

REPORT ON PROCEEDINGS BEFORE

PUBLIC ACCOUNTABILITY COMMITTEE

**BUDGET PROCESS FOR INDEPENDENT OVERSIGHT BODIES AND
THE PARLIAMENT OF NEW SOUTH WALES**

CORRECTED

At Jubilee Room, Parliament House, Sydney, on Friday 23 October 2020

The Committee met at 1:00 p.m.

PRESENT

Mr David Shoebridge (Chair)

The Hon. John Graham
The Hon. Trevor Khan
The Hon. Matthew Mason-Cox
The Hon. Natalie Ward

The CHAIR: Welcome to the third hearing of the Public Accountability Committee's inquiry into the budget process for independent oversight bodies and the Parliament of New South Wales. The inquiry is examining the budget process for how the quantum of funding for the key independent oversight bodies is determined and the transparency of that process. Before I commence, I acknowledge the Gadigal people, who are the traditional custodians of this land, and I pay my respects and the respects of the Committee and those in attendance to elders past, present and emerging and extend that respect to other First Nations people present.

This is the third hearing for this inquiry and follows the tabling of our first report in March this year. That report examined the budget processes for four oversight bodies: the ICAC, the Electoral Commission, the Law Enforcement Conduct Commission and the Ombudsman. We will today hear from the Auditor-General and the Deputy Auditor-General for New South Wales. The Committee resolved to delay hearing from the Auditor-General at her office's request to avoid any perceived conflict of interest by allowing the Auditor-General to complete the audit requested by the Special Minister of State into the financial and management arrangements of the oversight bodies. The Auditor-General's report was tabled this Tuesday. The Committee is therefore pleased to welcome to this hearing the Auditor-General, whose evidence will enable us to complete the second phase of this inquiry.

Before commencing I will make some brief comments about the procedures for today's hearing. Today's hearing is open to the public and is being broadcast live via the Parliament's website. A transcript of today's hearing will be placed on the Committee's website as soon as it becomes available. Parliament House is now open to the public. All visitors, including witnesses, are reminded that they must register their attendance in the building via the Service NSW app. Please see the secretariat if you need assistance with this. Please remember to maintain appropriate physical distancing at all times.

In accordance with the broadcasting guidelines, while members of the media may film or record Committee members and witnesses, people in the public gallery should not be the primary focus of any filming or photography. I remind media representatives that they must take responsibility for what they publish about the Committee's proceedings. It is important to remember that parliamentary privilege does not extend to what witnesses may say outside of their evidence at the hearing. All witnesses have a right to procedural fairness in accordance with the procedural fairness resolution adopted by the House in 2018.

There may be some questions that a witness could only answer if they had more time or with certain documents to hand. In those circumstances, witnesses are advised that they may take a question on notice and provide an answer within 21 days. There is no prohibition on providing an answer earlier. To aid the audibility of this hearing, I remind Committee members and witnesses to speak into the long, black microphones. The room is fitted with induction loops compatible with hearing aid systems that have telecoil receivers. In addition, several seats have been reserved near the loudspeakers for persons in the public gallery who have hearing difficulties. Finally, I remind everybody to please turn their mobile phones to silent for the duration of the hearing.

MARGARET CRAWFORD, Auditor-General for New South Wales, affirmed and examined

IAN GOODWIN, Deputy Auditor-General for New South Wales, sworn and examined

The CHAIR: I welcome our first witnesses. Thank you both for your assistance. At the outset I say thank you as well for the work that you have done in producing that report which was released this week. Now is the opportunity, if both or either of you sought it, to give a brief opening statement.

Ms CRAWFORD: Thank you very much for the invitation to speak to the Committee today. In particular, though, I want to thank you for allowing me to defer making a submission and giving evidence to this Committee until after the completion of my audit of the effectiveness of the financial arrangements and management practices of four integrity agencies. As you said at the outset, I was requested to undertake this audit by the Special Minister of State under section 27B (3) (c) of the Public Finance and Audit Act 1983. The subject matter of this audit closely aligned with the terms of reference of your inquiry. Deferment of my submission and evidence avoided any perception of bias in the conduct of that audit.

Today I want to make some very brief opening comments, primarily related to the budget process for the Audit Office of New South Wales. The Audit Office is one of a small number of independent bodies that provide assurance over the activities of the government of the day. Its clear purpose is to support Parliament to hold government to account for its use of public resources. It does this through conducting financial and performance audits. Financial audits provide an independent opinion on whether the financial statements of New South Wales government entities comply with accounting standards and relevant laws, regulations and government directions. Performance audits review whether the activities of government are conducted effectively, efficiently, economically and in accordance with the law.

Independence is fundamental to everything we do. We are required by statute and by professional standards to be independent of the organisations we audit. Declarations of independence are required annually and must be confirmed at the commencement of all audits. In this context the current requirements that apply to our budget and reporting arrangements do have the potential to threaten the independence of the Auditor-General. As we explained in our submission and as distinct from the other integrity bodies that have been the subject of your inquiry, the Audit Office is largely self-funded from the audit fees it charges. We have different financial arrangements and we are not subject to the annual appropriation process.

We operate a working account within the Special Deposits Account. The fees paid by auditees for our financial audits are paid into this account along with an annual contribution from government for the cost of performance audits and to pay for our reports to Parliament. The total costs of the Audit Office are met from this account and that is largely the cost of our staff, our accommodation, technology and, really importantly, the investments we need to make to stay abreast of the latest tools and techniques of auditing. The Audit Office has nevertheless been subject to budget controls and reporting requirements in accordance with Treasury policies and directions. Expenditure control limits and, on occasion, efficiency dividends have also been applied. Since the introduction of outcomes budgeting the Audit Office has been included in the Department of Premier and Cabinet reporting on outcomes. While we have been able to manage free from any overt interference to date, these measures have the potential to threaten the independence of my office and would benefit from revision.

My submission to this inquiry provided a self-assessment of the independence of my position and office against the International Organization of Supreme Audit Institutions [INTOSAI] Mexican declaration on supreme audit institution independence principles. Further, the submission referenced a recent report commissioned by the Australasian Council of Auditors-General which assessed the comparative status of jurisdictions against these principles. That report concluded that the Auditor-General for New South Wales continues to score lower on overall independence relative to many other jurisdictions including New Zealand, Victoria, Queensland, Western Australia, Tasmania and the Australian Capital Territory [ACT].

Some of the reasons for this include not having standalone audit legislation, not having the independence of the Auditor-General explicitly mandated and not having a mandate that is as broad as other jurisdictions. Most of the focus of this inquiry has been on the budget process. Sufficient budget is core to independence. Turning to my organisation specifically, questions of equal importance are statutory independence and mandate. These are not new matters. In particular, the question of mandate was raised in the Public Accounts Committee quadrennial review of my office in 2017. This remains an open question for this Parliament. Thank you.

