

PROCEEDINGS BEFORE

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO AUDIT COMMITTEES

At Sydney
Friday, 22 October 2004

The Committee met at 9.00 a.m.

PRESENT

Mr M. J. Brown (Chair)

Ms G. Berejiklian
Mr P. E. McLeay
Mr G. R. Torbay
Mr J. H. Turner
Mr S. J. R. Whan

KENNETH EDWARD MORONEY, Commissioner of the New South Wales Police, Level 15, 201 Elizabeth Street, Sydney,

ESTHER CAROL HOLLEY, Chartered Accountant, Hill Rogers, Chair of the Audit Committee for the Department of Police, Level 5, 1 Chifley Square, Sydney,

ROBERT JOHN REDFERN, Commander of the Audit Group, New South Wales Police, Sydney Police Centre, Level 6, Goulburn Street, Surry Hills,

RICHARD STEPHEN ADAMS, Executive Director Corporate Services, New South Wales Police, Level 15, 201 Elizabeth Street, Sydney, sworn and examined:

CHAIR: We have been advised you have been sent a copy of our Terms of Reference and also the Standing Orders applicable to the examination of witnesses, is that correct?

Mr MORONEY: Yes.

CHAIR: We received a submission in a question and answer form from you. Is it your desire that form part of the formal evidence today?

Mr MORONEY: Yes, but if I could, Chair, that questionnaire was completed and returned without the knowledge of the executive of the New South Wales Police. There is no issue in terms of the content but we would seek to add to the content of those responses.

CHAIR: Would you care to make an opening statement then in that regard?

Mr MORONEY: Thank you, and it would be brief, Chair. We are, as you indicated, here as a result of an invitation to appear before the Public Accounts Committee and we believe that specifically relates to the body of work more commonly referred to as a report of the Auditor General of 2002 and the role and the function and the responsibility of audit committees.

Both Senior Assistant Commissioner Adams and I, together with the Deputy Commissioners Operations and Support constitute the Audit Committee. The Audit Committee is independently chaired by Mrs Carol Holley, and Superintendent Redfern, as the Commander of the Audit Group, appears on the Audit Committee by nature of his appointment.

I have a number of documents which the Committee may find of interest, Chair, which we believe will go to the issue of our accountability of the Audit Committee today and they are, but in no particular order, the Charter of the Audit Committee of the New South Wales Police, and I would tender that document which outlines its duties and responsibilities, its authority, its membership, its chair, the nature of the executive support and meeting arrangements of that Committee. I would also tender, which may be of some use to the Committee as part of its deliberations, the New South Wales Police Corporate Plan 2004-2007 which, among other things, goes to underpin the role and function of that Committee.

CHAIR: How does the role of the Audit Committee assist corporate governance within New South Wales police?

Mr MORONEY: I do not seek to be trite but suffice to say it performs a vital function. Our Audit Committee was constituted in advance of the report of the Auditor General 2002. It was not created as a consequence of that report.

CHAIR: What year was it?

Mr MORONEY: 1996, and it variously was created under the name of the Business Improvement Group and the Business Risk Committee and to give greater emphasis to its role and functions it was understandably changed then to the name of the Audit Committee for the New South Wales Police. More lately the chair of that has been taken over, with our total agreement and support, by Mrs Holley and she brings her own strengths and qualities to the Committee.

The role of the Committee has been, and I believe needs to be, focussed on the larger corporate issues of the organisation, not so much in the context of the operational performance of the organisation. Perhaps more simply stated, the operating crime results of the organisation are other mechanisms by which that can be reviewed, none the least of which are the Budget Estimate Committee hearings which are held in this place.

Our intention for the Audit Committee is that it look at the broader performance of the organisation, but which has a specific financial content to it. If I could give but one example, one of the issues that the Chair and the Committee believe is appropriate that we look at is the application of flexible rostering within the organisation and that is not to say whether the rosters at a particular police station are adequate for a moment in time, but to look at the issue of rostering in order to ensure high visibility policing, that we are meeting the objectives outlined in the corporate plan, and that we are able to manage these things within the context of the budget of the New South Wales Police. It is those much larger or bigger corporate positions that we have tended to concentrate on.

The other issue which is canvassed in the response, and one of those issues that I would seek to clarify or add to in the course of this meeting is of course of the qualifications of those who make up the Committee, not so much by nature of their rank or by nature of their appointment but by nature of their understanding and appreciation of corporate management.

Superintendent Redfern, for example is, together with the Director of Finance, Mr Denis Leys, a solicitor of the Supreme Court of New South Wales in both cases, and they both have financial qualifications, and Mrs Holley will speak to her own specific qualifications.

Members of the Commissioner's Executive Team hold a number of qualifications, not the least of which are the completion of the company directors' program, so we believe that there are sufficient skills within the current Audit Committee that provide the impetus for the proper accounting of the organisation.

Mr WHAN: Would you describe the advantages you see in having an independent chair of the committee, or an independent input into the committee?

Mr MORONEY: I would like to hand over to Mrs Holley, in the sense that one of the things that we have been keen to push is the openness and transparency of the organisation, and I think one of the great values of having an independent chair is that very notion of openness and transparency, a chair that will tell you honestly and frankly about the organisation's performance. Added to that, an ex officio member of our Audit Committee, there are two specific appointees, the Director of Audit of the audit office sits on our committee and the Auditor General participates in a number of our committee meetings. We have four per year and he has attended the last two, so it is the openness and the transparency and the independence literally of the chair, but with the added impetus of the audit office input together with the Auditor General's specific input.

Ms HOLLEY: If you would ask me, which you are, what you think an independent brings, what I bring I think is a wider experience in the corporate world and the financial world of governance and how in a really practical sense audit committees in other organisations work and how relationships with auditors work and with the internal audit units, which have many names in many organisations. That, I think, is the chief skill that I bring, together with, as the Commissioner says, an outside, independent view, having no police links at all, perhaps just to say this is how a large organisation in another place might view such matters.

Mr McLEAY: Were you on the committee before you were elected?

Ms HOLLEY: Yes, I was appointed in 2002.

Mr McLEAY: Did you find that it became more robust once you became chair?

Ms HOLLEY: I have only chaired one meeting.

Mr McLEAY: How did you find it?

Ms HOLLEY: That one meeting I think was just fine. This was the recent Audit Committee where we reviewed the accounts for the year before they were submitted and we looked at some of the internal audit aspects of the organisation.

Mr McLEAY: Who was the former chair?

Ms HOLLEY: The Commissioner.

Mr MORONEY: I was.

Mr McLEAY: Are you still on the committee?

Mr MORONEY: Yes.

Ms HOLLEY: I think the CEO of any organisation must be on the committee.

Mr McLEAY: But not necessarily the chair?

Ms HOLLEY: Not necessarily chair. The only thing that I could add to that is that perhaps something an independent brings to chairing such a committee is that in my other life I have lots of responsibilities but they are not nearly as onerous as those of the Commissioner of Police and perhaps I can put just a little more time into thinking about the Audit Committee than the Commissioner is always able to do.

Mr McLEAY: I imagine many of us are in that same basket, not having as many responsibilities as the Commissioner.

Mr MORONEY: I think that is a very valid point, in as much as police officers can, from time to time, suffer from a degree of myopia I think; the obvious is right in front of you that you do not necessarily see. I think the true value of an independent chair is about the ability to see past a range of issues that help you think more strategically and more tactically when the bleeding obvious is in right in front of you.

CHAIR: On the make-up of the committee, Ms Holley, are you comfortable with that, would you like to see it be larger, smaller or have more people with different skills as members of that committee?

Ms HOLLEY: It is most definitely the right size. If it were any larger we would run the risk of being just a large committee that talks a lot and gets nowhere. I think the benefit of this particular committee is that it has on it the three gentlemen who can effect change, that is the Commissioner and his two right-hand chaps, because if an issue comes up they are the ones who will make it get fixed. So I think that is absolutely right that they be there, and they are bolstered, as the Commissioner has said, by Mr Dick Adams and Mr Redfern, who have their own qualifications and inputs that they bring to that meeting, and I think having the Auditor-General attend brings another perspective. He has a very good mind, obviously, and he has quite a good knowledge of the service because I think he has been attending for some time and he has some good insights as well.

CHAIR: You mentioned two aspects that you regarded as being good qualities to sit on the committee: One, those who can effect change, and, two, qualifications in particularly audit and accounting and corporate governance. What do you think is the more important aspect?

Ms HOLLEY: Difficult question. I do not think you can separate them. I think you really do need the combination of the people who have the qualifications and the background to understand where the organisation needs to go in a financial and a risk sense and also the people who need to effect the change. Having said that, in all of these organisations, and I speak corporately as well as in a governance sense, a board committee, an audit committee is a group of colleagues who work together; no one person can do the job. So it is important that you get that balance of skills, rather than you say everyone on that committee must have X qualifications or X level of seniority. If the group has respect and collegiality and is working towards a common goal, that is how you will get your best outcomes.

Mr McLEAY: In regard to outcomes, question 16, says, "Does the agency's most recent annual report include a reference to the Audit Committee?" The answer you have provided is, "Yes, but not in detail". Today you have also told us of your corporate plan, which I have not seen. Do you refer to the Audit Committee in your corporate plan? Does the external reporting of the activities of the Audit Committee in published documents add to its robustness?

Mr MORONEY: No, I do not believe so. In the annual report of the New South Wales Police 2002/2003, and that is the last published report, there is a reference to the Audit Committee, albeit under its former name of the Business Risk Committee, but it is a reference as to its existence, it is not a detailed summation of the number of meetings or outcomes of that particular committee. The current annual report, 2003/2004, is in the process of being finalised. So it is opportunistic to think that there would be a greater reference to the role and function of this committee within that draft report and that be will be the case.

