dr Thomas, to respond.

**Dr THOMAS**—Western Australia, of course, has other committees, so there is not an absence of other committees to examine. If you are talking about the probity, certainly in social areas there are a number of other committees, as all the jurisdictions represented here today, I think, have. There are other committees looking at the work that I think you are referring to. The public accounts committee, in conjunction with the Auditor-General's office, looks specifically at the financial probity, but there are a number of other committees that look at the way that that expenditure is done and the adequacy of that.

**Mrs BRONWYN BISHOP**—John, I wonder if you could tell us whether there is a greater preponderance on an ordinary financial audit in Western Australia, or whether you put a great stress on project audits. For the benefit of some of the members, could you address the question of whether, as part and parcel of a project audit in Western Australia, you look at whether a project is meeting a policy objective, as we do?

**Mr QUIGLEY**—Yes, that is right; we do both. I do not know if I could actually weight the difference between financial and probity audits. One of the largest infrastructure projects that the government has undertaken in recent years is the 65-kilometre Mandurah to Perth electrified rail link. That includes tunnels under the city, which has led to variations and blow-outs of the contract. The Auditor-General has audited that and reported during the project as to both probity and fiscal accountability. Obviously, we have a smaller budget than the federal parliament. We are not looking at those big projects that you have in Defence, but in a significant project like the rail link—\$1.5 billion, which, for transport infrastructure, is significant for us—certainly, both probity and the fiscal accountability has been audited during the project so that interim reports could be presented to parliament.

**Mrs BRONWYN BISHOP**—Was that tunnel project a public-private partnership?

**Mr QUIGLEY**—It was a totally public project.

**Mrs BRONWYN BISHOP**—What capacity do you have as the public accounts committee in Western Australia to audit a public-private partnership where there are going to be a lot of commercial-in-confidence issues? How do you handle that?

**Mr QUIGLEY**—That is a complicated answer. Under the new legislation in Western Australia, there are specific provisions dealing with the audit of the private side of a public-private partnership so that we can trace the money into the corporation's books, see how it has been expended and look at the probity aspects. That is specifically covered by the new legislation. What was the second part of that question?

**Mrs BRONWYN BISHOP**—That was basically what I wanted. I also asked how you handle the private part—the commercial-in-confidence.

**Mr QUIGLEY**—The last part of the question was about was commercial-in-confidence. If a minister claims that he cannot release the contract because it is commercial-in-confidence, the Auditor-General gets to see it and he can determine whether it is commercial-in-confidence and make a recommendation to the executive. If the executive still reject the reasonableness of the Auditor-General's recommendation, the Auditor-General can then report that to the public accounts committee. We cannot overrule the executive, but obviously that would have political

consequences. We have tried to tease out this whole problem of commercial-in-confidence and the question of accountability, so now the call is made by the Auditor-General. It is not a binding call on the executive, but if the executive do not listen to the Auditor-General's call they can come back to public accounts.

**Mrs BRONWYN BISHOP**—Do you then go to the parliament?

**Mr QUIGLEY**—They can go through us to the parliament.

**Mr WILKINSON**—You said that it goes from the Auditor-General to the public accounts committee then from the public accounts committee to parliament.

**Mr QUIGLEY**—We can report.

**Mr WILKINSON**—All you can do is report? You do not vote on it?

**Mr QUIGLEY**—No, we can just put a report in. Presumably, a minister facing an adverse report might have second thoughts about the reasonableness of the Auditor-General's recommendation on maintaining the claim of commercial-in-confidence. That whole question of accountability has always been a bane of the public and the media.

**Mrs MATLADI**—I have two questions. The first one is about auditing: do you already have value-for-money auditing or are you only interested in compliance? If value for money is not yet there, whose responsibility is it is to look to see whether public funds are used in a responsible manner? My second question is about the PCA versus other portfolio committees: what is the relationship or the coordination between the public accounts committee and other committees in the house?

**Mr QUIGLEY**—In relation to the first question, both financial performance and probity are audited so that they comply with statutory requirements. In Western Australia, all are audited—although I hasten to add that in the local government sector in Western Australia only finances have been audited and not performance or probity. Our committee embarked upon an inquiry and put a report in saying that we should be auditing both in Western Australia; we are waiting for action on that. Secondly, the coordination between our committee and other committees is happening through the new legislation being brought in to establish the joint standing committee on audit, which will involve my friend and parliamentary colleague the Hon. Giz Watson, who is in the committee room this morning because she is the chairperson of the upper house's estimates and financial operations committee. But we do not have a lot of correspondence with the other committees to see what they are looking into. We are concentrating on our bailiwick. Thank you very much.

**CHAIR**—Thank you, Colin and Steve. And thank you, John—and thanks also to your team—for your presentation and for coming up here and adding a little bit more insight into the other work of your committee. We now have a change in the program. Dr Paul Logan will be presenting the perspective, on the same issue, from the South Australian Economic and Finance Committee. I understand that you, Paul, are the secretary of the committee. Welcome to the podium, Paul.

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**Different models for PACs in reviewing the work of auditors. How best to ‘add value’ to the work of auditors**

**Dr LOBBAN**—Thank you. On behalf of the Presiding Member of the Economic and Finance Committee, Tom Koutsantonis, I apologise for his absence. Tom had to withdraw at a late stage because of illness over Easter. In his stead, I will attempt to do a very poor impersonation of him. In many ways my paper here seeks to flesh out the specific characteristics of the South Australian Economic and Finance Committee, which, even by its name, is marked out as slightly different from what might be the common experience of most other PACs in this room. This paper will attempt, in a brief and hopefully not too tedious way, to flesh out some of the aspects that are also covered in the paper that will be given later on by the Public Sector Governance and Accountability Research Centre, which sought to do a comparative analysis of PACs across Australia. In that report, the Economic and Finance Committee was isolated in some instances for some of the characteristics it has that perhaps do not exist in other jurisdictions.

It is a bit of a creed that, whenever an activity report or another paper is delivered by the Economic and Finance Committee, this committee is not a traditional PAC—and it is not. The South Australian parliament had a PAC until the early 1990s, at which point the committee system was restructured; the Parliamentary Committees Act was passed, and the Economic and Finance Committee came into being. The Economic and Finance Committee’s powers and functions as enumerated in that act are very broad. As you may see in the paper that you have in front of you, in essence, they give the committee the power to inquire into any matter concerned with finance or economic development, with a few exceptions: parliament, local government and statutory authorities. The Legislative Council has a statutory authorities review committee, so we cannot go into that area. The committee essentially has a free hand to inquire into anything touching on economic development or finance and which has a public sector aspect to it. The committee has to perform a few statutory requirements which are imposed on it, such as oversight roles associated with other acts but, essentially, it has a free hand as to what it inquires into.

The committee is different from other PACs in that there is no formal link between the EFC and the Auditor-General. The relationship between the Auditor-General and the committee, which essentially forms the basis of this paper, has recently been established in a cooperative sense and, hopefully, will be built upon by this committee over the next four years and beyond. Section 36(b) of the Public Finance and Audit Act—which is the act from which the Auditor-General derives his powers—states, ‘The Auditor-General’s annual report may contain any matter that should, in the opinion of the Auditor-General, be brought to the attention of parliament and the government.’ When I refer to the Auditor-General in this paper—the person of the Auditor-General—I am most often referencing Mr Ken MacPherson, who was the Auditor-General up until earlier this year. The current Acting Auditor-General for South Australia is Simon O’Neill, who is at the back of the room. So, when I refer to or quote from the Auditor-General, it is Mr MacPherson whom I am speaking of from that point in time. The relationship between the Auditor-General and parliament has been extrapolated to include the Economic and Finance Committee. When there was an issue which the Auditor-General felt needed further elaboration or perhaps investigation by the committee, he would come to the

committee and the committee would hear evidence and then take a decision on what it should do on that issue.

The Auditor-General's website, as quoted in the paper, makes reference to the Economic and Finance Committee as the specific organ of parliament that his office deals with. This has been the experience of the committee over many years, although it has never really been in a systematic or organised way, but rather more on an issue by issue basis, and the committee will naturally receive and hear the Auditor-General if there is a matter that he feels needs consideration. The Economic and Finance Committee membership from 2002-06 made moves, partly inspired by their experiences at venues and events like this, to establish a more responsive and, if not formal in the sense of legislation or any other act like that, cooperative relationship between the committee and the Auditor-General's Office to try to make the relationship work a bit better and give the committee a defined role with respect to the Auditor-General's Office.

So, in the course of 2006 after the election of 18 March, the current membership of the committee met with the Auditor-General and set about trying to establish this relationship. It, effectively, culminated at the end of last year when the Auditor-General appeared before the committee to provide evidence on a number of matters arising from its 2006 report. In relation to these matters, the Auditor's remarks regarding the Director of Public Prosecutions' conduct with respect to an ongoing audit that the Auditor was pursuing into police DNA-handling processes, as well as other matters internal to the DPP, were the most widely reported. But the meeting also touched on potential shortfalls in corporate and financial governance within local government and the Auditor's opinions and potential problems associated with public private partnerships as a strategy for financing major capital works programs. In conversation with the committee, the Auditor highlighted those matters as issues that the committee might want to pursue and the committee has, at least in two of those matters, taken them a bit further and they may well form the substance of future reports.

Whilst this process may not seem terribly revolutionary to most people in this room, the Economic and Finance Committee, in a sense, does represent a different model from the more free-form and, perhaps, unstructured approach taken in previous years. Those inquiries were usually self-referred on the basis of individual or membership concerns about broad matters that were not necessarily, if at all, related to Auditor-General's reports or technical financial compliance issues, or even to auditing or accounting. There is a big focus on policy issues and a broad approach to the way that the committee sees its role and that is often extended far beyond technical compliance issues or financial issues.

In establishing this relationship with the Auditor-General, the committee is not seeking to forgo the flexibility afforded by its wide range of powers and potential areas of interest. It is seeking to try to develop a relationship whereby issues that the Auditor thinks need pursuing, yet cannot pursue, can then be taken up by the committee, and the committee is quite enthusiastic about pursuing that role. The function of this relationship with the Auditor-General and the wide-ranging nature of the committee's powers do have, in a sense, a certain synchronicity in that the Auditor-General's appearance before the committee in 2006 included an outline by him as to the nature of the role and definition of 'audit' in the public sector as he understood it. I have quoted in detail from *Hansard* the Auditor's comments, but I think it is worth me just repeating a couple of sentences from that. The Auditor said:

Transactions do not take place in a vacuum. There is the conduct of public officials and, in examining whether or not those financial transactions of governments are consistent with propriety and lawfulness, it is important that we look at the conduct associated with public officers ... In addition to that, we have the provision in the Public Finance and Audit Act which provides that the Auditor-General can bring to the attention of the government and the parliament matters that in his opinion he believes it is important to do so.

... We certainly give opinions on the financial statements. We are mandated and required to give an opinion on the adequacy of controls and, within that context, the propriety and the lawfulness within which government processes have occurred; and we are mandated, if we see it necessary, to be able to bring to the attention of the government and the parliament matters that we believe are important. In addition to that, there is the capacity of the Auditor-General to opine on the efficiency and the economy with which public authorities undertake their activities. So that is the ambit at this point in time. That is the mandate that we operate under.

This wider articulation of the audit process complements the committee's perception of its own powers with respect to investigating matters of economic and financial importance. While the technical financial element of the committee's functions remains important—and given the broad ambit of its role under the act—the committee, like the Auditor-General, sees itself as being able to investigate wider contextual issues within which specific transactions occur. The importance of this understanding of the audit role—and the complementary role of the committee—is underscored by the Auditor's statement to the committee about his place within the full matrix of public sector accountability in South Australia. The Auditor said, 'We do not have an ICAC or a CJC, or what have you. There is none of that. We are the default mechanism.' In the light of such comments, the committee's protocols with the Auditor-General's Office reflect its willingness to be involved in the identification and investigation of a wide range of issues pertinent to creating not just an effective public finance environment but a wider administrative accountability.

The committee often seeks very wide terms of reference—and, at the moment, it is doing an inquiry with respect to local government, notwithstanding its particular restrictions under the act—to be able to delve around and into matters that range across policy, operation, function and effectiveness of all of the aforementioned, as well as the financial aspects of an agency, an operation, a project, or a sphere of government in the case of local government. This is not to say that the relationship, notwithstanding the Auditor-General's statements about the oversight gap that his office fills in the absence of something like an ICAC, has either the powers or even the reach of these and other specially created investigative bodies in other places and is not intended to perform such a role. There has been a debate recently in South Australia about whether such a body needs to exist. That debate runs separately to what the Auditor said to the committee and how the committee sees itself operating with the Auditor. I think the committee is seeking to put itself forward as an enforcement body in that sense, but the arrangement seeks to operate as a broad accountability mechanism, utilising the combined capacities of the Auditor's office and the Economic and Finance Committee, with a range of interest wider than a narrow focus on strict compliance and technical aspects.

That concludes the essence of this paper. As I said at the beginning, there is the formation of what is, essentially, a fairly informal but cooperative relationship between the Auditor-General's Office and the committee. It may not seem like much of an innovation to a lot of committees that have, perhaps, more formal and involved relationships but, in terms of this committee, it is seeking to operate in a manner which is more consistent with formal PAC committees, as well as

operating in its broader role. I do not think this broader role should be diminished, given that it was formed to replace the PAC. There is obviously an intent to have a more wide-ranging and broadly focused committee operating in that space. But the sense in which the committee is also seeking to implement and incorporate a more traditional PAC type role into its broader function, I think, is a step that all the committee membership is enthusiastic about and, hopefully, will mark a new element of the committee going forward through this and other parliamentary terms. Thank you.

