

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO THE EFFICIENCY AND EFFECTIVENESS OF THE AUDIT OFFICE OF NSW

At Sydney on Friday 21 June 2013

The Committee met at 11.00 a.m.

PRESENT

Mr J. R. O'Dea (Chair)

Mr B. E. Bassett

Mr M. J. Daley

Dr G. Lee

Mr G. M. Piper

PETER CHARLES ACHTERSTRAAT, Auditor-General, Audit Office of NSW, and

ANTHONY THOMAS WHITFIELD, Deputy Auditor-General, Audit Office of NSW, sworn and examined:

CHAIR: In this inquiry into the efficiency and effectiveness of the Audit Office of NSW we will be obtaining evidence from a number of agencies and organisations today, including the Audit Office, NSW Treasury and representatives from the local government sector. Before we commence, I remind people to switch off their mobile phones. I note that the Committee has resolved to authorise the media to broadcast sound and video excerpts of its public proceedings. Copies of the guidelines governing coverage of proceedings are available. The hearing is officially open. Before we ask questions of the Audit Office representatives I thank them for appearing today before the Committee and invite one or either of them to give an opening statement, should they wish.

Mr ACHTERSTRAAT: Thank you, I will make a few opening comments and then I will very briefly run through our submission. In my opinion we are blessed to live in one of the most wonderful countries in the world. I think the quality of life in Australia and New South Wales is second to none, and there are a number of reasons for that. We have got the God-given resources and climate, we have got wonderful citizens with a volunteer spirit, but also it is the Westminster system. I think the Westminster system underpins a lot of the other things we take for granted. The elements of the Westminster system which I admire are the fact that our members of Parliament are elected by their local constituents, the independent judiciary, but also the checks and balances that the public can feel comfortable with that Government money is spent effectively.

It is a privilege to be the Auditor-General and it is a privilege to lead the Audit Office with high-quality staff such as the Deputy Auditor-General and the leadership team. I provide an independent voice and I like to think that we are recognised as carrying out our role with integrity and independence. One could argue that the four pillars of success or efficiency of any organisation revolve around their corporate governance, the reaction of their clients, their staff engagement and also their profits or their costs. I will just touch on those four and then I will go through the terms of reference briefly. The four are corporate governance, client relationships, staff engagement, and costs.

If we look at corporate governance, the Audit Office of New South Wales is seen of as one of the forerunners. Two weeks ago BHP was given the award for the best corporate governance annual report in the private sector. The Audit Office of New South Wales was given the award for the best corporate governance provisions in the public sector. We are very proud to have that. We are also very proud that our corporate governance model is now being picked up in various other places, various other departments. I have been asked to talk on it at various places, including the Commonwealth Association of Public Administration in New Delhi. They are recognising the corporate governance approach taken by the Audit Office of New South Wales.

I believe the second pillar of efficiency or success in an agency is the client relationships. I will touch on that briefly and you will see that our clients value the performance and our value for money. Thirdly, in relation to our staff, our staff engagement, commitment and integrity is amongst the highest in any public sector agency. Finally, I will shortly refer to some of the issues where we have been able to put downward pressure on costs to reduce the burden of costs on other agencies and at the same time implement cost savings approaches to them where we have been able to add real value to agencies in their operations.

For those who have not got a copy of our submission, I will pass out a colour version. I will briefly touch on some of the highlights but I will not go through it in detail. There are many highlights, so we do not have time to go through all of them. As you can tell, I am extremely proud to live in this State, I am extremely proud to be the Auditor-General and I am proud of my team. I am very fortunate. If we turn to pages 1 and 2 and open them in the broad we can see that we have two terms of reference on the left-hand side on page 1. The other four are on page 2. I will quickly focus on 1, 2, 5 and 6.

If we look at the first one, the terms of reference are whether the Audit Office of New South Wales provides value for money. I will refer you to some statistics that show that our external surveys and benchmarking confirm that we are providing value for money for our financial audit services. There are also surveys which show the governance, the value for money and that our costs are lower than the average of other States. I will then go into performance audits. I will then cover our resourcing and I will cover the communication

CHAIR: While I do not want to truncate your introductory comments, I remind you that we do have this document. Please make introductory comments at this stage rather than a full presentation, because we will have questions. If there is something you need to come back to at the end there will be an opportunity to pick up things that perhaps were not picked up through the questions.

Mr ACHTERSTRAAT: I will be very quick, because I do want to have some time for some questions in relation to follow the dollar, and the accountability and transparency of the financials of local government and the accountability of universities. If I can take it as read, the only point I want to make is that on page 4 you can see that in the private sector generally the view of the boards of organisations are much more positive towards internal audit and audit than the views of the chief executive officers. I guess that is a fact of life. On page 4 there are two pie charts. We can see on the right-hand side that 79 per cent of board members in big private companies believe that internal audit provides value, but only 44 per cent of executive management.

I guess this is a teaser to explain that our statistics show that Parliamentarians are all in the 90s. In fact, the latest result is now 98 per cent this year up from 97. Audit committees, those independent people charged with governance, rank our value for money and our performance extremely highly, whereas the directors general and the chief executive officers are still very high by comparison but are not in the same league. I guess it is consistent with what happens in the private sector. If we look at our costs, et cetera, on pages 5 and 6 you will see the statistics. I am very proud of those figures. The costs again are lower than other audit offices. On page 8 you can see our hourly rate is right on average with those that we outsource. If we look at the staff engagement further down the track, you can see on pages 27 and 28 that 95 per cent of our staff are willing to put in the extra mile, willing to put in the extra effort. Compared to the public sector averages, the commitment of the staff is very commendable.

CHAIR: Thank you for your brevity, Auditor-General. Thank you also for your undoubted commitment and professionalism and that of your staff. I note for the record that the inquiry that we are conducting at the moment, in parallel with that which has been undertaken independently by Grant Thornton, is a process which is driven by a requirement for us to scrutinise and, I suppose, audit the auditor once every four years. We take that responsibility seriously. The lack of specific submissions from your clients speaks for itself. Later we will hear from a representative from the University of Newcastle. That is maybe an outlier in that sense. I am sure I speak on behalf of the Committee when I say that the general impression is that you do a very good job.

In the context of this review we also are keen to look at scope of responsibility authority and where that might be adapted. You have specifically identified that in your annual report a number of times. It might be an area that we particularly want to focus on. As I say, we will get shortly the results of the process with Grant Thornton. I understand that a draft report is with you for comment, or that you have commented on that. If there are any issues in relation to the report or the process that you wanted to raise with the Committee, feel free to do so, but the Committee has not seen that report at this stage.

Mr ACHTERSTRAAT: There is nothing. We welcome the parallel process. We believe it will add value and help us improve even further on the excellent results that we are achieving.

Mr WHITFIELD: Mr Chair, if I may just make a statement regarding the University of Newcastle submission. We have a disagreement with a number of facts in that submission. I think it would be fair for us to put that forward before you speak with the people from the university so that you are aware of those disagreements of fact.

CHAIR: Will you be present at the time they are here?

Mr WHITFIELD: We will be.

Mr ACHTERSTRAAT: I thought it might be appropriate for Mr Whitfield, at the end of this session, to give a thumbnail sketch of the differences.

CHAIR: By all means give a thumbnail sketch, but I think it might be more useful if they are present when you make your statements so that we are all informed of the facts as they appear in a common setting.

Mr ACHTERSTRAAT: It is fair to say the University of Newcastle was commended in today's newspaper for their excellent achievements in relation to their quality of education.

CHAIR: Just as your organisation has been commended many times. Would you explain to the Committee the process by which performance audits are selected by the audit office, if you are satisfied with that process and if you believe you have sufficient mechanisms in place to accept feedback on agencies that you performance audit?

Mr ACHTERSTRAAT: We currently undertake approximately 12 performance audits each year. I have absolute discretion as to the areas to choose. Therefore, it is beholden on me to be very transparent for the areas which I choose. Throughout the year we have significant issues groups. If I could ask the Committee to turn to page 18 it might give a little bit of context to this so that I might be able to be a bit shorter than I normally would be. We have two criteria results. You can see the red boxes there. In a nutshell, I write to the heads of agencies and I write to all members of Parliament. We have a watching brief throughout the whole year to see questions asked in Parliament, issues raised by the public in newspapers and letters written to me, to distil what areas we should look at. Of the 12 areas I generally like to choose one from Education, one from Health, one from Transport, one from Law and Order, et cetera.

As to the lines of inquiry, we meet very closely with the agency once we have chosen to do the audit. We work with them to ask whether there are reasons why it should not go ahead. For example, we were going to do an audit with the Roads and Maritime Service earlier this year. Our system had shown that there was an issue with motorcycle accidents. After working with the agency we decided it was better to defer that because of other work they were doing. One of our criteria is that there is no point in us doing an audit if at the same time the agency is changing their arrangements and we come out and say they should do X and they say that they are already doing X. That would be a waste.

As to other criteria we look at, on page 17 is the Auditor-General's 11-point selection criteria. They include things such as if someone else is looking at a topic. If the Independent Commission Against Corruption is looking at it or the Ombudsman is looking at it we do not take it further. I tend to like topics where there is a normative standard that I can audit against. For example, if a member of Parliament wrote to me and asked what the government was doing in relation to poverty, that is probably not the type of performance I would undertake because I have got no normative standard to compare with. I would be purely giving my views on what a government should do. However, if somebody wrote to me and said department X was given \$100 million to do the following things in relation to poverty, these are the things the business case said, they are the things I would audit.

If I can take it as read on 17 and 18, in the last triennial review, where the reviewers had a different view to me was in relation to mapping out in concrete the three-year plan for performance audits. Other States do that. They say these are all the audits we are going to do in the next three years. I am much more flexible and I have a different view. I only go out 12 months because I think the world changes and there are various priorities.

CHAIR: I note for the record that the Committee supported your view in that respect. Many financial audits are conducted by private audit firms under contract to the Audit Office. Do you think this is appropriate? Do you have a view on whether this presents best value for money?

Mr ACHTERSTRAAT: It is appropriate that some audits are done by private sector contractors. We outsource, depending on whether it is a definition of per dollar or per number of audits, between 10 per cent and 20 per cent of our audits to the private sector. We do that for a number of reasons. We do that for resourcing issues, particularly those in the country. It is more cost-effective for us to have an external audit done. If we compare my office with the other States, we contract out a lower percentage than other States. The reason for that is that my business model is that the Audit Office be a fully integrated professional service so we have the capability to have an information technology audit area and a technical support area. If we outsource too much we would not have the critical mass of our own staff to be able to support those two fundamental issues. There are also cost issues in relation to outsourcing.

Mr WHITFIELD: Also, a number of the other States have a larger, more homogenous group of clients so that it is easier for them to contract out in proportion to those. If you look at the Audit Office of New South Wales and compare us on the same basis, the homogenousness of it, you will find it is a similar proportion that we contract out. The local area health districts are an example where we do a number and we contract out a number. It is a proportion of that total that is in proportion to the other interstate offices.

CHAIR: Do you have any suggestions as to how the Audit Office of New South Wales could improve its services? For example, are there any additional areas that you think should be subject to audit or some that maybe should not?

