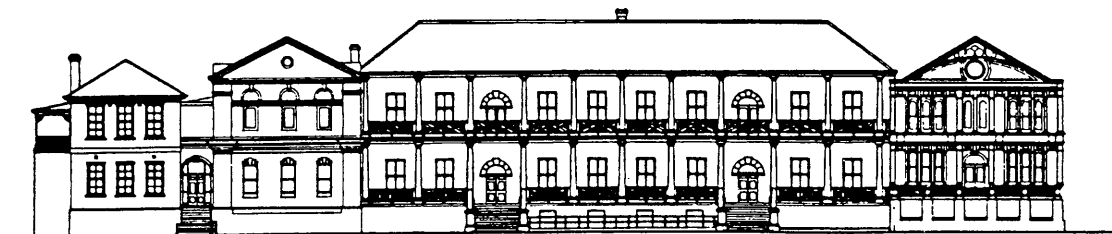




PUBLIC ACCOUNTS COMMITTEE

Preparation for Peer Review of Auditor-General's Office



Report No. 83

June 1994

This report was compiled using WordPerfect for Windows 5.2,
and printed by Parliamentary Printing Services.

Copies of this report may be obtained from:

Government Information Service
Goodsell Building
8-12 Chifley Square
SYDNEY NSW 2000
Telephone (02) 752 1111

Minutes of Evidence and Correspondence are included in this
volume.

Copies of this report have been distributed to all legal deposit
libraries in Australia.

New South Wales Parliamentary Library Cataloguing -in-Publication data:

New South Wales. Parliament. Public Accounts Committee

Preparation for peer review of Auditor-General's Office / Public Accounts Committee, Parliament of New
South Wales. -- [Sydney, N.S.W.]: The Committee, 1994. -- iv, 58, 62 p. : 34cm. (Report / Parliament
NSW, Public Accounts Committee; no.83)

ISBN 0 7310 2162 2

1. PEER REVIEW
2. EFFICIENCY AUDITING-NEW SOUTH WALES
3. GOVERNMENT REGULATION-NEW SOUTH WALES
4. AUDITORS-GENERAL-NEW SOUTH WALES-REVIEWS
- I. Title
- II. New South Wales. Auditors-General.
- III. Series: Report (New South Wales. Parliament. Public Accounts Committee); no. 83.

351.0076 (DDC20)

Public Accounts Committee Secretariat

Patricia Azarias, MPA *Princeton*, BA(Hons) *Oxon.*, BA(Hons);
Director

Ian Clarke, BSc *Syd.*, DipGeosc *Macq.*;
Senior Project Officer

Jozef Imrich, BA;
Clerk to the Committee

Caterina Sciara;
Assistant Committee Officer

Wendy Terlecki;
Assistant Committee Officer

Yael Larkin; BA *UNSW*;
Assistant Committee Officer

John Lynas, FCPA,
Accounting and Auditing Advisor
Auditor-General's Office

Public Accounts Committee
Parliament House
Macquarie Street
Sydney NSW 2000

Telephone (02) 230 2631
Facsimile (02) 230 2831

MEMBERS OF THE PUBLIC ACCOUNTS COMMITTEE

Mr Andrew Tink, BA, LLB, MP, Chairman

Before becoming Liberal Member for Eastwood in March 1988, Andrew Tink practised as a barrister in equity, commercial and shipping law. He has since served on numerous parliamentary and government committees, holding the position of Chairman of the Joint Committee on the Office of the Ombudsman prior to his appointment to the Public Accounts Committee. He is also a Temporary Chairman of Committees in the Legislative Assembly, its representative on the Macquarie University Council, and a member of the Committee on the Independent Commission Against Corruption.

Mr Peter Cochran, MP, Vice-Chairman

Following a background in farming, the Army, the Commonwealth Police, ASIO, and the Cooma-Monaro Shire Council, Peter Cochran won the seat of Monaro for the National Party in 1988. His other parliamentary responsibilities include the chairmanship of the Minister's Advisory Committee on Land and Water Conservation, deputy chairmanship of the Committee for Police and Emergency Services, and membership of the Committee for the Environment and the Select Committee on Public Sector Superannuation. He is also the Premier's representative on the Anzac House Trust and the Anzac Memorial Trust.