**CHAIR**—Are there any questions?

**Mr STENSHOLT**—I have a question. Where do you go from here? Given that you had the Auditor-General before your committee, are you looking to make a report to parliament on process and relationship issues or will you be following up specific aspects of his report in some of the future references that you might take up? Indeed, will you produce your own report on the Auditor-General's report, picking up some of these issues and taking them up further?

**Dr LOBBAN**—The intent of the process as it stands at the moment is probably to remark on the development of this relationship in the committee's annual report, as that is what I would expect at this stage, to alert the parliament and others to the fact that this is now taking place. The understanding that the committee and the Auditor-General's office had when embarking on this was that after the tabling of the Auditor-General's report every year the committee would have a meeting with the auditor and issues that the committee had identified within the report and issues that the auditor had identified within the report—which may be the same things or different—would be identified and discussed in front of the committee and from there the committee would make decisions about specific issues that it might pursue. I am not sure if the committee is seeking to go as far as to produce a report into the Auditor-General's report or if it is seeking to more specifically follow up issues, ones that the auditor or the committee have identified, arising from that report in addition to the other range of inquiries that it would usually take up.

**Dr THOMAS**—The terms of reference of your committee appear to be relatively loose. Is your committee a government dominated one in terms of numbers? If that is the case, is there an issue then about the direction in which your committee might actually move and function and the level at which it might function? Its report seemed to be very much driven by the direction in which individual members liked to go.

**Dr LOBBAN**—It is a seven-person committee with a 4-3 split and the government having four members. At the most pragmatic level there is always the potential for government to use its numbers to force or certainly influence the direction that inquiries will take or even whether inquiries will start. But I would have to say that on the level above that—I hope it would be above that—the current committee is fairly bipartisan about its approach to this particular role and the way that the committee's inquiries are going at the moment. In the past, in the previous committee and in other committees, there has always been the potential—as with any committee, I suppose—for minority reports and also for the government majority on the committee to determine some of the substance or nature of what the committee might do. That is always inherent in the simple mathematics of it.

**Dr SMITH**—The issue surrounding public-private partnerships has come up a couple of times. In New Zealand we are a bit backward: we do not have any of this new variety that people are referring to as yet. What I am a little bit interested in is this. In your paper you mention the auditor's opinions of the potential problems associated with public-private partnerships, and I wonder what the problem is. If you have a PPP set up to build a railway project or a motorway, for example, and it is a competitive tender process and the private partner wins the tender process and delivers the specification to budget on time, what legitimate interest do we have in how they use the money? With that kind of contract, if they spend the money on diamonds for the wife of the managing director, yet deliver the project according to the specification and the tender that they won, do we have a legitimate interest in how they spend it? I ask in ignorance because I do not know the answer.

**Dr LOBBAN**—The committee has not started anything on PPPs as yet. The concerns that the auditor had about PPPs in a general sense related, I think, to issues that were raised in previous papers about the intermeshing between public and private funding for projects.

I have to state that at this stage, with the committee not having moved on it yet, that the auditor's concerns were based on the general concern that is also raised in public works inquiries: the extent to which contracts are structured, the management of the asset that is built, the extent to which the private partner may benefit from it—perhaps even developing an income stream from it—bearing in mind that at some stage the asset may return to public management and whether the costs associated with that outweigh any savings that you might have had at the early end. Like I say, we have not developed that line of thinking, but that is basically where the auditor was at.

**Dr SMITH**—I certainly understand that there is a legitimate interest around how the contract is developed and the whole specification of the deal. I can certainly understand that legitimate interest.

**Dr FOSKEY**—Dr Lobban, I am from the ACT Public Accounts Committee. When you were talking about the composition of your committee, you spoke about a 4:3 split, yet I know you have Independents and smaller party representatives, including someone from the Greens. I am wondering how people outside the two major parties participate, given that they are very likely to have an oversight role that can actually be sharper in the sense of the agenda that they tend to go into parliament with. How do they engage with that system?

**Dr LOBBAN**—The South Australian Economic and Finance Committee is perhaps one of only two committees that derive all of their members from the House of Assembly. Most of the others are joint committees, and there are a couple of council-only committees. The issue of numbers in some of the joint committees—and the Green's member, being in the upper house, has a place in that system—tends to be a little less bleak from the arithmetical side if only because the split between government, opposition and Independents on joint committees tends to be a little less monolithic than what is represented through our committee, so there is potential for a bit more involvement of and actual impact by Independent members. I know that in a previous membership of our committee there were four government members, two opposition members and one Independent—she was actually a member of the National Party but was effectively operating as an Independent in the committee sense. The dynamics of the committee, in that it operates fairly collegially, and the way that the committee is able to refer projects to

itself mean that individual members, including Independents, are able to bring motions before the committee to start with terms of inquiry and to bring terms of reference. Despite the arithmetical split that I was talking about, in the majority of cases inquiries have been initiated and followed through, regardless of who has brought them. Certain matters, particularly if they are of a politically sensitive nature, may run into the problem of numbers, but in my experience on the committee there have been very few times—certainly with previous memberships and even with this membership—when a legitimate inquiry has been voted down or not proceeded with. The scope is still there for individual members of whatever persuasion to make an impact.

**Dr MATEME**—I would like to know how the relationship which is emphasised in this paper here is likely to impact on the independence of the Auditor-General.

**Dr LOBBAN**—I do not see that it impacts on the independence of the auditor's role at all, for a number of reasons. The arrangement is not formally entrenched anywhere in legislation or even in a memorandum of the type that the Western Australian committee spoke about that they published in 1996. At the moment it is basically a cooperative agreement between the auditor and the committee, to cooperate on issues that they see of being of mutual interest and concern.

Neither the committee nor the auditor is obliged to constrain or force the other party to do anything they do not want to do. For example, if the auditor has an issue that they think should be raised but the committee does not seek to do it, then it will not be done. Similarly, the committee cannot, in this arrangement or in any other way, seek to get the auditor to do anything that the auditor does not want to do. It is a cooperative arrangement, and if that cooperation were to break down then that would be the end of it.

**CHAIR**—I find the quote from the Auditor-General quite curious. He said, 'We do not have an ICAC or a CJC, or what have you. There is none of that. We are the default mechanism.' Is that code from the Auditor-General to say that he is looking at his office perhaps gaining greater power in order to be able to move towards an ICAC or a CJC, particularly in terms of powers to order prosecution?

**Dr LOBBAN**—Simon might be able to answer that question better; he is acting in that role now.

**Mr O'NEILL**—No, it is not code for seeking additional powers. It is just a statement of fact that we in South Australia do not have an entity similar to what exists in other jurisdictions. I think he was raising the matter of the importance of review mechanisms. It is just a statement of fact that we do not have an ICAC or an entity similar to what exists in other states to explore other matters that may not be in the jurisdiction of the Auditor-General.

**CHAIR**—Thank you very much, Dr Lobban. It is always a tough ask when you are a pinch-hitter at the last minute, so thank you very much for doing that and for taking all those questions. I very much appreciate the South Australian contribution.

Delegates, it is obvious from some of the questions that have been asked that we agree that an Auditor-General's primary client must be the parliament and not the executive. At the Commonwealth level this is reflected in the Auditor-General's formal status as an independent officer of the parliament and in his appointment for a 10-year term. Most of our committees have

a formal role in safeguarding the independence of our jurisdiction's Auditor-General, and I think this goes to a number of the questions that you were asking earlier. I am pleased to introduce the next speaker, who is going to answer every one of your questions. Please make welcome Mr Vaughan Johnson, who will give us a presentation on this topic from his perspective as Deputy Chair of the Queensland Public Accounts Committee.

### **The role of PACs in safeguarding the independence of auditors-general**

**Mr JOHNSON**—Thank you, Mr Phil Barresi, Chair of the Commonwealth Joint Committee of Public Accounts and Audit. Before I start today, I would like to apologise on behalf of the Chair of the Queensland Public Accounts Committee, my colleague the Hon. Ken Hayward. Unfortunately, Ken has had a very sad loss in his life, the passing of a dear friend, and he cannot be with us today. Our thoughts and prayers go out to him.

Distinguished guests and ladies and gentlemen—especially our friends, one and all, among the visiting dignitaries from across the globe—it is great to be here in Canberra today, especially on the occasion of public accounts committee presentations. The Queensland Public Accounts Committee presentation is about the role of public accounts committees in safeguarding the independence of auditors-general. Our paper, which you have been provided with, covers the formal structures in place to protect the independence of the Auditor-General. But I would like to open up the debate a bit more, so I will be focusing on three different examples examining the relationship between the Auditor-General and the Public Accounts Committee. The first looks at the involvement of the Public Accounts Committee when the Auditor-General's office is under threat by the government. The second examines what happens when the work of the Auditor-General becomes politically controversial. The third examines what the Public Accounts Committee can do when it considers that the Auditor-General is taking the Audit Office in a direction that may compromise the independence of the office.

How do public accounts committees protect the Auditor-General's independence? I will give you some examples. The first of these examples was in Victoria in 1997. The Kennett government legislated amendments to the Audit Act. The changes left the independent and statutory offices intact but gave administrative powers to others. The Auditor-General was required to commission work to be carried out by a separate government body, Audit Victoria, or by private auditors. The aim was to reconcile independence, efficiency and accountability for administrative expenses of statutory offices. But the separation of administrative control and statutory responsibilities attracted strong criticism. Considerable controversy followed with the changes being viewed by many—including the then Auditor-General and members of the Liberal Party—as an attempt to weaken the independence of the Auditor-General.

Victorian Liberal minister Roger Pescott resigned his state seat in protest against the legislation, which restructured the office of the Auditor-General. In his letter of resignation Mr Pescott wrote:

The role of the Auditor-General does not lend itself to competition with the private sector. In the same way, opening the administration of police stations for competition with private security firms would be a joke.

He further wrote:

Whoever heard of an auditor without the capacity to audit? It would be like the Chief Commissioner of Police having no direct control over the police force.

Several other MPs abstained from voting. The changes were strenuously opposed by the then Victorian Auditor-General, Ches Baragwanath. Mr Baragwanath retired in July 1999. Upon retirement, he was quoted as saying:

Every time rights are unilaterally or worse, retrospectively, removed by government decree or regulation, we should be massing in the streets to campaign against such erosion of liberty and to prevent them from ever again being subject to threat.

Before the 1999 state election, the Labor Party made an election commitment to Victorians to strengthen the role of the Auditor-General. The Bracks government made significant changes, to the Audit Act 1994 and to the Constitution Act 1975, which gave greater functional authority to the Auditor-General. In February 2006, the Victorian Public Accounts and Estimates Committee reported on their inquiry into the legislative framework of independent offices of parliament. This inquiry was commenced in 1999 following representation from the Auditor-General that his role, functions and powers and his relationship to parliament be clarified. The committee of the 54th Parliament—November 1999 to October 2002—commenced the inquiry; however, in late 1999, the government made substantial changes to the Audit Act and the Constitution Act to improve the functional independence of the office of the Auditor-General, and the Premier suggested that it postpone the inquiry until the commencement of the 55th Parliament—February 2003 to October 2006—to allow sufficient time for the new arrangements to be effected and for any deficiencies to be identified. The Victorian Public Accounts and Estimates Committee made recommendations that further strengthen and provide for consistency in arrangements for the independent offices of the Victorian parliament.

The next example I wish to highlight is the extraordinary advertising and sponsorship case in Canada. At the Australasian Council of Public Accounts Committees Conference in Melbourne in 2003, John Williams, the Chair of the Canadian Standing Committee on Public Accounts, told the conference that in the spring of 2002 serious allegations were made about the management of advertising and sponsorship contracts by the government of Canada. The Canadian government asked the Auditor-General to investigate and report on three specific advertising and sponsorship contracts which were the cause of much public debate.

The Auditor-General reported that ‘every rule in the book had been broken’. The government referred the matter to the police; however, the parliamentary accounts committee decided to hold hearings on the matter. Mr Williams noted that, normally, committees refrain from holding hearings on issues that are under police investigation, but the committee decided to pursue the matter on the basis that their focus was to understand and report on maladministration and the breakdown of procedures within the government, rather than to investigate criminal activity.

The Canadian government implemented a commission of inquiry into the sponsorship program and advertising activities, headed by Justice John Gomery. This inquiry became known as the Gomery commission and made daily television news headlines in that country. The inquiry was conducted in two parts: the first part identified what happened and who was

responsible; the second part examined ways of restoring accountability. Justice Gomery examined the role of the Public Accounts Committee. The Gomery commission was critical of the role played by the Public Accounts Committee in this affair. He noted that the committee had not been consistently non-partisan in its operations. I would like to read to you an extract from Justice Gomery's report and what he had to say about the Public Accounts Committee:

Early in 2004 the committee conducted an investigation based on the Auditor-General's November 2003 report into the Sponsorship Program. This investigation was wracked by partisanship. Interparty conflict was common, with recorded votes taken on many issues. Though the committee hearings featured some thoughtful and detailed questioning of witnesses they also saw acrimonious and accusatory exchanges, although [these were] normally between members rather than between members and witnesses.

Frequent changes in committee membership created a lack of continuity in proceedings. This investigation was well reported and succeeded in drawing attention to the issues raised in the Auditor-General's report, but it also divided the Committee into warring party factions and did little to advance knowledge beyond what was already contained in the Auditor-General's report.

The problems in the Sponsorship Program implicated Ministers. The Opposition members of the committee therefore attacked the government, and government members protected the government.

Immediately following this highly partisan investigation, the Public Accounts Committee investigated and reported on the responsibilities and accountabilities of Ministers and Deputy Ministers ... Unlike its previous investigation into the Auditor-General's report, the Committee behaved in a non-partisan manner in conducting this investigation into accountability. The report was unanimously agreed to by all members of the Committee, and there were no dissenting or minority reports.