Mr WHAN: Will you be reporting on outcomes of the Audit Committee in the annual report, and if not, how open is the process of the consideration of the Audit Committee internally and externally in the organisation?

Mr MORONEY: If I interpret the question correctly, I value the work of the committee, which is underpinned by the independence of the chair, the presence of the Auditor-General, the presence of the Director of Audit of the Audit Office and other senior officers, and they tend to probe and to push, and it is for very similar reasons that I have recently created a commission of strategic advisory board and they consist of leading members of the business community, who do not necessarily have a commercial tie to the New South Wales Police but are valued for their knowledge and their capacity to think strategically. Amongst those, for example, are Mr Hugh MacKay, who is a well known researcher and commentator, Margy Osmond, who is the chair of the State Chamber of Commerce, and Mr Michael Hawker who is the CEO of IAG Insurance. They are there to provide, again, openness and transparency to our thinking processes, and it is the same with the Audit Committee. It is about promoting, as the Auditor-General suggested at two meetings back, about a requirement for the Audit Committee to think tactically and strategically, and the example that I gave about the impact of flexible rostering and its impact on the visibility of police on the street, the deployment of police on an intelligence basis for the right hours of the day and the right days of the week, albeit in the broader context of good financial management, I think are some of the issues that we are keen to look at. I do not feel it is a difficulty for us that if the chair or the membership of the committee raise difficult issues, that we should be averse from looking at those and I do not believe we should be averse from reporting on those.

CHAIR: What sort of administrative support do you provide to Ms Holley?

Mr MORONEY: I think frankly stated none--

Ms HOLLEY: That is true.

Mr MORONEY: --in a strict sense, but clerical support is provided by one of our staff

within the Commissioner's office. So any of the requirements that the chair would indicate are required are delivered, but there is not a specific, dedicated officer to the chair.

Mr McLEAY: For the record, would you agree with that?

Ms HOLLEY: Absolutely. If you are interested in the details of the process, approximately three weeks prior to an Audit Committee meeting I meet with a member of the Commissioner's staff and work through the prospective agenda and what might be on it and that lady then takes it on her shoulders to go around the various divisions and gather together the reports and the agenda material for the meeting. Superintendent Robert Redfern as well has been helpful in preparing agenda items and getting together the material for those meetings. There is no need for any more support than that. That is all that is needed.

Mr MORONEY: I might also add that the meeting of the Audit Committee precedes a meeting of the Commissioner's executive team. The minutes and the deliberations of the Commissioner's executive team, of which the Audit Committee is part, are, subject to the formal adoption of those minutes, posted on our intranet site.

Mr McLEAY: Before you were talking about the Commissioner's - what is the name you gave that other group that you have just recently established?

Mr MORONEY: Strategic advisory panel.

Mr McLEAY: Does that group or is there any other group that looks at what might broadly be termed as risk management? How much does the Audit Committee do in risk management and is it appropriate, or do you do it in other areas and then report back to the Audit Committee?

Mr ADAMS: Perhaps I can answer that. We have a risk management function within the finance directorate as well, where we look at general risk management, especially to do with Treasury managed funds and the financial risks in there, and one of the briefs of the Audit Committee is risk management in itself. We do not have a dedicated risk management unit.

Supt. REDFERN: We have developed a tool, which is in the stage of further refinement now, which is called the command management framework and the command management framework tool, which is used in our process of audit. It is based upon risk management. It is based upon the newest, that is the September issue of the Australian New Zealand Standards for Risk Management, which means that the whole process of internal audit that we develop is based upon the risk management. The Commissioner has already referred to the committee looking at the bigger picture and our whole process of enterprise risk management will be fed through by that process and that will continue to develop under the independent chair and Commissioner I believe. So the whole approach to internal audit is risk based.

CHAIR: What sort of sorts of risks are you managing at the moment?

Supt. REDFERN: The Commissioner has referred to one of them. There are a range of obvious risks in terms of the management of the systems and processes that we deal with. Asset management would be one we can look at developing through that process and that can feed into the risk committee. So there are a whole range of them that come from the individual business units within the organisation and feed up. That is the whole risk management process.

Mr WHAN: Not primarily financial and asset risk, is it also risk to your operational, risks involved in your rostering and all those things, the risks that may affect day-to-day operation and delivery of the service?

Supt. REDFERN: Absolutely, yes. The management of exhibits which feeds into the successful prosecution of cases and ensuring continuity of exhibits and the like, protection and storage of firearms and the like, all of that feeds through.

Mr TURNER: When you say that feeds through to the committee, a separate committee or to the Audit Committee?

Supt. REDFERN: We feed all of that information up to the Audit Committee.

Mr TURNER: Is there a line where you draw on operations?

Ms HOLLEY: If I could say the Audit Committee, and all audit committees generally, look at processes to make sure that the policies of the organisation are in place and the policies are being adhered to and that the processes are robust. As you can imagine, as an outsider chairing this committee, I have very limited knowledge of operational risk, probably as much as you gentlemen and ladies do, maybe less. It is a question for me of making sure that the department has policies that are good, well thought through, and that the processes that support them are robust.

It is then for management to implement the changes that come out of those reports. So typically Superintendent Redfern will report to the Audit Committee on activities of his group in the last quarter and the big ticket items that may have come out of those, and some of them are small ticket items that just need to be followed up. They then go to management to be dealt with. That is at an operational or what I call a housekeeping level. That is what an audit committee does. We meet four times a year for two hours. It is not a completely ongoing integrated role.

Mr TURNER: To be a bit controversial, it appears Sergeant Laycock has done some wrong things and it has taken a long while for those things he has done wrong to come to light. Would your committee ultimately look at the procedures there, and if this is going to create problems with the hearing please say so and I will not pursue the matter at this stage.

Mr MORONEY: No. In terms of Sergeant Laycock can I indicate that we would clearly indicate that his misconduct, indeed his criminal conduct--

CHAIR: I think, Commissioner, the question was as an example, not necessarily a specific.

Mr TURNER: It appears that his misconduct did not come to light for some time. He was doing things that were unknown. Would the audit procedure look at why he was allowed to get away with it for that long? Would you be looking at the procedures which he had circumvented to get to the position where he was, or would that be operational?

Mr MORONEY: That is not a body of work that the Audit Committee would specifically look at. I think we need to look at the audit in the broader sense of that word across the organisation. There is operational readiness audit and the level at which commands are operating in terms of fulfilling the corporate plan and our ability to drive down crime. That is conducted primarily through operation crime reviews. In the United States it is referred to as Comstat.

These are fortnightly reviews of commands, selected at random whereby their operational performance may or may not be to the requisite standard that we require and the commander and his senior officers are called in and held to account for the operational performance of the command.

Sitting alongside that is the work done by Superintendent Redfern and the audit group with its strong emphasis on audit and compliance, good governance, the effective management of the command. It is not specifically solely related to financial management, it is the management of the command in the context of compliance.

Then, Mr Turner, we come to the specific issue. The Professional Standards Command, formerly known as the Internal Affairs Command, would look at the issues and there is an enormous body of work being done there in term of the professional standards of commands and their compliance.

One of the things that we are currently doing is looking at profiling of individual officers where there may be in the early stages of their careers some indicators that were that officer not addressed here and now that he, like the example we were talking about, may go off to even more serious misconduct or criminal conduct.

One of our senior officers is currently in the United States where, amongst other things, the FBI have developed professional standards profiling both of individual officers and at risk commands, like Kings Cross et cetera.

One of the things that I am keen to do is take variously the work of the Audit Committee, the Professional Standards Command and the Operation Crime Reviews under the Deputy Commissioner Operations and ensure that there is an appropriate linkage to all of those things because I think they paint a picture of the health or otherwise of a command, and then beyond that look at the specific issues of commander performance. I am not one to simply say that if a commander has performed poorly in location X you simply transfer him to location Y, because history will more often than not repeat itself if there is not some remedial action taken either by way of retraining the individual commander or the whole of the command group.

There is a strong emphasis on this whole issue of accountability through compliance and governance.

Mr McLEAY: You make reference to using reports from different committees and sectors. Do you find as the Commissioner it is of great benefit that you are on the Audit Committee?

Mr MORONEY: Very much so. I do not know that I would have the benefit of having the whole picture if I was not on it. I have no difficulty with having an independent chair. I am not into that level of ego status, and I value Carol's input in that regard. I do find there is value in it. I find the interaction, particularly say through the Director of Audit and the Auditor General in his presence and his capacity to promote discussion and thought which does not necessarily lead to a conclusion at that particular meeting there and then, but provides an impetus to go off and do another body of work which perhaps you may have been doing or you may not have thought about. That is the value of participation on that committee.

Mr McLEAY: You also have the luxury of having the Auditor General being able to assist you. You obviously have already indicated this morning that is of great benefit. Have you found the other best practice guides that they have provided to be of assistance, and particularly in relation to self-assessment when you conducted that earlier in the year? Did you find the facilities of the audit office, not just the Auditor General's presence, but other practice guidelines, to be useful.

Mr MORONEY: Very much so because they provided a level of openness and transparency and frankness in those practice notes and in the delivery of their advice to us. It is not a case of you will and you shall and you must, but it is a case that the audit office representatives will present what they believe to be the best case to improve the organisation's performance through audit. At the end of the day they would simply say to you that is our best advice. They do not say ignore it at your own peril, but I think you would be foolish to ignore it.

Mr TURNER: Is there a case or cases where their best practice advice cannot be implemented by your organisation for a number of reasons? We get similarly best practice advice to us, but in a lot of instances we simply cannot do it, but in your case have been there been instances of conflict where you say this is wonderful but in practical terms we just cannot do it for any number of reasons?