Mr Geoff Irwin, ProdEngCert, DipTech, DipEd, MP

Geoff Irwin was elected to Parliament in March 1984 as the Labor Member for Merrylands, and he has been the Member for Fairfield since March 1988. Before entering Parliament he worked in

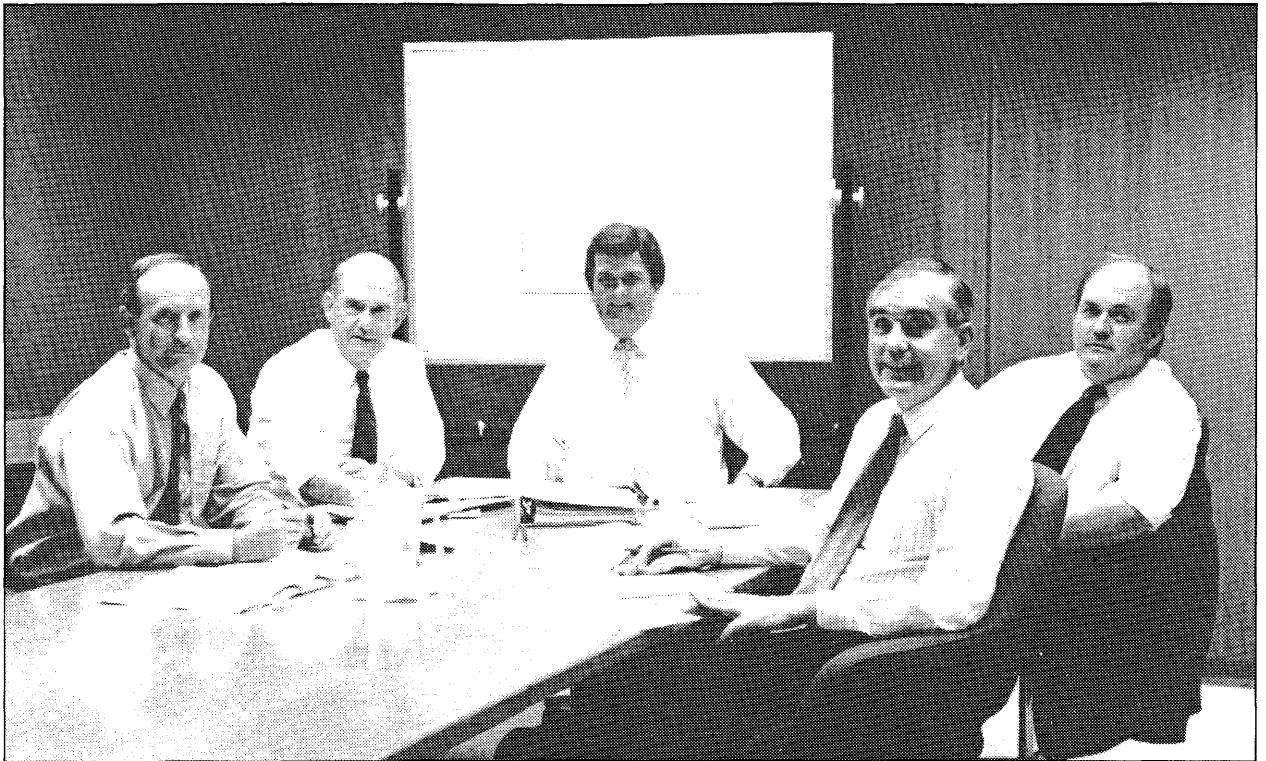
industry as a planning and supply manager and taught business studies at TAFE. He served as a member of the Select Committee upon Small Business and as Opposition Spokesperson on Business and Consumer Affairs.

Mr Terry Rumble, FCPA, MP

Terry Rumble was elected Labor Member for Illawarra in March 1988. Before entering Parliament he qualified as an accountant and was employed in public practice and in the coal mining industry. He has served as a member of the Regulation Review Committee and is the Chairman of the Leader of the Opposition's Backbench Committee which involves Treasury, arts and ethnic affairs.