Mr ACHTERSTRAAT: Yes. From a policy point of view it is up to the government of the day to determine the number of performance audits which should be done. Our office does a smaller number on average than most of the other States but that is not a matter for me to comment on. In relation to mandates, there is a school of thought called follow the dollar, which suggests that if the government of any kind at any level provides funding to a non-government organisation or a partner, the accountability there could be beefed up. The Commonwealth has recently introduced follow-the-dollar provisions, as have some of the other States, where, if money is given to a non-government organisation or, from the Commonwealth point of view, if the Commonwealth gives money to the State, in the past merely acquittals were done but now, under the new legislation, the Commonwealth Auditor-General is able to follow the dollar to see how effective that is being done.

The way we can audit it, if the Department of Family and Community Services, for example, has a contract with a non-government organisation to provide foster care services, I can do the audit to see whether the Department of Family and Community Services has a robust performance management system and does its review on a quarterly basis, et cetera, the performance of the non-government organisations. I can do that, but I could not then test the veracity of the information the non-government organisations would be giving to the department. In other States they can do that.

CHAIR: That is an entree to what I see is probably the most important potential outcome of this inquiry from our committee's perspective. That is, around the potential auditing and reporting requirements for non-government organisations receiving New South Wales Government funding to deliver New South Wales government services. In a broad sense it is follow the dollar. Recently we looked at the Australasian Council of Public Accounts Committees conference. It has also been the theme of various reports, including a theme you have raised before. It is particularly prevalent as the New South Wales Government looks at increasingly working with non-government organisations particularly in human services and the like. What I would like you to do in a little bit more detail, because it is an important area, is outline your understanding of the current audit reporting requirements in that space, and whether you think they are currently sufficient to ensure transparency and accountability?

Mr ACHTERSTRAAT: I guess in relation to the acquittals, yes, the money was given, that is all under control. In relation to performance there are areas where the Victorian legislation, for example, is a little bit more robust than my mandate. As I indicated, if a contract is entered into with the non-government organisation to deliver certain services, it may well be that the department entering into that contract is not as robust at managing the performance of those services as it could be. If the Audit Office could then test the performance that is said to have been provided by the non-government organisation, I think that would greatly assist in transparency. So, we will be looking at the performance side of things. It may well be that the Auditor-General would only look at 1 per cent or 2 per cent of the situations but as long as the ability is there that may encourage further compliance. I will refer to the Victorian Act, and there are similar provisions in the Commonwealth and some State Acts. Section 16C of the Victorian Audit Act states:

The Auditor-General may—

Not must—

conduct any audit he or she considers necessary to determine whether a financial benefit given by the State to a person or body that is not an authority of this State has been applied economically, efficiently and effectively for the purpose for which it has been given.

One could argue that if an Auditor-General did that or had the ability to do that, it would increase transparency.

CHAIR: If we were to go down that path could you indicate what the impact you think would be on non-government organisations and also the impact on the Audit Office, particularly with the resource perspective. In other words, if we introduce similar follow-the-money powers, the impact on both your organisation and non-government organisations?

Mr ACHTERSTRAAT: At the outset I would hope that it would encourage contracts between the government department and a service provider to be more specific in the outcomes which were going to be

delivered so that the service provider would be more accountable and know exactly the metrics required to be done. If I am going to do an audit I would like to be pretty clear what I am auditing. If they gave someone a bucket said, "Here is a bucket of money, please look after some people," I would not be able to do an audit on that. I would probably encourage the departments to be much more specific in what is expected, and I think that would be a good outcome because what gets measured gets managed. It may well be it will have no effect on the non-government organisations, because they are already accountable, and all it would cost would be an impost of my staff going in for one or two days to check things out. In relation to our costs, I would be hoping that the savings we make for the State would more than compensate the extra resources that would be needed to fund this. It would also depend on Parliament. If this were to occur, Parliament could then choose the level of activity—not specific activity but the quantum by the dollars that are appropriate.

CHAIR: I want to ask, firstly, if you were aware of any non-government organisation that has received multiple funding from a number of government agencies to do the same work?

Mr ACHTERSTRAAT: I am not aware of that.

CHAIR: If that situation did exist, what would your view on that be?

Mr ACHTERSTRAAT: If it is the same type of work I would have to make sure it all meshes in and there is a consistent policy. We do not want different parts of government commissioning things that are inconsistent with each other.

CHAIR: Particularly if each agency was not aware?

Mr ACHTERSTRAAT: Precisely.

Mr WHITFIELD: You are talking about a double-dip?

CHAIR: Yes.

Mr ACHTERSTRAAT: That is an area where follow the dollar may be able to ensure does not happen.

Dr GEOFF LEE: I too commend the Auditor-General on your wonderful work and efficient work for the State, considering you are leaving the organisation soon. You have been very helpful over the two years that I have been a member of this committee. Well done. If follow-the-money powers were to be introduced do you think there should be a threshold of the size of organisation or dollar amount?

Mr ACHTERSTRAAT: I would prefer to leave that to the discretion of the Auditor-General at the time. However, it may give clarity and certainty to non-government organisations to know upfront whether they will be subjected to it. Clearly an Auditor-General would do a risk assessment to determine which contracts they would look at and I doubt very much whether much smaller areas would be looked at. It would be up to Parliament to decide whether to put a monetary figure in there or not. Sometimes people must interpret a monetary figure and think if there is a figure in there and they are under it their accountability is lower than if they were above it.

Dr GEOFF LEE: If follow-the-money powers are not extended to the Auditor-General, for non-government organisations, in what other ways could accountability and transparency for expenditure of government moneys be improved?

Mr ACHTERSTRAAT: The internal audit areas in those departments where they engage non-government organisations to do the work could beef up their work on it. Those internal audit areas could insist that the non-government organisation, before it gets the contract to do the work, must provide certain certifications, et cetera, and those internal audit areas may in fact say that these are the requirements. For a rollover of the contract we want hard evidence to show that you have actually delivered on past contracts, things like that. It could be done within the constraints of the internal audit area but sometimes an external auditor gives a little more gravitas.

Mr WHITFIELD: Could I just add to that? I think the other alternative is to get the external auditor of the recipient to do the work to then certify that the funds that were received were spent for the purpose for which they were granted, which would then put costs on the recipient to provide that certification.

CHAIR: Would you see any cost recovery occurring, potentially, to our non-government organisations in the same way that you currently get cost recovery for financial audits from agencies

Mr ACHTERSTRAAT: At the moment, from a philosophical point of view, for financial audits we recover cost. We give, as it were, a quote. We say to the departments this is how many hours, this is the amount of work. We sit down with them and say it is going to be \$125,000 or whatever on the financial audits. With performance audits, the agencies might think it is a bit unfair if I chose to do a performance audit on them and then say thanks very much, I am now going to charge you for the benefit of me having done the performance audit on you. That is why I think the policy in the Public Finance and Audit Act in New South Wales is that the Auditor-General is given \$4 million and then he or she can decide how to spend it.

CHAIR: So, the follow-the-money proposal would be more aligned with performance audit funding, even though there might be a financial audit function, is that when you are suggesting?

Mr ACHTERSTRAAT: Yes. It may well be that you can build into every non-government organisation contract a surcharge, as it were, to say you may or may not be performance audited by the Auditor-General. Then every contract might be increased by 0.001 per cent and that the money would then go to the Auditor-General. But they are all policy decisions which I would not comment on the merits of.

Mr WHITFIELD: In the previous Public Accounts Committee inquiry there was a recommendation that the Act should be changed to allow the Auditor-General to do a compliance audit and that that should be funded. I would think the follow the dollar would fall into the bucket of compliance audit where you are following the dollar to see whether that complies with the contract requirements to the funding to the non-government organisation, any could be capital from that area.

CHAIR: What is your current understanding of the status of previous recommendations?

Mr WHITFIELD: My current understanding of the previous recommendations is that Treasury were going to make some amendments to the Public Finance and Audit Act, but they have yet to see the light of day.

Mr ACHTERSTRAAT: Just to clarify what a compliance audit is for those who are interested in a particular department. If we are asked by somebody to do an audit on whether a particular department is complying with the particular procedures for fringe benefits—the car fleet or the total asset management plan—it is not a financial audit and it is not a performance audit, we just ask: is the department complying.

Mr BART BASSETT: In regard to local government, are you aware of other jurisdictions where the Auditor-General has power to audit local council finances?

Mr ACHTERSTRAAT: Yes. Victoria, clearly, and I think also in Queensland.

Mr BART BASSETT: Do you think extending the Auditor-General role in New South Wales to local government would be more cost effective or ensure greater accountability for local government compared to current practice involving external auditors? I add to that: If you supported the continuing use of external auditors by local government, would you see a role of your office overseeing that for benchmarking?

Mr ACHTERSTRAAT: I support the findings of the independent Local Government Review Panel, which has called for greater involvement of the Auditor-General's office. I will separate accountability and costs and go through a couple of different models. My view is that one single body, such as the Auditor-General, with oversight of audits done on local council would enable an amalgam of the information to be presented to Parliament. The Auditor-General could either contract out 90 per cent of the work, or 20 per cent or 30 per cent, but could ensure that the same standards are used in every local government. At the moment it is possible for some local governments to commission an external audit based on certain parameters and another one on something else. It may well be that it is difficult to compare apples with apples. If there is one agency, such as the Auditor-General, overseeing, we can give an industry review, as we do with electricity, health and universities, so that we can present to the Parliament a comparison or snapshot of what is happening across the sector.

Mr BART BASSETT: If the role was around oversight, what would be the impact on your office's resources?

Mr ACHTERSTRAAT: If the legislation were changed to give us the authority to do financial audits on local councils, then we obviously would ramp that up slowly. We probably would start in a situation where we would just monitor existing contracts. If certain local councils have a three-year contract with a particular firm, we would probably just work with them to see how that is done and I guess there would not be a great deal of expense from our point of view. If then we decided to go further to do 20 per cent or 30 per cent of the audits ourselves, then we would have to look at funding that. Obviously, the local council would not be paying its external auditor; it would be paying us. In relation to performance audits, I think currently there is no sector-wide performance audit done. It may well be that the Parliament decides that the Auditor-General could do an audit, say, on the procurement practices in local government. I would then probably select five or six representative councils and do a performance audit. But, again, funding for that would be supplemented, I would imagine, by the Parliament.

Mr BART BASSETT: If that performance audit included an area, such as resource sharing, which has been a direction of different New South Wales governments over many years, do you think the Auditor-General's office could assist with the benchmarking of resource sharing and that resource sharing could be enhanced if the Auditor-General had a role?

Mr ACHTERSTRAAT: Resource sharing amongst councils?

Mr BART BASSETT: Across boundaries.

Mr ACHTERSTRAAT: Like regional organisations of councils [ROCS]?

Mr BART BASSETT: Correct, or amongst two or three councils across boundaries.

Mr ACHTERSTRAAT: Yes, absolutely. I think the Auditor-General would be able to benchmark that. I think this Committee made the point earlier this morning about comparing apples with oranges. One of the benefits of having an oversight organisation like the Auditor-General's office would be to ensure that we are comparing the same thing and looking for best practice.