Mr MORONEY: I will defer to my colleague here, but the New South Wales Police enjoys, I think, about a 95 per cent Police Association or Police Union membership. I am not a knocker of the Police Association. I am a life member of that organisation. Sometimes what the audit

office may not be aware of is that the mere indication that this represents good practice, or a particular issue represents good practice, is often the case. To turn this great monolith of an organisation around is very, very difficult and the issue of association representation or association input to a range of issues cannot be ignored. It is not an impossibility. It is an issue when trying to change from a particular position to another position, it is not something that necessarily happens with the speed I would particularly like.

Mr ADAMS: Our Director of Finance meets with the Director of Audit from the audit office at least monthly and sometimes more often, and they work together at implementing those procedures. If there is a problem with the implementation what we do is both agencies tailor it to meet our requirements so that we can conform to the requirements of the audit office.

Ms BEREJIKLIAN: What do you perceive to be the biggest challenge for the Audit Committee in the next few months?

Ms HOLLEY: For this particular audit committee the challenge will be bringing together some of the elements of risk management which are happening throughout the organisation and looking at them strategically.

MS BEREJIKLIAN: I gained the impression from what we have heard this morning that the scope of the committee is currently quite broad. Moving forward, would you see the structure of the committee, as it currently exists, what you perceive it to be, going forward as well, or from an external perspective would you prefer to see more specific subcommittees of the Audit Committee?

Ms HOLLEY: I do not think that we need to go to subcommittees. I think we are already a subcommittee of the senior executive team. We have three main thrusts to what we do. One is to liaise with the Auditor General on matters of audit and financial reporting and to ensure that the department produces clear, concise and true and fair and all those words, financial accounts and we can never walk away from that obligation.

We have an obligation to work with the internal audit group, which in this organisation is Superintendent Redfern's group, with one or two other pockets in the organisation to ensure that the processes and the policies and the risk management is as good as we can make it, and we have another responsibility for governance generally. I think the group of people that we have contribute on all of those levels, all of those targets, if I could say, and we devote sufficient time in the course of a year to them.

Ms BEREJIKLIAN: Who in the organisation and under what structure has responsibility for compliance, or do you regard that as part of your Audit Committee function?

Ms HOLLEY: I will let the Commissioner answer. Part of it is Audit Committee, compliance with legislation I think.

Ms BEREJIKLIAN: Compliance with regulation, legislation and also police procedures.

Ms HOLLEY: Some of it is Audit Committee and some of it falls in other places.

Ms MORONEY: That is correct. Primarily Superintendent Redfern is commander of the audit group and performs a variety of audits across the whole of each command, specialist and generalist. There is strong focus on governance, compliance not only with legislation but police procedure and policy, and those reports are produced to me. I read them thoroughly because that is part of my nature. If there are issues of follow up we conduct follow up audits.

Some commands require a closer level of scrutiny than others, particularly in the context of good governance and compliance. I believe we have come a quantum leap forward over the last two

years with a greater emphasis on the compliance issues. The audit group have their own intranet site where we identify best practice, and practices that need to be improved. We do not seek to embarrass specific commands via the intranet site but clearly through the Deputy Commissioner of Operations, who looks after all the operational Local Area Commands, or the Deputy Commissioner Support, who looks after the support functions, the specialist operations, there is that strong level of reporting requirement to ensure that we are meeting the objectives not only of good governance but the objectives laid down in the corporate plan.

Mr McLEAY: The other benefit of having an independent on it, you have already acknowledged the benefits of that, would police be involved in providing independence to other Government agencies? You are a large agency. Are you able to share the benefits you have learned from yours with other audit committees?

Mr MORONEY: We are not averse to that. Some CEOs, if I were to knock on the door and say can we come and help you, human nature being what it is I do not necessarily know that the invitation would be accepted. We are always available to do that.

Recently Superintendent Redfern has met with his counterpart in the London Metropolitan Police and we are keen to share not only what is best practice, or what I will describe as opportunities in the London Met, but equally they are keen to learn from us as well and I think it is about expanding our knowledge of governance and compliance requirements, whether that relates to good financial management, operational management, professional standards management, I think it is a case of seeing what others are doing and trying to build on that whole process.

Ms HOLLEY: On a different angle altogether, the Auditor General is a step ahead of us all and he is facilitating a sandwich, and I stress a sandwich, lunch for the various independents chairs and independent members of the various audit committees that are scattered around the Government arena with a view to, I think, just talking about best practice and what problems people might be finding and how we can help each other out. That is a collegiate very informal setting.

Ms BEREJIKLIAN: Does the complaint sounding process come within the Audit Committee's responsibilities or does it come within a different section?

Mr MORONEY: No, it comes under the professional standards command, as I said, formerly and more recently known as the special crime and internal affairs command, and Assistant Commissioner John Carroll, as commander of that group, conducts a professional standard review of commands where we identify specific at risk officers or at risk commands or at risk groups, say for example a group of detectives at a particular location or a group of other specialists at a location. It has a not dissimilar flavour to the operational crime reviews that are conducted by the executives of local area commands. The very nature of that work requires a close collaboration between the Police Integrity Commission and to a lesser extent the Office of the Ombudsman, but we do involve both of those external oversight agencies as part of that process.

(The witnesses withdrew)

ANDREW JOHN KELLY, Executive Director Business and Financial Services, Sydney Harbour Foreshore Authority, 66 Harrington Street, The Rocks, New South Wales, sworn and examined,

JONATHON MARTIN ISAACS, Chairman, Sydney Harbour Foreshore Authority, 66 Harrington Street, The Rocks, New South Wales, and

ROBERT DAVID LANG, Chief Executive Officer, Sydney Harbour Foreshore Authority, 66 Harrington Street, The Rocks, affirmed and examined:

CHAIR: I am advised that you have been given a copy of our terms of reference and also a copy of the Standing Orders of our Parliament that relate to the examination of witnesses, is that correct?

Mr ISAACS: Yes.

Dr LANG: Yes.

Mr KELLY: Yes

CHAIR: In what capacity do you appear before the Committee?

Mr ISAACS: I am the chair of the Sydney Harbour Foreshore Authority. I have been the chair of the Audit and Risk Management Committee for the last five years, but on my assumption of the chair of the Foreshore Authority I relinquished my post as chair of the Audit Committee, if that makes sense. My appointment took effect in the last three or four weeks, hence my appearance here rather than the current chair of the Audit Committee.

CHAIR: The Committee has received a submission from the organisation. Is it your desire for that submission to form part of your formal evidence today?

Mr ISAACS: Yes.

CHAIR: Would you care to make an opening statement?

Mr ISAACS: I might open the batting, if that is okay. I think it is a very important role which the audit and risk management committee can play, especially in the Government sector. Firstly, it is an opportunity for an external review of the financial and risk issues facing the organisation. It is an opportunity also for the staff of the organisation to see the board members behaving and displaying attitudes which are consistent with the values of probity and ethical behaviour. It has that very important effect. I think too it demonstrates to the public at large that there is an external beacon being shone on the financial and operational workings of the organisation. I think it should give them confidence, and of course that depends entirely on the quality of the committee itself and the advisers that sit around that table. I think our committee has been successful, in part because of the knowledge that each of the directors of the organisation that are on the Audit Committee have brought to that committee. They are all people who are well acquainted with the workings of an organisation, understand what its purpose is and are committed to it; secondly, because the quality of the financial advice that we have available to us is of a high order, and that accounting advice is both internal and external; and, thirdly, what I think is very important is the resolve of the committee to see through its decisions. So when decisions are made or recommendations are made, there is a very well documented process of action and accountability which is followed up on a regular basis. That might be a useful start.

CHAIR: I would like to maybe ask Dr Lang the questions we have outlined about the Authority, the number of staff you have, are they mainly management, professional level staff, so when we compare your agency with other agencies we have got that on the record of what we are comparing.

Dr LANG: Certainly. Sydney Harbour Foreshore Authority is a place management authority. It looks after three main precincts, The Rocks, Darling Harbour and the Australian Technology Park. A large part of our work is, therefore, property related. We are a landlord. We have around 240 staff. They are mainly professional level people. We have, of course, a number of permanent, part-time, full-time, casual, temporary staff, but in the order of 240 in total.

CHAIR: I notice that your Audit Committee is quite small in size. Do you want to talk a bit about the membership as well as the qualifications of the Audit Committee members?

Mr ISAACS: The Audit Committee comprises three non-executive directors of the Authority. They are the members of the committee. There is myself and two others. In addition to that, we have present at each meeting staff of the Auditor-General as our external auditor and invariably there is at least one, if not two, from the Audit Office. We have two representatives from our internal auditors who are an external resource, if I can put it that way, without sounding as though it is somewhat upside down. Our internal audit is outsourced. It is tendered every three years. It generally goes to the big four accounting firms. For the last two terms, that is the last six years, it has been carried out by Deloitte, and invariably Deloitte send two people to the Audit Committee, and almost each time that I can remember the partner has been present. In addition to that, we have our own staff. Although you are right in saying there are only three members of the committee, we would probably have up to ten or 12 people present. In addition, it has been our practice that where an internal audit report has rated an area of the organisation at two or less, and two means in need of some significant work, we have requested that the manager of that area come to the committee and explain what they are doing to get their part of the business into proper order so it will not rate as low as two in the future.

CHAIR: Two out of?

Mr ISAACS: Five. It is not done to hang people or put them up against the wall and shoot them. It is done with the very good purpose of saying the Audit Committee regards these internal control issues importantly, and where it is less than the standard we would regard as acceptable, then we would like the manager to come and explain what they are doing to get it right.

CHAIR: How did you choose the membership? Did you say, "We want a manager of this area, so they can implement decisions that we as a group decide", or were you looking at do they have the necessary skills and qualifications to adequately assess and audit functions of the Authority?