The Canadian Public Accounts Committee's 2005 report succinctly highlights the role they play:

The Auditor General has told Parliament and Canadians what happened. The Committee's role is of a different order. As a committee composed of elected representatives of the people of Canada, the Public Accounts Committee has been guided by a profound sense of its responsibility towards Canadians to establish first of all and to the best of its ability, how the abuses reported by the Auditor General occurred, why they occurred, to identify who is responsible, and to ensure that proper checks and balances are put in place to prevent a recurrence of a similar event.

The second example clearly highlights how the work of the public accounts committees can value add to the work of the Auditor-General. The first is clearly an example of what can go wrong if partisan politics come into play.

Finally, I want to cover an example close to home in Queensland. In 2003, the Public Accounts Committee examined the issue of whether the Financial Administration and Audit Act should be amended to permit the Audit Office to undertake other services not specified in the act. The inquiry arose following advice from the Auditor-General that the Audit Office was pursuing a number of activities that did not appear to be within the scope of audit functions as set out in the legislated mandate.

The Auditor-General lodged a tender for the institutional strengthening project for the Auditor-General's Office of Papua New Guinea, in conjunction with two private sector organisations, one of which is an international accounting firm with offices in Queensland. One of the issues that

concerned the committee was the joint venture partnership arrangement. The committee was concerned that, with projects of this nature, the independence of the office could be compromised if partnering firms are later engaged as contract auditors for the Queensland Audit Office.

The committee considered the desirability of the Queensland Audit Office engaging in activities outside those specified in the Financial Administration and Audit Act and did not support any broadening of the mandate to incorporate the undertaking of commercial activities. Further, the reliance on general provisions in the Constitution of Queensland to undertake commercial activities was not supported. The government agreed with the committee that the Queensland Audit Office should not engage in commercial activities.

In conclusion, I would like to say that the integrity of the Auditor-General's independence is of paramount importance to public accounts committees and that those committees play an important role in protecting that independence. I will just add one further point: Queensland does not have a house of review. This further illustrates the role and the responsibility that we have to show responsible and honest scrutiny of public accounts. As David Hawker said earlier in his address, that must be done in a bipartisan way to guarantee transparency and delivery of public funds in a democratic process. It is becoming more demanding with further scrutiny by the media and an intelligent, well-informed public who have access to the internet, television, radio and print media.

The important thing is that the executive of government agencies be astute and across the issue of proper and watchful management strategies. They do not 'cop the rap', yet the minister does. Auditor-Generals cannot be apologising for government misuse of public funds, but must be the eyes and ears of the general public and monitor that public expenditure, financial management and performance management are carried out in an honest and proper way. Parliamentary accounts committees must respect this independence of the Auditor-General.

Ladies and gentlemen, thank you very much for allowing me the time to present this paper from the Queensland Public Accounts Committee today. In concluding, I would like to take the opportunity, Mr Chair, to have a free plug for Queensland and to say to our international visitors that they are very welcome to come to our state. It is the best state in the Commonwealth. We have much to offer and we would certainly love to see you up there during your stay in Australia. Thank you.

**CHAIR**—Vaughan, you forgot to mention, 'beautiful one day, perfect next.'

**Mr JOHNSON**—Well, Mr Chair, like your country down here—and I was talking to our colleagues from Victoria about this—we are in the grip of the worst drought ever in history. I feel for everybody down here too. I pray, please God, that our international visitors might bring us the rain that we have been waiting for.

**CHAIR**—Are there any questions for Vaughan? He presented three case studies on Victoria, Queensland and Canada. I know that we have representatives from each of those locations in the room, including from Canada. I am sure they would be happy to talk to you about the latest that is happening in their jurisdictions at some stage during the break.

**Mrs BRONWYN BISHOP**—I am delighted to see that the Queensland government agreed with the committee that the Auditor-General should not engage in commercial activities. I wonder if you have experienced the other side of the coin. There was a stage under a previous government here in the Commonwealth where the government of the day wanted to take away the powers of the Auditor-General to audit certain agencies and give that power to the private sector. There was a group of us—I was in the Senate then and not the House—who staunchly prevented that happening, and we had the numbers to do it. I wonder if you have seen any example of attempts by state governments to take the Auditor-General's function away from a particular agency and give it to the private sector?

**Mr JOHNSON**—No, that is certainly not the policy of the Queensland government, as I see it, and I am a member of the opposition in Queensland and the deputy chair of this committee. I would say to Mrs Bishop that the situation in Queensland, as I said in my address here today, is that we have only one house of parliament. We do not have a house of review. That is something that I think is very sacred to us in Queensland—to make sure that we monitor very precisely and very openly the accounts of government through the eyes of the Auditor-General. Being a former minister in a coalition government in Queensland, I have not seen evidence of that happening at any stage at all, whether it be under a coalition government or the current Labor administration.

**Mrs BRONWYN BISHOP**—In relation to having one house of parliament, had we not had the Senate down here then the Auditor-General would have lost the right to audit certain agencies. So I can recommend a second house.

**Mr JOHNSON**—Since 1922 we have not had one, and we have got along pretty well. One of my colleagues said whilst coming in here today, 'What a beautiful structure this is and how proud we all are of it.' 'If we tried to build something like this in Queensland,' he said, 'they would run us out of town because there are enough politicians now and we spend enough money on them.' In closing off this question, I would like to say that I think politicians today have greater understanding that they are under public scrutiny and that they have to be, more so than ever, accountable in the eyes of the media. We have an intelligent electorate out there of people who do ask questions. I think that governments would be foolish, regardless of their persuasion, to try and intervene in or change the structure of public accountability.

**CHAIR**—I call our friend from South Africa.

**Dr MATEME**—In the first paragraph on page 9 of your paper referring to the Canadian experience, you stated that, at the end of the investigation, checks and balances were put in place to make sure that it does not happen again. My concern would be, if you know: what happened to the perpetrators? What happened to those people responsible for, shall I say, the misbehaviour? We understand that checks and balances were put in place to make sure that it does not happen again, but there is a question of accountability here. Who took responsibility?

**CHAIR**—Vaughan, in case you want some assistance, we do have someone here from Newfoundland in Canada. They may want to help you out.

**Mr JOHNSON**—Is there somebody here who wants to answer that?

**CHAIR**—We will get John to answer that a little later on, but you have a go, Vaughan.

**Mr JOHNSON**—As I said a moment ago, I think when we talk about checks and balances we are talking about accountability of governments. Especially in Western democracies, now more than ever, we are under the scrutiny of the public eye, the media and whatever else. I know that here in Australia governments are very guarded in making certain that they have those checks and balances in place for proper financial management strategies. There was a question here a while ago, which Dr Lockwood Smith from New Zealand asked, in relation to public-private partnerships and those sorts of strategies. I think that, more than ever now, when we are dealing with public funds and private funds governments have to be on their mettle in relation to how they manage the process. At the same time, I think we have the intellect in place now through the law. For example, in Queensland, we have the CMC, which was mentioned a while ago—I am not talking about the CJC—and they are a certainly a watchdog over government. The Auditor-General is an independent role, but the CMC provides the monitoring power to bring government, ministers, private enterprise or whoever to their knees if they do not uphold the law or the proper strategies put in place by government.

**Dr MATEME**—The question has not been answered.

**CHAIR**—The question was specific about Canada and, unless we have someone from Canada to answer that, it is a bit difficult. If someone does arrive, we will get them to answer it. Vaughan certainly mentioned the independence role. Are there any other questions?

**Dr MATEME**—If I may follow up quickly.

**CHAIR**—Just a short follow-up and then we will go to our friends in the Solomon Islands.

**Dr MATEME**—Thank you. I thought that we were gathered here in order to come up with best practices. I am just wondering whether, in the absence of anybody from Canada, we are able to propose what should actually happen? People should take responsibility for their actions. Yes, we agree that checks and balances should be in place, but nobody takes the responsibility for what happened.

**Mr JOHNSON**—In relation to the responsibilities for their actions, the Canadian people spoke. They are the ones who made the decision. I think you will find that that will happen anywhere.

**CHAIR**—Our Canadian friend has just walked in. He probably does not know what he has walked in to. Ian is providing him some background at the moment. In the meantime, would anyone else like to respond to the questions being put to us by the South African delegate?

**Prof. LONEY**—I am from the Public Sector Governance and Accountability Research Centre. There are similarities in the outcomes in both Victoria and Canada in that both governments were resoundingly tossed out of office as a result of the two issues. Both of the governments had large majorities and, ultimately, the exposure of what they were doing led to the people assuming responsibility for the answer. In both cases the people acted through the ballot box and put them out of office. Bronwyn was asking about a state government. Certainly in the legislation that the Kennett government introduced they were mandating the percentage of

audits that must be carried out by a commercial auditor rather than the Auditor-General's Office. The legislation also provided that the Auditor-General did not have to sign off on those audits. So there were very significant changes to practices and also a fairly heavy attack on the independence of the Audit Office at that time. The ultimate result was that the Victorian people decided that that was not what they wanted, and it was a big issue in the election campaign at that time.

**Mrs BRONWYN BISHOP**—So we were successful in the Federal sphere in saving the government from doing itself in. We might have kept them in office an extra term.

**Prof. LONEY**—You may well have done. I make the additional observation, as someone who was in the chamber at the time, that the upper house was of absolutely no use in protecting anyone in Victoria.

**CHAIR**—You make a good point that, at the end of the day, the democratic process was the final arbiter, and in both situations there was a change of government. I turn now to the Solomon Islands delegate.

**Mr FONO**—Thank you. I am an Opposition member of Parliament and a member of the PAC. I have two questions. The first is about the composition of PACs as far as your experience is concerned. There seems to be a question around the composition of the PAC. Are there more government backbenchers in the PACs or are there an equal number of government and opposition members in the PAC? Second, are the deliberations of your PAC meetings open to the media?

**Mr JOHNSON**—In answer to the first question, we have a total membership of seven on the PAC in Queensland. That is made up of four government and three opposition members. I am a member of the opposition and I am deputy chair of that committee. In relation to your second question regarding reporting of the meetings of the PAC, the media is not present at those meetings.

**Mr FONO**—Are there any experiences from other states where PAC deliberations are open to the media?

**CHAIR**—At the Commonwealth level our hearings are public. They are recorded by Hansard. The witnesses are given the full protection of the parliament and those hearings warrant the same respect that members of parliament have for the chamber.

**Mr JOHNSON**—You are talking about hearings. That is a different question. I thought we were talking about meetings. Our hearings are monitored by Hansard. They are not monitored by the media but a full, descriptive and accurate record is taken by Hansard and that is available for public scrutiny once it is tabled.

**Mr QUIGLEY**—I will mention what the situation in Western Australia is. Under the standing orders of the assembly we sit in camera, we sit in private, unless we resolve to sit in public—which we generally do if we are taking evidence.

**CHAIR**—That procedure is fairly consistent across all the state jurisdictions, if I am not mistaken. We only have time for one more person to make a comment.

**Prof. JACOBS**—I am from the ANU and was previously at the Public Sector Governance and Accountability Research Centre. You will find in the presentation this afternoon that we cover a lot of this comparative material on the relative balance between the members. We also talk a little bit in the report about the question of how the committees function. In relation to the question of openness, I think that in Australia and New Zealand most of the public inquiries are open to the media—although most of the committees will also have closed sessions. We can cover that more this afternoon, if you like.

**CHAIR**—Thank you. That brings us to the conclusion of the morning session. Thank you, Vaughan Johnson, for your presentation and for stimulating such interesting questions. The delegate from Canada is not from the national sphere. He is from one of the provinces, if I recall correctly. So he does not feel suitably qualified to respond in such a public way to your question about the Canadian situation. My understanding also is that the matter is still before the courts. If you want to buy him a cup of coffee and give him a biscuit, he might talk to you one-on-one about it.

**Proceedings suspended from 12.18 pm to 1.59 pm**

**CHAIR (Ms Grierson)**—The first speaker after our lunch break is Mr Shane Jones MP, Chair of the New Zealand Finance and Expenditure Committee—and, of course, they will be the hosts of our next biennial conference. His topic, the appropriate role of public accounts committees in reviewing the work program of audit offices, is one that we have already touched on this morning. He will be looking at those combined roles and how they interact, because the goals are always the same but the actual roles are different. We reflected on that this morning in our discussion. At the Commonwealth level we do have a say in the selection of the Auditor-General, and the independent Auditor-General. I wonder, if you were to read most of our audit reports of our functions, whether you would see much mention of how we hold our own audit offices to account in terms of their efficiency and their work program, besides the interest we always have in making sure they are adequately resourced. Perhaps during Shane Jones's input we might reflect on that and see if he holds us all to account.

### **The appropriate role of PACs in reviewing the work program of audit offices**

**Mr JONES**—Greetings. I have the challenge of being the first speaker after the break—and you have been eating and had a little bit to drink. I do not want to hear any snoring from the Queensland delegates, and there will be no nodding off! I would like to give you some background on New Zealand. It has a population of about 4.5 million. We have 121 members in our legislature. We have a mixed proportional representation. On the committee that I chair, the Finance and Expenditure Committee, there are 13 members. Virtually every party in our legislature is represented on that committee. It is a committee that, ordinarily, is chaired by the government. In our legislature we have 13 or 15 select committees. Not all of the select committees are chaired by government members, but this is a committee that the government has kept to itself in terms of chairmanship. Of the 13 members on the committee, four are members of the majority governing party. So the government—that is, the Labour Party—do not have an ordinary majority on the committee but, as a consequence of a coalition agreement between the Labour Party and a host of minority parties, we have a working majority for the purposes of supply legislation. So we can actually get most of our political program through, in particular the budget.