CHAIR: In an overview sense I want to return to the university sector to compare local government where you are not involved with universities where you are involved—in fact, it is mandatory.

Mr ACHTERSTRAAT: Correct.

CHAIR: Perhaps the ideal model is somewhere between the two. You may want to comment by comparing the two models and the seeming inconsistency between the treatment of two groups of organisations that are not that dissimilar in some respects. You are free to make any other comment, albeit in light of my earlier comments about not wanting to go into detail on the university sector.

Mr ACHTERSTRAAT: Certainly. I will just talk about universities. Currently, each of the 10 universities in New South Wales is a creature of State legislation. Universities have the ability to choose their own internal auditor. They will choose an internal auditor to do various things. They do not have a choice of their own external auditor; that is the Auditor-General. Some people suggest that our universities should have the ability to choose their own external auditor for various reasons. I lay my cards on the table: I believe that where someone is a steward of other people's money, it is very rare that they should be in a position to choose their own auditor. If we look at private companies owned by families et cetera, yes, they may be able to choose their own external auditor, but even if we look at the Corporations Act where the board and management can choose the internal auditor, they must go to the shareholders to determine who will be the external auditor. That is my understanding. Our system at the moment requires the external auditor, myself, to do that. If it were to be changed and the Auditor-General did not have that role, I would suggest that someone else has to approve the external auditor rather than just the university.

CHAIR: For example, the shareholder Minister?

Mr ACHTERSTRAAT: Maybe the Minister; the appropriate Minister. Having said that, if there are issues and people are keen for someone else to do the audit rather than the Auditor-General, I would like to look behind the reasons. Is it because we are not providing the level of professionalism they are after? Is it because our costs are too high? Is it because our communication needs to be improved? They are the areas I would like to work on, and with the universities make sure that we provide a much more robust role and better value for money. I did outsource one university this year. When I say outsource it, I mean I still sign off on it. I still say, "I am satisfied that the accounts are true and fair." I do not say to the firm, "Well, you go and do it." When I do the outsourcing I make it quite clear that I will not outsource to an accounting firm where a partner is on the university council. I make it quite clear also that whoever I choose to do the outsourced work, just does the external audit and then cannot say, "We're also going to do this advicings work" and things like that. There are a number of parameters when I choose to do an external audit because under my philosophy, the Auditor-General will only do an external audit and will not give advicings work.

Mr MICHAEL DALEY: So your test for a potential conflict of interest with a firm you engage to do an audit on a university is merely that it has a partner on the board. Would it not be a concern also if, for example, the university engaged that auditing or accounting firm to do work from time to time?

Mr ACHTERSTRAAT: Absolutely.

Mr MICHAEL DALEY: That is my concern with having private auditors of government departments.

Mr ACHTERSTRAAT: Yes. I should have expressed it as the bare minimum and there are others as well. I wonder in a snapshot if I can ask Mr Whitfield to run quickly through some of the concerns raised by the University of Newcastle.

Mr WHITFIELD: We will do that later.

CHAIR: It will be better to wait until the university representatives are here to ask about any specifics. In a general sense, we certainly would welcome his comments.

Mr WHITFIELD: Yes, but I will just add to what we have said. When we look at contracting out, there are some rules. One, the firm we contract to cannot do work that the Auditor-General himself can do. That is the first thing. The second thing is that there has to be no conflicts of interest. That involves whether they have partners on committees, the senate or whatever of the university, whether they are providing work to the university or whether they have provided work in the last two or three years. When we went through the exercise of contracting out Newcastle university, three out of the big four were conflicted out because they were doing work and one had done some work within the two-year period, but because we were having difficulty finding suitable firms, we let it put in a submission and we were down to some second-tier firms. So we made a choice of one of those.

When we contracted out a number of the area health services, we had a similar issue. We got down in the case of one area health service where we ended up with two big four firms and a regional firm from Lismore—even though we were contracting for an area health service in the southern part of the State—because they had the experience. We ended up with a situation where the two big four firms came in with a similar quote and one of the big four firms said, "Well, we will reduce our quote by 50 per cent to get the audit." We did not give the audit to that firm because we had concerns about the quality of the work. If it said it was going to cost 2,000 hours to do the work but were only going to charge us for 1,000 hours, the question is, were they going to do the 2,000 hours of work?

We had very strict quality rules. We go in and review their work. The issue again with local government is that if we had oversight but were not doing the work ourselves, we would have to go in and review the working papers to make sure they complied with the standards to enable us to put a meaningful report through to the Parliament. There are a number of issues we look at whenever we decide to contract out. One of the main reasons for contracting out is benchmarking so that we can benchmark ourselves against the private sector and confirm that we are not overcharging or undercharging as the case may be.

CHAIR: Are you aware of legislation before the Parliament in the last fortnight relating to Aboriginal land councils and the appointment of external auditors?

Mr ACHTERSTRAAT: Not in detail.

CHAIR: Previously they had the opportunity to appoint their own auditors; now they have to appoint from a panel that has been approved by a body, the name of which I cannot remember—perhaps it is the broader Aboriginal land council organisation.

Mr ACHTERSTRAAT: I would have to take that on notice.

CHAIR: You might take that question on notice. If you have a commentary, you might try to reconcile the different approaches between local government, university and Aboriginal land councils and determine whether there are real differences between those types of organisations or a strong rationale for treating them similarly. At the moment there seems to be a degree of inconsistency between different groups, but there may be good reason for treating them differently.

Mr ACHTERSTRAAT: We certainly will take that on notice. It is a fundamental strategic issue.

CHAIR: Thank you for your evidence, Mr Achterstraat. I understand that you will be remaining.

Mr ACHTERSTRAAT: Mr Whitfield will be able to stay for the rest. I can stay for only a certain length of time, unfortunately. I have delegated Mr Whitfield to take questions regarding the Newcastle university.

CHAIR: Do you have any further comments regarding the broader inquiry before you leave?

Mr ACHTERSTRAAT: No. We welcome the inquiry and thank you for the relationship with the PAC, particularly with the 12-month review. We really appreciate that. I spoke to a group of IT people yesterday. They continue to ask questions about their information security, which was part one of your 12-month reviews. It really galvanises agencies when they know the PAC is going to review something. We commend the 12-monthly reviews.

CHAIR: Of the performance audits and also the financial audits?

Mr ACHTERSTRAAT: For the repeats on the financial audits as a start.

CHAIR: Thank you Mr Achterstraat. On behalf of the Committee, we look forward to hosting an event in September to mark the end of your term.

Mr ACHTERSTRAAT: Thank you.

CHAIR: If before then we do not have a formal inquiry at which you appear, I place on the record our appreciation for everything you do. We will record that in a more fulsome way on a future occasion. Today we just say thanks.

Mr ACHTERSTRAAT: Thank you.

CHAIR: Thank you also Mr Whitfield. If the Committee has questions additional to those already identified as taken on notice, they will be sent to you in writing, the replies to which will form part of your evidence and made public. You would be happy to reply to those additional questions in writing?

Mr WHITFIELD: Very happy.

CHAIR: That concludes our formal questioning of you today, Mr Achterstraat. We may call on you later, Mr Whitfield.

Mr WHITFIELD: Thank you.

(The witnesses withdrew)

GRAHAME RUSSELL GIBBS, Manager Investigations and Performance, Division of Local Government, sworn and examined:

CHAIR: Would you like to make a brief opening?

Mr GIBBS: I am happy to launch into questions.

CHAIR: Could you outline for the Committee's benefit the current accounting and auditing requirements for local government?

Mr GIBBS: Councils are required to prepare financial statements at the end of a financial year. Those financial reports are prepared according to Australian accounting standards and our code of accounting practice, which reflects the accounting standards and gives direction on some of the grey areas. Those financial statements are required to be audited and submitted to the Director General, Division of Local Government, within four months of the end of the financial year.

CHAIR: Do you believe those current requirements are sufficient to ensure transparency and accountability?

Mr GIBBS: Yes, I do. That is not to say that councils should not be encouraged to provide as much financial disclosure as necessary to the community. In addition to that the financial standards set out a minimum recording standard and we would encourage councils to enhance that as necessary to provide information either to the community or to elected councillors.

CHAIR: You would be aware that in some jurisdictions such as Victoria and Queensland at the moment the Auditor-General in those jurisdictions has the power to audit local government finances?

Mr GIBBS: Yes, I am aware of that.

CHAIR: Would you outline your understanding of the current requirements as they relate to external audit of local government by other entities other than the Auditor-General and the dynamic there by way of comparison?

Mr GIBBS: Councils are required to appoint auditors for a period of six years. The Act sets out that the auditor has to be a—I am just referring to the Act requirements—registered company auditor or a partnership whose members or employees are included as a registered company auditor or a corporation whose employees include a registered company auditor. That process would involve calling for tenders for audit services and that appointment would be for six years.

CHAIR: Do you see that potentially extending the Auditor-General's role to cover local government in part or in a more fulsome way would be more cost effective or ensure greater accountability for local government compared to the current practice involving external auditors, or would you see it as not making much tangible difference?

Mr GIBBS: I have no information to cause me to think it would provide any additional benefit. I understand that the Auditor-General from time to time has tendered for audit services of councils. I guess in that environment the cost of the Auditor-General providing those services can be compared against the cost of other companies providing those services. The council would be in a position to make that decision under the current arrangements.

CHAIR: You see the current competitive position as being desirable?

Mr GIBBS: Correct.

CHAIR: If you then take the current situation as a given where there is open competition and the Auditor-General can compete with external auditors for the main stay of the external audit, would you see there is some compelling rationale or otherwise for the Auditor-General to have a broad overview function in terms of benchmarking or ensuring that certain audit standards are covered off in an audit albeit conducted by a third party external auditor?

Mr GIBBS: I guess there are a number of issues wrapped up in that question. In no particular order; the issue of whether audits are being carried out properly, at the moment that is certainly not of concern. You talked about performance audits.

CHAIR: Let us contain ourselves to financial audits which are conducted by external organisations. Let us assume we stay with that model. Would you see some advantage in the audit office having a broad overview function to ensure that, first, there is some benchmarking of performance of different councils extending beyond the pure financial? I know some of that already goes on. Is there some additional value in the Auditor-General having an overarching view for what might normally be seen as performance audit type functions? I am asking whether you think if we kept with the status quo in terms of external auditors doing external audits of local government there might be a role for the Auditor-General to have an overarching function across financial or performance audit areas?

Mr GIBBS: That is one of the options that the independent panel of review inquiring into local government is looking at. That is certainly on the table at this point but I would not like to comment in advance of the Government receiving the final report and making their call on that in terms of that particular option.

CHAIR: Did you make a recommendation or submission to that process?

Mr GIBBS: No.

Mr BART BASSETT: You have said that the current review is looking at this area, but I will still ask the question as to how you or your department might see it assisting councillors to focus their attention on council's responsibilities if the Auditor-General audited councils financially, for performance or both?

Mr GIBBS: If we are talking about performance audits we are expanding the current scope of audit. I would imagine that would be of assistance to councillors. If we are simply talking about comparing apples with apples in terms of a financial audit I am not sure that, whether it was the Auditor-General or a current auditor, would influence a councillor's opinion in terms of what the financial position of the council would be. I would have thought they would respect the auditor's opinion in either circumstance in terms of the opinion of the financial accounts of that council.