Mr ISAACS: Let me deal with each of the categories. In the case of members of the committee, that is the board members, they are chosen by the chairman. That is a prerogative that we have given to the chairman, that is the way it has been. I must say, as incoming chairman, I propose to do the same. It is a matter of availability of non-executive directors and their financial awareness and competence. In terms of the other staff who come to the committee - and of course I omitted to say the CEO attends the committee, he is not a member of the committee but he attends the committee - the people who come, if you like the permanent members, that group that sit around with the committee, are essentially the finance people. So in terms of staff it is the chief financial controller, financial accountant and the executive director of financial services.

CHAIR: I gather from the evidence that you have just given that more weight is put on the qualifications in the membership of these meetings and you invite the CEO to then organise the implementation of the decisions of the meeting. Would that be a fair summary?

Mr McLEAY: Or conversely is it operational based?

Mr ISAACS: I am sorry, I am just not getting the question properly.

CHAIR: I am curious as to membership of internal audit committees.

Mr ISAACS: Yes.

CHAIR: And the emphasis that is placed upon them, and the evidence that we have heard so far is that there are competing priorities of different organisations. Others see it as more of a management tool that does internal audit functions and decisions are then made and managers are there, they can go away and implement decisions of the committee. Other committees see it as an internal audit function where they organise their audit scope and go about doing that work and then leave it to, say, the CEO of the organisation to then organise the implementation of the decision, rather than having a collective decision-making body at the internal Audit Committee.

Mr ISAACS: Let me attempt to answer it this way: First of all, we have got our terms of reference which are on page - I think you do have the terms of reference.

Dr LANG: It was in the submission.

Mr ISAACS: It is on page 2 of our submission.

Dr LANG: No, that is a different one. Would it be helpful if we could table that again?

CHAIR: Yes.

[Document tabled]

Mr ISAACS: I think that might help in part answer the question. One of the key issues about Audit Committee qualifications is the need for financial qualifications, so let me go to the heart of that. The fact is that on our board there is no-one who can say, "I have this accounting qualification. I have this degree", or whatever, but the three members of the committee have each had significant financial management experience or have public company board experience, and between us, and including the array of qualifications around the table we have as our resource, we believe we have got sufficient financial qualifications to bring to bear.

One of the requirements of the standards of membership of the committee is that there be some financial literacy. I can say that each of the three members of the committee is financially literate. Because none of us has that significant financial qualification, I think we are comforted by the fact of, one, the array of other financial qualifications available to us at the meeting, secondly, that our internal auditors are externally sourced, and so the accounting and financial advice that they bring to bear is in no way compromised, if I can put it that way, by the fact that they are part of management. My view is, and it is not just my personal view, but it is a view which the committee has expressed, because we have discussed this very issue, our view is that given the precise requirement to have someone on the committee who has that financial qualification, that is adequately covered.

Mr WHAN: You have covered this a bit, but can you explain why it is you have those people with those qualifications who are external auditors as ex officio and not as formal members of the committee?

Mr ISAACS: It might just be a matter of technicality or semantics, but the Audit Committee we have taken to be members of the board, so it is a committee of the board.

Mr WHAN: It is a board subcommittee?

Mr ISAACS: That is absolutely right. Therefore, we take the view that the only people who can be on it are board members. It is a very good point. I must say, when we sit around the table, every member is treated, every person is treated exactly the same. If it comes to a vote, strictly speaking if we say, "Are the minutes correct", the only people who get a say are those three that I have identified, but that is the reason. The Audit Committee is a committee of the board. If you look at our annual report, it cites those three members only as the members of the committee.

Dr LANG: If I may add to that, the CEO is also a member of the board, but under the terms of reference of our Audit Committee, neither the chairman nor the CEO can be a member of the Audit

Committee. So even though I would be eligible otherwise, I am excluded because of that. If I can go back to an earlier question about whether the Audit Committee was focussed on implementation or, perhaps if I can paraphrase, review, our terms of reference, if I can summarise quickly, has five parts to it that are associated with audit and they are effectively saying that we do both. On the one hand, we review the policies and procedures; we review the external audit program, the internal audit program; we review management's tracking and implementation of the various recommendations and actions; and we also investigate breaches of conduct, professional ethics. There are other items that are to do with non-audit related matters, because our committee also looks at risk.

CHAIR: Just how transparent is the Audit Committee in regard to the external reporting process? Could it be more robust?

Mr McLEAY: As you mentioned in your annual report, are there any other?

Mr WHAN: Do you mention if you have a committee or did you mention what it actually does?

Mr ISAACS: In the annual report?

Mr WHAN: Yes.

Dr LANG: In the annual report we not only name the Audit Committee members, but for the first time this year we will also detail how often they meet, and Andrew Kelly might be able to add some extra detail there, but there is quite an extensive section on the Audit Committee's operations.

Mr ISAACS: And terms of reference we always set out.

Mr KELLY: Historically, it only covered who was on the Audit Committee and their background, whereas now, certainly in terms of best practice, we are rolling out and putting more information in to support what the committee does, its terms of reference.

Mr WHAN: Do you report either internally or externally on issues or investigations that the Audit Committee has undertaken, or report on outcomes of the Audit Committee?

Mr KELLY: I am happy to answer that one. Internally agendas go to various members of management and certainly those who are invited to attend. The minutes of the Audit Committee are generally tabled at the board meeting and findings of the board meeting are discussed with all staff at a board debrief which we hold each month.

Mr ISAACS: If I can add to that, we do include the Audit Committee minutes in the next board agenda papers and it has been my practice as chair of the Audit Committee to report on the findings. It is not just a matter of here they are, note it, it has been my practice as chairman to say these are the issues that came out and give some report on them.

Mr McLEAY: Can I go back to the makeup of your committee? In relation to question 18, the answer that you provided us with, has the Audit Committee performance been self-assessed in the last three years and if yes, when was it performed. You have answered no. A self-assessment questionnaire has been distributed to the committee by the financial controller but it has not yet been completed. Did you only do it to the board members, so the three, or was it to the other people that come along and since you have answered that question have you had any feedback back from it yet? Has it been completed and have you learned anything from it, and how useful do you believe the best practice guidelines are?

Mr ISAACS: The first question is we have done it and it has been completed and discussed at the last Audit Committee meeting. The second point, insofar as who we circulated to, we circulated

to both actual committee members and other people. We circulated it to 17 people, so that tells me there is a few more than a dozen that I thought were sitting around the table. I think 11 of the 17 responded.

Mr KELLY: That is correct. The other members were senior staff throughout the organisation.

Mr ISAACS: These are people who at one time or other have come in.

Mr KELLY: Yes.

Mr ISAACS: I am more than happy to table the review. I am more than happy for you to see it for your own benefit if you would like.

CHAIR: That would be very helpful, thank you.

Mr ISAACS: It will give you an idea of the instrument we used and the range of responses that we received. Essentially the rating was pretty comforting. You can make up your own minds about that. There was a number of issues that were raised.

Essentially the area where we believe we can improve upon are the areas of identifying the organisation's risk and how we manage our risk operations. It has been an issue that has been discussed from time to time but I have got to say that Rob, as the CEO, has elevated it, and in a sense I think that is reflected in the comments that are made in the survey.

I think the issue for an Audit Committee is not just to reflect about the internal controls that are applying and the issues of making sure that Government is getting value for money. That is obviously an important thing for it to do, but the issue of risk I think is something which does have to be elevated because management of risk is not simply a negative. It is not simply a cost, it is actually an opportunity to see how you can do things better, and the constant pressure of any organisation public, private or community sector, and I have been in all three, the constant pressure especially now is about how do you get a better outcome with less resources.

In the private sector there is an acceptance of a certain level of risk and people tolerate it. I think there is a higher tolerance of failure. I am sure you people understand that in Government it is quite the opposite. There is a very low level of tolerance of failure, but there is a high level requirement of making things happen, more things happen with less resources. That is the nature of the beast. It is a matter of how you manage that need to demonstrate entrepreneurship and hence risk taking in what is essentially a risk averse environment.

I think the issue of risk is an important matter because it is a driver of activity and operational efficiency and you have got to do that in a way which is intelligent, sensible and minimises risk.

Mr McLEAY: Did you use the best practice guides for the audit?

Mr KELLY: It was a template that we got from Deloitte, from recollection, that we added a few more questions. It was an audit template and because it is an audit and risk committee we added a few more questions in relation to risk.

Dr LANG: What we did is ensure that the matters that were raised in the best practice guidelines were all covered in those questions. We felt that it was a very robust set of questions and the feedback from the committee, the people who responded, said it was a very good survey and they noted that result in a favourable assessment but I think it was a favourable assessment of the surveying process, if I could put it that way.

Ms BEREJIKLIAN: Are we correct to understand that to this point there is no one body that looks at operational or financial or performance based risk within the authority? Is that correct?

Dr LANG: No, that is not correct. Our audit and risk committee in fact looks at all of those things and we currently have a comprehensive risk management plan and risk map and what we are doing at the moment is we are enhancing those and working further on how we can improve our risk management processes, so we already have that in place.

CHAIR: Do you share your experiences with other agencies? Is there any mechanism where your internal audit learns from either other agencies within the New South Wales public sector, or do you look further afield, interstate or internationally, at similar organisations to yourself?

Mr ISAACS: It happens informally and I would have to say irregularly. One of the pluses of having an external organisation doing our internal audit is that it exposes us to their network and Deloitte, as part of its profiling I guess in the community, runs a number of formal and informal sessions to which we are often invited. I have been to a number of discussions hosted by Deloitte where we have either had the ICAC Commissioner or some other person give some sort of talk. Andrew was telling me on the way that they also made that sort of thing available to staff.