The Hon. JOHN GRAHAM: Thanks, Auditor-General, for your submissions and particularly for your report. It does cross over with many of the questions that the Committee has already been looking at and certainly takes the argument again to a really useful place. I was just interested in your observations about this idea of the threat to independence because often that is how the funding—actually, what is going on here. This is the view

that has put to us by the other agencies: It is not that they feel their independence been concretely compromised but that the tension in the current governance arrangements means that is always a risk or a threat. I just wondered if you wanted to make any observations, rather than just about your agency, about that tension across the integrity agencies in general.

Ms CRAWFORD: Yes, look, that was really the point we were making in the audit report. It is not really whether funding was reduced to these bodies. It is really that process that would allow for that. It is the process that we are critical of. We believe that that process does not have sufficient safeguards to be certain that there are protections to the independence of the independent bodies that we examined. We have set out a number of principles that we think should apply to provide further safeguards against that threat.

Mr GOODWIN: Certainly the audit was never looking for a specific example of a concrete evidence of something compromised. That is not what we set out to do and that is certainly not what we were reporting. The audit was about looking at, as the Auditor-General said, the processes and whether there were adequate safeguards. There are many different models across many different jurisdictions and it is very hard to point to a perfect model, but what we are identifying is that there are threats. The threats exist. Without adequate safeguards they continue to exist. The distinction here is that these agencies play a unique role compared with other government departments. Other government departments are there to service the government of the day as well as service the Parliament and the citizens of New South Wales, whereas these integrity agencies really are there to service the Parliament of the day and the citizens of New South Wales. It is that distinction which sort of calls out the funding arrangements which are unique to them.

The Hon. JOHN GRAHAM: You have turned exactly to where I was going to go. You have really set out the principles here, but what have you seen in other jurisdictions? Obviously the systems and agencies that we have evolved here and our integrity agencies are unique to New South Wales. But where would you point us to in other jurisdictions from the survey you have done and what you have driven into this report?

Mr GOODWIN: So we were quite deliberate in identifying principles rather than specific models. That is because while there may be good examples elsewhere—and I will go to that—you cannot just pick up a model from another jurisdiction and plonk it in New South Wales and go, "That will be fine." It needs to fit within the arrangements here in this Parliament. But we have given examples in our report of the New Zealand model. Victoria has recently changed its legislation in respect of the Auditor-General, Ombudsman and their independent commission to institute more Parliament involvement in the budgeting process. The Australian Capital Territory has also made changes. They are the ones that we point to but, as Margaret said, I guess there are strengths and weaknesses of all of these models. The three that we point to have got greater safeguards and a larger role for their parliaments and more transparency in that process. It is those principles that we are looking to rather than a particular model.

The CHAIR: Do you mind if we just explore the concerns you have about the transparency of the funding models as a starting point? I might summarise some of your findings about the budget process. It is a black box process. The agencies submit to the Executive Government and a series of processes occur within Executive Government, including eventually finding its way up to the Expenditure Review Committee [ERC], and then a decision is spat out at the end. There is no transparency about what happens in the meantime or specific engagement about that budget process. Is that an unfair characterisation of it?

Mr GOODWIN: I appreciate that you have tried to simplify it and I think you have done a really good job of simplifying it, but there is a degree of nuance that I will probably just tease out. For example, one of the agencies which we do reference in the report is ICAC. They would submit their budget process through to Treasury. That would go to the ERC and Treasury would report that they do not amend what ICAC are putting forward to the ERC, but Treasury would provide, as the fiscal manager of the government of the day, their own commentary around it. Now ICAC or any other agency does not necessarily see what that Treasurer commentary is and whether that adds or dilutes the budget bid.

The Hon. TREVOR KHAN: I think the evidence was is that they do not see. It is not that they do not necessarily see. They do not.

Mr GOODWIN: Yes. And then they do not get the feedback as to what—they do not get their bid. They do not get their feedback necessarily as to why that occurred.

The CHAIR: The computer says, "no", quite often at the end of it. Then that is it. You say in your report, "Decisions about funding for integrity agencies are not transparent and there are no mechanisms for the agencies to question or challenge decisions made." That is a reference to this process, is that right?

Mr GOODWIN: Yes.

Ms CRAWFORD: That is correct except, of course, that all the bodies that we examined have access to parliamentary committees. They have a very clear voice. Certainly they do make their feelings known, but in a formal sense through that budget process there is no way to challenge the allocations determined by ERC and Cabinet.

The CHAIR: I think you separately point out in your report that none of those oversight committees have a role in the budget setting.

Ms CRAWFORD: Not specifically.

The CHAIR: It may arise in the course of a general overview. But none of the committees meet in the budget process and have regular formalised or otherwise process for reviewing the budgets.

Mr GOODWIN: Certainly not in the context of the models that the Auditor-General mentioned before. If you look at other models where a parliament has set up committees to provide that oversight, that is an explicit role. That explicit role does not exist in the current committee structures.

The CHAIR: It is my understanding that—albeit in general terms—your recommendations are that there should be that process and that, either in one or more committees, that budget oversight feedback process between the agencies and Parliament should be part of the landscape for integrity agencies funding.

Ms CRAWFORD: Correct.

The Hon. MATTHEW MASON-COX: Ms Crawford, if for example a parliamentary committee took on that role for each of the specific audit agencies that exist now, what sort of training and other support do you think they would need in order to perform that function? Or are they already at a stage, in your humble view, where they would be capable of providing that oversight role?

The Hon. TREVOR KHAN: That is a big ask, having sat on them.

The CHAIR: I do not think Mr Mason-Cox is asking you to pass judgement on the talent of the MPs.

The Hon. TREVOR KHAN: Oh, sorry. I thought that was where it was going.

The CHAIR: I think the question might be upon secretarial or other support.

The Hon. MATTHEW MASON-COX: That's right.

The CHAIR: You may have views on that and you are welcome to pass your views on the talent of MPs, but it may be more useful to focus on the secretarial and other support.

The Hon. TREVOR KHAN: I am generally prepared.

Mr GOODWIN: Trying to be helpful, I think that part of the answer does not just nest in how expansive the role of that committee is in terms of that function. How forensic that process should be is really a judgement for the Parliament to make. You are dealing with budgets and with numbers, so you would expect that the agencies that are submitting their budget bids are doing it with sufficient transparency and ease to understand what is going through the numbers. You would also expect the committee to have access and to be able to ask the "so what" questions around those budget bids. There are some nuances within each of those integrity agencies so they do have different oversight roles. Some have quite overt operations and some have operations that they run in a covert way. Their operations are going to dictate the ability to have a full and frank conversation around budget, either in a forum such as this or in a closed forum.