Mr Ian Glachan, MP

The Liberal Member for Albury since 1988, Ian Glachan has had a varied background. He served five years at sea as a marine engineer, was a farmer for ten years, and operated a newsagency in Albury for 18 years. Mr Glachan is also a past president of the Albury-Hume Rotary Club and a Paul Harris Fellow, an active member of the Anglican Church, and the Legislative Assembly member on the Board of Governors of Charles Sturt University. Other parliamentary responsibilities include chairmanship of the Minister's Advisory Committee on Health, and vice-chairmanship of the Minister's Advisory Committee on Roads and Transport.



The Public Accounts Committee

**From left: Geoff Irwin, Ian Glachan, Andrew Tink (Chairman), Terry Rumble,
Peter Cochran (Vice-Chairman)**

PREPARATION FOR PEER REVIEW OF THE AUDITOR-GENERAL'S OFFICE

CONTENTS

CHAIRMAN'S FOREWORD	iii
PART 1: BACKGROUND	1
PART 2: ASSURING AUDIT QUALITY: INTERNAL OR EXTERNAL REVIEWS?	9
PART 3: THE SCOPE OF THE REVIEW: VARIOUS MODELS	13
PART 4: SELECTION, APPOINTMENT AND REMUNERATION OF PEER REVIEWER	17
PART 5: PREFERRED MODEL FOR NSW	21
PART 6: DRAFT TERMS OF REFERENCE	23
APPENDICES	25
APPENDIX 1: BIBLIOGRAPHY	26
APPENDIX 2: CORRESPONDENCE RECEIVED FROM AUDITORS-GENERAL TOGETHER WITH COMMONWEALTH AND VICTORIAN LEGISLATION	29
APPENDIX 3: WITNESSES AT PUBLIC HEARINGS AND MINUTES OF EVIDENCE	57

CHAIRMAN'S FOREWORD

This is the Committee's final report for the 1993-4 financial year, and it is fitting that it should look forward to what promises to be the first report for 1994-5, the Peer Review of the Auditor-General's office.

The present report is evidence that the Committee has taken very seriously the task set it by the Public Finance and Audit Act, of commissioning the first publicly-presented Peer Review of the Auditor-General's office. The Committee decided to prepare the ground as thoroughly as it could before the actual peer review began, by airing a number of major issues, obtaining the views of senior members of the auditing profession, and thoroughly working out its own views.

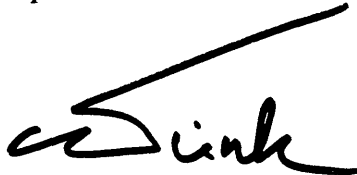
These issues included what the scope of a peer review ought to be, whether it should be carried out by private or public sector auditors, or by a mixture, and the various ways of assuring quality control.

The NSW PAC has been one of the few parliamentary committees to set out these issues clearly and to determine in detail, before a peer review begins, what its scope ought to be and how it should be conducted.

Once again, the exercise has been conducted in the PAC's usual co-operative and bipartisan spirit, and for this I am grateful to my fellow members, Ian Glachan, Geoff Irwin, Terry Rumble and Peter Cochran.

I would also like to express my appreciation to Jozef Imrich, who capably researched and wrote much of the paper, and who arranged hearings and prepared correspondence; to John Lynas, who provided his usual indispensable expertise in auditing and accounting matters, and to Patricia Azarias, who brought together and edited the final text. The report has been the product of a team effort.

I trust that this report will be of assistance not only to the team conducting the peer review of the Auditor-General's office, but to a wide range of those concerned with public sector accountability.

A handwritten signature in black ink, appearing to read 'Andrew Tink', with a long, sweeping horizontal line above the name.

Andrew Tink MP,
Chairman

PART 1: BACKGROUND

As the Government's independent external auditor the Auditor-General is a key figure in our system of public accountability. The role of the Auditor-General needs to be viewed in the context of the general framework of Parliamentary accountability, which is based on the Westminster model whereby the Parliament granted supply to the Crown and held Ministers accountable for the use made of it.