I chair the Auditor General's Audit Committee, so I have access into at least one other public sector audit committee and for the last three years, finishing at the end of July, I was on the Central Sydney Area Health Service Audit Committee, so I personally have had some experience.

Mr McLEAY: But now that you are the chair you are not on the Audit Committee any more?

Mr ISAACS: No, so far as the Central Sydney Area Health Service Audit Committee, the area health services were dissolved so the Audit Committee went with it. With this one I attended the last Audit Committee meeting. I have to sort out just who to put on the Audit Committee. What I am saying is what I think is important and that is why I think this is a good exercise, I think it is important that there is a raising of the standard of audit committees in the Government sector. I think there is a lot to learn. I think there is a lot of good practice around and I suspect that there is insufficient general education about good practice in audit committees and what audit and risk management committees can achieve.

Dr LANG: If I could add to Mr Isaac's response, in adding to the comment about Deloitte and the advantage of having a party that is involved in audit across a large range of organisations, at the last Audit Committee where there was discussion of self-assessment Deloitte advised the committee that the Sydney Harbour Foreshore Authority's Audit Committee was in the top quartile of audit committees both public and private sector. I think that gives the committee some level of comfort that not only is our self-assessment showing that same sort of result, it is good to get that external advice as a benchmark against others.

Mr KELLY: One of the other members is actually on the board of Landcom as well and we do have a range of similarities with them and we do often get information sharing going between us at the staff operating level, as we have done with a number of things like the international financial regulations that are coming up as one of the projects.

Mr TORBAY: Of the things that you feel could be done better, were you talking about identifying the risk or dealing with the risks that have been identified?

Dr LANG: I think if I can answer that by saying at the moment as part of our business planning process we do very comprehensive risk mapping and that covers a broad range of things, operational risks right through strategic risks. We identify them in area by area throughout the

business. Therefore each manager has his own risk areas to manage and to deal with and to report up when things are of concern.

I suppose the improvement area that I would like to see is in fact probably best described as taking the big picture view of all of that. If the individual operational areas are all working correctly that is good, that is a tick, but to bring them together at the Audit and Risk Committee in a succinct way is a challenge we are trying to improve on.

(The witnesses withdrew)

(Short adjournment)

ROBERT JOHN SENDT, Auditor-General, New South Wales Audit Office, 1 Margaret Street, Sydney, affirmed and examined, and

LEE INGLIS WHITE, Assistant Auditor-General, New South Wales Audit Office, 1 Margaret Street, Sydney, sworn and examined:

CHAIR: I am advised that you have been issued with a copy of our terms of reference and a copy of the relevant Standing Orders in relation to examination of witnesses. Is that correct?

Mr SENDT: That is correct.

CHAIR: We have received a submission from the Audit Office. Is it your desire that that submission form part of your formal evidence?

Mr SENDT: It is.

CHAIR: Would you care to make an opening statement?

Mr SENDT: Only very briefly. We value the close working relationship that has developed between us and the Committee. In respect of audit committees, we have always regarded the existence and robust operation of audit committees as a fundamental part of good governance of any organisation, and especially in public sector organisations where often higher standards are expected by Parliament and the public of the way organisations operate.

CHAIR: We have heard evidence from a number of agencies so far. We have some yet to interview. First I would like to talk about some of the larger agencies. I have noted that you have indicated that most large agencies have audit committees and have substantially addressed most of the issues raised in the Audit Office report of 2002 on audit committees. Could you elaborate on this observation and point out any large agencies that have failed to establish audit committees?

Mr SENDT: I think in terms of State owned corporations and Government trading enterprises, I do not think there would be any that do not have audit committees. There are some departments that do not have audit committees. Some of the concerns with larger organisations that we expressed in 2002 still do apply. For example, there are some that do not routinely invite us to attend audit committee meetings, or alternatively invite us to attend on an as needed basis, by their definition of need. That is, of course, a fundamental concern to us because we need to understand the extent to which an audit committee is fulfilling its obligations and responsibilities in overseeing financial reporting, internal audit and other matters of governance within the organisation that fall within its ambit.

Mr WHITE: The other thing I would add to that is that some of the organisations where we are not automatically invited for the whole of the meeting are in some of the larger trading enterprises as well. So that earlier comment is not just restricted to departments. From our perspective we can appreciate why an audit committee at a particular point would not require the external auditors to be there, but for most of the time I would expect us to at least be there, not only to do our own presentations, but also to understand and reflect on what is happening with internal audits and also with any other issues of risk and other matters that might come to that committee as well.

Mr McLEAY: Would you expect to be invited to every agency and department's audit committee?

Mr WHITE: Yes.

Mr SENDT: We would expect to have the ability to attend. We can understand that there might be particular items on an agenda where we might be asked to not be present, but we would much prefer that arrangement to one where we are only invited to the audit committee to give our presentation.

Mr McLEAY: Is that because of your role as everyone's external auditor or is that because of your role as experts in the audit field?

Mr SENDT: No, it would be general practice in the auditing profession to be invited to attend audit committee meetings and to attend the majority of them. It is part of understanding the business.

Mr McLEAY: Are you involved in any outside of the public sector?

Mr SENDT: No.

CHAIR: When you talk of large agencies, how do you define that? Do you look at the number of staff they have or the type of operation they are engaged in?

Mr SENDT: I am not sure if we have a formal definition of large agency.

Mr WHITE: It would cut across a number of criteria, not necessarily the nature of the operations but you would look at the size of the assets being managed and certainly the number of people who are on the payroll system and perhaps turnover and expenditure as well.

Mr SENDT: We would be talking about perhaps the top 50 out of the 400 or so organisations that we audit.

CHAIR: You mentioned earlier that you are quite comfortable with the large statutory authorities in the way their audit committees are working, especially when you compare them to some of the larger agencies. What specific issues are there that are concerning you in this regard and that we could potentially address in the course of this inquiry?

Mr SENDT: If I could clarify the question, the concerns within the smaller or medium size agencies, is it?

CHAIR: No, the issues that you think we can address, comparing the large statutory authorities with the larger agencies. In your opening remarks you said you were comfortable with the large statutory authorities. Are those comments pertinent to large agencies?

Mr SENDT: Some of the issues in departments, contrasting them with State owned corporations and GTEs, revolve around the issue of independent members on the committee and revolve around the issue of who chairs the audit committee in particular. Our view is generally that there certainly should be independent members on the committee and that ideally there should be an independent chair of the committee.

CHAIR: While we are talking about committee membership and independence, what would you require as a good manageable size of a committee? We have seen some very large committees. We have seen some small committees. And would you focus on membership within the organisation, their position in the organisation or their qualifications in internal audit?

Mr SENDT: I think in terms of size of audit committees, anything greater than probably five we would not see as appropriate.

Mr WHITE: Four I would say is about the ideal number.

Mr SENDT: In terms of internal representation on the committee, I think clearly it should be a matter of qualifications and the contribution that the individuals can make and the extent to which they can operate with an independent approach to the responsibilities of the audit committee as opposed to their day-to-day responsibility within the organisation. I should say that in departments it is often difficult to get independent members who understand the business. In GTEs and SOC's the audit committees are made up generally of members of the board and those members therefore have a

relationship with the organisation and understand it. With departments there are no boards and therefore an independent member has no ongoing relationship with the organisation, other than being on the audit committee, so there is a different degree of understanding of the organisation. It is difficult to get independent members who do have an understanding of the organisation.

Mr McLEAY: When you say it is no larger than four or five, if a GTE or a SOC has an independent board and they may have three of the board members on the internal audit committee, and then they invite other pertinent staff or directors of the agency to be part of the committee but typically only the three board members are the committee, is that appropriate or do you think they should still limit it to four or five?

Mr SENDT: Certainly there is no issue with having relevant staff members along, particularly if they can assist the committee in answering questions, but they would not form part of the committee. Equally we believe the external auditors should be along, and generally the person who heads up the internal audit function should be there.

Mr WHITE: To pick up on that question a little bit, it is an interesting discussion when it comes to the CEO or the managing director. Which hat is that person wearing at the time of being on the committee? Are they actually part of the committee and therefore part of the board in a sense or are they there to actually respond to the committee? We would generally see the CEO to be in attendance but not part of the actual committee.

Ms BEREJIKLIAN: Can I ask a question in relation to consistency between departments and GTEs and SOC's. Are you comfortable with the level of discrepancy which seems to exist between the structure of audit committees, and also their scope? In evidence we have heard that some have a much broader scope than others, some have membership criteria, some have different qualifications. Have you done any work in relation to trying to make them more consistent and would you like to see greater consistency across the Government in general?

Mr SENDT: I think there will always be some inconsistency between authorities and departments, because of the fact that I have mentioned, that departments do not have boards to draw upon for membership and there will always tend to be a preponderance of internal people on a departmental audit committee compared to a State owned corporation or a GT. I do not think you can realistically resolve that inconsistency. I think to have, for a department, an audit committee that consisted of a majority of independent members is probably difficult to achieve and certainly for smaller organizations I would suggest is probably inappropriate.

Ms BEREJIKLIAN: But within departments themselves as well.

Mr WHITE: If I could add a little bit in there, the way we would endeavour to try to bring some greater consistency across all the organisations is we see that the functions of audit committees and their focus is actually evolving all the time, so in the last couple of years you have had the ASX announcements on corporate guidelines, which include audit committees, and you have also had the Corporations Law Economic Reform Program 9 as well.

What we have endeavoured to do is try to get the audit committees to focus on their charters and then revise the charters as the developments are occurring. At least if they have a fairly consistent charter of what they are supposed to be focussed on, and that charter is being updated in line with what might be developing external to the organisation, better practice, then hopefully we can drive the committees to be more consistent.

Mr McLEAY: You do that by your best practices guidelines?