The Hon. TREVOR KHAN: I think one of the things particularly with the ICAC but also with the Law Enforcement Conduct Commission [LECC]—I suspect less with your office, the Crime Commission and the Ombudsman's office—is the variability of workload over time. We have developed a model with the ICAC and the LECC of recurrent funding in the budget process and then supplemental funding and grant funding, as was described in the ICAC submission and in my question last week. Irrespective of whether the current model existed or not—or whether you went to a model involving parliamentary committees—do we need to get away from this supplementary funding model, or do we accept that that is part of the reality of how those bodies operate and need to be funded?

Mr GOODWIN: That is a really good question because it does tease out some of the differences in the nature of the agencies. It is not so much a question of whether they require supplemental funding. Even if you take the ICAC or the LECC, you quite rightly characterise that there is probably a degree of unpredictability in the ability to forecast the nature of their work. There will be routine things that they do, but it is hard to say that two years from now you are expecting a certain level of corruption to occur and then spin up an inquiry. There needs to be a mechanism for that supplemental funding. The question that we tease out in the audit is not whether

supplemental funding is the problem. It is the mechanism of going through the Executive and going to the parties—who could always be subject to an inquiry—as the people who will then determine whether the supplemental funding has merit. When you turn to the Auditor-General's principles in the recommendations, there is a role for the Parliament to play in determining the merits of that supplemental funding. But I would suggest that there is a degree of variability, perhaps, in the nature of the work that occurs in a covert investigative authority such as the LECC or the ICAC.

Ms CRAWFORD: Which is different.

Mr GOODWIN: Which would be different to perhaps, say, the Ombudsman and certainly different to our own organisation. We have a greater ability to predict the nature of our work, other than when we get audit requests to do.

The CHAIR: One of the recommendations in the interim report of this Committee—and it is dealing with those erratic funding needs, if I could describe them that way—was that the annual budgets for the ICAC, the LECC, the Ombudsman and the Electoral Commission include a set contingency fund to address unbudgeted financial demands with access to the funds governed by prescribed criteria and the approval of the relevant parliamentary oversight committee. Did you have any regard to that as a potential model?

Ms CRAWFORD: At a general level, we steered away from being specific as to the actual mechanism. Given the nature of some of these bodies, as Mr Goodwin just said, we certainly support the concept that there is variability and so there needs to be a way of sourcing additional funding. But the actual method is not something that we felt was for us to determine. We believe that it is for the Government, in consultation with the Parliament, to determine the mechanism.

Mr GOODWIN: Yes, I agree 100 per cent with what the Auditor-General said. There is also a need just to recognise that there is a tension between—the Government of the day always has the role of being a prudent fiscal manager of resources, and so they have to play that role. The mechanism of how you get supplemental funding to an integrity agency, which they necessarily need to deal with outside of the Executive arm, is more the question. It is more the process of how as compared to whether there is a need for supplemental funding. We have steered away from trying—and it goes right back to the opening question—to suggest that there is a specific model. Part of this becomes an appetite question for the Parliament. These integrity agencies exist to serve the Parliament, and so the Parliament should quite rightfully be determining the appetite for how much of a role it will play in determining the merits of any funding bids.

The CHAIR: Perhaps I will ask you in a different way. Would that mechanism satisfy the independence concerns that you have set out in your report?

Mr GOODWIN: Setting aside a contingency fund—

The CHAIR: With prescribed criteria to access and approval by a relevant parliamentary oversight committee.

Mr GOODWIN: Yes. Prescribed by a parliamentary committee, I think it would go a long way to dealing with some of the issues identified.

Ms CRAWFORD: What we were trying to achieve in our audit is to make sure that we had the right balance between being able to access additional funding required to fulfil our mandate but also the accountability and responsibility that goes hand-in-hand with that. Whatever mechanism, in our view, needs to get that balance correct.

The CHAIR: Auditor-General, I am not asking you to endorse that as the only mechanism. I am simply asking your view about whether or not that mechanism would address those concerns in the balanced way that you ask.

Ms CRAWFORD: I think it has many of the key elements. I will stop there—the key elements, yes.

Mr GOODWIN: It is very easy to very much focus on the needs of the integrity agencies. As Ms Crawford's organisation is one of those, we focus on our needs as well. But we also have to make sure—I mean part of what we are talking about here is checks and balances but the other check and balance is to make sure that any bid for additional funding, whether it is through a contingency fund or some other mechanism, does have merit and that it has been sufficiently scrutinised that the operations are being efficient. And that is where it gets back to—it just cannot be necessarily a blank cheque; that you set aside a fund and therefore that is always available. There should be some process—some fiscal scrutiny.

The Hon. TREVOR KHAN: Indeed, we have seen with an organisation, perhaps called icare, that—

The CHAIR: It is good to have scrutiny.

The Hon. TREVOR KHAN: —if they are essentially self-funding you can end up with some interesting outcomes. What is that room called?

The Hon. MATTHEW MASON-COX: The imaginarium.

The CHAIR: The imaginarium, yes. As much as I would like to talk about icare and as much as I would like to talk about Stronger Communities grants, I do not think you should be tempting me in that regard, which is why I am going to go to Mr Mason-Cox.

The Hon. MATTHEW MASON-COX: I have a couple of things. You mentioned that a lot of your funding is from self-funding sources—from charging fees, if you will. How much of the total funding package is self-funded? And, indeed, is that a self-disciplined type restraint on your operations? Does that mean you limit what you do as a result of that? So is that a constraint on your independence and function and purpose in some way? And, indeed, do you think that should be, in your own circumstances, revisited? What would your thoughts be about how that could work better?

Ms CRAWFORD: I will ask my deputy to speak to that.

Mr GOODWIN: Thank you. I think there are a couple of questions embedded within that: one about just how we are funded and I guess the tail of your question was whether that works for us as an organisation.

The Hon. MATTHEW MASON-COX: Pretty much.

Mr GOODWIN: In terms of how the funding of our organisation works, there are two primary products—if you just allow me a little bit of time because they are different funding mechanisms. The two primary products are: We do conduct financial audits of all prescribed government agencies, both State, local and university sector, and then conduct performance audits. Our financial audit program is a self-funded program so the total revenue of the Audit Office in 2019-20 was \$62.8 million but for the financial audits that was around about \$52 million—that is self-funded. That runs itself as you would imagine any other firm in the private practice to run except that we do not have a profit margin. It is simply a recovery of costs but the costs recovery is through a charge-out rate model so the audits are a function of hours. It is a risk-based methodology. We determine the hours and then each staff member has a charge-out rate and that charge-out rate is embedded in a charge rate model simply to recover the costs of our audits.