Today in New South Wales, the range of business activities undertaken across the public sector is far more complicated than this simple model provides for. Government today is big business. It covers not only government departments financed by annual budget appropriations on the Westminster model, but also a range of business undertakings operating along commercial lines. Accountability requirements and mechanisms, however, apply across the board. This is because the public expect that a high standard of probity and propriety will be observed by all authorities of government controlling the public's money.

An idea of the size of the public sector can be grasped from the Consolidated Financial Statements for the NSW Public Sector for 30 June 1993. They show total revenues of \$29.3 billion, and total assets of \$114.7 billion.¹ In comparison, the total assets of BHP were valued at \$26.2 billion in 1993.²

The Auditor-General is responsible for the audits of approximately 438 entities, including some very large statutory bodies such as State Bank of New South Wales, Electricity Commission and the Sydney Organising Committee for the Olympic Games. The Office currently comprises approximately 245 personnel and has an annual expenditure of \$14.6 million.³

In July 1990, the Public Accounts Committee published its report no. 49 into the Auditor-General's office.

The Report made a number of recommendations. Many of these concerned the scope of audit which the Committee felt was essential for the Auditor-General, the independence of the Auditor-General and the overall performance of his office.

One important issue dealt with the report was the issue of the scope of audit. The Committee believed that the scope of audit should be much broader in the public sector than in the private. One reason is that government bodies are spending public money and are accountable to the Parliament and the public for the use they make of it. Furthermore, one of the major measures of performance for the private sector is profit in the marketplace, a discipline which is not faced by the public sector. As a result, other measures of performance, besides profit, are necessarily more limited for the private

¹ *NSW Public Sector Consolidated Financial Statements 1992-93*, pp. 15-16.

² *Annual Report of the Broken Hill Proprietary Company Limited 1992-93*, p. 4.

³ *Annual Report of the New South Wales Auditor-General Office 1992-93*, p. 7.

than for the public sector, which faces no market discipline and must account publicly for its performance in a number of other ways.

The Committee's report pointed out:

The much broader nature of public sector auditing reflects the differences between the accountability for use of financial and other resources in the public sector and accountability in the private sector.⁴

The Committee also believed the public auditor should be as independent as possible. A media release by the Committee, dated 24 July 1990, stated:

The Committee believes that the Auditor-General should enjoy a high degree of operational independence.

A more recent study by the Australian Society of Certified Practising Accountants (ASCPA) made the same point:

The nature of this work [public audit] and its crucial link in the chain of accountability, necessitates strong independence for the Auditor-General.⁵

The study sets out a clear explanation of just how the Auditor-General's independence fits in the chain of accountability:

The office of the Auditor-General provides a critical link in the accountability chain between the public sector, and the Parliament and the community. It alone subjects the practical conduct and operations of the public sector as a whole to regular, independent investigation and review. This function must be fully guaranteed and its discharge facilitated. The Auditor-General is the Parliament's principal informant on the performance of the administration system. The parliament therefore has a special responsibility to ensure both that the independence and the effective resourcing of the Auditor-General are secured, and that its own investigative procedures (particularly through committees) are such that it fully utilises the information about government supplied to it in the Auditor-General's reports.⁶

While the Committee's report acknowledged the need to strengthen the independence of the Auditor-General, the Committee was aware that the performance of the Audit Office had not been free of problems.

In its report, the Committee pointed out deficiencies in some aspects of audit planning, documentation and quality control. As a result of these, it considered that a form of

⁴ Public Accounts Committee, Report no. 49, *Report on the New South Wales Auditor-General's Office*, 1990, p. 77.

⁵ Australian Society of Certified Practising Accountants, *The Importance of the Role of Independent Auditors-General*, Discussion Paper no. 8, March 1994, p. 2.

⁶ *ibid.*, p. 14, quoting the Royal Commission into WA Inc.

quality control needed to be implemented to ensure the Auditor-General's office operates in an effective, efficient and economic manner.