Mr SENDT: There is quite a bit of material out there. There is material that has come out from the stock exchange. There is material which has come out from ASIC as a result of the CLERP 9 changes. There are comments that we make. There is a fair degree of material on how audit committees should operate. A lot of it of course is designed more for the corporate world than the

public sector.

Mr WHITE: The principles will still hold good stead for whatever sector it is.

Mr McLEAY: How do we monitor that?

Mr WHITE: How do we? In one sense if we see that the audit committees are focussed on their charters and revising these charters on an annual basis and actually monitoring their performance against it, then at least we can see that there is that mechanism in place.

Mr McLEAY: You have an example of where it has been said by a number of different passes of this information, including your own practice guidelines, that the CEO or general manager should not be the chair of the audit committee, yet there are some that still have the CEO or the director as the chair of the audit committee, even though every piece of paper out there says do not do it, if there can be that simple example what can be done to amend that, and should we?

Mr SENDT: I think the only way of fully overcoming that is some sort of Treasurer's or Premier's direction to audit committees in departments where certainly that seems to be the area where this occurs more often. It would need some central agency directive or, alternatively, some piece of legislation but that could be overkill.

Mr WHITE: The last time there has been guidance issued from Treasury around this area was in 1995, what was known as the statement of best practice about internal control and governance principles. Perhaps that needs to be updated. As we have said, there has been a lot change and perhaps getting those types of principles into these guidelines would keep it current.

Ms BEREJIKLIAN: I am interested particularly in the varying degrees of standards that people we have spoken to have in relation to risk management, which in the last few years has become, especially in the private sector and I believe should be more so in the Government sector - what is your office doing in order to assist Government departments in particular come to terms with having adequate risk management practices in place and given, I assume, that it has not been amended since 1995, it probably does not have more specific or best practice guidelines in relation to risk management, or does it?

Mr WHITE: It has some. That was based on the Commission of Sponsoring Organisation guidelines out of the US and the Cadbury report of the early nineties. Things have moved on a fair bit since then, but in one sense the basic principles are still there. Your views on the risk management certainly is the area that we are seeing the better audit committees spending a fair bit of time on at the moment. Where do we fit in that? We have done some things not that long ago through the performance audit area, where we did some reports on looking across at how the public sector agencies are managing risk. We brought some better principle guidelines out from that as well.

At individual agencies if we did not see some focus on risk management through the audit committee I think we would be certainly flagging that to them that this is an area, referring back to the principles of your charter, which would be inadequate. We certainly would not be participating in driving that risk management. That is something the organisations should be doing themselves.

Ms BEREJIKLIAN: Just for clarification would you mind giving me your definition of the difference between audit and compliance as far as departments are concerned? I only ask that because many audit committees seem to be adopting a compliance role in addition to an audit role, and I do not know if that is normal practice in the public sector. I wanted to get your impression of that, given in the private sector sometimes those functions are separate.

Mr SENDT: Can be.

Ms BEREJIKLIAN: Can be separate.

Mr WHITE: We would see with some organisations, particularly the larger commercial ones, they have virtually changed their names now to the audit risk and compliance committees, so they are trying to bring that prominence in. My definition of compliance is where they are looking across the relevant legislation, so they are looking for the mechanisms within the organisation as to how they are seeing that compliance occurring.

You would see in some organisations, more importantly probably in the private sector where, because of the nature of the industry they are in, particularly say for something like a financial services, they would have a separate compliance committee and that is because the ramifications are ten fold again, but compliance is fitting in there. I actually think it is a good move that these committees are actually moving to focussing on that. It is the ones following on from the risk management. They have moved out from strictly audit focus on to the risk management and then on to compliance. Better practice, I think, is with that focus there as well.

Mr SENDT: While in some of the major corporates they have separated audit and compliance and in some audit and risk, I think generally in the public sector we would not see that sort of division of responsibilities as necessarily being beneficial. There is a continuum of responsibilities in the area of overseeing the agency's performance, and reporting and compliance is part of that. In the public sector compliance is, I think, equally as important or perhaps even more important than in the private sector. It might not have the legislative consequences of not complying with a piece of legislation if you are in the financial services industry, but I think it has certainly strong implications for the public confidence in the organisation if it is not complying with either its own piece of legislation that establishes it, or central agency directions or central agency better practice guidelines.

Mr McLEAY: Also given the fact that a lot of agencies are, as one of our previous witnesses called it, risk averse, the focus of their business is not necessarily to grow their business but to comply with their agency's objectives, therefore you imagine it would be a natural affiliation for them.

Mr SENDT: Certainly our last performance audit on risk management indicated that risk management was handled better in the State Owned Corporations and GTEs. As you moved across the spectrum of public sector organisations to departments it tended to take more of an insurance focus. It tended to become more risk aversion and risk minimisation rather than risk management.

I think to some extent that is understandable. When people make mistakes in the public sector, even if they make the right decision in taking the risk, if something does go wrong they are roundly criticised by Auditors General and the Parliament and the media and one can understand the tendency to be risk averse in those circumstances.

CHAIR: Can I talk about the preparation of financial reports and the fact that not all audit committees oversee the preparation of financial reports? In the submissions there were some instances where this was delegated to other parties, such as the CFO or the chief executive officer, and the Committee would be interested in your view about what could be done to assist agencies to engage in a more interactive approach to the preparation of the financial reports and the assisting of the CEO during the audit process.

Mr SENDT: Perhaps if I could ask, Mr Chairman, was that view coming across more strongly from departments rather than statutory authorities?

CHAIR: Yes.

Mr SENDT: Again that may reflect the different composition of audit committees in

departments. If they largely reflect internal representatives anyway, perhaps it is understandable that the audit committee sees that it may not add much value where the CFO is already responsible for the preparation, that they cannot add much of an oversight role. It is understandable but I still do not think it is the right attitude. In our organisation, for example, the CFO is responsible for the preparation but the Audit Committee oversees that. The Audit Committee goes through the financial report and gets an understanding of any changes in accounting policies and questions the internal members of the committee and the CFO as appropriate.

Mr WHITE: The value in the statutory bodies or the SOCs where that audit committee adds value to the preparation is not actually in forming the figures, it is in that one step back before they come for audit review of looking at these with an independent set of eyes and saying do these make sense and what is it saying about the organisation. Sometimes having it with just the CFO, the person who is really preparing the information, you do not get that distinction between preparer and reviewer.

CHAIR: You spoke a bit earlier about the best practice guide. Can you talk a bit more about the self-assessment for audit committee performance and any feedback you might have on that guide and the self-assessment process?

Mr WHITE: Self-assessment is something relatively new and we are seeing certainly happening on an annual basis with the committees. The guidance they are relying on there is probably coming from a couple of different places. There is an Institute of Company Directors guidance on the audit committees, that better practice guide, and I think they are also combining in what they see again with the ASX release and also with the CLERP 9. We, ourselves, do not actually have a better practice guide on the audit committees. The closest we did in our earlier times was our on board document of six or seven years ago, but that would not take it to the extent of what the self-assessments are now. They usually ask us to participate in that, even though we are not part of the committee but an observer and invited, they would still ask us for feedback on how we believe the committees are performing.

Mr McLEAY: You have said in your opening statement, Mr Sendt, that you have always believed in audit committees. How come yours only started in 2001?

Mr SENDT: There had been an audit committee in a sense in the Audit Office in that the board of management, which is the executive team, would change hats as it were and call itself the Audit Committee. As you would be aware I started in the organisation in late 1999 and I took the view that was not appropriate and that we did need a separately constituted audit committee. Part of the delay, I guess, in setting it up was finding a good independent member and someone to chair the committee.

Again, for the reasons that I have mentioned, that person does not have an understanding of the organisation through being a governing board member, so we needed to find someone who we felt confident could understand the audit role and could bring a degree of independence to the task.

Mr McLEAY: Who is your independent person?

Mr SENDT: Jon Isaacs.

CHAIR: I understand that your audit fees are not fixed, although some agencies are expressing the view or the belief that they are. Do you have any view on why they might be saying that your audit fees are fixed?

Mr SENDT: We determine our audit fees based on an hourly charge rate.

Mr WHITE: In a budget of time.

Mr SENDT: In a budget of time at different levels of staff. We set that at the beginning of the audit for each client. If we go over the number of hours because of perhaps some failure in managing the project, or because of staff shortages we perhaps need to put a higher level person on to fill in, or if we are delayed in some other audit and need to bring in staff, that is something we bear. If the organisation being audited does not have the appropriate quality of work papers and documentation for us to audit and there are overruns because of that, we will charge the organisation, but if the organisation itself does its job properly we will stick to the fee that we quoted.

Mr WHITE: What I would add is that certainly when we advise of our fees prior to the commencement of the audit, we table what is known as a client service plan, which outlines the risks and how we do our work for the audit committee, and certainly there are fairly robust discussions at audit committees about the amount of time being incurred and is this appropriate or not. They will challenge us. If they thought it was relatively fixed I am not sure why they would go through that type of process. They will challenge us quite robustly.

CHAIR: Have you noticed any correlation at all between the effectiveness of an audit committee and your charge out fee to that organisation? With good internal audit committees, is that saving the department money?

Mr SENDT: Certainly it should. One of the benefits of having an audit fee directly charged to the client is that it does sheet home to them responsibility for any failures or shortcomings in financial management of the agency. If our risk assessment of the agency indicates that we have to put more effort in because of those shortcomings, we would certainly make it clear that there is a potential for the organisation to save on audit fees if it improves its activity there.

Mr WHITE: The audit committee will bring discipline to management and hear what the external audit has to say and then consider it and take it forward. They will also, as I said earlier, take what management has provided to the auditors and actually review it prior to that occurring as well. So that independent review can be quite strong in good audit committees. It does save us a lot of time.