Mr BART BASSETT: I might put the question a little differently. We have 152 councils across New South Wales. Some councils are very focused on what their core responsibilities are, other councils broaden their views as to what services they feel they should be using ratepayers' money on. From a purely auditing point of view an external auditor comes in. There is nothing wrong with that. However, from a State Government point of view looking at local governments' efficiency and effectiveness for ratepayers, I would see that having a senior overarching view from an Auditor-General's office may assist councillors to focus their attention on what their real responsibilities are in that sector: Do you have an opinion about that?

Mr GIBBS: By that I understand if Parliament were to give the Auditor-General a role in terms of local government that Parliament would also be setting the functions of local councils.

Mr BART BASSETT: They do as it is now, in that—

Mr GIBBS: No.

Mr BART BASSETT: —Let me finish. Local government is there to serve the local community. However, in regard to ensuring that they perform the role that they are there to perform some go outside of that area. I think this would be a way of focusing the attention on the sector to continue to provide the service that they should be providing to the ratepayers rather than broadening that out to other areas of responsibility that should be other tiers of Government.

Mr GIBBS: I guess that is one view. My understanding is that the audit would have to be conducted with that framework in mind and the auditor would be required to give some direction in terms of what the functions of the local government would be in order to form an opinion about whether the council had acted outside its functions.

Mr BART BASSETT: I think this enhances the whole issue of the role of local government. Are you aware of the Auditor-General's performance audit function and do you see benefit in extending this function to local government independent of what happens with the financial audit function for local government?

Mr GIBBS: I think there is certainly a role for an expanded audit function. You may be aware that councils are required at the moment, through integrated planning and reporting, to develop a set of long term plans in consultation with the community. Those plans include a 10-year financial plan and an asset management plan. I certainly think that there is an opportunity or consideration should be given to auditing those long term plans to make sure that they reflect a realistic picture of what future budgets should look like. Those plans are drawn up in consultation with the community. Getting back to your previous question, the services that the council would be providing would be in the context of what the community engagement process was requiring and if the community was requiring the council to provide, I guess, services in certain areas then the council should be considering responding to that. I think in that context that is where the audit role could be enhanced to ensure the council was actually doing what the community was expecting it to do and was doing it in an efficient and effective manner.

CHAIR: Mr Piper also has been a mayor, as has Mr Bassett in the past.

Mr GREG PIPER: I disagree with Mr Bassett but we will have that debate at some other time.

CHAIR: Do you have any questions?

Mr GREG PIPER: No, we have covered the basic topics.

CHAIR: Just following up on Mr Bassett's question about performance audits, area procurement and resource sharing, would you see that as an area where it might be useful for there to be an overall review of performance across different geographic areas of local government?

Mr GIBBS: I think that would be a useful exercise to understand how councils were sharing resources, yes. It is not an area that is currently benchmarked. To be able to do that you would need to set some parameters in place that you are measuring against.

CHAIR: Sure, and it may be that someone like the Auditor-General, who might have a uniform jurisdiction across all local government, would be well placed to perform that sort of audit?

Mr GIBBS: Yes.

Mr GREG PIPER: Were issues with respect to resource sharing covered in the Samson review?

Mr GIBBS: I believe so, yes.

Mr GREG PIPER: My understanding is that some of work of the Regional Organisation of Councils [ROCs] might not have been reflected in that but I am not aware of that.

Mr GIBBS: I could not quote charter and verse on that. My understanding is that they did talk about resource sharing.

CHAIR: Mr Gibbs, is there anything else that you wanted to add on any matter?

Mr GIBBS: No.

CHAIR: The Committee may wish to send you some additional questions in writing, the replies to which would form part of your evidence and be made public. Would you be happy to provide a written reply to any further questions?

Mr GIBBS: Certainly.

CHAIR: That concludes our questioning today. We thank you for appearing before the Committee. I understand that there are other independent processes but our Committee, nonetheless, is looking at the

important issue of Auditor-General scope of authority and we do appreciate the fact that you have appeared today.

(The witness withdrew)

PHILIP GREGORY GAETJENS, Secretary, NSW Treasury,

MARK ANTHONY RONISVALLE, Deputy Secretary, NSW Treasury, and

BRIAN MARK PELLOWE, Senior Director, NSW Treasury, affirmed and examined:

CHAIR: I welcome witnesses from NSW Treasury, who appear before the Committee today to give evidence to our inquiry on the efficiency and effectiveness of the Audit Office of NSW. Would any of you like to make an opening statement or any comments?

Mr GAETJENS: No, Chair.

CHAIR: We are obviously conducting this inquiry in parallel with an independent process which has been contracted to an independent accounting firm but we wanted to be particularly open to feedback from stakeholders who have had contact with the Audit Office and certainly Treasury has a very valuable perspective in terms of not only the Audit Office side of things but also agencies and public finances. You have a unique perspective to give in the context of us assessing or having a view on whether the Audit Office provides value for money for agencies which pay for their financial audits and also for the New South Wales public in relation to performance audits where there is no specific fee charged to the agency. Do you have an opinion on what value for money both the agencies and the public are receiving?

Mr GAETJENS: The advice that we can provide to you is that we hear through interactions with agencies and others that the question arises as to value for money from the Auditor-General. That is more a judgement than an empirical evidence matter and I think the value for money comes on the basis that all audits are done according to auditing standards. It is then a case of the quality of the audit, what is in question and how that work is done. One of the issues that we would give rise to is the Auditor-General generally sends I think basically an invoice with an amount on it and there is not a great deal of disaggregation as to that amount and what it is for.

Consultants and others can generally provide you with an indication of who does the work, their hourly rate and how many hours they do the work so it is a more disaggregated set of the bill. One way you can turn judgement into empirical evidence to inform that judgement is to actually benchmark these things, so as to have a situation where you actually have what happens now—I think there are some audits that are contracted out—and you get an indication of both comparable quality of work, comparable time of work and how it is done. Again, they are all done according to the same set of auditing standards. That actually gives you standards of benchmarking which can look to quality, value, price and all the other inputs that are there. I think there are ways to get evidence but at the moment I think opinion is largely judgemental and subjective rather than objective or evidence-based.

CHAIR: Are you suggesting that there is a need for greater detail, particularly in relation to billing to come from the Audit Office in order to reach those objectively formed, evidence-based conclusions?

Mr GAETJENS: I think it would help in terms of analysing what product is being offered. Again, you can see that when you get consultants to do things, generally you look very much at who is being allocated a certain number of hours as to what they do. If you see a higher level of junior people compared to senior people, you make judgments then about the quality of the job that can be done, so I think it would actually help agencies and the Auditor-General in terms of giving people more information about the work being done.

CHAIR: Are you aware of instances where either agencies or, indeed, Treasury, have asked for that level of detail and it has not been forthcoming?

Mr GAETJENS: Personally not.

Mr RONISVALLE: Two things: one is costing both in an ex-ante sense—this is what we expect it to cost and this is what it has actually cost—but we have asked a number of times for a breakdown and we have not received that.

CHAIR: You have not received it because?

Mr RONISVALLE: We have chased it up a number of times, and this is in respect of the total State accounts, and as far as I am aware—and I would have to go back and check—the last I checked a month or two ago we had not received the breakdown of the costs.

CHAIR: That is particularly for the total State sector—

Mr RONISVALLE: The Total State Sector Accounts, yes. We had a number of discussions about that issue.

CHAIR: You would be aware of how performance audits are selected by the Audit Office?

Mr GAETJENS: Yes.

CHAIR: Are you satisfied with that current process?

Mr GAETJENS: We know that there are questions asked of what should we do and then decisions are made. But I do not think we are aware of the link of what is done compared to the input that is received. I do not think that is transparent. Again, I do not think there is an objective or transparent basis upon how the final decisions are made on which to do performance reports. I am not saying that is good or bad but I just do not think it is very evident as to how the decision is finally made.

CHAIR: What is your level of awareness of the outcomes or changes resulting from those Audit Office performance reviews?

Mr GAETJENS: I might defer to my colleagues who have been here longer than me.

Mr RONISVALLE: We are conscious of the performance audits that have been done associated with Treasury and we have certainly looked at the outcomes of that, but we have not sort of monitored what the outcome has been in respect of the reports that have have been given to other agencies.

CHAIR: Many financial audits are conducted by private audit firms under contract to the Audit Office. Do you think that is an appropriate arrangement and do you have a view on whether that is better value for money or not as much value for money as the Audit Office conducting them themselves or whether that is a situation that should be encouraged or discouraged?

Mr GAETJENS: I am sorry—

CHAIR: Talking about financial audits being conducted by an external private audit firm under contract to the Audit Office—because the Audit Office obviously has that power to do all the financial audits; some of them, albeit a minority, they outsource—do you see that as a good situation, a situation that has dangers that we should be aware of, a situation that potentially offers better value for money, worse value for money? I am interested in your view on the dynamics of that arrangement whereby the Auditor-General has the overall responsibility but can or does outsource that responsibility to a private third party external auditor for financial audits?

Mr GAETJENS: I think the Auditor-General has a statutory responsibility overall. But, as I said previously, to the extent that some work is outsourced I think that actually provides evidence on which you can make judgements about assessing how different audits are done by the private company or the Auditor-General, in the knowledge that all of the work is done against the same set of accounting standards—it is not as if anyone does it on the basis of a different foundation, and to the extent that you have contestability, it provides both agencies and the Auditor-General with actual knowledge of different prices, different approaches and different judgements then about value for money.

CHAIR: Do you have any suggestions about how the Audit Office could improve its services in a general sense, above and beyond providing that level of detail, particularly on billing that you have referred to? Are there any other areas that you particularly would want to highlight?

Mr GAETJENS: Certainly nothing comes to my mind in particular. We have had the Audit Office involved in the Total State Sector Accounts, the half-year review and the budget, and I think, certainly from the

Treasury perspective, that work was done well; it was done in a good working relationship. Mark, you were closer to that.

Mr RONISVALLE: I think that process went pretty well. In connection with performance audits, sometimes I think that you might argue that the skill base of the people involved in that might have been higher, and we spent a fair bit of time working with the Audit Office people to get the quality of those reports to a standard that we thought was reasonable. The skill base maybe of the people who were doing those audits could have been a little bit higher from our perspective.

CHAIR: I want to cover off on a number of areas where potentially the Audit Office might play a greater role or, in one case, a lesser role. They are areas like the auditing of non-government organisations, local government, the university sector—those three in particular, but there may be some others that we touch on—but particularly focusing on what is broadly known as the follow the money concept of the Auditor-General extending his scope of authority into non-government organisations which are increasingly and will continue to increasingly receive New South Wales Government funding to provide New South Wales public services. What is your view in terms of the current situation and whether or not it should be extended so that the Auditor-General has a greater authority or scope of activity across the non-government organisation sector receiving government money?

Mr GAETJENS: I think it is important to state at the outset that the Auditor-General is almost at the last stage of those transactions. I think it is very important that we also focus on the first stages of those transactions, which basically say that the agreements and the relationships between any government agency and a service provider that they have either contracts or some other arrangement with provides effective value for money. I think it is very important to make sure that we have sound and robust contractual or other arrangements in the first place. The Public Finance and Audit Act requires that agencies receive value for money for expenditure on all services, including those services that are performed by non-government agencies—in fact, whether it is a non-government agency or someone else, I do not think it really matters; it is government procuring a service from someone.

