

PROCEEDINGS BEFORE

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO AUDIT COMMITTEES

At Sydney
Wednesday, 20 October 2004

The Committee met at 9.00 a.m.

PRESENT

Mr M. J. Brown (Chair)

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

PERCIVAL JOHN BUTTERWORTH, Executive Director, Policy and Resources, (and Chair of the Audit Committee), Department of State and Regional Development, Level 35, Governor Macquarie Tower, 1 Farrer Place, Sydney, New South Wales 2000, and

JANINE LOUISE RICKETTS, Executive Director, Business Strategy, Department of State and Regional Development, Level 35, Governor Macquarie Tower, 1 Farrer Place, Sydney, New South Wales 2000, sworn and examined:

CHAIR: I am advised that you have been issued with a copy of the Committee's terms of reference and a copy of the Legislative Council's Standing Orders 332, 333 and 334, is that correct?

Mr BUTTERWORTH: Yes.

Ms RICKETTS: Yes.

CHAIR: Did you receive a summons issued under my hand to attend the Committee today or just a request?

Mr BUTTERWORTH: A request.

Ms RICKETTS: A request.

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

Mr BUTTERWORTH: We would like to make a few points about it before we do that. Question 5, at the third line down, indicates Nathan Vass, Director of Communications, is a member of the Audit Committee. He has resigned from the department and has not been replaced. There will be a replacement in due course. On question 8, we have moved on a little bit since we provided this answer. We still have the matter under consideration, but rather than look towards other Government agencies and so on, we have been looking to have as a member somebody from a large industrial association, maybe from Australian Industry Group or Australian Business Limited or something like that. There have already been some preliminary discussions about that matter. Question 12, since we gave that answer we have started to invite the auditors in, and we have just recently had one who completed a motor vehicle audit for us and we had him in to address the Committee, talk about his findings, and the intention is in this current round of compliance audits, which has just about finished (and we are getting financial statements ready for attachment to the annual report), we will also have that auditor in to talk to us about the issues that came out of that. On questions 16 and 17, the timing of these things were a little bit askew. We did not mention it last year because the Audit Committee was roughly one month old, but this year we have a large section in our annual report which deals with all of these matters. So the answer to 16 would be yes and the answers to 17(a) and (b) and (c) would be yes, those things have been addressed. So if you make those changes, we would be happy to have this as part of our evidence.

CHAIR: Would you care now to make an opening statement?

Mr BUTTERWORTH: Yes, if I could. I want to reiterate that we are a small agency and being small means that you often have to multi-task and efficiencies are a critical issue, so we have to double up. The other thing is that we are a member CCSU, and with the shared service operations we have to rely on them for all of our accounting needs. I notice that some of the questions relate to international accounting standards and accounting standards, et cetera. CCSU adopts them on behalf of all the members of the group. We liaise with CCSU through a finance committee and have our say on matters, but by and large we do not get to say we want this element of it or that element. It is done on behalf of the collective as opposed to the single members. I just wanted to point that out to you. It does have some implications and other Government agencies are going towards shared service arrangements.

Our Audit Committee has basically two purposes at the moment. One is compliance issues and the other issue, which we figure is important, and this is where we have doubled up, is the activities for reviews of both our programs and our processes, and we use the Committee membership as well to look at those things. Both of these, we figure, are important elements of information to enable us to make improvements or betterment to our operations in the way the department functions.

At the moment we have got quite a large number of people on the committee. They represent the personnel from all of the areas where the audit functions investigate, if you like, and basically the personnel involved in this really are the ones responsible for carrying out the actual recommendations and that sort of thing. They are the implementation team as well, so it is important for them to actually get the information firsthand and that is one of the underlying reasons for having that large membership.

CHAIR: Just before you go on, are there any advantages of having such a large Audit Committee?

Mr BUTTERWORTH: I think so. I was going to mention a couple of things at the end about that. We have also got forward plans for rolling audits. In other words, we do not just have next year. With respect to our compliance audits, they go out for about three or four years, so there is a program where we negotiate every year with the Audit Bureau on that, and, similarly, we have got a rolling forward program for our reviews, and those are endorsed by the committee and were established by it as well.