Mr McLEAY: Of the agencies that you are the external auditor for how many do you roughly get invited as a standing invitation to their audit committee meetings?

Mr WHITE: Tough question. I would be able to tell you in terms of the larger organisations. Nearly all of those we are invited to at some point during the course of the year, but a small number would say, "You can come at the start of the audit cycle, our audit cycle, come at the end", and that is about it, whereas others would have us there at each and every meeting. The majority would have us there all the time.

CHAIR: I understand you are having an informal meeting shortly of independent chairs of audit committees or other chairs at your office. What opportunities exist for agencies, other than your initiative, to share their good practice in the operation of their committees within the State and also maybe if you could cite some interstate or international examples you might have?

Mr SENDT: I am not sure there are other forums where audit committees or audit chairs can get together. There is some common membership of audit committees, so that a member or a chair who sees one committee operating well can indicate where it is operating well to other committees that he or she may be on, but that would clearly be fairly informal and ad hoc. I am not aware of internationally or interstate any forums of that nature.

Mr WHITE: No. What I would refer to, as not just an audit committee reflection but a reflection on board membership, is that at times appointments are made where individuals have come from the private sector, have been very successful on boards in the private sector and do not really get a lot of orientation or education when they come into the public sector, unless the organisation itself does something, so nothing from the central bodies. So they will come in with a formula to some

degree of how they have been successful and try and apply that directly to the public sector and it does not always fit. It can fit better in the commercial businesses but if you move away from that it does not actually fit. So there is certainly a need for education of board members more to how the public sector operates. If you start having that, it would filter down then in some ways to what is happening on committees, because the committees are simply subsets of the boards. Having an ability for people to talk about their roles on audit committees across the sector in terms of principles I think would be very helpful.

Mr SENDT: And certainly the fact that we are going to hold that informal round table, which stems from our views that there were not a lot of opportunities for committee members to get together.

CHAIR: How do we benchmark compared to our sister jurisdictions in the country?

Mr SENDT: Difficult question. I am not sure that I could really answer that.

CHAIR: Are you aware of other Auditor-Generals working closely with their internal audit committees?

Mr SENDT: All external auditors should work closely with audit committees.

Mr WHITE: We are obliged under the auditing standards to work at least with the internal audit and generally that is through the function of the audit committees. As to the extent of that, I know the ANAO (Australian National Audit Office) produced a report a number of years ago across audit committees, and when I looked at the contents and findings of that I found they were consistent with what we were seeing as well. I am not sure. I suppose New South Wales would generally have a greater number of those commercial organisations than some of the other jurisdictions, so we might have greater numbers and better practice.

Mr McLEAY: Our last witnesses indicated that they had some benchmarking that they were able to report that they came in the top quarter percentile for their best - their review was it?

Ms BEREJIKLIAN: It was their best practice in audit, in the top quartile of the private and public sector process of audit management.

Mr WHAN: According to their external auditors.

Mr McLEAY: Have you heard of such a--

Mr SENDT: I am not sure which organisation you are referring to.

Mr WHAN: It was the Sydney Harbour Foreshore Authority.

Mr WHITE: They had benchmarked themselves or rated themselves using some criteria?

Mr WHAN: They were saying their external auditors they weighted--

Mr SENDT: That is not us.

Mr WHAN: No, internal auditors.

Mr WHITE: What you might be finding there is that they might have an outsourced internal auditor, one of the four.

CHAIR: He said that actually.

Mr WHITE: And the four can generally tap into across their sectors what better practice is. I am not sure of the criteria but I expect it would be going back to these type of principles through the

ASX or CLERP nine. They are probably trying to gauge it somehow.

Mr TORBAY: I think that is what he was referring to when he said the network, the sourced internal auditor.

Mr SENDT: What they may have been referring to is that the Institute of Internal Auditors internationally run what is called GAIN, Globe Auditing Information Network, and there is a capacity within that to benchmark internal audit functions. It is useful. It is quite often difficult to interpret the results, particularly for a small organisation. In the Audit Office we benchmarked our internal audit function against that, but we found that most of the participants tended to be larger, and therefore the utility of the information coming out of it for us was not that high. But I suspect it may have been that GAIN exercise that Sydney Harbour Foreshore Authority was referring to.

Mr TURNER: Do you think we are getting a bit over audited with the audit committee and the internal and external audit?

Mr SENDT: I think you are asking the wrong person.

Mr WHITE: I think organisations would probably say, "I wonder when we get time to do our proper stuff".

Mr TURNER: I say that in all seriousness. It is an irony, is it not, that you have an audit committee to audit you and you are the Auditor-General? You should be the last person to have an Audit Committee.

Ms BEREJIKLIAN: I disagree.

Mr SENDT: I disagree. We should be the first, so that we can establish the precedent or the example. I am digressing slightly, but in the same way I keep making the point to the agencies and to the Government, there needs to be benchmarking of services against interstate peers and publication of that benchmarking data in annual reports. As far as I am aware the only annual report in New South Wales that analyses its results in any way against its interstate peers is the Audit Office. I do that for two reasons: One, because I believe in it, and one because I would not be able to criticise other organisations for not doing it if I did not do it myself.

CHAIR: Mr Turner, I think, does have a valid argument, in that internal audit committees and compliance procedures within an agency need to be run very efficiently and effectively so they do not detract from their main function.

Mr WHITE: There is an emphasis too, to pick up on this point, for both audit functions not to be only ever doing just the traditional ticking and flicking and substantiation, but actually trying to help the organisations in the audit process, because, again, the benefit of us coming in at times is we are an independent eye, we can look and provide some advice as well into how they are managing their operations.

Mr TORBAY: Before it is too late. That is the whole point.

Ms BEREJIKLIAN: An audit committee will find efficiencies in the organisation.

Mr WHITE: They should be, that is part of what they should be looking for, yes.

Ms BEREJIKLIAN: They will find opportunities for risk management. So the more efficient and the better composed the committee is, the better for the organisation.

Mr WHITE: Correct.

Mr McLEAY: Do you agree that your office could provide the independent? Is that what you are saying?

Mr WHITE: I am saying when we are actually doing our audit processes we can see things at times that the management may not necessarily see on a day-to-day basis. Coming in, we are not being directly involved, but having a good understanding of the organisation can throw up recommendations that management did not automatically see.

Mr McLEAY: Are you suggesting the external audit could be the independent on their audit committee?

Mr SENDT: No.

Mr WHITE: No, there goes your conflicts.

Mr McLEAY: When you said it was even difficult for yourselves to find an independent, is there a panel that one can go to to find independents?

Mr SENDT: No, there is not. The CPA, for example, have a directors' list where members of the CPA can put their names down to be directors of boards. That is a possibility that an organisation might go to but that has a more commercial focus I think.

Mr WHAN: But a director of an organisation, a board member is considered to be an independent person for an audit committee, are they?

Mr SENDT: Yes.

Mr WHAN: They are?

Mr WHITE: As long as we are not talking about a management director. As long as they are non-executives.

Mr McLEAY: Should the independents be paid?

Mr SENDT: I do not see a problem with that. We pay ours.

Mr WHITE: Otherwise, what are you going to get?

Ms BEREJIKLIAN: You are not going to get professionals.

Mr TORBAY: If you want them to be an independent and not have a role with the day-to-day operation of the organisation, it would be important to provide something I would think.

Mr SENDT: Equally, while we pay our chair, it is a nominal fee. I am sure it does not cover the cost of the work that he puts in. It is fairly small, but that does indicate that we do value the service.

Mr WHITE: Could I add a couple of things to reflect on?

CHAIR: Yes.

Mr WHITE: One is that one of the things you see in better practice, and if you are meeting other agencies you might want to ask, but certainly we get an opportunity now with some of the audit committees, without the presence of management there, to ask clearly, "How is the corporation, are you feeling undue pressure", those types of questions. That is really something that I think is quite important and hopefully we will start to see a more widespread practice of it. Probably the only other thing I would say is that in the next 18 months to two years we will probably see a lot of work being spent by audit committees on implementation of IFRS (International Financial Reporting Standards). That is very important they are involved, but, again, they will need to continue to keep focussed on the risk management and other aspects as well.

Ms BEREJIKLIAN: They are coming in in January.

Mr WHITE: 1 January 2005 but already fairly heavily involved.

Mr McLEAY: Can I ask if either of you gentlemen are on your internal Audit Committee?

Mr SENDT: I am.

Mr McLEAY: But you are not the chair?

Mr SENDT: Not the chair.

Mr McLEAY: Some of the witnesses whom we have called have brought along their independent chair to this Committee to highlight their independence. Did you consider doing that?

Mr WHITE: He was here.

Mr SENDT: He gave evidence in the last--

Mr McLEAY: Did you know that before?

Mr SENDT: That he was coming?

Mr McLEAY: Yes.

Mr SENDT: I knew he was coming beforehand, but to be honest, no, I didn't think to bring him along. He did oversight the completion of the questionnaire. Although I signed it off, he oversighted the responses to the PAC questionnaire.

Mr McLEAY: Obviously we did not ask him, when he was a witness for Sydney Harbour Foreshore Authority, anything about the Audit Office.

(The witnesses retired)

LISA ANN MAFFINA, Corporate Secretary of EnergyAustralia, representing the audit and subcommittee of the board of EnergyAustralia, 570 George Street, Sydney, and

NOEL FRANCIS KEAN, Chief Auditor of EnergyAustralia, representing the Managing Director of EnergyAustralia, 570 George Street, Sydney, sworn and examined:

CHAIR: I have been advised that you have been issued with a copy of our terms of reference and also a copy of the relevant Standing Orders that relate to the examination of witnesses, is that correct?

Ms MAFFINA: Yes that is right.

CHAIR: We have received a submission from you. Is it your desire that that form part of your evidence today?