The Finance and Expenditure Committee, unlike other public accounts committees, deals with all taxation and economic legislation. We receive submissions and we are integrally involved in the actual construction of the legislation, in particular on matters of taxation and broader economic matters. Because the government does not have a majority position for all economic matters beyond supply legislation, the Finance and Expenditure Committee often has the ability to influence the final shape, form and extent of economic legislation.

You have my paper. I am going to make one or two comments on each paragraph and leave some time for questions. I, along with the three other people who have come over from New Zealand, also invite you to come over and visit New Zealand. Perhaps you will take the

opportunity to see the world's greatest rugby team or engage in other such pursuits that pass for recreation in New Zealand.

I will start at page 2 of my paper and talk about the New Zealand model. In 2001 our Auditor-General became a full officer of parliament. This is a very important point in terms of the financial reforms that were undertaken by our governments stemming back from 1984-87. As an officer of parliament, the Controller and Auditor-General is independent of executive government and parliament in discharging the functions of his or her office. The Auditor-General is, however, accountable for the stewardship of the Crown revenue appropriated to the office, and the Auditor-General is appointed on the recommendation of the House.

The Auditor-General has the inherent authority to explore, examine and investigate any allegation or any recommendation, perhaps from a member of the House, that something bad has happened with the public's financial resources. The Auditor-General is also responsible for reporting to us so that we, the public accounts committee in New Zealand, can examine whether or not they practise what they preach. The committee can examine how judicious or effective the Auditor-General's level of expenditure has been in terms of using the public's money to undertake its functions. Where are the responsibilities laid out? They are in the Public Audit Act. Basically, the job is to establish whether or not public entities have complied with the rules set by parliament and whether or not they have strayed. If they have strayed then they report the matter to the parliament.

The Auditor-General has been involved in a very controversial issue in New Zealand over the last 12-15 months, and I think it would be fitting if I just quickly touched on that issue to give you an indication of how the Auditor-General's Office approaches its task without fear or favour. We had an election in 2005, and the Auditor-General investigated whether or not the political parties had been using the public's money in a fashion that complied with the rules. The Auditor-General found that, indeed, political parties had not used the public's money in a fashion that complied with the rules and presented a report six months ago to the parliament. There was great controversy through the media and debates within parliament ensued. If there was ever an example of where the Office of the Auditor-General was either of a mind to, or had the ability to, act independently within its statutory function, we in the political system in New Zealand saw it during that episode.

The Auditor-General came to our Finance and Expenditure Committee. Not surprisingly, we were very keen to talk about how well they were using their own resources. In the context of the Auditor-General coming to our public accounts committee, there was a very sharp set of exchanges as to whether the investigation they undertook of the political parties that we represented passed muster. So, although that is an example of how a public accounts committee can attempt to hold the Auditor-General's Office accountable, once that episode was over and people recognised the different jurisdictions that both bodies have, we continued to maintain a professional relationship—that is a New Zealand example of where the relationship could have turned sour.

Let us now talk about the planning of the Auditor-General. As I have said, the Auditor-General is an independent officer of the House. When it draws up its plan as to how it is going to undertake its work program that is presented to parliament. The first port of call in relation to the construction of that plan is the public accounts committee. I am looking at page 3 paragraph 11

of my paper now. The purpose of that is to allow the Finance and Expenditure Committee to check, discuss and establish the thinking of the Auditor-General's Office on what methodology it intends to use in establishing the probity, the appropriateness et cetera of various appropriations. Once the preliminary draft of the plan is made available, there are two opportunities for the Finance and Expenditure Committee and other select committees to respond. Reasons that they may respond include that they may feel that there is a particular area of significance in terms of the state's expenditure that has been overlooked. They may, as is the case for me, receive a lot of negative feedback from some parts of the electorate where they feel that there is some laxity. So those opportunities present themselves. This plan is eventually tabled in the House. The plan must specify any changes requested by the committees or the Speaker that are not included in the final work program.

Those of you who have made a life science or an art form of studying public accountability and public expenditure would possibly know that New Zealand went through a very severe set of restructuring in 1984-87, 1990 and 1991. We have a very robust set of arrangements dealing with the allocation, expenditure and reporting of public finance. The Auditor-General plays probably the key role there. Where the Auditor-General finds that something has gone wrong, there are options. Either the police might be called in—in response to a question that was earlier posed—or the Serious Fraud Office could get involved. From my time in politics I have found that the embarrassment, the humiliation and the danger to your electoral majority if you as a politician are not seen to have acted as a fine steward with the public's resources is about as strong a sanction or incentive as a politician needs. In our country, if you allowed that situation of poor expenditure to go unattended you would soon find yourself without a job. Not all politicians have countless options of finding jobs outside of politics.

Upon presentation to the House the annual report stands referred to the Finance and Expenditure Committee for examination. That is the main point of contact, for those of you who were posing questions earlier about who the Auditor-General is responsible to. In our case, as an officer of the parliament, the Auditor-General reports to our committee. The annual report is the prime source of information for the committee when conducting its financial review of the performance and operations of the Auditor-General and this is provided for in our standing orders.

There are other reports where the Auditor-General refers matters to the House. Each year, our parliament receives three or four general reports from the Auditor-General on particular audits and inquiries that have been carried out into central government or local authority activities. I have given you one controversial example, which was electoral spending. The Auditor-General also has the general power to report to a minister, a select committee, a public entity or any other person on a matter arising out of the discharge of the Auditor-General's duties. A particularly newsworthy example was a study into one of our tertiary institutions, where complaints were made that far too much money was being spent on buying the students cell phones, especially for those who lived in areas where a lot of courses were delivered online.

While these reports do not stand referred to any particular select committee, a committee does have the power to inquire into any matter related to its subject area. A committee could pursue matters raised by the Auditor-General if it wished to do so. The committee that I chair undertook an investigation into our state broadcaster, Television New Zealand—not great friends of the politicians. We undertook an inquiry into them, although ordinarily a state owned television

broadcaster would not have been inquired into by our committee. We had very good assistance and highly detailed reports provided to us by the Auditor-General. The Auditor-General had already established a level of interest because of the perception that inflated salaries were being paid to members of the media who worked in a state owned broadcasting authority.

The inquiry function of a select committee has taken two forms: formal inquiries and briefings. For formal inquiries, committees usually write their own terms of reference, advertise for and examine witnesses. I am on a commerce select committee and we have just released terms of reference into the problem that we have in New Zealand of houses becoming unaffordable for first home buyers. I am sure that is an issue for other countries, including our hosts. Under this inquiry power, the Finance and Expenditure Committee, which is our public accounts committee, has set up a subcommittee. The subcommittee is invariably not used unless we are dealing with particularly complex taxation legislation. Because the vast majority of us are generalists, and there may be one or three who have a particular interest in the international financial reporting standards or some such arcane matter, we have the subcommittee option.

Funding for New Zealand's three offices of parliament—they are the Auditor-General, the Parliamentary Commissioner for the Environment and the Ombudsman—involves a committee of parliament fixing the budgets before the estimates of appropriations are presented to the House. In New Zealand we are about to go into the estimates situation. The offices of parliament must submit to the House an estimate of their expenses and capital expenditure. In the case of the Auditor-General, this is incorporated in that office's annual plan. We have brought copies of their plans et cetera for you to have a look at. This is then sent to a committee called the Officers of Parliament Committee, and it is that committee's duty to recommend to the House an estimate of the expenditure of each office.

The House then recommends such matters to the Governor-General, by way of an address—that is, estimates that are to be included for the offices of parliament and the appropriation bills to be presented to the House for that year. That basically refers to the large political debate that happens around the time of our budget. The House is not bound to follow the Officers of Parliament Committee's recommendations in making its own recommendations for inclusion in the bill, although it invariably does so. That is a reflection of what I said earlier about having the confidence in the numbers in the legislature, even when you do not command a simple majority, to get your supply legislation through.

As a general principle, it is understood that the functions and duties of the Auditor-General should be determined with regard to the parliament's function of holding executive government accountable for the use of public resources. For example, our parliament holds the government to account for the resources it uses by scrutinising: legislation proposed by government, especially appropriation bills, which come to the Finance and Expenditure Committee; organisational performance, through estimates and financial review examinations; and particular policies or aspects of administration. In New Zealand, we are about to go into estimates debates. Then, towards the end of the year, we will look at the financial review examinations, which basically reflect the attitude of: 'Did they spend the dough in such a way that complies with how they said they were going to spend it?'

I note that other speakers have made reference to statutory independence. The independence of the Auditor-General's office is a fundamental precept of the Westminster system. It is critical

to parliament's oversight of the operations of government and public sectors generally. Obviously we refer there to the mini para-state or state owned entities that comprise state agencies in New Zealand. Independence means being free to discharge the functions and duties of the office without improper influence from either government or individual members of parliament or its committees. We saw that in full flight during the Auditor-General's examination of how parties use public money for electoral purposes.

The independence of the Auditor-General therefore needs to be considered in relation to both professional matters, such as the terms of appointment as the auditor of a public entity, and institutional arrangements, such as the method of appointment and removal from office. We have from time to time had cases where the Auditor-General has appointed private sector auditors and, as time has passed, we have found that the private sector auditors either have been fed the wrong information or did not give an accurate reflection of what was happening within various agencies. The requirements for professional independence may be secured by parliament appointing the Auditor-General as auditor and granting appropriate powers with which to discharge the functions and duties of the office. But independence must be reconciled with accountability, because no entity or individual should be unaccountable. We are, after all, in the public sector.

Independence does not mean insulation from the suggestions or persuasions of others, and auditors-general must be sensitive to political and public concerns. It is perfectly legitimate, indeed essential, that those concerns be important influences on the way auditors-general distribute their audit resources. As I said previously, over the last six weeks we have had a series of planning interactions with our Auditor-General's Office in terms of the distribution of resources and the methodology when they look at accountability.

I will now go straight to my conclusion. The need for an effective and independent Auditor-General is almost universally accepted. It is therefore important that public accounts committees, in deciding how to review the annual work programs of auditors-general, must not hinder them from providing their parliaments with assurances as to the integrity of the Crown's spending. To do so would undermine the independence of the offices. On the other hand, auditors-general need to ensure that work programs remain relevant and responsive to members' expectations.

So the Auditor-General's Office develops a program, comes and sees the public accounts committee in New Zealand, which is called the Finance and Expenditure Committee, and then sends a letter to every other select committee chair and member of parliament inviting them to respond. Invariably the number of responses is modest. That is used as an influence to either tighten up or broaden the program. The program then comes back again to our public accounts committee. It is eventually put before the House by the speaker.

I will now invite my fellow Kiwis up here and in the event that you have questions, we shall endeavour to answer them. Joining me are the Deputy Chairman, Dr Lockwood Smith; Ms Lesley Ferguson, who is the Clerk; and Ms Phillippa Smith, who is the Deputy Auditor-General.

**CHAIR**—That presentation certainly warrants some questions. It was different to others we have heard.

**Mr LIM**—Thank you for presenting such a wonderful and comprehensive report on how the New Zealand system works. I agree that the Auditor-General should be independent, should be given powers and should have no hindrance to doing the job. Yet I am wondering how, when you evaluate the reports from the Auditor-General's Office, as the chair of the public accounts committee, you assess the authenticity of the reports. Do you base your decisions purely on the reports given by the Auditor-General, or is there a countercheck system of the AG to make sure that these reports coming to you are, indeed, accurate and comprehensive?

**Mr JONES**—The committee retains the services of a highly reputable private sector firm of accountants and we have also been known to check what the Australians are doing to see whether they can teach us anything. There is also quite a lot of borrowing and trading of ideas in terms of how our Australian cousins are doing it. We do put a great deal of trust in the audit that comes from the private sector auditors, particularly of the financial stewardship activities of the Auditor-General. We have a very frank exchange with the Auditor-General. Obviously it is within the bounds of professionalism, but, given that they have just finished investigating political parties and their expenditure, candour is the order of the day.

**Dr SMITH**—I will just add a couple of words to that. I well remember last year when we had the Office of the Auditor-General in front of the Finance and Expenditure Committee. The Auditor-General personally fronted up and was grilled quite extensively and in some detail over the performance of the office in relation to a particular audit. That was not the audit that Shane has been referring to involving the expenditure of political parties during election campaigns; it was to do with the auditing of a public tertiary institution in New Zealand. The Auditor-General got a real grilling from certain members of the select committee. It was a very open and, if I remember correctly, public grilling of the Auditor-General. So it is a very open and transparent system. To me, the greatest protector of integrity is transparency.

**Ms SMITH**—All I will add to that—and I think the question was about how the PAC can be sure that our reports are correct—is that the transparency and openness extends to our relationship with the entities that we are auditing. So we do not give reports to parliament or to committees that they those entities have not first seen and commented on and, in the interests of a concept of natural justice, we will take account of what they have to say and make sure that what we are saying is a fair reflection. I think that is the way we ensure that what we are telling parliament is as close to the truth as we are going to get.

**CHAIR**—Are there any further questions? Mr Lim, do you want to follow up?

**Mr LIM**—Do you have any countercheck system on your Auditor-General's reports to make sure that they are authentic as well?

**Mr JONES**—We do. I cannot think of the name of the firm we use, but it is highly reputable. The answer is yes. We do seek professional advice to check all the procedures and the legitimacy of expenditure within the Office of the Auditor-General. I just cannot give you the name of the person at the moment.

**CHAIR**—So you actually recommend the budget? You do not just comment on the budget to the Audit Office and the Auditor-General; you actually set it, is that right?