The committee has only been operative over 15 months. It has met three times in that time. We established it originally as a trial. We were not sure whether we would go ahead with it or whether it would give us the benefits we required. I have to report that it has been a pretty positive activity for us to do and I do not think we would be ever envisaging at this stage to move back to the way we were previously. It has proved quite valuable for us.

CHAIR: Do all the members come?

Mr BUTTERWORTH: Yes. In fact, there has been a very good attendance. It is one of those sorts of things where we have not had a great deal of problems getting nearly every member there.

Ms RICKETTS: We met three times in 2003/2004. We have subsequently met a couple of times.

Mr BUTTERWORTH: Yes, we had some subsequent meetings. There may be, down the track, other functions that we want to add to the Committee as well. At the moment it is doing review and compliance, but there may be some other things. For instance, we are developing new sets of performance indicators for the department. Janine is working on those. In those circumstances, it may be an appropriate issue for the Audit Committee, seeing that those members are going to be the ones who will have to implement those things out in the field. So we can have a sensible discussion about it.

Two other things I mention are that we have outsourced our compliance reviews and our accounting processes to the Audit Bureau. We have all of that done outside. We do not do any of that work internally. The question there seemed to imply do you have an internal audit bureau? We do not. We outsource that and the committee oversights the functions. It is probably more applicable to a large organisation. In both the review area and the compliance area in this outsourcing, we obviously get a lot of input from people outside. We get the views of the specialists we hire to review particular areas. If you are reviewing a particular area and you need to have some knowledge about it - usually it is a business related area, but it can be in anything, it could be trade or business development related to import replacement, that sort of thing - it enables us to get specialists in and enables us to talk to them at the committee when they bring along their reports.

From our perspective at the moment, the Audit Committee assists our corporate governance

in a number of ways. We have got the comprehensive membership which we have mentioned, and I think it is important for us as an agency. It develops corporate rather than divisional or unit views. It brings everybody together. I think this is critical to get that corporate overview and everybody starts to think more on what is the best thing for the organisation, as opposed to what is the best thing for their own particular area. It has been an important means of breaking down some of those barriers. It unifies our approaches to reviews. We get agreement about what we are going to do and what the fundamental questions are in those sorts of areas. Similarly, with our KPIs, what will work and will not work, we get the opportunity to discuss all that. It sets a common standard for us. In other words, we do not end up with one area going off and doing something at a certain standard and another area doing it at a different standard. It enables us to say this is going to be the standard that we want to set for this activity and it ensures that we maintain that consistency.

I think it is also important that it makes our executive accountable collectively, as opposed to individually. By having an Audit Committee everybody is taking the decision, except the CEO, who is not a member. From our perspective I think that is quite a critical issue for us, and I think it is a critical issue where we have just set up a new governance unit for us to have a vehicle in which to bring governance issues in through this committee. So as I said, it is a living committee. Originally it was compliance focused. We added to that the actual review mechanism, but we now also are passing on to it some of the elements of corporate governance as they come along, because this committee has to implement the results of the findings of these things.

Overall, we are pretty positive about it and we think that it has been a useful exercise for us. It is still early days. We are probably in an evolutionary phase. As you can see from what I have said, we will probably review further as we get down the track and add other functions to it as we see fit, but it has provided us with very much a focal point to deal with compliance, governance and the review mechanisms for the department.

CHAIR: Have you got anything to add, Ms Ricketts?

Ms RICKETTS: No, that is fine.

Ms BEREJIKLIAN: You mentioned an issue about the size of the organisation, that you do require staff to multi-task. Presumably the members of the Audit Committee have compliance specialties. Do they have other responsibilities in the workplace or is that their whole responsibility? Is it their sole responsibility in terms of the work that relates to that or do they have other jobs as well within the organisation?

Mr BUTTERWORTH: Basically, the membership is made up of the next level of executive below the Director General and all heads of units. So they have their unit responsibilities.

Ms BEREJIKLIAN: So this is in addition to the--

Mr MATTHEWS: Yes, and then they are a member of the Audit Committee as well.

Ms BEREJIKLIAN: You also suggested, correct me if I am wrong, that the people on the committee are then in charge of implementing what the committee suggests. Can you give us an example of that and do you see any conflict between setting the parameters for what needs to be done and executing it as well?