We have margined it—small margins that just allow us to recognise that in any given year we will have to write off some amount from our estimated audit fees to what the actual billings end up being. I contrast that to the performance audit program, which is a government contribution. There are three tranches within that. There is a government contribution for the performance audits of the State sector, which is about \$6.1 million. There is a government contribution for us to conduct three audits of the local government sector, which is about \$1.2 million. And then an additional \$2.9 million government contribution for the Auditor-General's report to Parliament; omnibus style reports on the outcomes of our financial audits. For example, local government sector: While we audit in the order of 140 agencies there, we will provide a single report that summarises the outcome of those audits and any insights or calling out any significant risk factors. So that is a government contribution.

There is a residual \$0.6 million within our revenue which is ancillary stuff that we get from doing secondments. So we might second staff to other agencies and we cost-recover that. That is only about \$0.6 million. The question of the appropriateness of that does raise questions where there is comparability to jurisdictions. So as an office in our financial audit branch, we are probably fairly similar to most of the other auditors-general across Australia at the State level which fund through a cost-recovery mechanism—as I say, similar to what you might find in the private practice. There are, in any model, pluses and minuses. So there are tensions that, on the one hand, create a discipline to our practice and a transparency on how we do the audits and the discipline is that there is a tension between us and the auditee—will we agree the fee?

But on the other side it removes an involvement with the Parliament and ultimately the beneficiary of those financial audits are for the Parliament. So that would contrast perhaps with the Australian National Audit Office where they are appropriation-funded for their financial audits. On the performance audit side, to your question—I should have said on the financial audit that because it is a risk-based methodology, we would determine the hours and we would negotiate that fee with the audited agency as to what the fee is based on the risks. It is not without any tension because people always try to negotiate a better audit fee on the other end. On the performance audit side, though, that totality is a government contribution so we do need to cut our cloth within the envelope that we are given. So within the performance audit mandate, we are cutting our cloth within a government contribution of about \$7.3 million.

The Hon. MATTHEW MASON-COX: Is that where your concerns are in relation to, potentially, statutory independence restricted mandate? Is that where your concerns primarily lie?

Mr GOODWIN: I might bring the Auditor-General back in because it gets to the opening statement because independence has a budget focus but independence also has other focus, which you have touched on, around the statutory function and the mandate.

Ms CRAWFORD: But the budget process, the way it works, does have some threats to us. So one threat of course is the amount of funding that the government contributes for performance audits because that, by its nature, does determine the number of performance audits we are able to carry out. But even on the financial audits side and our general operations, even though we are raising our own revenue and spending that, we still comply with all the Treasury policies and guidance about expenditure caps and the like. So that could, depending on how those expenditure limits played out, also potentially have some impact. The labour expense cap, for instance—if we had a cap there and then all of a sudden a new agency was created, we could be constrained in our ability to fulfil our mandate based on that expense cap.

Mr GOODWIN: The other thing I was going to say is that with anything, if you have—within our budget envelope for performance audit we are trying to cut 20 audits within that and so we are trying to live within the budget means that we have. Hypothetically, more money could mean more audits. I think sometimes we might feel like there is a personal limit as to how much performance auditing one can process in a given year. But what I would draw out is that the amount of our expenditure, as a size of government, is relatively modest compared to our peers. So the auditors-general do a benchmarking exercise and the amount of expenditure that the Audit Office, as a percentage of government expenditure at the State level, is below the average of our peers, at around 29c for every \$1,000. And for the performance audit mandate, if you think that we are doing \$7.3 million out of a budget expenditure in the last budget of \$83.3 billion, is around 7c for every \$1,000 expended.

The Hon. MATTHEW MASON-COX: What do you think the benchmark is in that regard in other jurisdictions?

Mr GOODWIN: I would have to take it on notice around the performance audit comparator. But in our annual report, I think on page 37, we do outline where we sit against the average. It is an average because we are not calling out various individual audit offices but we have consistently year on year been below that average. In 2020 I think total office expenditure, so that includes financial audits, was 29c for every \$1,000 of expenditure, whereas the average was around 33c. Our performance audit program is relatively small when you look at it in the comparator of our office. So we have an expenditure of \$7.3 million on performance audit out of a total revenue of \$62.8 million.

The Hon. MATTHEW MASON-COX: I have a couple of other questions, Chair. In relation to the other oversight committees, an old chestnut that you will of course know is that they are all joint committees, whereas the committee that oversees the Audit Office is a committee of the other place. Would you venture a view that perhaps we should be moving to a joint committee in the event that it was oversighted by the relevant parliamentary oversight committee? Or would you be unwise to make such a comment?

Ms CRAWFORD: I believe that is a matter for the Parliament.

The Hon. MATTHEW MASON-COX: Excellent. Finally, I wanted to ask about the supreme audit principles. It is a lovely concept.

Ms CRAWFORD: Aren't they?

The Hon. MATTHEW MASON-COX: In terms of ensuring independence, is there anything else from a budgetary point of view that is a limitation on the independence or the perception of independence of your office?

Ms CRAWFORD: The self-assessment that we provided with our submission did identify our own views against those principles. In relation to the financial management, we rated—I bet I get caught out here—okay in that, particularly because we have our own employment arrangement. We have our own award and employ our own staff separate from the public sector. That gives you a good score on independence. The other matters that the INTOSAI principles call out really do go to the independence of the Auditor-General his or herself, being quite often an officer of the Parliament rather than—sorry, back on the financial, I should say that the key principle is that there be a role for Parliament in the oversight of the budgets for an Auditor-General. That is the key missing element.

The CHAIR: That is not just a retrospective role, that is a role as the budgets are being developed. I think that is an important—

Ms CRAWFORD: In the preparation, correct. That is the key principle when it comes to the financial arrangements. That is where we do not rate as highly as some others. Then on the other principles, they go to the matters that I called out in my opening statement, which are to do with mandate and independence of the role itself.

The Hon. TREVOR KHAN: Are there any audit officers that are funded through the Parliament? Essentially, their budget being part of the general parliamentary allocation?

Mr GOODWIN: Within the Australian context, pretty much—if I again distinguish between the products on the performance audit side, I believe that all the jurisdictions are funded through the Parliament through an appropriation. While our contribution comes in as a government contribution, the nuanced difference here is that it is not coming through as an appropriation from the Parliament, it is coming through the Executive side. That has been a practice that we have existed with for a number of years. On the financial audit side, the majority of auditors-general would have a model similar to our model, which is a cost recovery model. But I do believe that the Australian National Audit Office is appropriation funded for its financial audits. That does not mean they do not bill a fee to their auditees, but the revenue that they collect from an audit goes back to the consolidated fund and the appropriation fund.

The Hon. TREVOR KHAN: And that reflects constitutional issues.