**Dr SMITH**—It is the offices of parliament.

**CHAIR**—Can you measure whether that has always been appropriate or satisfied the Auditor-General's tasks?

**Ms FERGUSON**—New Zealand has an offices of parliament committee which deals with the executive phase of setting the budget. For the three offices of parliament that New Zealand has—the Ombudsman, the Parliamentary Commissioner for the Environment, and the Controller and Auditor-General—there is a process that those offices have to go through. They have to make submissions, which effectively are their budget bids. The committee will hear evidence, which can be heard in public but mostly is heard without the public attending. If there was a demand, the public could be included in that process. Based on those hearings and based on advice from Treasury, which also assists the committee, the committee will make a recommendation to the House of the appropriate appropriations by way of address.

**Mr JONES**—Or the Auditor-General's Office.

**Ms FERGUSON**—It is an address to the Governor-General that the House agree to have that money included in the appropriation bill which fits into the budget. What is key also is that, when the budget comes out, all votes of appropriation stand referred to the Finance and Expenditure Committee, including the Audit Office vote. So there is another opportunity for scrutiny of that budget, and that scrutiny is done by the Finance and Expenditure Committee.

**Mrs BRONWYN BISHOP**—I was interested in your comments about utilising private sector people, I presume as we do, as subcontractors virtually of the Audit Office. One of the things we find in Australia is that there is a shortage of qualified people to do the range and extent of audits that need to be done. To have all those people on the staff of the Audit Office would not be a practical way to proceed so we use private sector people as either subcontractors or connected to the office. You said that you did use some people from the private sector. So my two questions to you are: (a) what is the method by which you use them and (b) do you find there is a shortage?

**Mr JONES**—I will invite Phillippa Smith to answer; she is the 2IC of the actual Office of the Auditor-General. There are probably too many accountants and lawyers in New Zealand anyway. That aside—

**Mrs BRONWYN BISHOP**—I thought that was sheep!

**Mr JONES**—That aside, as it says in the paper, there are two parts to our Auditor-General's office: there is an entity that focuses on the review—the delivery of the audit service—and then there is the statutory role of the Auditor-General. From my perspective as the chair of the committee, they seem to take a more strategic overview. And all the big firms, as I am sure Phillippa will attest to, have from time to time been involved—or most of them—in advising select committees after they have gone and had a look at how the health department is doing or how the Maori affairs department is doing.

**Ms SMITH**—I do not want to have to go through 20 years of history but, in about the early nineties, the prevailing ideology was for corporatisation, privatisation and contracting of work

out to the private sector. That affected the Auditor-General as much as it did some other public entities. We at that stage moved to a system of contestability for almost all audits, but our own—

**Mrs BRONWYN BISHOP**—That was the Jeff Kennett model.

**Ms SMITH**—We have an auditing arm, Audit New Zealand, which operates like a CA firm but it only does auditing. It has about 200 people, not all professional staff. We were contracting out audits to our own in-house provider as well as to virtually all private sector firms that do auditing. We did this because the Auditor-General's portfolio extends from government departments and very big corporate entities right through to schools. So we have got about 4,000 audits; that takes quite a lot of audit firms. For example, there are very small firms doing schools out in rural areas. So, yes, we use the private sector all the time. We no longer have audits tendered except at the most commercial end of the spectrum, where the Auditor-General appoints auditors. We do not have trouble, although there was the one case—which Mr Jones has alluded to—where there was a problem with the private sector provider; but I guess our in-house people can make mistakes too. We do not have trouble finding competent firms because they have been doing public sector audits for us now for 15 years.

**Mrs BRONWYN BISHOP**—Earlier today I raised the question of a former Labor government here wishing to allow private sector firms to audit government agencies and I said that we had actually stopped that and I thought it was the right thing to do—and I was very much a part of stopping it from happening. Then we got a very strong intervention from someone saying that Jeff Kennett had tried to do precisely what you do in New Zealand, and that person was scathingly treated in this meeting.

My problem is this: personally I see a very big distinction between the functions and the responsibilities of a public sector auditor and a private sector auditor. For starters, in the public sector, the government takes money from taxpayers by way of compulsion and as taxpayers we have absolutely no say in how they spend that money, except to tip them out at an election. In the private sector you take your hard-earned money, you invest it and, if you do not like the way it has been dealt with, you take your investment away and give it to somebody else. Private sector auditors are always advising corporations how to maximise the presentation of their accounts for the benefit of shareholders. From my point of view, the function of an auditor in the public sector is totally different. It is always about transparency; it is always about making sure that things are dealt with by a method that is in the interest of the public at large. I find that those two things are just not reconcilable. I am quite amazed to find out that New Zealand in fact uses the private sector like that, as distinct from the way we use it, which is to subcontract to private sector auditors and bring them on board where they operating under the imprimatur of the Auditor-General.

**Ms SMITH**—They operate under the imprimatur of the Auditor-General.

**Mrs BRONWYN BISHOP**—Not if it is contestable.

**Ms SMITH**—Yes, once they are appointed, they carry out the audit in the name of the Auditor-General, according to his auditing standards, because the Auditor-General can and does set his own auditing standards which add on the things that matter in a public sector audit: the performance, waste, probity, accountability, legality—those sorts of things which are not core to

a private sector audit. Whether the model was foisted on us 15 years ago does not matter now—it is what we have got, it is what we work with and we find that it works successfully. When parliamentarians hear from the private sector auditors because of a financial review of a department or an entity—the auditor will front up and it may well be somebody from KPMG or EY. I am sure we would hear complaints if it was not working.

**Dr SMITH**—Maybe I could assist. They sure would hear complaints if we were concerned about it. What would trouble me would simply be the size of the Audit Office were the Audit Office to—

**Mrs BRONWYN BISHOP**—I have addressed that point.

**Dr SMITH**—carry all the skills needed to do what is being suggested. We would just have a massive bureaucracy there that would not deliver us the kind of efficiency we need. That is why we have gone down that track. I was in the parliament at the time when these changes were made 15 years ago and they were made for good reason.

**CHAIR**—I am pushing a friendship, but one of our Solomon Islanders would like to ask a question.

**Mr FONO**—It is interesting to note that, from the New Zealand experience, the Audit Office tabled the annual plan in parliament. What about Australia? I am wondering whether Australia, the states or the Auditor-General table their annual plans in parliament before the start of the financial year, and is there a legal requirement for that?

**CHAIR**—I am going to divert that question, because our next session coming up is a comparative study of different approaches. We will answer your question in the next session I will ask you all to thank our New Zealand colleagues. Our next session is our keynote session. It is to be presented by Professor Kerry Jacobs, Professor of Accounting, School of Business and Economics at the Australian National University here in Canberra. Kerry is the former director and current associate member of the Public Sector Governance and Accountability Research Centre. This council recommended that that body be set up. The copresenter is Tom Moloney, who is a partner of KPMG, Governance Section, Canberra. He is presenting under the auspices of the La Trobe University PSGARC. It is an opportunity for us to now do those comparisons. I hope you were issued with a report by this body that was released in about February. It is a new report and it certainly looks at all the different public account committees of this council. It is probably the first informed study we have had, and I think you will enjoy this presentation. Please welcome our two guests.

### **Keynote address: report on the Public Sector Governance and Accountability Research Centre (PSGARC)/KPMG study of PACs in Australia and New Zealand**

**Prof. JACOBS**—Thank you for that kind welcome. I should start by saying that this project was done under the auspices of the Public Sector Governance and Accountability Research Centre and, although I have now relocated to ANU, it was actually as part of La Trobe University PSGARC and as chair of that body that this was conducted in partnership with

KPMG. That chairmanship has now passed to Peter Loney here, so most of you will already know Peter. Given the nature of this project, it is inevitably a snapshot, taken at a point in time with the limitations of a snapshot. We hope that this will provide a foundation for more comparative work. Lesley very kindly pointed out to me that New Zealand has already changed its system. We hope that these additional changes and evolutions will actually give people a chance to react to what we have already. It is a changing situation. This is why from the beginning we wanted to do this project. We realised that there was a lot of diversity, even here in Australia. In Australia and New Zealand there were some massive differences in the way PACs and PAC related committees worked, and we really did not know what these were. So the first step and the first point to take was the question: what do people actually do? KPMG have been very kind, in the person of Tom Moloney here and other senior staff, to undertake this project. I now hand over to Tom. I will come back and make some cheeky comments at the end.

**Mr MOLONEY**—Thank you for the opportunity to speak today. I will use some slides if I could. I am an accountant, so I will hide behind the pictures at times! The way I intend to speak for the next 15 minutes is just to take you through the results of the study in terms of what we did and what we found and then leave it for Kerry to make a few comments at the end. I make an apology about the first slide; the next set of slides will be a bit bigger than that one.

The study covered 10 jurisdictions in Australia and New Zealand, and it covered 12 committees. In most jurisdictions there is one committee that carries out the functions typical of a public accounts committee. However, in South Australia and Western Australia, it could be argued that there are two committees that have that role. In South Australia, the Economic and Finance Committee of the lower house is prohibited from inquiring into statutory authorities. Instead, this role is undertaken by an upper house committee, the Statutory Authorities Review Committee. Similarly, within the Western Australian system, as it currently stands—'currently' being as at December 2005—the Public Accounts Committee of the lower house and the Estimates and Financial Operations Committee of the upper house share certain responsibilities associated with public accounts, including dealing with and interacting with the Auditor-General.

In terms of the study, the topics we covered were, firstly, an overview of the legislative authority and parliamentary representation of each committee in Australia and New Zealand. We also had a look at the committee roles and responsibilities, including the power to investigate, their right of access and the extent to which the PAC is involved in the operations of the Auditor-General. We undertook an analysis of each committee's size, representation and experience and also an analysis of the types of inquiries they had undertaken based on the types and numbers of reports they had issued. We also had a look at processes and working practices that each committee had adopted to carry out its functions and, finally, how it actually assesses its own performance.

As I noted in the first sentence to the report, in the exec summary, the clear theme that emerged from the study was that one size does not fit all, starting with the establishment of each committee. Similar to the parliamentary systems which they operate, Australia and New Zealand PACs have their genesis in the Westminster system. The first committee of public accounts was appointed in the UK in 1861 and that committee was set up under a standing order. However, while the UK committee was established that way, six of the Australian parliaments have adopted differing approaches, using permanent legislation to establish the committee.

Of the 10 jurisdictions covered in this study, it is also worthy of note that six parliaments are bicameral, with the remaining four parliaments being unicameral. Of the bicameral parliaments, again, we will see there is a difference in the practice adopted. Three of the committees that come from bicameral parliaments draw their membership from both houses and report to both houses. The remaining three PACs draw their membership from and report to the lower houses only. Again, it is worth noting that that includes South Australia and Western Australia, which have a separate committee also in the upper house with certain PAC type responsibilities.

In terms of the roles and responsibilities of each PAC, we had a look at, for example, the committee's authority to undertake inquiries, their formal relationship with the Auditor-General and what other responsibilities individual or certain committees may have. In terms of, firstly, their power to investigate and to undertake inquiries, with the exception of the Northern Territory, we found that all committees have the capacity to initiate their own inquiries and, to a large extent, determine their own work priorities—again, a power that is generally unique among parliamentary committees and one that gives the PAC a significant amount of independence from the executive arm of government. With regard to the Northern Territory, they can only act on a direct reference from parliament or on issues in the auditor's report to parliament.

A key finding in addition to the authority to initiate was also to do with their relationship with the Auditor-General. Across the 10 jurisdictions the relationship in a formal sense with the Auditor-General ranged from little to no involvement right up to the power to appoint the Auditor-General and participate in the scoping of individual audit office performance audits. As we can see in the chart up there, in most jurisdictions the PAC is the only committee given responsibility to scrutinise Auditor-General reports. However, in some jurisdictions, other parliamentary committees can and do scrutinise Auditor-General reports if the subjects within it terms of reference. Again, some of the practices adopted, for example, in the federal government, other committees can examine Auditor-General reports, but they are required to advise the JCPAA in writing if they are seeking to review an audit report. We believe it is required in part to remove duplication.

In terms of South Australia and Tasmania, the terms of reference for the PACs do not formally require the review of Auditor-General reports. However, as referred to us at the time, they do maintain a strong working relationship with the Auditor-General. In terms of the appointment and removal of the Auditor-General, again, there is significant diversity. Five of the 10 committees have a role in the appointment of the Auditor-General. However, the extent of involvement differs. In Queensland, the PAC must be consulted but it has no formal role or approval or veto type role. In the federal Australian government, the ACT and New South Wales, the PAC has the power of veto. In Victoria, the committee actually undertakes the selection process and makes the recommendation to parliament. Interestingly, only in Queensland is the government required by law to consult with the PAC before removing the Auditor-General.

As noted in the last session, in New Zealand, the appointment, removal and appropriation of the New Zealand Auditor-General is a responsibility of a separate select committee; the Officers of Parliament Committee. Four of 15 committees also have responsibility for the consideration of audit office funding. In four committees, there is a requirement for the Auditor-General to consult with the PAC in a determination of the audit office priorities and annual plans. However, in no case is the Auditor-General required to adopt the committee's comments. This is considered critical to the maintenance of the Auditor-General's independence.

In relation to the audit of the audit office, a minority of packs have responsibility for the appointment of the independent auditor. However, half the committees are formally involved in the strategic review of the audit office which happens every three to five years. They might be the mainstream powers, so to speak, but certain powers that one or two committees also shared with us include the Victorian Public Accounts and Estimates Committee, which has the authority to exempt the auditor-general from legislative requirements that apply to government agencies on staff employment conditions and financial reporting practices. The Victorian committee must also be formally consulted in the scoping of individual audit office performance audits.