To the extent that you get an Auditor-General then following the money to these, especially in the case of NGOs, it would immediately go to value for money for the audit services themselves—they are generally not organisations with a great deal of money to spare, so the efficiency of the audit process itself would be something that would need to be done. Again, I repeat, all these audits are done against the same standards. I think as long as the Auditor-General checks that the agency has met the requirements of the Public Finance and Audit Act and looks at the nature of the contracts it is very important. Again, I think it is very important to acknowledge that in fact what the Auditor-General is auditing is risk and almost process, not necessarily outcome. So, again, I think it is vitally important that the original contractual arrangement is done, in my view, on the basis of fee for service and not necessarily subsidy for the operations. We need to be very clear as government what we want and what we pay for it.

CHAIR: Do you think the current audit requirements, particularly of non-government organisations receiving New South Wales Government money, are sufficient to ensure transparency and accountability, and, in that vein, would you be disturbed if there was a non-government organisation that was receiving money from two government agencies, unbeknown to each organisation, for effectively performing the same work?

Mr GAETJENS: I think that would worry me. Again, I think that is probably something about communication about agencies within government just as much as the non-government organisation [NGO]. I think to the extent that that happens, again I am not necessarily convinced that it needs to be the Auditor-General who would pick that up; any auditor could pick that up if they are charged with the same responsibilities.

CHAIR: Do you think that there would be greater transparency and accountability though if the Auditor-General at least had a residual or overarching power to go in and to spot audits that gave greater comfort to show that external auditors were doing the job that they are charged to do?

Mr GAETJENS: It is almost the policy implication of the statutory authority that is given to the Auditor-General in terms of his work for the government and then following that through. So there could be a sense of either spot audits or looking at things to check if there are any instances that you just referred to. If the Auditor-General audits most if not all agencies in the government then there should be a pool of knowledge formed within the Audit Office about what is going on across government. If there is occasion of agencies

dealing with one non-government organisation [NGO] for the same purpose I am just wondering whether that would become apparent in the office of the Auditor-General itself.

Mr RONISVALLE: If you have got a proper contractual arrangement between the agency and the NGO provider, the Auditor-General can obviously look at the nature of that contract and see if it has got strong enough provisions in it. That contract should have reporting requirements which could also be subject to the NGO's own auditors verifying that they have actually met those conditions and, if necessary, some sort of certificate of compliance comes back to the department from the private sector auditors when they have given the money. The State in some cases has to provide those acquittal certificates back to the Commonwealth when we actually get money from the Commonwealth.

CHAIR: You are aware that in jurisdictions such as Victoria Auditors-General have follow-the-money type powers in respect of non-government organisations. Are you familiar with the provisions in Victoria?

Mr GAETJENS: I am not familiar with them in detail.

CHAIR: You refer to the current position with government agencies where it is possible to have knowledge across agencies or to benchmark performance across agencies. If we continue down the path of outsourcing services to non-government organisations, as we are doing particularly in the human services space, how do you see the same level of benchmarking being enabled but for an overarching role from some organisation getting involved such as the Audit Office or Treasury? How do you see the dynamic operating in terms of benchmarking non-government organisation providers?

Mr GAETJENS: The first line of responsibility for that in fact would be with the agency that is contracting with NGOs. This is an increasing service delivery model where government is purchasing a service rather than necessarily providing it itself. I think to the extent that can provide greater efficiencies and effectiveness for the recipients of the service and for the taxpayers of New South Wales that is a good thing. As I said, it is essential that the contracting party have a very good handle and a good contract management approach across the board. That then can be the approach that can be audited. From the government side you can get the Auditor-General doing it; from the NGO side you can get their own people doing it. I do not know about the ability for auditors to speak to each other. I know there are requirements about privacy of data and things like that. I would not see a problem with the Auditor-General having the right to go into at least spot check. Whether they need to do everything, I am less convinced about that.

Dr GEOFF LEE: If follow-the-money powers were to be introduced, do you think there should be a threshold such as size of organisation or dollar amount?

Mr GAETJENS: Yes, I do.

Dr GEOFF LEE: What scenarios do you propose in terms of dollar amount or size of organisation?

Mr GAETJENS: I would not venture an off-the-cuff proposal for that. I think value for money comes in again here. If you have a low level of funding either within government or between government and a service provider you need to assess the risk as well as the cost proportion, if you like, in terms of a fixed audit cost over the value of the transactions that you are actually auditing. There is a threshold issue there about what is at risk and how can we best allocate that risk to the work that is most required. I would be more comfortable talking in a principle sense rather than a particular amount or a particular example.

Dr GEOFF LEE: If these follow-the-money powers were not extended to the Auditor-General for non-government organisations can you suggest other ways that we could improve accountability and transparency for the expenditure of government moneys?

Mr GAETJENS: As I said previously, it comes down very much to the specificity and detail of the contract itself, the contract management that goes on for both parties of the contract and the fact that on either side the effectiveness achieved by that contract and the delivery of service according to that contract should be subject to audit. That then provides both from the agency point of view and the NGO point of view an independent assessment which could be compared over time as to whether services are staying the same, getting better or getting worse. It is good that you have a temporal aspect to looking at this stuff. Again I make the point that all audits are done against one set of auditing standards. The fact that you can then across government, for

example, benchmark some goes again to this idea of providing evidence on whether the quality of audits are good, bad or indifferent and you can compare them by having these benchmark situations.

Dr GEOFF LEE: Do the non-government organisations provide the certificate for the acquittal of funds against the objectives? Many of the Commonwealth ones that I was the recipient of in my past life did that. The Commonwealth asked for an independent auditor's acquittal that you had spent the money on the things that you were supposed to. Is that a standard procedure?

Mr RONISVALLE: I am not aware that it is a standard procedure. As a generalisation I would say that contract management is not something done particularly well in public sector agencies. There is probably a degree of improvement that could occur there, including ensuring we do get things like acquittal certificates.

Dr GEOFF LEE: Not for everything though. I must say that sometimes we audit quite insignificant things.

CHAIR: I will come back to the Public Finance and Audit Act that you are responsible for as the agency that oversees that in a broad sense. Have there been any discussions about amending that Act to provide the Auditor-General with the power to audit expenditure of money by non-government organisations? It has been raised in various contexts such as by the Independent Commission Against Corruption. The possibility also was raised in a Department of Health paper that I saw. I wonder to what extent you have talked about it within Treasury in the context of potential amendments to the Act.

Mr GAETJENS: I am certainly not aware of any direct negotiations or discussions about that. I think that process has only just started from the Commonwealth point of view. I think they are now in the process of one contract or agreement in one State to go through that. I would certainly like to see some evidence about how it is done and what it means, because there are policy issues that arise from Commonwealth and/or State constitutional and other responsibilities.

CHAIR: You are talking more about the Commonwealth government following the money down to the States, or are you talking about non-government organisations?

Mr GAETJENS: Both. The Commonwealth has passed a law which says that the Commonwealth Auditor-General can follow the money, but I do not think there is yet a clear process, methodology or method of practice that says how that is going to be done. Again, the Commonwealth Auditor-General could contract a private auditor. They could get an agreement with the State Auditor-General. I think there are a lot of practicalities that are unfinished business.

CHAIR: Those sorts of discussions are embryonic to the extent that they might have been occurring?

Mr RONISVALLE: Personally, I had a discussion with some Audit Office staff because I think it appeared in Volume One of the Auditor General's report. We did have a preliminary discussion. The discussion ended up along the lines of we would see what happened at the Commonwealth level. We also suggested to them that maybe they could think about a performance audit in this sort of area, whether they just test how well the agencies are reviewing what the NGOs are doing. My understanding is that they have taken that suggestion up.

CHAIR: While I am on the Public Finance and Audit Act, I know Treasury is looking at the issue of the Lambert report recommendations as they relate to the Audit Office and also this Committee. Can you give us a broad timetable on that review and that process, particularly as it relates to the role and functions of the Auditor-General? It is relevant to the inquiry before us at the moment.

Mr GAETJENS: I think that is an issue that is currently with the Government. In that respect it is an unresolved policy issue at the moment, so there is very little we can say on it.

CHAIR: It might be before Cabinet or be about to be?

Mr GAETJENS: I am quite happy to take that on notice and get back to you with as much information as we can.

CHAIR: If you could take that on notice. As I say, I would not force the issue. Obviously those around the table have an interest in it as a Committee, but we are asking the question in terms of our current inquiry in relation to the role and functions of the audit office and how that might be relevant.

Mr GAETJENS: I am quite happy to take that on notice and provide you with as much information as we can.

CHAIR: We will move to local government. Mr Bassett has a particular interest in that area.

Mr BART BASSETT: As you would be aware, in some jurisdictions the Auditor-General has power to audit local government finances. Do you think extending the Auditor-General's role in New South Wales to include local government would be more cost effective or ensure greater accountability for local government compared to the current practice of involving external auditors, or to have an oversight role?

Mr GAETJENS: My sense would be that it would be very difficult not to have an oversight role given the constitutional responsibility that the State has for local government and then the powers of the Auditor-General. I understand the Auditor-General currently has almost a default role for local government. If local government does not choose an auditor it would go to the Auditor-General, but they choose auditors. Again, in terms of quality and value for money at the moment they are quite subjective judgements rather than having evidence. I think it is an empirical question as to what the results are on the basis of one set of auditing standards.

If the Auditor-General was involved in some of the earlier comments about how they could better present what they do and their bills and provide greater evidence of value for money it could come into place. If you have a big role for the Auditor-General office, that has a huge resourcing impact for them. In a practical sense you would also have to look at the requirements that face the Auditor-General in terms of their requirements for the State, because most of this stuff is all happening at the end of a financial year. It then becomes a very large practical issue about managing a huge workload within a two or three month period.

Mr BART BASSETT: If I were to ask a question that was not specifically about auditing from a finance point of view but auditing from a benchmarking for performance of local government, do you think that the Auditor-General's office would have a role in benchmarking local government performance? What do you see as the advantages and disadvantages of that potentially happening?

Mr GAETJENS: I would agree to Mr Ronsisvalle's point about what the expertise would be within an office to do that. I will bring into that context that TCorp, the State finance authority, has basically done a financial assessment across all local governments against a standard methodology. You would certainly not call that an audit by any means, but it is a benchmarking exercise in an analytical sense. In fact, that might have a great deal more informational value to councils rather than what might be regarded as an audit. You can involve yourself much more with that work. The audit is done. It is not the auditor's job to manage, it is a separate role they play. To have a piece of work that is done in a joint analytical way might be better value but a different set of values which could still be useful to the council. I think audit should be considered as part of a suite of measures that could look at performance of a council.

CHAIR: You make an interesting point there, in separating organisations that might be able to benchmark versus those that are more audit focused, and there is obviously an overlap but not necessarily a total match of function. So an area like local government procurement or resource sharing, if you want to focus on that and do some sort of comparative benchmarking, would you likewise say there are other organisations that are well qualified other than the Audit Office to do that sort of function, and, if so, what organisations would you suggest?