Mr BUTTERWORTH: The actual committee decides what should be done. Obviously, there has been some discussion with the CEO if there are resource implications and that, but I do not see it particularly as an issue because what happens is that they can have that discussion around the table, this is the finding, this is the best thing for our organisation, and as a consequence of that, your area is going to need to do this, make these changes to the way you operate or make these changes to whatever matter is concerned. I do not really see that as a conflict at all.

Ms RICKETTS: The other thing is that the business strategy unit, which is in my area, monitors and takes part in the implementation process. So there is an arms length involvement as

well. The executive officer is a member of my very small team and he or she or I would participate in discussions with the operational areas as to how they were going to implement what had come out of reviews or the audits. So there is another level of check, and I guess if people were lingering, on past practices, it would be our job to drive the agenda forward.

Mr BUTTERWORTH: It is far better to try and get agreement and get it done collectively, rather than have it virtually dictated to you. I think that has been one of the good things about this. We have worked as a team in this. There is that team environment. It has brought that corporate focus to things, instead of just having it dictated to us by the CEO saying do this, do that, et cetera. It has worked much better for the organisation this way.

Mr WHAN: From what you described, there it sounds like your committee has got a broad, free-ranging role in the organisation. Is it really becoming more than just an audit committee and looking at compliance and things like that? It sounds to me like it is almost an expanded executive. You were talking quite a lot about making sure that you were all heading in the same direction and common approaches, things like that. Does it show that maybe there was a lack of a common approach there before or the executive was not including enough people in some of the processes in the department?

Mr BUTTERWORTH: No. I think you have got to look at the history of organisations, and within Government these days you see lots of restructurings and what have you. Our organisation six or seven years ago came together out of a mixture of a whole lot of various parts. The normal thing with that is up go the barriers and you have silos and so on. This has been a very good exercise for us in breaking a lot of that down. I do not think there is a situation you are describing. I think it has been a much different circumstance for us and this has been one of those mechanisms that has helped.

Ms RICKETTS: The other thing is that we have weekly executive meetings with the Director General and they are religiously held. So there is not any lack of opportunity for the broader issues, and frankly the Director General is pretty critical at those meetings. So these meetings are quite different.

Mr WHAN: These have a broader range of people on them?

Ms RICKETTS: No, they are the same group.

Mr BUTTERWORTH: The only other people who are at the Committee meetings are the Director of Governance and the Senior Manager Finance.

Ms BEREJIKLIAN: Can I ask a definitional issue. In terms of your department and this committee, how would you define the difference between audit and compliance? Do you see them as one and the same? I am just trying to get a grasp of what you would term as an audit function internally versus a compliance function internally. I just want to make sure that I am understanding whether they are one and the same or whether you see them as different.

Mr BUTTERWORTH: No.

Ms BEREJIKLIAN: What you described seemed to describe a compliance function in that as well.

Mr BUTTERWORTH: Essentially, we have looked at it that way because it is probably the easiest way to see it. There is a review mechanism which looks at our programs and our processes and addresses those. You could simply term that audit as well. That looks the same. Here is a program, it is dealing with assisting exporters. Is it working well? Is there any way we can improve it? That sort of thing. Then you can go to the other side of saying here is a program which is expending certain amounts of money, are those moneys being expended in relation to the guidelines that have been set for that expenditure, is all the paperwork correct, all the approvals correct, et cetera, which is more or less compliance. That is what I am talking about generally.

CHAIR: Talking about the membership again, from my understanding of your evidence to date, you have set up the internal Audit Committee based on the position that person holds within the organisation, rather than looking at particular skills and qualifications. Can you explain why you have lent more to a positional structure, rather than one looking at skills and qualifications?

Mr BUTTERWORTH: I think the issue that I mentioned earlier on, it is important, because those people in those positions are the ones who actually have to make it work and pick up on the recommendations and actually implement them within their area of administrative responsibility. That is probably the answer to that, but we do actually get along from time to time people with specialist areas of knowledge. I have got a couple of staff in my area who are experts in economic evaluation and that sort of thing, and they are also part of the development of KPIs for the organisation, and whenever necessary we invite them along to talk about matters if they are on the agenda.

CHAIR: Following on from that, does your Audit Committee formally review and consider the external auditor's annual plan and audit fees or discuss the external auditor matters arising from the audit?

Mr BUTTERWORTH: We have not done last time because it fell into a gap in the formation and the reporting, but it will happen this next round. It is on the agenda for that.