Mr GOODWIN: That is one of the things that you are rightly teasing out—whenever you are looking at any model, it has to be always settled in the constitutional background of that jurisdiction.

The Hon. TREVOR KHAN: What about New Zealand? How do they fund?

Ms CRAWFORD: They would probably be the closest to what you are suggesting, because they have almost a dual process where the normal appropriation process is proceeding but the committee that oversees the Auditor-General—and I think two other independent offices—is making its own determination on the level of funding. The Treasury of New Zealand is involved in that process, but the decision is actually made by that committee as opposed to by the Treasurer.

The CHAIR: Is that a recommendation from the committee that finds its way into the budget, or is it a final determination?

Ms CRAWFORD: My understanding, and I will just look to my team, is that it is actually a decision.

The CHAIR: The halfway house, if I could describe it that way, would be to have a recommendation from the committee that finds its way to the executive, and then a requirement for the executive, if they differ from that recommendation, to explain that to Parliament.

Ms CRAWFORD: And that is the model that operates in the ACT, for example.

The CHAIR: Could I ask you about the issue of the Government forming a view on withholding money that has been set aside in an appropriation to an integrity agency? You make the point that there is effectively a legal dispute at the moment, if I can put it that way—or an interpretation dispute might be the more polite description—between DPC and potentially your office and other integrity agencies about the ability of the Executive to withhold from these independent statutory agencies a proportion of the money set aside in an appropriation bill. Could I ask you to tease that out a little more?

Ms CRAWFORD: I will ask my deputy to do that.

Mr GOODWIN: I think the first thing that I would say is we have not actually said that there is anything illegal or unlawful that has been done by Treasury or DPC. They are certainly working with the current construct, as I understand the construct to be. The matter that we raise is a matter that is open to legal interpretation. The construct here is that the appropriation for these agencies goes, in this case, to the Premier. Like in any other government department, the Minister has responsibility for that appropriation and has the ability—it is best described as a maximum amount and that Minister who has the responsibility can withhold that amount. That is consistent with how the texts of the appropriation Acts are drafted. The alternative argument that we explored is recognising the unique role that these integrity agencies have which is different to a government department. In this context, the Premier does not necessarily have an ability to direct an independent commission against corruption how to conduct its functions.

A Premier not the Premier, so that is in a theoretical sense. So the ability then to necessarily withhold is an argument that would appear to be contextually challenging. In a legal sense, they call that the purposive approach of how you interpret a statutory Act. That is looking at both the words in the Appropriation Act and also where that appropriation is going. These agencies, the differences that distinguish them from a normal government department is that within the Appropriation Act, most government departments are funded through part 2 but these

agencies are funded through part 4. So the Appropriation Act is clearly making a distinction between these agencies. These agencies have separate Acts of Parliament.

The Minister, in this case because the funding goes to the Premier, does not have a role to direct the organisation with regard to how they conduct themselves. So there are some distinguishing differences between how these agencies are funded versus in a normal government department. So all we are saying is that there is an alternative interpretation as to whether the Premier then has the ability to withhold the money if you look at it from a purposive approach, which is taking into account the context of both the Appropriation Act—which has these part 2 and part 4 distinctions—but also in the context of how these agencies were set up under separate Acts of Parliament as autonomous, independent oversight bodies.

The CHAIR: One of the eight places first raises its head, if I could put it that way, is where efficiency dividends are being imposed upon the various agencies, which reduce the funding from the amount in the appropriation bill by whatever percentage is contained in efficiency dividend. Is that right?

Ms CRAWFORD: That is right.

Mr GOODWIN: Yes.

The CHAIR: If that second interpretation is correct, the one that relies upon the purpose of both the statute that establishes the agency and the appropriations bill, it will absence an express statutory power to limit the funding and any effort to limit the funding would not be lawful. Is that correct.

Mr GOODWIN: That is the question that, on a closer examination when you look at the objects of those integrity agencies, we see this is an alternative view and one that should be clarified.

The CHAIR: Could I ask you on notice to look at the answers that Mr Pratt gave in response to the series of questions about the efficiency dividend and the lawfulness of the efficiency dividend? I think he gave answers about that both during the Committee hearing and on notice. Could I ask you to have a look at those on notice and provide us with your assessment of them?

Ms CRAWFORD: Yes.

The Hon. TREVOR KHAN: Again, going to other jurisdictions—limited to Australia and perhaps New Zealand.

The CHAIR: I think those nods were a yes.

Ms CRAWFORD: Yes.

The Hon. TREVOR KHAN: I think we all accept that. In terms of audit offices and other independent agencies, do all other States operate in the same way we do in New South Wales, or are we unique or somewhere in between?

Mr GOODWIN: That is not an easy question for me to answer because I am not legally familiar with all the other jurisdictions. What I would recognise is that the constitutions in each State and the parliaments in each State can be different. My own experience at the Commonwealth level is that the way appropriations work can be different when appropriation can be directed to an agency—not necessarily always to a Minister. So there are contextual differences that exist across jurisdictions.

The CHAIR: But there would be no constitutional bar to the New South Wales Parliament passing an appropriation bill that provided the funding to agencies, rather than to Ministers, would there?

The Hon. TREVOR KHAN: I think that is rhetorical. The answer is no, there is none.

The CHAIR: No, I ask the question because the answers have been that we have to look at the constitution and other frameworks. I am more than happy for you to take that on notice, Mr Goodwin, if you like.

Mr GOODWIN: The practice has always been to appropriate to the Minister. That has been the practice in New South Wales.

The CHAIR: Could you take on notice and respond as you see fit whether or not you understand that that practice is based on some constitutional requirement or simply just practice?

Mr GOODWIN: I think we can. I try to be helpful but I do wonder whether, that being a legal question around the constitutional framework, it is a question best framed to us, or if it is better framed to another organisation within the New South Wales Government that is better placed to provide a legal commentary on the framework.

The CHAIR: I am more than happy that if, on due reflection, that is your answer. You are never obliged to provide a legal opinion.

Ms CRAWFORD: Thank you.

The Hon. TREVOR KHAN: In fact, that is an observation I have made from time to time.

Ms CRAWFORD: Mr Chair, could I just pause to correct a statement I made previously? I have now found my relevant notes of the New Zealand arrangements. They advise that the committee that I discussed makes its recommendations on the budget submissions to the parliament. That is how that operates.

The CHAIR: Yes, but I think the difference is that that goes direct to the Parliament, rather than—

Ms CRAWFORD: Rather than via Treasury.

The CHAIR: Yes.

Ms CRAWFORD: It is the parliament then that determines.