Mr GAETJENS: There could be. Again I use the example of TCorp. TCorp has people with the capabilities to understand finance. They can then do an analytical exercise against the standard methodology which the councils themselves might have some issues with but at least everyone is done on the same basis. That is a very good area to benchmark against. It would be very difficult to compare a small suburban council with a large council that covers a lot of western New South Wales. There are differences, but in terms of financial metrics you can still benchmark. In procurement sharing and shared services, and things like that, to me at first blush is more advice to management rather than auditing an outcome. I see those two things as completely different purposes but which can aim for and look at the same end or objective.

CHAIR: Are there any items you particularly wanted to comment on or raise with the Committee?

Mr RONSISSVALLE: One thing. The issue about performance audits and following up performance audits, we would expect the audit and risk committees of each of the agencies to play some role in that and that is one policy we have put in place in recent years.

CHAIR: I did want to ask about universities. Do you see the treatment of universities where the State, albeit not funding them in the main, has an overall governance responsibility, do you see any difference between the audit function in relation to universities and local government? If so, what are the fundamental differences? Why should they be treated differently?

Mr GAETJENS: I do not think I have an answer to that.

Mr RONSISSVALLE: The Commonwealth plays a greater role in the university sector.

CHAIR: In funding, but in governance and responsibility for the entities there are some distinct similarities, and I suppose likewise also you might throw in Aboriginal land councils as well. I have asked the same question of the Auditor-General, whether there are compelling reasons for seeing local councils, Aboriginal land councils, and universities as any different in how we might, as a policy perspective, have requirements for external audit oversight? Perhaps you might take that on notice?

Mr GAETJENS: Yes, can I take that on notice too? One thing that comes to mind, though, the audit process in the private sector is that either the company or the board does not choose the auditor. It is divorced from that and it goes to shareholders. If that is the case for universities and local government, does that mean a plebiscite of ratepayers?

CHAIR: It might be the shareholder Minister.

Mr GAETJENS: It could be. Again I think there are some governance principles that could be applied but I think I need more time for me to think about it.

CHAIR: If you take that on notice as you did with the question of the Auditor-General, that would be great.

Mr GAETJENS: Yes, sure.

Mr MICHAEL DALEY: Could I thank you, Mr Gaetjens, for coming here personally. We have seen your officers. Sadly, it is not always the case with this Committee and other parliamentary committees that the departments run up with their top brass. Thank you.

Mr GAETJENS: A pleasure.

CHAIR: I am happy to echo that on behalf of the whole Committee. The Committee may wish to send you some additional questions in writing, the replies to which will form part of your evidence and may be made public, like those couple of items you have indicated you will take on notice. Would you be happy to provide a written reply to any further questions?

Mr GAETJENS: Certainly.

(The witnesses withdrew)

(Luncheon adjournment)

RUSSELL COLEMAN, Audit Principal, Australian National Audit Office, and

TOM IOANNOU, Group Executive Director, Performance Audit Services Group, Australian National Audit Office, before the Committee via teleconference.

CHAIR: Mr Coleman, my name is Jonathan O'Dea, and I am the Chair of the Public Accounts Committee. I am here with members of the Committee and a number of other people who are part of the Committee process. Welcome to you and Dr Tom Ioannou. We note that you are both from the Australian National Audit Office speaking to us by telephone. We thank you for appearing before the Committee today to give evidence on our inquiry, which, as you would be aware, is into the efficiency and effectiveness of the Audit Office of New South Wales. To set the scene for you, the hearing is being held in the Waratah Room of New South Wales Parliament House and Hansard also is present and will be recording the proceedings for a transcript. If the Hansard reporter has any difficulty hearing certain things, we may have to ask you to repeat them so that the transcript is accurate. Of course, after the hearing the transcript will be sent to you if you need to make corrections.

As you are not providing evidence to the Committee within New South Wales you do not need to make an oath or affirmation. However, that does not place any less importance on your evidence and I am sure that you will not make any adverse reflections about others because parliamentary privilege may not apply. I request that you focus on the issues raised by the terms of reference and avoid naming individuals to protect yourselves. Before we proceed to questions, would either of you like to make an opening statement or any comments?

Dr IOANNOU: No. We are happy to follow your lead.

CHAIR: I will commence by commenting that we understand that the Australian National Audit Office has the power to audit organisations that receive Government funding. Would you elaborate for the Committee the powers you have under the Auditor-General Act 1997?

Mr COLEMAN: Yes, that is right. I think in December 2011 the Auditor-General Act was amended to insert a number of provisions. One of them is section 18B of the Act in relation to the audit of what is described as Commonwealth partners. Under that provision the Auditor-General has the authority to conduct a performance audit of a Commonwealth partner. The Act defines a Commonwealth partner as a person or body to whom the Commonwealth provides money for a particular purpose, and the person or body receives some or all of the money, whether directly or indirectly, because the person or body agrees to use the money in achieving the Commonwealth purpose or has entered into a contract that relates to the Commonwealth purpose.

I guess in short that means when the Commonwealth does provide funds to a body or person for a specified person—and that can include State or Territory bodies—or people under contract then the Auditor-General is able to conduct a performance audit. The only caveat is if that body or person is a State or Territory body or part of a State or Territory then we need to get the agreement of the Joint Committee of Public Accounts and Audit to undertake that audit.

CHAIR: You said that power came about in 2011. Are you aware of similar provision in the Victorian jurisdiction and/or any other Australian State jurisdiction? The Committee is aware of similar provision in Victoria.

Mr COLEMAN: They are expressed slightly differently but certainly we are aware—and again it is in the context obviously within the State, if you like—that there are powers within the Tasmanian Auditor-General Act and the Western Australian Auditor-General Act and the Queensland Auditor-General Act which allow the Auditor-General in certain circumstances to audit, if you like, non-State bodies. They are expressed somewhat differently and there are different conditions but there are provisions within those Acts I mentioned.

CHAIR: At a national level and as appropriate as it is for you to comment on the State, do any of those extend beyond the performance audit function to a financial function in any respect?

Mr COLEMAN: I am not aware that that is the case, no. I would not guarantee that but I do not believe so.

CHAIR: Do you follow a particular process in performing audits of non-government organisations or Commonwealth partners as you might call them, including how you go about deciding which organisations to audit?

Dr IOANNOU: We have an annual planning process within my group, the performance audit services group, which is a fairly formal process internally. We have regard to a range of issues in developing our annual work program, which is also a published document—it is available on our website. Basically in working-up that program you will appreciate that we have regard to issues such as potential benefits to improve public administration, public interest issues, the financial materiality of programs and activities, risks to reputation or service delivery, and the extent of previous audit and review coverage. In addition to those internal considerations, if I can put it that way, we also have from time to time matters brought to our attention both by members of the public but also—and this is reasonably frequent—by members of Parliament and we also have regard to those matters. A further input to our thinking is that under our legislation we also need to have regard to the audit priorities of the Parliament and the Joint Committee of Public Accounts and Audit.

All of that goes into the mix. In the process of developing that audit work plan we assess whether there is a natural need, if you like, to think about the use and deployment of section 18B powers. One point I would emphasise is in considering that question the approach we generally take is that our audits focus on the performance of the responsible Australian Government body and, if you like, we would normally use the section 18B power through that prism. So in the context of examining the administration of a particular Australian Government body is there also additional benefit in going to the next step and considering the use of the section 18B power?

Dr GEOFF LEE: You talked about the use of the section 18B in performance auditing. What has been your experience of auditing these organisations?

Dr IOANNOU: We have one such audit in train at the moment: our performance audit of the Mercy Community Hospital in Tasmania. This is a unique hospital in that it is the only Australian Government owned and funded hospital and it is operated on our behalf by the Tasmanian Government in effect as part of its public hospital system. The administration of the hospital on the Commonwealth's behalf is undertaken pursuant to two heads of agreement that have been signed. We are auditing the administration by our Commonwealth Department of Health and Ageing and the Commonwealth partners: the Tasmanian health department and the local Tasmanian health authority. Basically we have been undertaking this audit since about July last year and it is close to conclusion.

In terms of our learnings, we will be undertaking a review more formally when we conclude the audit so that we capture those learnings. But basically what we are learning is that the normal audit principles and process applies. We have applied our regular process, which is one based on scoping the audit carefully, maintaining good working relationships and communications—no surprises is a principle that we apply here—and providing good solid working material to our audit clients to give them an opportunity to comment back on some of our thinking. We also have statutory obligations in the end game where we have to provide them with a formal draft report and they get 28 days to respond to that report before it is settled and tabled by the Auditor-General.

Mr BART BASSETT: My question relates to section 18B that you spoke of. Have you got a threshold of funding or could you audit a specific purpose funding which was only a small component of a sector's funding?

Mr COLEMAN: No, there is not any threshold. We could audit certainly in theory any Commonwealth partner, if you like, at any level but in practice, of course, we are unlikely to do that. As Mr Ioannou said, we do take into account a range of factors and I guess in reality only the big stuff would tend to bubble to the surface.

Dr IOANNOU: Strictly speaking section 18B (2) (b) tells us that we may look at a Commonwealth partner if "the person or body receives some or all of the money, whether directly or indirectly". So certainly it is within the mandate.

Mr BART BASSETT: From a purely point of view, and I am not suggesting anything else, if it comes down to Black Spot or Roads to Recovery funding directly to local government it sounds to me like the

legislation would allow the whole of the local government sector to be audited about that specific funding on a performance review. Would that be correct?

Dr IOANNOU: I think the answer is yes, bearing in mind that the legislation also has a provision that we may audit under this provision to the extent that we are assessing the operations of the Commonwealth partner in relation to achieving the Commonwealth purpose. So provided there is that link, that relationship to the Commonwealth purpose, I think the answer is yes.

Mr BART BASSETT: How long have you had the power to audit non-government organisations?

Mr COLEMAN: December 2011. So it is for us early days, there is no question about that.

CHAIR: Have there been any particular impacts, learnings or surprising findings that you have experienced in that time, albeit only a short time?

Dr IOANNOU: I am afraid we have not tabled the Mercy audit so we are not at liberty to discuss the findings at this stage. As I have said, in terms of process we have approached it as a regular performance audit engagement but obviously with a slightly heightened awareness that we are across the jurisdictional boundary and need to pay due respect to our audit client as we would normally. Obviously we have a slightly heightened perception of the need to be as professional as we can.

CHAIR: Have you had any discussions to date with New South Wales Treasury in terms of amendments to the Public Finance and Audit Act or, as you mentioned before, the need for a degree of agreement in relation to certain follow-the-money activity? If so, what is the status of those discussions?

Mr COLEMAN: No, we have not had any discussions with New South Wales Treasury to date.

CHAIR: Are there any situations that you might be concerned about where public Commonwealth money has gone to a non-government organisation and that organisation is also being funded from another public source for effectively conducting the same functions?

Mr COLEMAN: Lots of activities and programs are undertaken not just with Commonwealth funds but with other funds so that is a likely scenario.