The question the Committee faced was how the auditor's performance could be assessed, in other words, *who audits the auditor*.⁷

The Committee's solution, as set out in Recommendation No. 39, was that, at least once every three years, the Public Accounts Committee should commission a "peer review" of the Auditor-General's office. Peer reviews are examination by peers of the way an office is conducting a part or the whole of its business.⁸

The recommendation read:

It is recommended that an external (peer) review of the Auditor-General's office be undertaken once every three years. The peer review shall be conducted either by a private audit firm or a public audit office or by a team drawn from both these sectors and not by any agency of the New South Wales Government. The issues to be addressed in each review and the methodology shall be negotiated between the Auditor-General and the reviewer and the results of that negotiation shall be summarised in the reviewer's report.

The next recommendation of the report (no. 40) further stated:

It is recommended that the Auditor-General present the external (peer) reviewer's report to Parliament within two months of the Auditor-General receiving the report and that concurrently a copy be forwarded to the Public Accounts Committee. The report to Parliament shall include the Auditor-General's comments on the findings and the implications for change in the Auditor-General's Office.

There were several reasons why the Public Accounts Committee felt that a peer review of the Auditor-General's office was necessary.

- It would provide the Parliament, and the Auditor-General himself, with an independent, external assessment of the office, carried out at regular intervals.
- It would bring the Auditor-General's office into the forefront of the profession, in which the concept of the peer review is currently under serious discussion in both the private and public sectors.
- It would generate recommendations for improvement or action where appropriate.

Experience in Australia and overseas has indicated that both the practice subject to the review and the reviewer(s) themselves, benefit from the discipline of a formal,

⁷ Public Accounts Committee, *Report on the New South Wales Auditor-General's Office*, 1990, p. 169.

⁸ Detailed definition of 'peer review' is provided in the *Encyclopedic Dictionary of Accounting and Finance*, Prentice Hall, New Jersey, 1989, pp. 322-323.

Public Accounts Committee

independent and planned review coupled with an exchange of ideas arising from the conduct of the review.

The Society of CPAs in its recent study recommended that triennial checks on the efficiency, economy and effectiveness of the offices of Auditors-General should be conducted by leading external practitioners and/or by peer review.⁹

The Public Finance and Audit Act 1983 was amended with the intention of putting the Committee's recommendations, particularly no. 39, into practice.

A new section, section 48A, was passed in 1991 and took effect in March 1992¹⁰. The text of 48A may be found in the accompanying box.

⁹ op. cit., p. 16.

¹⁰ Under the provisions of Schedule 4 of the Public Finance and Audit Act, 1983.

Review of Auditor-General's Office

48A. (1) A review of the Auditor-General's Office is to be conducted under this section at least once every three years.

(2) The review is to examine the auditing practices and standards of the Auditor-General and to determine whether the Auditor-General is complying with those practices and standards in the carrying out of the Auditor-General's functions under this Act.

(3) The review is to be conducted by a person ("the reviewer") appointed by the Public Accounts Committee for the time being constituted under Part 4.

(4) The reviewer:

(a) is to be appointed on such terms and conditions and is entitled to such remuneration (if any) as are determined by the Public Accounts Committee; and

(b) in conducting a review under this section, must comply with any directions as to the review given by the Committee.

(5) The remuneration payable to the reviewer is to be paid from money appropriated by Parliament for the purpose.

(6) Sections 36, 37 and 38 apply in relation to the reviewer as if references in those sections to the Auditor-General were references to the reviewer.

(7) The reviewer is to report to the Auditor-General as to the result of any such review and as to such matters as in the judgment of the reviewer call for special notice.

(8) The reviewer must not make a report of a review conducted under this section unless, at least 28 days before making the report, the reviewer has given the Auditor-General a summary of findings and proposed recommendations in relation to the review.

(9) The reviewer must include in the report any written submissions in relation to the review.

(10) The reviewer, in a report of a review under this section:

(a) may include such information as he or she thinks desirable in relation to matters that are the subject of the review; and

(b) must set out the reasons for opinions expressed in the report; and

(c) may include such recommendations arising out of the review as he or she thinks fit to make.

(11) The Auditor-General is to forward a report prepared under this section to the Public Accounts Committee within 2 months of receipt of the report.