The Queensland Auditor-General is required to lodge a pecuniary interest statement with the speaker of the legislative assembly. The Queensland and ACT audit acts explicitly provide for the Auditor-General to provide information to the PAC where the Auditor-General believes that information is of a sensitive nature to not warrant disclosure. The Australian JCPAA has a legislated authority to consider the level of fees determined by the Auditor-General. In terms now of government policy, while we have previously been talking about differences in practices, this is an area where we also discovered differences in views across various jurisdictions. As a general rule or a general convention, we were told PACs tend to avoid the explicit examination of government policy. In the case of New South Wales, the PAC is prohibited under legislation from commenting on government policy unless a matter has been expressly referred by the legislative assembly or a minister. In practice however, the PAC members and staff I spoke to recognised that the distinction between policy and implementation can be blurred, with some committees providing comment that they regularly comment on government policy. Nonetheless, there are a number of cases identified where PAC inquiries have directly or incorrectly impacted on government policy.

In terms of additional responsibilities, five jurisdictions commented that they have a role in examining budget estimates. However, apart from Victoria, this involvement is limited. Other responsibilities that were identified that were perhaps unique to one or two committees included the review and approval of reporting guidelines which government agencies must follow, the conduct of financial reviews—that is, how agencies have actually performed against their budget, a role in the review of government involvement in economic development and business regulation, and in New Zealand, the PAC formally reviews fiscal statements issued by government and monetary policy statements issued by the Reserve Bank.

I want to move on to membership and leadership. As shown in the chart, of the 10 jurisdictions surveyed, PAC membership ranged from three members to 16 members, with the most common size being six members. In most cases, the membership was proportionate to the party representation within the relevant House. Across the 10 jurisdictions, the average parliamentary experience of PAC members at December 2005 was just over eight years, although as the orange band shows, there was a significant range of experience within individual committees. In terms of the skills and expertise identified during the study, and the key role of the research centre, it was identified that an understanding of public sector structures, administration and governance was considered to be the single most desirable skill set of the PAC member above accounting skills or technical financial acumen.

In terms of the leadership or the chairing role, what we found in Australia and New Zealand is that the large majority of PACs are chaired by a member of government; a practice that differs from the majority of Commonwealth countries. The primary rationale explained for having a

government member was the ability of the government chair to access and, if necessary, argue the merits of PAC recommendations with the government ministers responsible for implementing those. The two committees that did not have government members were the ACT and Tasmania.

In the interests of time, with the sources of the PAC inquiry, the report gives a bit of an overview by jurisdiction of the nature of inquiry. Taking the nine Australian jurisdictions in aggregate for the four years 2001-2005, we again noted that there was significant diversity in the nature and sources of PAC inquiry. The way we analysed that was to look at the number and nature of reports issued over the four-year period. In proportionate terms, the follow-up of further investigation of Auditor-General reports was the primary source of PAC inquiry in the ACT, New South Wales, Queensland and the federal Australian government, and also to a lesser degree Victoria. That is probably in part reflecting that the Victorian PAC also has a significant role in the estimates scrutiny.

In the four years we also found that most of the committees had exercised their power to undertake inquiries at their own instigation. On the other hand, and excluding statutory referrals, there has only been a small number of inquiries completed as a result of parliamentary or ministerial referral; about five per cent. The committees involved in the ex ante consideration of budget estimates, primarily New Zealand and Victoria, also conduct financial and performance reviews of how agencies have performed against the budgeted outcomes. Other PACs do not undertake these reviews other than as a consequence of a specific review.

We also found that seven of the 10 committees issued annual reports. Five of the 10 committees had tabled one or more reports in relation to the appointment, planning or performance of the Auditor-General. In certain other jurisdictions, the independent performance audit of the Auditor-General is actually separately tabled. Finally, in terms of the nature of inquiries, we found that with the exception in New Zealand, committee inquiries do not ordinarily originate in a request or petition from a member of the public or a public servant.

In looking at the working practices adopted by each PAC to carry out its work and ultimately to report to parliament, we sought to get an understanding of how each committee meets, how it conducts its inquiries, how it works with its audit office and what access it has to support and resources. In terms of committee meetings and hearings, we found that the PACs held an average of 22 meetings a year, with the scheduling of meetings generally determined by the chair in consultation with the other committee members and generally scheduled six to 12 months in advance.

With the exception of the Victorian and Australian governments, subcommittees were established rarely and only on an ad hoc basis during the four-year period. The Victorian and Australian government PACs both established standing subcommittees for the review of A-G reports. The Victorian Public Accounts and Estimates Committee also established standing subcommittees for staffing and for scoping of audit office performance audits. In addition to meetings, the 10 committees held an average of 12 hearings, including subcommittee hearings, each year.

In terms of inquiries, in recent years the average duration of committee inquiries, as represented by the time lag between the agreement of the terms of reference and the issuance of

the report, has ranged from three months to in excess of one year. The observation was that it was typically in the smaller jurisdictions that inquiries lasted for less than six months. The average number of inquiries that a committee ran concurrently also ranged from one to six. Again, the smaller jurisdictions tended to run fewer than three concurrently, while in the larger jurisdictions it was between four and six.

In terms of access to witnesses, it goes without saying that Australian and New Zealand PACs have considerable power to access accounts, records and people. This includes the power to summons witnesses to appear before the committee and to provide documentation. However, without exception, this is a power that all committees noted that they had not needed to use.

In relation to government ministers, differing practices have also been adopted across the 10 jurisdictions, with the attendance of ministers a normal occurrence in four jurisdictions—a practice that occurs rarely in another three jurisdictions and not at all in the remaining three.

With regard to working with the Auditor-General, I referred before to the formal role. All committees have established ongoing working relationships with the audit offices. In some but not all jurisdictions, the PAC reviews all reports of the audit office—for example, on a quarterly basis—before determining which reports require further PAC inquiry. In reality, only a small proportion of reports can be followed up. In a majority of jurisdictions, the Auditor-General—and/or audit office staff—regularly briefs the committee and its staff, and also provides observers to committee hearings. Other practices adopted by one or more jurisdictions include: the organisation of briefing sessions by the Auditor-General for interested members of parliament, more broadly than the PAC; audit office seminars; the secondment of audit office staff to assist with inquiries; and, in a couple of cases, the secondment of committee staff to the audit office to obtain experience.

In terms of staffing, based on 2004-05 figures, the level of staffing resources available to each committee ranges from one full-time equivalent to just under seven FTEs. Appreciably, there is and was a close nexus between the comparative level of staffing resources and the size of the parliament. Across the 10 jurisdictions the average level of staffing resources available to each committee was three. Victoria had the most with seven, again in part reflecting the estimates scrutiny role. The functions of the committee staff are varied, ranging from administrative support, research report drafting and stakeholder liaison through to the organisation of conferences such as this one.

In terms of reporting their findings and recommendations, there was unanimous support across all the committees that obtaining a consensus and presenting a unanimous report was a desirable outcome. This provides greater certainty to the parliament as to the committee's findings and, by extension, made it more likely that the committee's recommendations would be accepted. However, unanimous approval is not required for a report to be presented. In some jurisdictions, the parliamentary standing orders provided for minority views to be included in a report and/or a separate dissenting report. However, this was not the case in all jurisdictions—for example, New South Wales. Across the 10 jurisdictions, the prevalence of dissenting reports or views had been rare in recent years, which would indicate that the PACs have been successful in adopting a bipartisan approach.

In following up recommendations, in a majority of jurisdictions the government is formally required to respond to the PAC. That time frame ranges from three to six months, and ministers are generally required to provide explanatory statements if they need more time. Again, you can see on the table a range for both the time frame and the authority that supports the requirement. In most jurisdictions there were limited formal processes in place to monitor and follow up the implementation of those recommendations once agreed. This was generally done through follow-up inquiries on a case-by-case basis, or through a role of the Audit Office. However, an approach adopted in the ACT under a resolution of the legislative assembly in 2002 required government agencies to disclose the status of government PAC recommendations in their annual reports. This information was reported and included a schedule outlining action as well as progress in implementation.

In all the Australian and New Zealand jurisdictions, the information on PAC operations is available via a dedicated PAC or parliamentary committee website. This is an area where, perhaps, it leads the Commonwealth in terms of disclosure. Seven of the 10 PACs covered in the survey also issue separate annual reports each year. We noted, however, that the majority of PACs do not disclose quantifiable performance information as to their own performance. An exception was the Victorian PAC, which included quantifiable information on work plans and performance targets.

In summary and in the interests of time, in undertaking this study we aimed to identify the range of structures, responsibilities and working practices. In completing the study, as I noted earlier, the clear theme that emerged was that one size does not fit all. However, if one were to develop a profile of a typical PAC based on an assessment of common characteristics, it might look like this: it would have the power to initiate its own inquiries; it might have a role in the appointment of the Audit Office or the Auditor-General; it might potentially have a role in the review of budget estimates; it might or might not see its role as including a review of government policy; it would tend to have six to seven members with eight years parliamentary experience who would have received some training in public sector administration and some who would have a background in business or accounting; it would be chaired by a member of government; it would undertake three to four inquiries concurrently, generally taking six to 12 months; it would hold 22 meetings and 12 hearings; ministers might or might not attend as witnesses; it would be supported by three staff; it would issue four to five reports each year; and it would have the government responding in three to six months.

I hope the study and its findings will provide a useful reference when considering issues of practice that can be adopted across jurisdictions, and I hope you have now received a copy. Thank you to each committee member and the staff over the course of 2005-06 for their involvement. It was a pleasure to talk to you during that time. I will now leave you with my academic friends who will provide a few closing comments.

**Prof. JACOBS**—Picking up on Tom's point, there is a great deal of diversity; one size does not fit all. There are examples across Australia and New Zealand of world best practice, but there are also some issues. The first one I would highlight is the question of independence. A number of PACs and audit committees, particularly those chaired by a majority of government members, need to think about not just the practice of independence but also being seen to be independent. Some have perhaps suffered from rapid changes of membership or chairmanship. One of the difficulties is that when someone becomes a minister they can no longer chair. Some PACs have

produced very little by way of reports and outputs over the last five years. Also, there is an opportunity for us to start to work with some of this material—as you can see, it is very extensive—and look for some patterns. Do we see patterns emerging of where sources and inquiries come from, or of different structures and different practices? This is a good starting point, but there is more work to do.

**CHAIR**—Thank you. If you have not got this study, it was circulated this year to all Australasian Council of Public Accounts Committees members. I think it may have been in the form of a box addressed to one person. It really is worth having a look at. In the back are a set of suggested KPIs for audit committees and public accounts committees to assess themselves. I am sure you have some questions. It is good to have that performance data to compare each other's performance.

**Mr LAGAT**—I would like to ask about the comment that was made by the presenters on the issue of the government chairing committees. I would like a comment from New Zealand and Australia. What is the rationale behind government chairing committees? I think you have mentioned a very pertinent issue. In our country they are chaired by the opposition.

**Prof. JACOBS**—The rationale has always been the engagement with policy and the ability of a government chair to engage and make a difference. But this is a debated issue. Maybe we will refer to this question at afternoon tea and we can chat about it further.

**Ms GRALEY**—On page 14 of your report you say, 'Across the 10 jurisdictions, the prevalence of dissenting reports or views has been rare in recent years, which would indicate that the various PACs have been successful in adopting a bipartisan approach to committee reports.' This suggests to me that having a government chair is not as big an issue as maybe you were suggesting.

**Mr MOLONEY**—The findings and results speak for themselves in that regard. You will note that throughout this study we moved away from making any comment as to our views because we are, perhaps, not in a position to do that. It is also a benchmarking point of view and a starting point. We noted diversity in practice both within Australia and compared to other countries. That is not to say that one is preferable to the other. In our discussions with multiple committees and even with people outside the committee system, we got a range of views on the preference for government chairs or for opposition chairs. As an example, we have recently been doing a bit of analysis of the Canadian system, where every committee identified an independent chair. Again, the reasons they gave were quite different and varied. So it would be fair to say that, in writing the study, I would not have a view that one method is preferable to the other.

**CHAIR**—That is diplomacy!

**Dr MATEME**—I will refer to slides No. 16 and No. 28 on the parliamentary experience of members and average staffing numbers. What would the study recommend as a norm with regard to parliamentary experience as well as staffing?

**Mr MOLONEY**—We noted that the average experience was eight years. Again, I intend to be diplomatic. We found that across the jurisdictions and even within committees there were different needs and focuses of the individual members who were part of that committee. We

found that there were a number of members who were new to parliament or had been there for only one term. Perhaps that was a way of getting greater experience and closer interaction with the ministers responsible for implementing the recommendations. But, in the range of experience within each committee, we also found that some members were former ministers or former shadow ministers, or had had other roles that imparted years of experience. If I were to make a recommendation, it would not be that there be a norm but that a range of experience and requirements be a common focus.

**Prof. JACOBS**—I can be less diplomatic because I am an academic! I think it is very important that you have experience on the PACs and that you have people with the experience. I think that is most helpful. It is surprising how some of the PACs that have very few staff produce vast amounts of material. I take my hat off to them. I do not really know quite how they achieve it. Some of the PACs produce a lot of reports, a lot of activity, with very few staff. I think, to be an effective PAC, you need a good relationship with the Auditor-General—and it is delightful to see South Australia, Western Australia and Tasmania building that link—but you also need a reasonable base of staffing. That is something that some of the PACs in certain jurisdictions struggle with.

**Dr MATEME**—I refer to slide No. 16. Is my interpretation correct, that you cannot go into parliament today and then be a member of the committee? It looks like the least number of years required here is four. Am I right?

**Mr MOLONEY**—We found that certain members were in their first term of parliament with one year of experience. This was especially the case in the smaller jurisdictions, which had perhaps fewer members of parliament to choose from.

**CHAIR**—Thank you very much. I recommend the report to you. We thank our presenters. You have certainly raised the issue of bipartisanship—the committee make-up, the chair's position and the numbers on committees. Tomorrow, when activity reports are presented, it would be interesting to have comments about how that is functioning.