The CHAIR: I have one more question on the appropriations issue. You raise the interesting point that the grants model that has been used to provide supplementary funding to ICAC—where money that is allocated under part 2 of the appropriations legislation, which is for set purposes, is then redirected to provide funding for ICAC, whose substantive funding is under part 4 of the appropriations bill—that there may be a question of the legality of using that and whether or not it complies with the purposes of the appropriation in the first place. I have not described that well. Perhaps you might—

Ms CRAWFORD: We understand the matter you are raising. I will again defer to Mr Goodwin to explain that.

Mr GOODWIN: Chair, you did explain what is a fairly complex interpretation and, again, we are not at any point saying that anything illegal has occurred. What we have said is that when we had a closer look at the appropriation for 2019, there was a change in the language that said that the amounts appropriated for part 2, or for the purposes of part 2, was not necessarily language found in previous bills. The question then is, what is a purpose? Can an amount that is appropriated—in this case, for the purpose of Department of Premier and Cabinet [DPC]—be then used for an agency that is appropriated under part 4? We will tease out the question as to what is the purpose and is the purpose defined to be the agency that is directed to receive the funding or the function of that agency. The interpretation that has been applied to date has been around the function, which sits with outcomes, whereas another interpretation would be that the purpose relates to the agency that has been directed to have the money—in this case, ICAC and those agencies sit under part 4 and DPC sits under part 2.

The CHAIR: But then one of the potential responses to that uncertainty is to come up with a funding model that prevents that uncertainty in the future and, instead of relying upon grant-based funding, have some other predetermined, transparent, independent process to allow that to happen in the future. This in some ways brings us back to the starting point. It is kind of strapping on some funding in a sort of ad hoc fashion and creates not just transparency issues but potentially other legal issues.

Mr GOODWIN: Yes, 100 per cent. On this issue—the part 2 and part 4—that is an issue that has arisen, as we say, as a contested argument. But not necessarily one that we are saying is absolutely clear-cut wrong. The bigger issue is not so much the question of part 2 and part 4, but the threat is the agency having to go back through the Executive arm to seek supplementary funding, which gets back to the whole where we started. That is the threat without adequate safeguards. Because it may well be that you are going back to the body that could be subject to an investigation, seeking a determination for funding.

The CHAIR: Yes, you can see how that might occur.

The Hon. JOHN GRAHAM: In fact, it is likely over time.

The CHAIR: Putting to one side whatever may be going on in State politics at any one moment, that is an inevitably going forward, is it not—that they will be seeking funding at some point in the future to hold to account and potentially embarrass the Executive that they are asking funding from to embarrass and expose potential wrongdoing? It is an inevitability with the current model, is it not?

Mr GOODWIN: Perhaps, strange as it might seem as an auditor, I am an optimist around the behaviours of people. So I would not want to characterise it as an inevitability. What I would characterise is that without an appropriate safeguard there is a threat, which does not represent the principles of good governance—that you would not be seeking funding from the body that you could be investigating at a point in time.

The Hon. TREVOR KHAN: I accept what you say. I would have thought there is a certain inevitability. It is normally governments—well, it is often governments—that are the bodies that are being investigated because they are the ones with their hands on the levers. So they are normally going to be more likely the ones subject to influence and, perhaps, maladministration or corrupt conduct. But I think we have had an example—a few years ago now—that related directly to members, for instance, in regards to electoral funding issues. If you transfer it to the Parliament, the other problem that still exists is that, again, you might be dealing with at least half of the institution that is taking a pretty dim view as to an independent oversight body because either they or their colleagues are getting the rounds of the kitchen. I think, in fact, it is pretty fair to say there was a fair degree of hostility to ICAC, generally, from within the Liberal Party—of which I am not a member—because of that inquiry. Which one was that one? It was not Spicer or Acacia, it was another one that, again, related to electoral funding. So putting it in the hands of the Parliament does not necessarily free you up of that problem of the—

The CHAIR: Conflict.

The Hon. TREVOR KHAN: Yes, the conflict.

Ms CRAWFORD: Potentially. Yes, I think we are clear. There is no perfect system but surely we have to rely on our Parliaments to make good decisions.

The CHAIR: We can park that issue but what distinguishes a parliamentary committee from a purely Executive body is a parliamentary committee will often be made up of people of diverse opinions, where the ability to suppress or prevent bad news becoming public is much more difficult if you have the licorice allsorts that you have sitting around this Committee, for example.

Mr GOODWIN: Yes.

The CHAIR: That kind of structural distinction is important, is it not?

Mr GOODWIN: Yes.

Ms CRAWFORD: Certainly for our own organisation and for the bodies that we examined with this request audit that is a very important principle.

The Hon. JOHN GRAHAM: As you have talked us through the relative independence of the Audit Office here compared to others, what is the direction of travel either in relation to audit offices or integrity agencies more generally? Are they becoming more independent? Obviously there is a range of systems but it is a trend that these are moving in one direction towards more independence or more parliamentary engagement? Or is it just more complex than that because it is always more complex?

Ms CRAWFORD: I think at a general level it would vary. It definitely varies. The move in Victoria, that more recent legislation, certainly was a move to greater independence for those offices. I probably should not comment on what is happening with the Australian National Audit Office at the moment. That may be seen as something different. That is perhaps not for me really to comment on. Mr Goodwin, do you have a more general comment?

Mr GOODWIN: If I perhaps can just respond in terms of auditors-general and hopefully that goes a long way to answering your question. The principles of governance and the principles of risk management are forever evolving principles. They evolve because the nature of transactions that you are governing over or risk managing to is that they are evolving transactions. The way a government transacted 100 years ago through a large public service with perhaps limited interaction with the private sector is quite different to how a government now operates. I say that because that gets to the issue of why a mandate needs to always be evolved to make sure that you are providing the oversight, as transactions become more complex and the world becomes more complex and the stakeholders become more diverse and varied. At the turn the century—the other century—the concept of follow the dollar or auditing performance information perhaps was less relevant but it was less relevant not because it was not a good idea but because governments were not transacting as much through third-party arrangements, whereas they do now. That is why those principles need to evolve. If you do not evolve then effectively your independence and your relevance start to erode.

The Hon. JOHN GRAHAM: Do you think increasing complexity requires more independence or do you think that is just good governance?

Ms CRAWFORD: It is good governance.

Mr GOODWIN: That is good governance but it then takes you partly to the question of mandate and partly to the question of budget. So budget is going to give you the resources to develop the capability. For example, governments transact much more through digital means. That is a good thing but that has introduced cyber risks. So we as the Audit Office have to evolve our capability around cyber. That does not come naturally

or cheaply so that becomes a capability where you need to have the budget or to develop data analysis techniques that reflect the more complex nature of government digital transactions.

The Hon. JOHN GRAHAM: And that is likely to be the case across all these integrity agencies in fact.

Mr GOODWIN: Yes.