(12) The Chairman of the Public Accounts Committee is, on receipt of such a report, to present the report to the Legislative Assembly, if the Legislative Assembly is then sitting.

(13) if at the time at which the Chairman seeks, in accordance with this section, to present the report to the Legislative Assembly the Legislative Assembly is not sitting, the Chairman is to present the report to the Clerk of the Legislative Assembly to be dealt with in accordance with section 63C.

Thus the Act now obliges the Public Accounts Committee to commission a formal external peer review of the Auditor-General's office. The latest date by which this needs to be done is March 1995.

In May 1994¹¹, the Committee determined that since the 1995 external peer review — as mandated by the Act — would be the first such review of the Auditor-General's office it would ever have commissioned, it would be appropriate to prepare the ground first. It believed that preparations should involve examination of a number of elements:

- the nature and objectives of a peer review, given the broad scope of audit for the public sector;
- the aspects which should be covered in a peer review, and those which should be eliminated;
- the level of detail involved in a peer review;
- the kind of individuals and/or firms who should conduct a peer review, what their mix of skills should be, and what sector(s) they should come from;
- the way peer reviews of the offices of Australian Auditors-General had been conducted to date.

The Committee determined that the best way of conducting these preparatory activities was through :

- a preliminary desk review of the appropriate literature;
- correspondence
- informal discussions with relevant Auditors-General,
- formal hearings, at which a variety of interested parties would be invited to give evidence.

A preliminary bibliography of appropriate literature may be found at Appendix 1. Correspondence may be found at Appendix 2, and transcripts of evidence from the hearings at Appendix 3.

The hearings were scheduled for 20 and 24 May 1994. The aim of the public hearings was to seek help from witnesses on the matters listed above. Witnesses were:

Michael Sharpe, AM, of Coopers and Lybrand (The Independent Reviewer of the Australian National Audit Office [from 1988 to 1993])

Ches Baragwanath, Auditor-General of Victoria

¹¹ Resolution of 5 May 1994.

Preparation for Peer Review of the Auditor-General's Office

Ken Robson, former Auditor-General of New South Wales

Fergus Ryan of Arthur Anderson (The Auditor of the Auditor-General of Victoria)

Stuart Robertson of Arthur Anderson

Bob Scullion, Assistant Secretary, New South Wales Treasury

Tony Harris, Auditor-General of New South Wales

James Mitchell & Thomas Jambrich, Auditor-General's Office of New South Wales

John Taylor, AO, Auditor-General for Australia

William Nelson, Australian National Audit Office

It should be pointed out that although the March 1995 review by the Public Accounts Committee of the NSW Auditor-General's Office will be the first *externally-appointed* peer review, it will not be the first review ever conducted of the office.

In the past 10 years two peer reviews have been undertaken of the New South Wales Auditor-General Office.¹²

In September 1984 the then Auditor-General, Mr J O'Donnell, and the then Deputy Auditor-General, Mr K Robson, requested Priestley and Morris, Chartered Accountants, to perform the first Peer Review of the NSWAGO; the report was presented to the Auditor-General in June 1986.

The second Peer Review was conducted by KPMG Peat Marwick Hungerfords during 1988; the report was received by the Auditor-General in February 1989.

There were some limitations to each of the reviews. In the first review in 1984, for example, computer audit was excluded, and, furthermore, the review was "conducted during a period which saw a significant re-appraisal of the office's planning procedures and management controls". Thus the usefulness of this first review was limited.

The second review also excluded a number of aspects of the operation of the office:

- recruitment
- personnel policies and promotion
- adequacy of manpower
- professional development

¹² See also *Inquiry into Review of Special Auditing Function of New South Wales Auditor-General's Office*, Public Accounts Committee, 1993. The Committee hired Fergus Ryan of Arthur Anderson to conduct the review. It should be noted that an advisory panel including representatives from the Australian National Audit Office and the Victorian Auditor-General's Office were closely involved in the process. The review was part of a package of recommendations made by the Committee when it successfully recommended to Parliament in 1991 that Auditor-General be given power to conduct special audits.