We have a very special presentation straight after afternoon tea by the panel of auditors-general. We will be looking at outsourcing, the devolving of the delivery of government services and projects to the private sector, something that I think everyone will have a keen interest in.

**Proceedings suspended from 3.13 pm to 3.41 pm**

**CHAIR**—I would like to acknowledge the hard work of the secretariat staff who have been herding you around and making sure that everything has worked well today. I know that they have tried to fulfil all your requests. I know our secretary had to find an adaptor for someone. They are absolutely resourceful and hardworking and I do congratulate all the secretariat staff on the work they have done today to make this very smooth and very easy for everyone.

We are going to start our next session and it will be presented by Mr Mike Blake, the Auditor-General of Tasmania. He will be leading discussion on the role of auditors-general in relation to outsourced government activities and functions. Just having been downstairs talking to a group of people who are putting on a hypothetical tomorrow, I know it is very much about those paper trails and that chain of accountability and the access parliamentarians and parliaments have to that paper trail and chain. Please welcome Mike Blake.

### **The role of auditors-general in relation to outsourced government activities/functions**

**Mr Blake**—Thank you, and can I say how pleased I am to participate in this conference. Having been born in southern Africa and spent 13 years in Perth and then a couple of years in Darwin and now Tasmania, it gives me a chance to meet with people I do not see very often. Can I say I have ended up in the best place of the lot and that is Tasmania.

When I was preparing this paper I was conscious of the need to acknowledge that decisions by governments to outsource public activities or functions are policy decisions of governments and that auditors-general should not question those policy decisions. However, I think we have a very strong role in making sure that those policy decisions, such as outsourcing, are appropriately implemented, in an effective way. Can I also mention that outsourcing is not unique to the public sector. A headline recently in the *Financial Review* was ‘There’s no stopping the outsourcing express’, and that relates to the private sector where it is very topical at the moment, particularly as services are being outsourced offshore.

Prior to considering the role of auditors-general, this paper discusses what outsourcing means and the role played by public sector managers. I have also included a section looking at some of the roles that public accounts committees could play and gone into a bit of theory, which I will touch on now. There has been some comment that this was going to be part of a panel discussion. We do not have a panel of auditors-general, but my colleagues are all at the back of the room and they are waiting to answer your questions.

This paper does not however address outsourcing in the form of governments entering into PPPs or public-private partnerships, or the purchase by governments of services that are provided by non-government organisations. However, I am of the view that the principles are the same.

What is outsourcing? Outsourcing, which can also be referred to as contracting out, involves an external organisation taking responsibility for all or part of a particular function or activity of an agency. For example, an agency outsources its information technology services means that they are provided by an external organisation rather than having them provided internally. Why do we outsource at all? Outsourcing is implemented for a number of reasons and depends on the function or activity to be outsourced. They may include savings in costs; spreading risk; access to finance; access to more modern infrastructure, such as current IT thinking; improved support services; maintaining standards; better services to customers or to a group of customers; job creation, particularly in the small business sector; a perceived lack of skills; and often focusing on what are referred to as non-core services.

What functions are commonly outsourced? It is my experience that functions or activities outsourced have, in the main, related to what I refer to as corporate or back-office type services. One example of a non-back-office type service that a government tried to outsource in another jurisdiction some years ago was an attempt to outsource the whole of the management of a tertiary hospital. For pretty obvious reasons, that never went ahead. Examples of functions that have been outsourced in my experience have been IT services; cleaning services; accounting services, such as payroll and financial reporting; facilities management; human resources services, including OH&S, recruitment training and development; fleet management; regulatory inspection services; and internal auditing. A few others I have thought of since writing the paper are food preparation in tertiary hospitals and outsourcing of linen cleaning services. It was outsourcing of linen cleaning, which I came across while working in health in Western Australia, that drove home to me the need to make sure that when you outsource a function you have got very good backup arrangements in place. In that particular case, the entity that was providing the outsourced linen cleaning services suffered some very serious industrial arrangements and that led to some problems for, in particular, the hospitals that had to provide surgical services. Fortunately, the mitigation arrangements that were in place were good enough to counteract that.

What is the role of public sector managers, before we consider the role of auditors-general, when functions or activities are outsourced? Clearly, when an activity or function has been outsourced, the role played by the public sector manager changes from delivering a function to managing the delivery of that function by a third party—a situation, in my view, requiring uniquely different skills. Factors that public sector managers therefore need to take into account when outsourcing include: agencies themselves remembering that they are ultimately responsible for the services they provide, irrespective of who provides those services; and agencies operating within the relevant legislative and government policy frameworks, including international obligations. This includes operating within a specific financial management and procurement policy framework as well as things like Treasury's instructions.

A common core principle underpinning government procurement is value for money. This requires a comparative analysis of all relevant costs and benefits of each proposal throughout the whole procurement cycle. In addition, in my view, public sector managers must implement procedures ensuring that contracts entered into will facilitate effective delivery by the contractor, retention of accountability by the agency concerned and a reasonable return for the contractor.

I would like to stress that point because I have found in my experience that often we expect to generate huge savings when we outsource activities and that often results in contractors losing money when providing that service. I think that is a real risk when they walk away from the

contract. This requires that public sector managers apply relevant project and risk management practices when planning an outsourcing arrangement. Matters that they may wish to consider when doing so include ensuring that material benefits to the agency are materialised and ensuring that there are clear outputs and quality of service specifications. Normally these would detail the services required while allowing the private sector service provider to decide how best to provide those services. Managers should ensure the existence of performance based rewards. Where relevant, contracts or service agreements should include provisions aimed at achieving compliance with legislation. Finally, managers should ensure that agencies have in place appropriate contingency arrangements and plans that arrange for a contract's conclusion to be planned for now, including the possibility that the function or activity be insourced.

What is the impact of outsourcing on accountability? We have been talking about accountability a lot today. I pose the question: does outsourcing change accountability? In this respect I note, from a New South Wales Audit Office contracting audit review guide, a reference that in the Commonwealth the Industry Commission has drawn attention to the need to preserve accountability when services are contracted out. It says that 'while responsibility to do certain things can be transferred, accountability for results cannot'. Whatever the method of service delivery, a government agency must remain accountable for the efficient performance of the functions delegated to it by the government.

Having considered some of the outsourcing theory, what is the role of auditors-general in relation to those services or functions that may be outsourced? In response to this I note that if an accepted role of auditors-general is assisting parliaments in holding governments to account, then auditors-general clearly have a role to play in auditing outsourced activities and functions. Further, consistent with my own mandate, it is most appropriate—in fact I believe it is essential—that my office have the capacity to audit outsourced functions. Any audit of an outsourced activity or function should involve assessment of matters such as: how effectively and efficiently these services were provided prior to outsourcing; the risks and benefits of entering into outsourcing arrangements; consideration of expectations documented as part of the tendering specification; service delivery standards proposed by the successful tenderer; contractual arrangements, including the type of contract proposed, entered into and how the contract is to be managed by the public sector entity; compliance with established tendering processes; performance reporting arrangements and how they are applied in practice; and expectations of what is to occur on contract completion, including knowledge sharing and ownership of intellectual property.

What are the roles of auditors-general and some of their mandates in this respect? Auditors-general in most Australian jurisdictions may conduct audits of efficiency and effectiveness. In this respect, these auditors-general can audit outsourced arrangements where the audit objective may include consideration of matters such as the efficiency or effectiveness of the contract management arrangements and whether or not the objectives specified when the decision to outsource was made are being achieved. Where the entity to which a function or activity has been outsourced is also a public sector entity, such as shared service departments, which are now quite common in Australian jurisdictions, auditors-general can of course also audit the financial reporting arrangements for such entities. However, in most cases such audits would consider those matters only from the perspective of the accountable entity; that is, the outsourcing agency.

In some jurisdictions, however, auditors-general can seek information from and access to the records of private sector contractors providing these services, particularly where the agency is making a payment for those services. This is referred to in some circles as auditors-general having the ability to follow the dollar. This capacity exists in the Commonwealth, Victorian, Tasmania and Western Australian jurisdictions, as far as I am aware, but has not, to my knowledge, been exercised. I suggest that an Auditor-General would exercise that ability with caution. In that respect, I come to one of the advantages I found when I worked in health and we outsourced an IT function. We entered into an alliance contract. I think alliance contracts are very good contractual arrangements for these sorts of outsourced activities because they are open book and they enable the agency to know at all times how well or how not so well the private sector entity is providing the service and whether they are doing it for a profit or not.

I will give an overview of the types of audit projects that have been conducted by auditors-general in examining outsourced activities and functions. In doing so, I will refer to some of the reports prepared by some of my colleagues. The Australian National Audit Office looked—this was a follow-up—at the management of an IT-outsourcing contract of the Department of Veterans' Affairs in 2006. The objective of this follow-up audit was to assess the extent to which the Department of Veterans' Affairs had implemented the recommendations from the original audit, which was conducted in 2002-06, including its preparation of the IT-outsourcing contract, which will operate from this year.

My colleague in Western Australia did an audit of contracting for services in 1995. This audit reviewed four separate contracts. The audit aimed to gain a snapshot of current practice in contracting for public services in Western Australia and identified scope for improvement. The audit found that all four contracts should result in net savings to government without apparent detriment to the quality of services provided.

In Victoria, the Victorian Auditor-General, as part of a review of the Metropolitan Ambulance Service, examined contractual and outsourcing practices in 1996-97. The audit was conducted following extensive outsourcing by the Metropolitan Ambulance Service from 1993 to 1995. A number of deficiencies in contract management were identified by the audit and it was concluded that the savings estimated to be achieved from the outsourcing over a four-year period did not eventuate.

In New South Wales, its Auditor-General looked at New South Wales public sector outsourcing information technology. The audit was done across five agencies in 2002. The audit concluded that agencies managed the planning of outsourcing in a competent way and that they satisfactorily managed the contractual aspects of that outsourcing. However, there was no objective evidence to demonstrate that agencies achieved their goals when outsourcing information technology.

It is evident, in my view, from these audits that much work has already been done by auditors-general in relation to outsourced activities, with recommendations relevant to improving public sector performance being made in every case. This must benefit their respective parliaments and the agencies concerned.

I turn to what role public accounts committees might have or want to have in this field of outsourcing functions and activities. This part of my discussion obviously focuses on what

happens in Tasmania. I quote from the Public Accounts Committee Act as to the PAC's functions:

The Committee must inquire into, consider and report to the Parliament on any matter referred to the Committee by either House relating to—

... the management, administration or use of public sector finances; ...

Also:

The Committee may inquire into, consider and report to the Parliament on—

... any matter arising in connection with public sector finances that the Committee considers appropriate;

So the PAC in Tasmania could inquire into outsourcing arrangements where these give rise to any impact on public sector finances. I suspect that PACs in other jurisdictions have similar authority. In Tasmania we have not chosen to do so because there has been a very limited amount of outsourcing.

I will make some concluding remarks. The key messages I believe from my paper are these. While a government agency can outsource an activity to the private sector and a private sector body provides services to the taxpayers, or to the ratepayers if it is a council, they do so ultimately on behalf of the government agency. The government cannot outsource its duty of care. There must be an effective central framework put in place by the government agency over the outsourced activity. Such a framework should be a win-win but at the same time it should protect the state's interests in the case of failure.

Auditors-general need to provide an assurance to parliaments of the efficiency and effectiveness of service delivery and, in doing so, of the effectiveness of the control framework. This in turn facilitates public accounts committees' follow-up with the executive, with the aim of obtaining enhancements if required. Key aspects of such a control framework, I think, include contractual arrangements, agreements which specify the rights and obligations of all parties and which are conducive to the achievement of the government's desired outcomes; organisational arrangements which assign roles and responsibilities for managing agreements; monitoring procedures which utilise reliable information; procedures which address any deficiencies identified in the performance of service providers; payments to contractors in line with agreements; and outcomes in line with government expectations.

In concluding, I confirm my view that auditors-general have a role to play in ensuring that activities or functions outsourced to the private sector or to other public sector agencies which are providing shared service arrangements are managed effectively and efficiently and that the outsourcing agency retains accountability for the activity or function that has been outsourced. Thank you.

**CHAIR**—It is a very difficult area because not only is there accountability but there is also, for parliamentarians, an interest in what 'service delivery' means in their own communities. Would someone like to start some questions?

**Prof. JACOBS**—Just thinking about the idea of outsourcing reminds me of two cases that have been in the news recently. One was the case of Private Kovko, where we had trouble with the coffin coming back. That had been outsourced, the shipping of military back to Australia. The other was in New South Wales—the recent case of the storage of certain rocket launchers which had also been outsourced. Does outsourcing pose particular problems and do you think that maybe the political risks associated with outsourcing might put something of a crimp on the whole process?

**Mr BLAKE**—Ian might want to comment because they are both Commonwealth issues, but my view is that outsourcing has a place. I think outsourcing is essential in the provision of services. I do not know much about the two examples that you provided, but I suspect they perhaps broke down because the accountability, in my view, remains with the government agency, be it Defence or whoever. Therefore, the fact that they have outsourced the moving of a coffin or whatever it might be does not take away their responsibility to make sure that the service is provided in the manner that we would expect it to be provided if we did it ourselves. I am not sure that I can say any more than that.

**CHAIR**—Next question?

**Mrs MATLADI**—I do like the topic, the impact of outsourcing on accountability. But I do have two scenarios that I would like you to interpret for me or, rather, give me your viewpoint on. The first one is outsourcing which is done in a way that employees or officials in an agency or a department get salaries for the work that they are really expected to be delivering; at the same time that job is outsourced, given to consultants or a certain body outside that should do it. That means double payment—payment of salaries of officials as well as payment to consultants. What do you say about it? The second one is a department scenario where the act says each and every department should have a chief financial officer, but instead this department outsources the function of a CFO. What do you say about it? Thank you.