The CHAIR: I cannot recall if every independent agency made this request. I thought they all did. But it is my recollection that if not all then the overwhelming majority of the independent statutory bodies who put submissions in to the Committee wanted to be removed from the Premier and Cabinet cluster.

The Hon. TREVOR KHAN: It was not all. I thought LECC was—

The CHAIR: Ambivalent.

The Hon. TREVOR KHAN: Yes.

The Hon. JOHN GRAHAM: Yes, it was not that they wanted to stay. They were ambivalent.

The CHAIR: But your report makes some observations about the involvement of integrity agencies in clusters, one of which is reporting obligations and how that may not be consistent with statutory independence. Could you expand on that?

Ms CRAWFORD: So from our perspective we are listed as part of the DPC cluster arrangement. As an administrative arrangement that connects us with our colleagues and with others it means that we can keep abreast of good information and chat to colleagues about latest things that people are doing et cetera, so it is a very good connecting point. But when it overreaches into trying to perhaps direct or involve integrity bodies in things that are more relevant to other government agencies, that is where we struggle and we go, "Well, hang on a minute. No. We are independent. We can't be included in some of the things that happen at a cluster level." So I guess we do not want to be a separate, isolated agency. We need to stay connected to continue to be relevant. But we do want at all times to preserve our independence and not be included as part of arrangements in a cluster that might require us to report as if we are reporting to DPC and the Government.

The Hon. TREVOR KHAN: You use the term "direct". Can you give us an example or some examples of where you feel that you are being directed or compromised? And that is not a criticism.

The CHAIR: Or potentially.

The Hon. TREVOR KHAN: Yes, potentially.

Ms CRAWFORD: We make clear, I think, in my opening statement and in our submission that we do not believe that there have been overt instances where our independence has been impacted by these arrangements. There are matters that we have already discussed today around efficiency dividends, for example, coming through the DPC principal department arrangements, so that has the potential to threaten our independence. And we are requested to participate in outcomes budget reporting as part of the DPC cluster arrangements. Now it is a request not a direction per se but it is an expectation that we will participate in things like that.

The Hon. TREVOR KHAN: There was an example some two or three years ago—time is flying by—involving LECC where the commissioner and the then police Minister got involved in a quite public stoush over the issue of overseas travel by I cannot remember who but it became life and death there for a while. I think inevitably it led to a death or at least a falling out of significant levels.

The CHAIR: I think the non-renewal of a contract.

The Hon. TREVOR KHAN: That might be another way of describing it. Have you had examples of that in your organisation? I am not seeking to have a blow-up but it just seems to me there are some of these things where a Minister or a Minister's office seeks to intrude upon what might otherwise be perceived as internal staffing matters and the like.

Ms CRAWFORD: So I will start and then I will ask Mr Goodwin to add to my comments. We were quite familiar with that case—

The Hon. TREVOR KHAN: Yes, I remember that.

Ms CRAWFORD: —because we were asked to audit the particular transaction. We did conclude that there were certain things the Minister could not delegate and one of those was the delegation for overseas travel. So that was the case there. Are we caught up in that? There have been perhaps attempts to say that any potential overseas travel by myself or my deputy would have to be approved by the DPC Secretary. We basically pushed

back on that to ask the question: What is the legal obligation for that to occur? That matter is still—I do not believe it has ever been answered.

Mr GOODWIN: I think that there are two ways to perhaps examine your question. One is in the conduct of our work. The Auditor-General will be able to speak to this better than I can, but in our experience we have had the ability to determine the scope of our work and we have had the ability to conduct our work. That does not mean it is always efficiently executed because of the transactional tensions in the nature of conducting an audit when you are not necessarily invited in. But that autonomy has been preserved. In fact, I think it is fair to say that we have a pretty good dialogue, both at the secretary and ministerial level, when the Auditor-General is constructing that work program and seeking feedback on the work program. Ultimately it remains the Auditor-General's work program.

There are, though, other tensions that creep in. These have not necessarily crystallised as something that goes to your question of compromise and how we do it, but they do give heed as to why you need to have clear processes without ambiguity and with sufficient safeguard, because at an officer-to-officer level there can be interpretations. We have an ongoing conversation with our cluster lead agency around whether an amount of an efficiency dividend is applicable to us in the forward years and perhaps we have taken a different view to that. But it has not yet manifested itself. It has not manifested itself at the secretary-to-Auditor-General level. It is not at that officer-to-officer level. But it gets to that point around not having ambiguity and around how parts of the Appropriation Act should work and having sufficient safeguards about who should be making those determinations around the funding arrangements.

The CHAIR: Could I bring you back to that high-level discussion? Do you think that the integrity agency should continue to sit in the DPC cluster?

Ms CRAWFORD: Look, I think it depends on what a cluster even is. It is not a legal thing. It is just an administrative arrangement. All agencies have to be part of some administrative arrangement. Provided those arrangements are consultative about connections and administrative matters, then the DPC cluster is perhaps the most relevant. If it becomes something more in terms of directing or requiring, then that does not work for an integrity body.

The CHAIR: As I understand it, the current system is that various integrity bodies are required to report against performance criteria that are established by the Executive. Is that right?

Mr GOODWIN: Again, if I just reiterate what the Auditor-General said, it really gets to how people look at what a cluster is. The concept of being administratively housed in an arrangement that allows for administration and connectedness to government—that is in itself, whatever you call it, not necessarily the issue. The issue is, whatever you call it, whether it starts to direct an integrity agency as to how they should do it or direct an integrity agency as to how they should measure their performance.

The CHAIR: That is why I am putting to you not the term but one of the current features. Is one of the current features of being in the DPC cluster that integrity agencies are required to report against performance and outcome criteria that are established by the Executive, rather than independently by the statutory agencies? Is that one of the current features?

Mr GOODWIN: Perhaps I think from our perspective it would be more—it is welcome to be part of an arrangement where we can connect with government but, when it comes to reporting against our performance, it would seem more appropriate as an agency that reports to the Parliament that we determine what the performance measure is and report against that.

The CHAIR: Perhaps I have not been asking clearly enough. I am asking if that is one of the features of currently being in the cluster.

Ms CRAWFORD: It is.

The CHAIR: And if you are reporting against criteria about performance and outcomes that are not set by an independent statutory agency but by the Executive of the day, that is one element that is not consistent with statutory independence, correct?

Ms CRAWFORD: Correct.

The Hon. TREVOR KHAN: Can I just follow up on that? Does that mean you should be out of the cluster or that there should be an understanding as to the limits of cluster engagement?

Ms CRAWFORD: I think the latter. To be honest—I am always honest—I think that applies more generally. I mean, the cluster arrangements are not altogether clear cut. They are used for administrative purposes,

but it is not a legal entity. So it confuses accountability, not just for integrity bodies but I would say for other agencies as well.