- project audit work
- contract audit work; and
- audit work aimed at ensuring an auditee's compliance with statutory requirements and other regulations.

Furthermore, both reviews were presented in confidence to the NSW Auditor-General.

As a result, they "cannot be said" , as the PAC's Report no. 49 pointed out, "to provide any *direct* assurance to Parliament or to the community as to the performance of the Audit Office".

Nor — self-evidently — can the various internal quality review processes undertaken within the NSW Auditor-General's office be said to provide the Parliament with any such assurance.

The result is that the only way Parliament and the public can have an independent, external assurance of the quality of the work of the Auditor-General — who by statute has an unchallenged monopoly position in the marketplace — is for the Parliament itself to commission a review which reports directly and publicly to the Parliament.

PART 2: ASSURING AUDIT QUALITY: INTERNAL OR EXTERNAL REVIEWS?

There are essentially three ways of assuring audit quality which are currently prevalent or under discussion in the auditing profession. In ascending order of significance, they are:

- **first**, there are purely *internal* quality control processes carried out within each firm or audit practice.
- **second**, there are external reviews currently being carried out or planned within the *private sector*, whereby one firm audits another, or a professional body audits a firm.
- **third**, there have been a number of reviews of *public sector* auditing practices, that is of Auditors'-General offices within Australia.

Internal Quality Control Processes

It is accepted professional practice in Australia that each auditing practice or office should put in place a system of internal control over the quality of audit work. This practice has been codified in Statement of Auditing Practice AUP 13: *Control of the Quality of Audit Work*, issued in January 1983. The statement points out that it is in accordance with International Auditing Guideline IAG 7, *Control of the Quality of Audit Work*.

The aim of AUP 13 is to outline the aspects which should be covered in any internal quality control exercise mounted by an auditing practice or office. These aspects include delegation, direction, supervision, review and general quality controls.

This statement has been applied for many years in the private sector. It is considered to be an essential part of professional best practice and is followed by virtually all auditing practitioners in Australia, from the largest firms to the smallest practice.

The public sector, specifically in NSW, is also required to adhere to the statement. Section 34 of The *Public Finance and Audit Act* 1983 defines the duty of the Auditor-General as requiring adherence to "recognised professional standards and practices".

Of the 37 Practice Statements issued jointly by the ASCPA and the Institute of Chartered Accounts in Australia (ICA), the major one which deals specifically with the way an auditing practice or office should conduct a review of its *internal* operations is AUP 13, and this is the statement which the NSW Auditor-General has used to guide the internal reviews carried out within his office.

The Auditor-General's Office Annual Report for 1992-93 discloses a number of internal reviews of its own operations which it conducted during the year. It reviewed:

- its own financial operations, that is, it conducted an internal audit of the office (in line with the recommendations made in PAC Report no. 71, *Internal Audit in the NSW Public Sector*);
- its own audit processes (in accordance with AUP 13, cited above);
- its own information technology, with the help of Price Waterhouse.
- and — using private sector practitioners specially engaged for the purpose — the way it had conducted three large audit engagements, those into Sydney University, the Forestry Commission and the State Bank.

The result is that today the Auditor-General's internal quality control processes are much more extensive than they were when PAC Report no. 49 was issued in 1990.

External Review in the Private Sector

This type of review may be divided into two kinds: the overseas and the Australian experiences.

Overseas, the most common type of peer review is the one carried out by one firm on another. In the United States, the Securities and Exchange Commission requires that one firm be "peer reviewed" by another in order to be allowed to carry out audits on SEC-listed companies¹³. In addition, firms may only become members of the American Institute of Certified Public Accountants (AICPA) if they are able to demonstrate that they have undergone a peer review¹⁴.

The basic thrust of American practice is that the private sector regulates itself. However, there could be some drawbacks to this method. First, it requires competing auditing firms to have access to each other's working methodology, and second, it could mean that confidential information detailed on audit working papers is disclosed to a trading or business competitor's auditor.

The profession in Australia has adopted another method of conducting peer reviews, partly in order to overcome these problems. Drawing on practice established in Canada, New Zealand and Ireland, the professional accounting bodies determined in the early 90s to conduct peer reviews themselves, rather than leave them to individual firms.