Dr IOANNOU: I will add to that. One of the areas where this sort of scenario does arise is, for example, when we audit grants programs. Our Commonwealth grants guidelines, which we have close regard to in undertaking such audits, do provide warnings, if you like, to Commonwealth agencies around being a bit careful about people double dipping et cetera in the grants context. We encounter this from time to time and will observe that in the context of such audits. That does not really go directly to section 18B; it can arise in a variety of scenarios.

CHAIR: Obviously having section 18B gives you some greater transparency or potential accountability in those scenarios as well as more generally for public money going to non-government organisations, to state the obvious. Would you agree with that proposition?

Mr COLEMAN: Section 18B for the first time gives the Auditor-General the authority to assess the performance of those types of bodies, which in the Commonwealth arena the Auditor-General has never had before.

CHAIR: What about the idea of benchmarking across those organisations? Do you see that as necessarily an audit-type function or is it something that could be done by another public sector or independent body which can draw comparisons between different non-government organisations or indeed with non-government and government organisations? Is the sort of thing that an audit office might do through a performance audit function just as easily conducted by any other government or independent body where you are looking at benchmarking in particular?

Dr IOANNOU: Now, obviously we are auditors so we look, as a matter of course, to see whether people are operating and taking a reasonable approach to performance assessment, monitoring, reporting and review. We are aware that there are a number of areas, especially at the intergovernmental level, for example in the health space. There are a number of efforts nationally, pursuant to the Council of Australian Governments

agenda, to monitor health performance and there is a degree of benchmarking going on there. We recognise and will have reference to such activities nationally. I am not sure what else to add. As an audit office we will have regard to efforts to benchmark and we will comment whether they are satisfactory or not. In terms of being a benchmarking entity ourselves and setting the bench marks I think we would shy away from that. I am not sure it is entirely consistent with our mandate.

Mr COLEMAN: Certainly there is the potential—because it is early days we have not done it—but section 18B would allow us to look at the comparative performance of States or State bodies or other non-Commonwealth bodies in the delivery of certain programs. Section 18B would allow us to do that.

CHAIR: That is it from our perspective but are there any issues or comments that you think would be useful in the context of our current inquiry that you would like to make in conclusion?

Mr COLEMAN: To maybe state the obvious, as an audit office we think powers such as this are very important. We know there are a range of sensitivities involved in this space but I guess it has been a long held view of Auditors-General that the inability to follow the money trail has been potentially a significant impediment to being able to conduct a full audit. We certainly think they are quite important powers to have and obviously need to be exercised properly and responsibly. We do see it as quite important. Particularly in this day and age where a lot of Government business is done on behalf of governments by other parties.

CHAIR: Thank you very much for Mr Coleman and Mr Ioannou. Should there be any additional questions in writing that the Committee may have, which would form part of your evidence and be made public in the same way this transcript will be, would you mind replying to those in a reasonable time frame.

Dr IOANNOU: Yes, of course, we are always happy to help the Committee.

CHAIR: You are kind and we wish you well with your great work. Thank you again for appearing via telephone today.

(The witnesses withdrew)

ALISON PETERS, Director, Council of Social Service of New South Wales, and

AMANDA JANE SMITHERS, Senior Policy Officer, Council of Social Service of New South Wales, affirmed and examined:

CHAIR: I welcome to the proceedings Ms Alison Peters and Ms Amanda Smithers from the Council of Social Service of New South Wales. We appreciate you appearing before the Committee today to give evidence as part of our inquiry into the efficiency and effectiveness of the Audit Office of New South Wales. Ms Peters, in what capacity are you appearing today?

Ms PETERS: I am appearing today as the Director of the Council of Social Service of New South Wales [NCOSS].

CHAIR: I am aware that you have not lodged a written submission and that you were approached by our Committee. The reason you were approached is because your perspective is a very important one. It is recognised across government that you bring a perspective which is sometimes not front of mind but always important in terms of the role that not only non-government organisations play but the role that government and those organisations it partners with play in providing services to people in our community. Thank you for the work you do in that respect and sometimes reminding government of priorities of which, dare I say it, we need to be reminded. In that context I want to explain that one of the issues we are looking at to some degree is whether the Auditor-General ought have powers to follow the money that is provided by the New South Wales Government on behalf of the New South Wales public to non-government organisations that provide public services.

Historically, in New South Wales, which is a little different to some other Australian jurisdictions, there has not been a power or scope of authority within the Audit Office to follow public moneys to non-government organisations. You would be well aware that, particularly in the area of human services, there is an increasing trend for government to partner with organisations, whether it is in health, community services or disability services, and that is a trend both at a Federal and a State level at the moment. Hand in hand with that, it is important for us to ensure that there is appropriate transparency and accountability not only in terms of financial matters but also accountability in terms of delivering outcomes that those organisations are charged with meeting. What is your understanding of the current audit and reporting requirements of non-government organisations receiving government funding in New South Wales?

Ms PETERS: I would like to start by saying many and varied varieties.

CHAIR: Can I retract that? It was remiss of me not to give you the opportunity to make an opening statement but I gather that your opening statement may have been unofficially that you are happy to answer questions rather than you have an agenda to bring.

Ms PETERS: Yes. The Committee is well aware that NCOSS is a peak social policy advocacy body representing the interests of low-income and vulnerable people but also the organisations that work to support those people. We can claim only to speak from our experience and on behalf of that part of the not-for-profit world because we are probably the one that is most closely connected to government funding but we are not the only non-government organisation that receives support or funding in some way from government. In some ways you might also say that we are also not the only sector that engages with government, either through grants or contracting. Of course, the private for-profit sector would also be in the same position. We are mindful that this is a question that has been asked a few times. We have in the past indicated that there is a need for balance between accountability and transparency and to be honest the highest standards within our sector. We do not just want to say that we do good; we actually want to do good and so those standards are appropriate.

But that needs to be balanced against the effectiveness of the oversight regime that quite rightly the general public would want to see. This is a changing space at the moment, if I can go back to your question, because of the establishment recently of the national regulator, the Australian Charities and Not-for-profit Commission, and its role in terms of also providing some monitoring and oversight. In terms of basically you might say following the money, the financial accountability of non-government organisations within the community sector in New South Wales, there are a number of obligations. Incorporation, whether it be through the incorporated associations legislation, by being a cooperative or, indeed, as NCOSS is, a company limited by

guarantee covered by the Australian Securities and Investments Commission legislation, we are required to produce audited accounts as part of that incorporated process.

The scale of that accounting varies according to the revenue of organisations. Smaller organisations perhaps have less requirement to produce a full audit as most people would understand it. But for most of our member organisations, because of the nature of their revenue stream, they would be doing that because of their incorporated status, if you like.

We then have to provide audits for each of the contracts or grants we may get from government funding bodies that has to do specifically with the actual grant, so there is that level of financial oversight as well. That auditing, while it is purely financial, is normally accompanied by some form of performance measure or, if you like, qualitative reporting on what we have done with the money to achieve particular outcomes. Depending on the nature of the contract, those outcome measures might be required to be provided throughout the course of a contracting period or they might be provided at the end of a contracting period and of course the level and nature of that information varies depending on the contracts for the funding agency and the like. I will use NCOSS as an example. At the moment we have funding from three different agencies within government. We are required to provide three different audits for each of those contracts as well as providing the Australian Securities and Investments Commission [ASIC] and now the Australian Charities and Not-for-profits Commission [ACNC] with our organisation audit that is done by our auditor every year.

CHAIR: Thank you very much. Perhaps just going back to that question—and I think you have largely answered it in your introductory comments—as to your understanding of the current audit and reporting requirements for non-government organisations generally receiving government funding, can you give us some detail as to the Audit Office's role, if any, in that?

Ms PETERS: We actually believe that the Audit Office has a very important role in terms of some of its performance auditing and we would see that that would encompass, if you like, program funding, perhaps not for individual organisations—non-government organisations—but certainly for the stream of funding that a group of non-government organisations might be receiving from government. We would say that that is actually contemplated within the powers of the Auditor currently to do performance auditing of any government expenditure of money or use of resources in that regard.

CHAIR: Although arguably he does not have that power at the moment for non-government organisations?

Ms PETERS: Well, interestingly the Auditor has just completed a performance audit of the Club Grants Scheme and you could argue registered clubs are in fact non-government organisations. Again, they certainly did not go to look at individual clubs but they looked at the broad program.

CHAIR: Yes.

Ms PETERS: And we would argue that it is quite open to the Auditor to do that for, say, Community Builders, which is a program that we are funded under with Community Services, or the Community Care program or disability support, or any particular funding program. We would say that that is certainly open to them. I certainly would accept that that does not mean that the Auditor has the capacity to look at an individual non-government organisation's financial situation in that regard. We might perhaps say others do have that capacity so the funding bodies themselves under contract can in fact do that.

CHAIR: Sure. Do you think that the current audit requirements are sufficient to ensure transparency and accountability or do you think that the Audit Office might have an additional role beyond that broad program oversight to actually have the power, albeit not exercised terribly often, to go and to follow the money into an organisation to ensure that those we want to see benefit actually are seeing that money flow in an efficient way to deliver the outcomes that they deserve?

Ms PETERS: From NCOSS' perspective there are a number of questions. One is whether the Auditor should apply this power for everyone and we would say that is unrealistic. We do not see that the Auditor-General would actually want to be the auditor for every funded organisation.

CHAIR: Absolutely.

Ms PETERS: That would be an interesting concept and one we do not actually think would be of any value to anybody.

CHAIR: And I think everyone agrees with that.

Ms PETERS: Whether or not the Auditor should have powers in particular circumstances, again for us the issue is not so much the nature of such oversight; we actually think funded organisations need to be as transparent as possible in how they are using what, in essence, is public money so we have no problem with that but whether it is more the responsibility of the Auditor or whether it might be something for the Ombudsman—and the Ombudsman has some capacity in that regard, although I think the Ombudsman believes they are looking more at performance rather than, if you like, financial expenditure. I think it is something we have an open mind to, so it is not so much that this power should not exist; it is who might be the best placed to actually manage the process. Likewise, we would also point again to the ACNC potentially having a very similar power at a national level and rather than having a duplicative power, whether that might be a more appropriate mechanism as well.

CHAIR: Do you know if they have had any discussions with the Federal Audit Office or other bodies in terms of that broad area? We have just spoken with the Australian National Audit Office and I would have asked them had they appeared after you.

Ms PETERS: The ACNC is quite new and at this point in time their focus is on actually educating the sector about annual requirements but certainly their legislation does provide for them to investigate individual organisations based on a complaints-based model.

CHAIR: And that is whether it is State-based or national-based? There is no distinction based on jurisdiction?

Ms PETERS: No. For example, very clearly NCOSS only operates in New South Wales but we are now covered by the ACNC because we have been registered as a company.

CHAIR: Are you aware that in some other jurisdictions Auditors-General do already have more explicit follow-the-money powers to order expenditure of government money by non-government organisations?

Ms PETERS: I am aware of that but I have no understanding of how often it is utilised.

Dr GEOFF LEE: If the State were to bring in the Auditor-General's follow-the-money powers, what advantages do you think such powers would provide in terms of ensuring accountability for expenditure of government funds for your members?