The Hon. JOHN GRAHAM: I just want to ask about that to hone in on that outcome budgeting question. There is clearly a tension here and you are saying it can be quite extreme at a fundamental level. How are you dealing with that in practice? Outcome budgeting is rolling through the Government. Where is that up to in practice at the moment as DPC is coming to you and saying, "Look, this is now the framework"?

Ms CRAWFORD: Well, we are cooperative. Let us say that. It has become more of a tension in the most recent budget process, but previously there was an outcome called, sorry—

Mr GOODWIN: Accountable and responsible government.

Ms CRAWFORD: Accountable and responsible government which, on face, you would say, "Well, we fit quite neatly within that." The measures were things that we would be reporting in any case so that was quite okay. The whole outcome budgeting process is now developing further, which we would support as an office in general terms, but it does start to then present further and greater tensions for us in how we are included against those measures.

The Hon. JOHN GRAHAM: So up until now it was definitely a theoretical issue. You were reporting to Parliament, but you were being asked to report through this alternative channel. It is now becoming more real.

Mr GOODWIN: Yes, I think we would look for better and more transparent engagement around how those outcomes are being determined and one that reflects, I guess, the unique role of an oversight body as compared to a body that delivers against government policy.

The CHAIR: Mr Goodwin, is it not more fundamental that just transparency? Is it not the case that the Executive should not be setting your outcomes?

Mr GOODWIN: Chair, that is where I am trying to politely get to. Even if you look at the words, "accountable and responsible government"—so government should be accountable and responsible, but if government is not, the role of the Auditor-General is to report that to the Parliament. The failing of a government in being accountable and responsible is really a failing against the government's performance. The failing would be on our side if we do not hold that to account and report it. So even while we have tried to work within the system, if you closely examine the words, you can see that there is actually a disconnect in terms of where the performance responsibility sits. The other thing is that when you look at our annual report, we are very strong around performance measures. We have a number of performance measures that we monitor ourselves as we see our relationship with the Parliament. That includes parliamentary surveys and how parliamentarians are seeing the value, objectivity and independence of the Auditor-General's work. That is a little bit different, perhaps, to how that DPC outcome is drafted.

The Hon. JOHN GRAHAM: I guess in practice what I am interested in is, as this system is driven through Government and as it impacts on you, what are likely to be the tensions as you move forward into this framework? You have talked about the tension in the old measure of accountable and responsible government. What will it mean in practice as the outcome focus is presumably becoming more detailed now?

Mr GOODWIN: Ultimately, if it starts to look like we are appearing to be part of the delivery of government, we would say no. It goes back to the comment that I have made that transparency and engagement around how that process occurs—on reflection over the last year—is a process that could and should be improved.

The Hon. JOHN GRAHAM: But there is a point here where you just say it is compromising our ability to report to the Parliament and deliver on what we have said we will deliver.

Ms CRAWFORD: I believe ultimately is where we would have to say, "No, we are not participating in this any further". It goes to the recommendation in our report, really, that we believe those matters need to be a lot clearer and need to be worked on by the central agencies in consultation with the Parliament.

The CHAIR: Could I just take you to recommendation 1 in your recommendations. The last two dot points are:

There should be transparency to Parliament and the relevant agency for decisions made about funding for the integrity agencies.

There should be structured oversight by Parliament of the performance and financial management of the integrity agencies.

Could you expand upon the distinction between those two bits? You have transparency and structured oversight. Is one a process in the lead-up to the budget and one a process over the course of a financial year? What is the difference between the two?

Ms CRAWFORD: The second-last dot point really goes to the way that the system works at the moment and the lack of transparency over decisions by the Executive on funding, whereas the final dot point is really calling out that any process needs to get that balance between the accountability of the agencies and the funding. One leads to the other.

Mr GOODWIN: It is about making sure that you do not move the pendulum too far one way or the other, that you retain the checks and balances and that there is some competitive tension between being able to put up a merit bid while also being held to account that you are performing your own office functions in an efficient and effective way.

Ms CRAWFORD: Correct.

The CHAIR: That I think brings us back to the Hon. Trevor Khan's icare observations: that independence without oversight and regulation can create its own issues and that independence must come with oversight.

Mr GOODWIN: Yes.

Ms CRAWFORD: Correct. As Mr Goodwin said, we at the Audit Office take that very seriously. We are subject to the quadrennial review by the Public Accounts Committee. It is a good thing that there is a structured way of examining the performance of the Auditor-General and her office in every Parliament. We take very, very seriously the transparency of our reporting on our performance through our annual report and other mechanisms.

The CHAIR: But it would be fair to say, wouldn't it—and this is by no means a criticism of your office, quite the opposite—that the bulk of the transparency measures that you adopt are largely determined by yourselves and not by a structured engagement with a committee or under legislation, apart from that quadrennial attendance once every four years at the committee of the other place. Whether it is surveys of members or details on your annual report, it is largely you determining what the accountability measures are.

Mr GOODWIN: I do not think that is necessarily an unfair comment. In the absence of anything else, we have filled that void to make sure that we do have measures by which we can hold our performance to a high standard—and do that in a transparent way by putting it into the annual report. But we have not sort of whimsically come up with them. They do reflect considered deliberation by looking at what other auditors-general do. They also have regard to what we see as the relationship that the Auditor-General has with the Parliament, as distinct from necessarily being with the Executive.

The CHAIR: But those institutional links with the Parliament have by and large—you are the agency that is saying to the Parliament, "How about this? How about this? How about this? How about this?" There is not a structured process coming back the other way apart from the quadrennial review, which says, "Actually, let's talk about this and have it as a two-way process".

Mr GOODWIN: As a concept, in any performance system there should be a mutual agreement and a mutual expectation on both sides as to what performance looks like. I would not want to understate the quadrennial review, though. It does fill a large part of that void because they are independent auditors of the auditor, if you want to use that phrase. Certainly the last one was done by one of the large firms. They do come with a degree of rigour and they do come with recommendations. While I think that at the end of the day we look back at the last review and take comfort that our methodology is sound and we are seen to be efficient, it did have a fairly long list of recommendations. They are process improvements as compared to anything fundamentally flawed. But to your point, any sort of performance system cannot be seen to be unilateral. There has to be a mutuality around the agreement of those.

The CHAIR: Thank you both—and your team—for your attendance here today and for the very helpful submission that you have given. Our secretariat would love us to finish an inquiry and tick one off, so we will endeavour to conclude this inquiry as soon as we can with a final report. You said at the outset that you appreciated us providing you the additional time and we have appreciated the engagement. Whilst I would not have chosen at the outset to have this operating in that sort of two-step process, I think it has actually been very useful for the deliberations of the Committee. We are grateful for your assistance and cooperation.

(The witnesses withdrew.)

The Committee adjourned at 14:28.