Mr McLEAY: Having a positional base, is there ever a conflict, you are the executive director of your unit or director and you do not want to do something, the Audit Committee should have robust debate, you could argue against reform, so therefore it is not a recommendation of the committee?

Mr BUTTERWORTH: Janine in her position actually prepares a report that goes forward from the committee to the Director General and I imagine if he found people were not necessarily doing the right thing or were refusing to do something, then there would be some conversation about it.

Ms RICKETTS: It is fair to say that we have had robust discussions but we have come to consensus in every case, and as the team has worked together now for some time, it would not occur to us to not come back to the committee if an individual felt strongly that a poor decision had been made. So I think it is a very low risk, and also with the business strategy group responsible for documenting the decisions, reporting them to the Director General and monitoring them between meetings, there is another series of checks on that.

CHAIR: How would the department actually assess the Audit Committee's performance?

Mr BUTTERWORTH: We are planning down the track a bit to have a review of it. We have not actually set a date for that but we think down the track a bit. As I said, it is very early days for us and it would be a bit premature we feel at this stage when we are still evolving. When we feel that it has reached the stage where we are maximising the usefulness of it with respect to its functions, then we would probably have a look at it. We are not averse to doing that. It just seems that if we did it now when new things are being added, trialling new things with it all the time, it would be premature.

Mr McLEAY: Have you spoken to other audit committees to see how they work?

Mr BUTTERWORTH: Yes. When we set this up I had a long discussion with the Internal Audit Bureau and got their guidelines. I discussed it with them and what would be appropriate. Interestingly, we had quite a discussion about how those things would work, because their guidelines, once again somewhat like the questionnaire, were aimed at large organisations. I said ours is a small organisation. We do not have all of these specialist functions or people in our organisation. Some of it is outsourced to CCSU anyhow and so how do we make this work? We had that discussion with them before we actually got it going.

Mr McLEAY: Would you consider using them to do some assessment of you or are you looking at more self-assessment?

Mr BUTTERWORTH: No, if we are going to do it, we would probably want to get it done externally. I do not think we would want to do it internally, largely because I think it is more critical for us to have that objectivity. If we are going to go through the process, it is more advantageous for us to have it objectively done and then we can accept it, discuss the results with the person in a sound collegiate way and take it from there.

CHAIR: We understand that you are looking at using the Audit Committee for some risk management within your department. Could you talk a bit about that?

Mr BUTTERWORTH: This is part of this multi-functional issue about it. In our department, rather than ending up with a risk management committee, a specialist audit committee and a program review committee, et cetera, what we are trying to do is say what other things can we get this committee to actually address so that it saves us having to establish multiples of it.

CHAIR: You are saying that the Audit Committee is actually responsible for risk management?

Mr BUTTERWORTH: Yes.

Mr WHAN: On the extent of your involvement in risk management, your department gives a lot of assistance to external organisations, and even companies in some cases. Are those external grants and things part of your risk management assessments?

Mr BUTTERWORTH: Yes. We have got a risk management plan and we comply with all those sorts of requirements that are necessary.

Mr WHAN: And this committee would be taking that on?

Mr BUTTERWORTH: Yes, they look at that. They oversight the plan.

Ms RICKETTS: The risk management plan is then taken forward by the program managers into the operational areas to show how to review activities in terms of risk management planning in delivering the programs.

CHAIR: What are some of your major risks that you are managing?

Ms RICKETTS: The risk of people applying for assistance and not understanding the nature of the assistance. The risk of misrepresentation always arises in relation to business assistance when there are third party organisations involved or when a consultant is involved. Because a lot of the delivery of our assistance is outsourced through various means, there are risks associated with having other parties involved, and the risk management plan goes in some detail to those and has those assessed, and the processes that we have in place in relation to the programs reflect those risks.

Mr McLEAY: I was asking before about other people helping you. Have you spoken to any other say small agencies about their experience or have you talked to them about your experience?

Mr BUTTERWORTH: We would be willing to talk to them but, as I said, we have been focussing on our own operation. We have not got, if you like, a compendium or a lot of experience to go on yet to share notes with, but we would be happy to talk to other small agencies and share with them the benefit of our experience.

(The witnesses withdrew)

(The Committee adjourned at 9.34 am)