Ms PETERS: Again it is about the robustness of the system. It is also a check and balance, if you like. Having said that, we would also say that following the money is not always a true reflection of the value of the work. Certainly with respect to matters of fraud, for example, or misuse of funds, yes, but we are actually more interested in whether, combined with the financial resources, the human resources deployed actually make a difference, and whether or not the Auditor would be able to make such assessments, I am not entirely sure about.

Having said that, I just gave an example to Mr O'Dea about the club grants scheme where clearly they were looking at a program area to see whether overall that program area was producing value for money and generally the money was being spent in the way Parliament intended when the scheme was established, so I think certainly the Audit Office has that capacity to get to the heart of matters, which does two things for the sector: firstly, hopefully, problems are identified and dealt with, but secondly it provides some reassurance to the sector that we continue to be held in high esteem by the general public, which is actually necessary for us to be able to do the work we do.

Dr GEOFF LEE: What would be the impact on individual non-government organisations if we do introduce follow-the-money powers and give those powers to the Auditor-General?

Ms PETERS: I guess it would depend on how it is set up. If it is set up on the basis of random—"We are just going to pick organisations"—you run the risk of some, if you like, fear element. We would say, by and

large, most organisations in the sector would have nothing to fear from that. Given the level of accounting and auditing we already have to do, we would hope that someone is paying attention to all of those documents we currently lodge. But you may actually get a level of fear, which may not be a good thing in the sector. I think in terms of oversight, one of the consistent things we hear from our member organisations is that they have no problem with being transparent and accountable, but they would like to do it once rather than in a variety of different ways at a variety of different times, which particularly for smaller organisations distracts them from the job they have at hand, which is to support and help some of the most vulnerable and disadvantaged people in our community.

Dr GEOFF LEE: I have heard the same comment, that small organisations find it hard to justify the expense of acquitting, providing audited reports for every little thing on a continuous basis. Understanding your position on efficiency and delivery of services to the people who need them, but also transparency and the perception that everyone is doing the right thing, how would we do it? Is it possible, instead of doing tiny little audits where you acquit every dollar you spend and discrete ones for every program, to do one big organisational one, and perhaps sign off the little ones that really are inconsequential in the overall scheme but capture them when you do the big audit of the organisation once a year or whenever required?

Ms PETERS: Certainly there are some of those models available. For example, I spoke about the Council of Social Service of New South Wales receiving funding from three funding agencies: the Ministry of Health; Community Services within Family and Community Services; and Ageing, Disability and Home Care [ADHC] within Family and Community Services. In the Ministry of Health we have two projects that we used to have to acquit separately and they have actually managed to bring those together. Within Ageing, Disability and Home Care at the moment we currently have four projects which previously had to be acquitted separately, but they have now all been rolled in. So there is some work going on to be able to bundle up those sorts of requirements so that they are more logical and sensible. There could be some further discussions about that.

The Council of Social Service of New South Wales provided a submission to the community services committee, which was looking at outsourcing to the non-government sector, and in that submission we spoke about some of the funding principles we would like to see the Government apply, one of which was to look at how we might have a more sensible way of acquitting the moneys that we receive that was proportionate to the amount of money we had, so the smaller the grant, the less onerous, if you like, but it still has to be of a standard that will give confidence to the general public—I think that is a standard we would all say still has to apply. But naturally the larger the amount of money then I think you might have a tiered approach to the standards that would apply for that. At the moment the different standards vary between whether you are an incorporated association or a company limited by guarantee. They vary according to funding agency; they vary between tiers of government. There is no consistency of approach as to how that might apply, and we certainly get a lot of feedback from the sector that they find that frustrating, so I think the Council of Social Service of New South Wales would say work could be done to streamline that process while maintaining appropriate transparency.

Mr BART BASSETT: I think you have answered a question with regard to your thoughts about the size of organisations and funding if follow-the-money was to be introduced, so I will take it as a given that you would be concerned about thresholds for a small organisation.

Ms SMITHERS: Yes.

Mr BART BASSETT: Are you aware of the Auditor-General's performance audit functions in general and do you see benefits in extending this function of the Auditor-General to organisations in receipt of government moneys in general—and you can answer that based on how you have explained your concerns.

Ms PETERS: We certainly see that the Auditor-General could already do program reviews of the entire pool of money, if you like. Whether there would be justification to extend that to individual non-government organisations, we would perhaps be less convinced. We think there may well be other mechanisms available if people had concerns, for example, about a particular non-government organisation and how they were expending money. We think there are a number of other areas that could be looked at to review that, starting, to be honest, with the funding body. Occasionally we have been made aware of examples where organisations have not done the right thing, yet that is known to people and the funding body has done little about it. What we tend to have is everyone else having to comply with an ever tighter, more strict standard in some way because a funding body did not just say, "You have not done the right thing, so you are in breach of your contract and we are going to stop it here and now." People do not expect the Council of Social Service of New South Wales to say things like that, but, to be honest, if the organisations are not performing then we think

the funding body has a responsibility to step in and either work on a way to improve performance or to withdraw funding. That is quite clear.

The Ombudsman also has some oversight and investigatory powers over individual non-government organisations in terms of performance, which may well be about financial performance as well as other forms of performance of the contract and delivery of service, so we think it is about getting the balance right, about who has the oversight and who might exercise that power. As I said, we also then have the Australian Charities and Not-for-Profits Commission [ACNC] and, while very new, they will also have similar sorts of power, so understanding whether or not it might be useful for the Auditor to also have similar powers we would say that there could be a duplication of powers that already exist elsewhere in the system.

The other thing I would caution is that while there has been this focus quite rightly on government relationships with the non-government sector in light of some very big programs and initiatives that are now funding non-government organisations, we would also point out that the funding we get is still dwarfed by contract governments have with the private sector, and if it is good enough for the Auditor to look at how we might be expending public money, then that standard should also apply to the for-profit sector. We do not necessarily see that there should be a distinction based on not-for-profit versus for-profit status in this regard.

CHAIR: We certainly are not drawing that distinction. Non-government is non-government.

Dr GEOFF LEE: Government money is government money.

Ms PETERS: Yes. It would be remiss of me not to make the point.

CHAIR: It is a point well made, but it is one that we agree on. It is somewhat encouraging to hear you make comments that organisations that are not doing the right thing ought be held to account. Despite the fact that they are organisations that provide a valuable public service, there are other organisations that might be able to do so more efficiently or more honestly. I have heard a similar story to the ones that you have alluded to where an organisation was being funded by two government agencies for doing the same work, and neither agency knew that that was the case. Are you aware of those sorts of situations, or can you give us a little bit more detail of the scenarios you have heard of?

Ms SMITHERS: Can I make the point that, having worked in an organisation where we got funding for what on one level appeared to be the same thing from two organisations, in actual fact one pot of money was being used for this aspect and one pot was being used for another, so you need to be very confident that—

CHAIR: I am trying not to draw a generalisation; I am just saying I imagine there are instances where that occurs, and other scenarios that Ms Peters referred to. We want to get—not because we are after a witch hunt, but because we want to scope the problem—a better understanding of what the reality is.

Ms SMITHERS: Can I equally say I actually strongly advised a board member to please go to their funding body and make a report about what they were telling me because it was deeply concerning, it was not a good use of government money—I mean I saw it as my own tax money, thank you—and I am aware that they did so. I then got a very interesting phone call, which was coming back to me to ask me to do stuff to help this organisation be correct, but my view was that it was well past the line and there was nothing that I could do which was even remotely adequate.

CHAIR: Why was that missed in a normal external audit function, do you think, and how might it be better picked up in a more accountable scenario?

Ms SMITHERS: Can I make the point that misuse of funding and fraud generally is less likely to be picked up in an audit. The research shows very clearly that it is internal controls which are very effective, but more importantly whistle blowing, so possibly you need to be looking more at strengthening whistle blowing legislation and support for those people because I am aware that there are people out there who would talk and who are seriously unhappy with what they might be seeing, but feel very unsafe about doing anything about it. I am not saying I know of huge numbers because I do not, but I am aware of it.

CHAIR: I previously sat on an Independent Commission Against Corruption oversight committee and we spent some time looking at a review of how to strengthen the whistle blower laws, and in fact there was legislation passed earlier in this Parliament to do so. Certainly it is a very important area and one which people,

despite the legislative protections, will always have apprehensions about, but I suppose we have to limit our considerations within this particular inquiry.

Ms PETERS: We also need to get the general balance between what is clearly fraudulent and potentially criminal behaviour versus what is perhaps not the best use of money.

Dr GEOFF LEE: Or poor management.

Ms SMITHERS: Yes.

Ms PETERS: Or poor management. I am not entirely convinced that the Auditor-General carrying out performance audits or indeed financial audits of individual organisations would be best placed to do that.

CHAIR: But the threat of it, albeit a residual power that is rarely exercised.

Ms PETERS: I think the threat of no longer getting your funding from a funding body that is actually paying attention may be a better threat. Being brutally frank, we have just had the budget handed down and while there has been some increase for oversight bodies generally, the threat of being caught, for example, is still quite low if we were to open up every NGO who gets New South Wales Government funding. There is something in the order of 2,200 such organisations; most of them are not going to necessarily have the Auditor-General come in and have a look, whereas I think some of their funding bodies, if the funding bodies had clear and certain standards and actually enforced what are in current contracts where performance is not up to scratch, then I think that might be a better use of government resources, to be honest.

But also I think there is increasing work needed within the sector and for sector organisations to be able to support best practice in what is or is not good performance. I know that certainly Family and Community Services are working with a number of peaks in different program areas around how they can build the capacity of their members, particularly some smaller members—some of the larger ones are capable of doing this themselves—to be able to understand what is appropriate and good practice both for accountability and transparency.

CHAIR: What I take from what you are saying is that there may be a role for the Audit Office in the NGO space but a far more important role is exercising current powers to audit the funders to make sure that they are following the proper guidelines in their oversight.

Ms PETERS: I think that is right. I think one of the other things too, and I mentioned this before in a submission to the outsourcing inquiry, we did put forward what we thought were important principles around funding which would also then form a firm base that allows organisations to get on and do their work but understand what is expected of them in a more coherent way. So short-term contracts are harder to manage than longer contracts. You can also build in better monitoring and evaluation frameworks if you know that you have got a three- to five-year contract as opposed to 12 months. Twelve months in our work you are just getting up to scratch when the money finishes. So being able to have a consistent way of monitoring your performance as well as your financial performance is somewhat constrained by the mode of procurement and the length of contracts.

CHAIR: Can I invite you to make any comments or observations or suggestions in relation to our inquiry? That is an open question.

Ms PETERS: We have worked with the Audit Office on some of its performance audits in the past. We certainly think it is an important organisation to have. Whether or not it is the best place to follow the money into individual NGOs, I would question whether that is an effective use of the Auditor's time and resources and that there may be other ways to achieve the same result.

CHAIR: The Committee may wish to send you some additional questions in writing, the replies to which would also form part of your evidence and be made public. Would you be happy to provide a written reply to any further questions should they be asked?

Ms PETERS: Absolutely.

CHAIR: That concludes our questioning. We thank you very much for appearing before the Committee and thank you for your ongoing work on behalf of a valuable part of our community.

(The witnesses withdrew)

(The Committee adjourned at 4.00 p.m.)