Ms MAFFINA: Yes.

Mr KEAN: Yes it is, but I would like to table one page of amendments and I did make a mistake. I did write to the Committee on 20 August to amend the error that I had made in respect to question five. I inadvertently put Mr Paul Broad, Managing Director of EnergyAustralia as an ex officio member. In fact he is not a member of the subcommittee but he is invited to attend all meetings. In making that amendment I had failed to see that I had included the same statement in question seven, so I would like to table an amendment to that document.

CHAIR: Would you care to make an opening statement?

Ms MAFFINA: No, I am happy for our answer to the survey to be taken in. We are happy to answer questions that the Committee may have.

CHAIR: How does the role of the audit committee assist corporate governance within EnergyAustralia?

Ms MAFFINA: The board of EnergyAustralia has established a number of subcommittees to examine in, I guess, more detail various aspects of the business's operations. The audit and compliance subcommittee of the board, under its formal terms of reference, assists the board to examine the more complex issues surrounding the operation of internal control framework within the organisation, and establishment of the review of the financial statements, both from a half yearly and full year point of view.

It monitors on an ongoing basis the work of the internal audit unit within EnergyAustralia and it just assists the board in carrying out those responsibilities that it has in terms of signing off financial accounts, monitoring risk management policies within the organisation and the internal control framework.

CHAIR: We have been interested in knowing the selection criteria of audit committee membership. Could you talk a little bit about that and in particular are they selected because of their role within the organisation, or because of their qualifications?

Ms MAFFINA: The members of the audit and compliance subcommittee are all non-executive directors of the board of EnergyAustralia and some time ago the board undertook a review of obviously looking at what skill base they need for various subcommittees that are run. In particular, the audit and compliance committee, it is important that the membership, the people who sit on this committee, have certain qualifications and skills to fill out the role, and the members of the subcommittee all have relevant financial qualifications for the position.

Mr McLEAY: Who else do you invite as regular attendees to that committee?

Ms MAFFINA: Invited to every meeting is our chief internal auditor, our general manager finance and other finance representatives as necessary, and our two external auditors are invited to every meeting of the subcommittee and receive all of the papers that go to the directors, and the managing director attends by invitation as well.

CHAIR: I understand your core committee consists of three people.

Ms MAFFINA: That is correct.

CHAIR: Do you think that is an adequate size?

Ms MAFFINA: It is, considering the size of the board. It is quite a small board. The board has five members and the managing director and considering the size of the board, and the Audit Committee does review its performance each year formally and prepares an annual report which it submits to the board of directors and in looking at it is it an appropriate size you would consider the size of the board and also the workload and to this date there has been no issues associated with completing all the work that the committee is required to do.

CHAIR: Am I correct in taking from you that your emphasis is on qualifications over position in the organisation?

Ms MAFFINA: It is both, but the only position the members of the committee have in the organisation is as directors, so they are not connected to the management of the organisation in any way and skills as well as qualifications are an important aspect that the board considers.

Mr WHAN: With only five directors, as you have said, what do you do if you do not have directors with the skill levels which you think are needed?

Ms MAFFINA: I think the board in looking at the make up of the whole board, the board of directors would consider whether there was an appropriate skill base within which to resource all of the subcommittees that are required. It is a matter for the people who make appointments to the board to make sure that the board has the appropriate skill set to undertake their duties.

Mr McLEAY: Did not you say you reviewed who goes on it?

Ms MAFFINA: At the time the board makes appointments to those subcommittees it obviously looks at the skill set of the directors.

CHAIR: Do you know if they use the self-assessment guidelines?

Ms MAFFINA: Not at the time they would have made the original appointments, because those appointments would have been made some time ago.

Mr McLEAY: What about the reporting of the decisions of the Audit Committee?

Ms MAFFINA: At every board meeting the matters that need to go from the Audit Committee to the board, when that agenda item is reached, the chair of the subcommittee speaks to the papers that are in the board papers in relation to that matter, and also the minutes of the subcommittees of the board are circulated to all directors as well, so all directors are kept informed of the work of the subcommittees.

Mr WHAN: Is there wider reporting of the Audit Committee's work either through the

annual report or internally in the organisation to employees?

Ms MAFFINA: Dealing with the annual report, the annual report usually contains in its corporate governance report an understanding of the role and duties and responsibilities of the Audit Committee are. It does not necessarily report findings or the actual work of the Committee externally, but their role is understood.

Mr KEAN: I think it is fair to say that the Audit Committee is a review function of the operations of the organisation, so from a corporate governance perspective they have a list of duties which is documented at the start of the year and is aligned to the charter of what we consider best practice, and the committee over the 12 month period will review those matters which it considers are important governance matters, like the preparation of the financial accounts, it reviews the risk management methodology, it ensures that the culture of the organisation is of a controlled nature.

The organisation has other structures in place like an ethics committee and it reports its findings and issues annually, and then there is various things like they review my annual and three year plan, and my function is to attempt to review and control all frameworks of every business unit of the organisation over that three year period and I provide an independent report to them of that.

They liaise with the external auditor on an independent basis, without the managing director or any representatives of management being present, once a year. They review the corporate code of conduct as well as procedures to ensure compliance. We have two compliance sections, both retail and network, which ensure compliance to licence conditions and they review that.

They review compliance with all relevant Government regulations. They review policies to avoid conflicts of interest. They review and monitor the propriety of all related party transactions and of course they review the financial performance of the company. They review my progress against my plan and of course they also review regulatory statements to IPART and the ACCC and on a 12 monthly basis they formally review their charter.

You have to look at the operation of the Audit Committee from the whole governance perspective and what information is fed to them.

Mr McLEAY: Do they do any risk management?

Mr KEAN: The organisation, as I see it, stands independent so it is up to the managing director to implement an effective system of risk management. He does that and they review the methodology for him doing that, and they receive the report once a year, or at any other time they choose to on the operation of that risk management system. The executive has a risk management planning session where we identify the top corporate risks within the organisation and that is presented to both the Audit Committee and the board.

Mr McLEAY: What specifically does the Audit Committee do with risk management?

MR KEAN: It reviews the methodology in place to see that it meets risk management standards, and it reviews the output from the risk management methodology that the organisation has adopted, to ensure that they are satisfied that it meets their standards as well.

Ms BEREJIKLIAN: Can you please tell us what the subcommittees are of the Audit Committee and what functions they have?

Ms MAFFINA: There are not subcommittees of the Audit Committee. There are subcommittees of the board.

CHAIR: Do you share your practice with any other organisation or do you meet other

organisations to learn from them, in either a similar or a different field?

Mr KEAN: Yes, I am a member of the Institute of Internal Auditors. I attend regularly the networking sessions with my peers. They are a fairly disparate mob, both private and public sector. I attempt to keep in touch, I suppose because of my age and relationship with other Government departments. Occasionally I will meet with other Government representatives on an informal basis. I do have a relationship with my counterpart at Integral. She was a former Auditor-General's representative, so I know her, and if she ever needs advice she will ring me and vice versa. Country Energy have an outsourced operation and, therefore, they do not seem to make contact and vice versa.

Mr TORBAY: Can I go back to the risk management question. When the risks are identified, who actually farms out the jobs for corrective action? How does that happen?

Mr KEAN: As chief internal auditor, I facilitate the process for the organisation, and when the risks are identified, it is done with the nine executives, that is the head of each division, with the managing director and they normally fall into a functional unit. If there is any dispute, the managing director will determine that there will be a dual responsibility.

Ms MAFFINA: What we do is each risk is allocated a time within which they have to report their risk assessment and risk management and risk management action plan.

Mr TORBAY: To the conclusion of that task?

Ms MAFFINA: Absolutely, and the action plan will identify what tasks need to be done by when and they are reported back to the executive of EnergyAustralia.

Mr McLEAY: But not necessarily the Audit Committee?

Ms MAFFINA: The Audit Committee can have access to any of that information they require but their role is to review the process by which we manage our risks, rather than look at the risks themselves, and we have other areas of the organisation, for example we have other subcommittees of the board that deal with specific risk areas. For example, we have a market risk management subcommittee which deals with wholesale market risk and focusses purely on that issue. Our capital investment subcommittee focusses on risks associated with our capital plan. So we do have a lot of operational risk areas that are looked at across the organisation.

Mr McLEAY: I note also your committee has been established roughly since 1991. Has it changed much significantly over that time?

Ms MAFFINA: As the board has changed, the committee has changed. The current board, a number of the directors were appointed in 1996. I believe probably the chairman of the committee has been the chairman of the committee since 1996, but the board has reviewed the make-up of the committee since that time. As new directors have come on, new skill sets, new people have been appointed to the committee. I think there is one member of the committee who was appointed in 1998, and they have just recently undertaken a review of all the subcommittees and the make-up and determined any changes they would like to make in relation to those.

CHAIR: Do you have any closing statements you would like to make?

Ms MAFFINA: Probably just to indicate that we do put a lot of work into reviewing appropriate governance arrangements for our board and for our committees. We have benchmarked ourselves against the findings of the Institute of Internal Auditors, best practice guidelines, Institute of Company Directors. We have also reviewed recently all of the ASX corporate governance best practice guidelines. Even though we are not captured under those, we think it is important. As we do operate in a commercial environment, it is important that we monitor our changes in corporate governance arrangements. As a result of that, we have made changes to our charter. The managing director used to be a member of the committee. He is no longer a member of the committee. So we do update and monitor our charter from time to time. Noel prepares a very rigid schedule of duties

that the committee must do to meet all of the requirements and responsibilities under its charter, and we monitor and manage that very closely, reporting back to the committee. I think it is a very good arrangement, but also one that we take the opportunity to review and improve from time to time.

(The witnesses retired)

(The Committee adjourned at 12.10 p.m.)