**Mr BLAKE**—I will answer the first question first and provide my response by way of an example. I have had direct experience of outsourcing an IT function in an agency. In that situation, the staff previously providing that function either went to work for the successful tenderer or no longer worked in the area concerned, so there was no double payment of any salaries. I think, if you are expecting the same people to continue to provide the same functions but somebody else is also providing that function, there will clearly be a double cost. In these cases and the ones I am familiar with, that has not happened in Australia. That is why I made the point that the function of the staff that may be working for the agency has to change. It becomes one of managing an outsourced activity rather than providing that activity. The skills required to provide management of an outsourced activity are quite different to providing that service themselves. So there needs to be a separation of what function is now being provided and who is providing it.

The example of outsourcing a CFO role I have not come across. I would think that it is unusual. I can see situations where you would outsource the recording of accounting transactions and the preparation of reports, but I cannot see how you could outsource the CFO function because I would expect the need for the agency to retain the accountability for financial management means it would remain with a CFO working for the agency.

**CHAIR**—The gentleman there—yes?

**Mr STENSHOLT**—I have just a couple of comments and a question. I must admit you make outsourcing sound almost like a dirty word. Frankly, there are many activities which have been going on for many years in terms of contracting out. I used to run a government program—\$500 million a year, 350 projects, most of which actually went out on contract.

The second point is that you mentioned value for money. I would see that value for money needs to be very carefully defined in terms of not just making sure that you actually get some value for the money you spend but also, when you contract out or give the job to somebody or other, taking into consideration that they are going to do the best possible job for the amount of money that you are paying. There is a whole range of issues behind that which should be looked at.

My question is this. There is a whole lot of literature and a whole lot of experience over many years in terms of project and program evaluation, either ongoing evaluation or ex post hoc evaluation. Is this what you are really talking about as well, or do you see a difference between evaluation and auditing in terms of outsourced contracts?

**Mr BLAKE**—I will comment on your other observations as well if I can. I do not see evaluation as being outsourcing. To me, the two things are quite different.

**Mr STENSHOLT**—Do you see evaluation and auditing being similar or do you see them as different?

**Mr BLAKE**—I see there are a lot of overlaps. Program evaluation is not the same as doing an efficiency and effectiveness audit, I do not believe, but we certainly talk to our colleagues in the evaluation industry to make sure that we are not overlapping. So I see a lot of complementary things they do that we can learn from and vice versa.

If I have given the impression that outsourcing is a dirty word, I do not mean to, because I think outsourcing has a very valuable role to play for a number of reasons that I have outlined in the paper. We practise outsourcing. I outsource audit work to the private sector and it is very valuable for me to make sure that I am kept honest in terms of my efficiency. So I see a very useful role for outsourcing.

**CHAIR**—Yes?

**Mrs MATLADI**—Page 8 talks about the role of any public accounts committee. I agree with the proposal indicated here, but I would like to know what your comment would be with regard to the other committees referred to. Public accounts committees clearly are chasing the dollar—value for money et cetera—but where you have a situation as my colleague described here, where both policy and the dollar are not being handled as expected, what would be the first point of call for the other committee? Do you go to the Auditor-General or you go to the public accounts committee? Your comment, please.

**Mr BLAKE**—I do not want to speak on behalf of public accounts committees, but I think somebody this morning said that it is uncommon for public accounts committees to comment or

question government policy. That is certainly the case for auditors-general, and I would support that very strongly. Maybe the public accounts committee should discuss this tomorrow afternoon, but I would suspect their role should be similar to ours—and that is making sure that public expenditure is being appropriately managed.

**CHAIR**—Mr Barresi, I think you want to comment.

**Mr BARRESI**—Yes, briefly, Chair, as to my understanding about the situation that was mentioned, that most parliaments, certainly including those in Australia, also have portfolio committees. A lot of that scrutiny would take place under portfolio committees with regard to policy and whether or not policy is being administered effectively.

**CHAIR**—One of the consequences we are seeing—this is my view—from the outsourcing of services to the private sector is that tenders become bigger and bigger—and I am from a regional city—so smaller players can no longer apply for those tenders, contracts or service deliveries. It is my view that they are favouring very large organisations and therefore they are taking local players out of them. The other part of that is this. If you have a tender and are you a private body, you report on it perhaps once a year. Yes, you are scrutinised by the agency or the department. But, as someone said this morning, as long as you have spent the money and you have delivered the service satisfactorily, is any more scrutiny required? I would point out that if some of that money is being deflected into marketing or other operations, that may be fine, but how do we ever know what those proportions are? We do not get to look at that sort of detail. The departments do, but audit committees do not. Can you actually see whether it is value for money if that is the case?

**Mr BLAKE**—There are about five questions there.

**CHAIR**—It is a big topic.

**Mr BLAKE**—As far as making sure we are looking after small business, the paperwork that I have read suggests to me that very often outsourcing is entered into to support small business. But I would agree that is not always what happens. I think it is a policy decision of the government of the day to target where they want to outsource if they are trying to grow a particular part of the economy.

We discussed this morning—and I had a chat to my colleague from New Zealand about it—PPPs and the view: once you have outsourced, as long as they are providing the service who cares what it is costing? I can understand that point of view and I think that is fair. As long as I make sure that the process entered into is right and I make sure that the reporting arrangements from the outsourced private company back to the government agency are appropriate and are working in practice, then, from my point of view, it is working. There are measures by which we can assess whether that function is being provided as efficiently or as effectively as it was before.

**CHAIR**—Do you mean a public sector comparator?

**Mr BLAKE**—That is right. I hear what you say, but I think there are mechanisms by which we can overcome that.

**CHAIR**—What about diverting some of those funds to marketing and lobbying to make sure you get the next tender? How would you know that?

**Mr BLAKE**—I wouldn't. But that is the concern of the private sector, isn't it? It is not my concern.

**CHAIR**—It is an interesting overlap. Yes, Bronwyn?

**Mrs BRONWYN BISHOP**—To me outsourcing falls into distinctive categories. Quite simply, governments would be bloated beyond belief if they tried to deliver themselves all the services that they provide and had the individuals providing those services on the payroll. There is no better example of that than many of the welfare areas, where we outsource effectively to charitable organisations, non-government organisations, who carry out a function for us. This government, for instance, has done it with regard to employment services and the Job Network, which has been a huge outsourcing and has been very successful. But where it starts to get difficult for me—and to the best of my knowledge we are not doing this in the Commonwealth at this stage but I do know of one state where it happens—is where there is outsourcing of what you would call core government business, where it is this: here is your department which is tasked with the responsibility of running effectively that portfolio responsibility and everything, including writing letters, is done by an outsourced body. It is almost as though you have a parallel public service and an outsourcing body duplicating the work. I do not for the life of me know how you properly scrutinise that second layer, because I do not know how you get into it and I do not know where you would do it and a lot of it is not even overt. You will have difficulty even finding it on the public record. It will be hidden behind some consultancy or other. In addition to that, I think you have the problem of going back to public-private partnerships and the question which we were discussing over afternoon tea as to whether or not the private part of those PPPs should in fact be shown on the budget and balance sheet of the government concerned so that there are not hidden deficits.

**Mr BLAKE**—There is a whole bunch of questions there. Ian, you might want to talk about the recent audit you have done on the outsourcing of consulting services. But, if you take the last issue about PPPs and whether or not they should be on the balance sheet, that gets into accounting theory and all sorts of things. My view is that I have not come across a lot of outsourcing of PPPs where the risks are not sitting with the government somewhere. If the risks are sitting with the government, they should be on the balance sheet.

**Mrs BRONWYN BISHOP**—Ride in the across city tunnel in Sydney and then apply that for us if you can.

**Mr BLAKE**—Sure. I think there are too many things to debate here, but I agree with you in principle. The fact that we have outsourced something does not take the responsibility ultimately away from the government and, in my view, in most cases it should appear on the balance sheet.

**Mrs BRONWYN BISHOP**—But if you have taken away all the skills to determine it, how do you deal with that?

**Mr BLAKE**—IT is a very good example of that. In the Commonwealth there has been a lot of outsourcing of IT, for good reasons because it changes so quickly—

**Mrs BRONWYN BISHOP**—And a lot has been brought back too.

**Mr BLAKE**—I know you have to bring it back and you have lost all those skills. That is where you need to plan to re-insource those activities at some point.

**CHAIR**—We will leave it there. We are going to let Ian McPhee off on that one; I do not know why, but I think it is a time factor. We thank Mike Blake for his presentation. We are not packing up yet. We only have a short amount of time left, but we do have here international visitors who do not have any formal opportunity to put forward any brief presentations. Until 4.30 pm we are going to encourage our international visitors to speak briefly, raising any issues or putting forward any updates from their experience. We will continue that tomorrow at 10.30 am. Would any of our international visitors like to make, on behalf of their public accounts committee, some short statement about their performance or their experiences and how they are developing that process? I invite any comments at all from our international visitors in terms of the challenges—and that is the topic for our conference—of public accountability and implementing those processes. Does someone want to speak? Perhaps Michael Seloane from South Africa would. Michael, do you have any general comments? For those people who think they have got out of it, there is another opportunity tomorrow morning so please give some thought to whether you would like to make a brief statement tomorrow morning as part of our session in terms of the experiences of our overseas visitors; that would be great.

**Mr SELOANE**—Thank you for giving me the opportunity to address this august occasion. I have just been put in the hot seat to give the experiences of what we are doing in South Africa. I will try to speak from the position of our legislature and very little about what is happening all over the country. In our legislature we have serious challenges as the Public Accounts Committee in the sense that we are highly understaffed and have to grapple with all the reports that come from the provincial government and also from the municipal government. That is a lot of work. We have only the committee coordinator, which is the committee secretary, and we have the admin assistant. They are the only staff we have. As a result, we rely heavily on what the Auditor-General tells us. So the Auditor-General tables the reports to the legislature and we have to call the Auditor-General to come and brief the committee. After the briefing of the committee, we conduct hearings with the departments. Then in formulating the questions to the departments we have to, again, rely much on what the Auditor-General comes up with. We do not have an in-house accountant or auditor who will work with us. Then we also have a researcher who is not trained in the financial and auditing environment so that makes the work very difficult.

Turning to the members of the Public Accounts Committee, the Association of Public Accounts Committees covers all the 10 jurisdictions, the 10 legislatures of the National Assembly Public Accounts Committee. As the Association of Public Accounts Committee—APAC—we conduct training for members to make sure that they understand the technical details of finance and auditing so that, as a collective of the public accounts committees, we are able to engage with chief financial officers and accountants from the departments and also engage the Auditor-General on those technical issues. That is how we empower ourselves as members of public accounts committees.

Every year, we as the Association of Public Accounts Committees conduct one training session and we also have a conference. The conference is almost like a training session on its

own. Generally, members of public accounts committees are clued up on the issues of financial management and accountability. That is how we strengthen ourselves. I do not know whether I can add more.

**CHAIR**—One of your colleagues wishes to.

**Mr SELOANE**—I will leave it there. Thank you.

**CHAIR**—Thank you.

**Mr MASUALLE**—I just want to add to what my colleague Mike has referred to. I am the deputy chairperson of the Association of Public Accounts Committees in South Africa. I would just add on the substance of the issues that we have been discussing here that one of the uppermost things that we are grappling with is the question of the relationship between the PACs and the Office of the Auditor-General. We could say that we are nurturing a relationship that is mutually beneficial but which is going through similar strains as I have heard here—for instance, the issues of independence vis-a-vis the question of funding of the work that the Auditor-General does et cetera. These are some of the challenges that we go through.

Similarly, you may have heard some of the questions from some members of the delegation from South Africa relating to outsourcing. The discussion could not have come at a more opportune time. One of the concerns is about providing services, for which public servants are paid for, and yet the work gets outsourced. I have heard the presenter talk about a ‘win, win’. It is not as easy as saying it. It is a challenge to be able to balance the benefit vis-a-vis the cost of that. I just wanted to make those few additions, but we are quite pleased with the deliberations so far.

**CHAIR**—Thank you for that forthright presentation. They are the challenges that we all grapple with, but it is a progression and you have to start and you have to keep working through that. Chair Barresi, would you like to do the housekeeping and ensure everyone attends promptly—

**CHAIR (Mr Barresi)**—First, I thank everyone for their contributions today and for the question and answer sessions. That is certainly one of the most valuable parts of any conference. I will just make my own observation—and I concur completely with what Ms Grierson had to say towards the end. I noticed a theme that was coming out in terms of the right answer or the right way to go about it, the number of years of service required and the right size of a committee. With many of these things, you have to realise that for us here in Australia, and in the various jurisdictions, and in New Zealand, there have been decades of working on this and a lot of progress and failures along the way and successes to get to where we now are. One of the things that we need to acknowledge is the fact that there needs to be a bit of patience with some of the nations which are starting to grapple with these issues. While it would be great from the point of view of accountability and ensuring the dollars go where they need to go and that the policies that have been approved are being effectively implemented, to expect that kind of change to take place overnight does require a bit of time and patience. But whatever advice we can give, whatever advice the auditors here from the Auditor-General’s office can also give you, take that as part of that whole learning process.

It certainly has been a very stimulating day today. Ms Bronwyn Bishop will be leaving us today. She will join us for predinner drinks, so pick her brains before she goes. Tomorrow we will be joined by one of our other colleagues, Senator John Watson, but as I say Ms Grierson and I will be here right through until tomorrow. This concludes the day's proceedings.

**Conference adjourned at 4.29 pm**