In 1993, for example, the Society of CPAs issued a Statement of Professional Practice PP5, entitled *Quality Assurance Program*. Members holding a public practice certificate must take part in the quality assurance programme¹⁵.

¹³ See Martin Summons, 'Accountants Open Up to Peer Reviews', *Australian Business*, 25 July 1990, p. 116.

¹⁴ Stephen Helms et al. 'Quality Assurance at the State Audit Level', *The Government Accountants Journal*, Vol. XXXVI, no. 3, Fall 1987, p. 19.

¹⁵ See PP1, p. 15013, December 1993.

Similarly, the Institute of Chartered Accountants has conducted mandatory quality control and practice reviews since July 1991. When this was announced, it was envisaged that over the first five years of the programme, all members of practices with public company audits, and a sample of other members in practice, would be reviewed.¹⁶

The two professional bodies have co-operated to develop a quality control manual¹⁷ to assist members to help them ensure that appropriate quality control procedures are in place.

PP5 does not enter into the question of who will pay the cost of the review, and it appears from informal evidence received by the Committee that this issue is indeed a problem for the private sector.

External Review in the Public Sector

There have been two major models used in Australia for the conduct of an external peer review of an Auditor-General's office.

The earlier was the one employed for the continuous review of the Australian National Audit Office¹⁸. Under this model, this review¹⁹ has since 1979 been carried out by a private sector "Big Six" partner appointed by the Minister for Finance. However, as of June 1994, following a recommendation by Joint Committee of Public Accounts, the reviewer will be appointed by an audit committee of Parliament.²⁰

A similar model was adopted in Victoria, where the Economic and Budget Review Committee of the Parliament appointed a senior partner of a "Big Six" firm to conduct a performance audit of the Victorian Auditor-General's office.²¹

In Western Australia and South Australia, on the other hand, peer reviews have been conducted by other Auditors-General, rather than by a partner of a "Big Six" firm.

* * *

¹⁶ See Charter, May 1991, pp. 56-58.

¹⁷ PP 5, p. 15052.

¹⁸ The Commonwealth *Audit Act* 1901 as amended in 1979, section 48K is the provision which requires an independent auditor of the ANAO to be appointed.

¹⁹ In addition to his role as peer reviewer, the appointee was responsible for the audit of the financial statements of the ANAO.

²⁰ *Sydney Morning Herald*, 20 June 1994.

²¹ Fergus Ryan, *Report on Performance Audit of the Auditor-General of Victoria Pursuant to Section 48B of the Audit Act 1958*, Melbourne, October 1992.

Each of the three types of reviewer — internal to the firm, external (as conducted in the private sector) and external (as conducted in the public sector) has its advantages and disadvantages. These were carefully weighed up by the Committee when it determined on its own model, and are discussed in Part 4 of this report.

PART 3: THE SCOPE OF THE REVIEW: VARIOUS MODELS

There are various interpretations of how wide the scope of a peer review should be. On one side of the spectrum is the narrow version which holds that a peer review should examine merely the auditing practices and standards of the firm being audited, and determine whether it is complying with those practices and standards.

On the other side of the spectrum is the broad interpretation, according to which the whole gamut of the Auditor-General's operations, including their quality, is placed under review so as to determine the overall economy, efficiency and effectiveness of the office's operations.

Between these two interpretation, lies a wide range of possible views. Over the years, as the Committee was told in evidence, the scope of peer reviews has progressively expanded:

Mr Ryan: Peer reviews continue to be a moving target. They continue to become more, rather than less, extensive [and]. . . the layers of review are deepening.²²

The Committee favours the broad approach to peer review. Indeed, PAC Report no. 49 made this preference quite clear, praising the:

more comprehensive and professional peer reviews completed in New South Wales.²³

The Committee agreed with a comment made in hearings by Ken Robson, the former NSW Auditor-General, now retired, who said a peer review was:

(A) review of an organisation to see whether it is complying with procedures and laid-down standards and is operating effectively. The boundaries of what should be covered in a peer review should be far more wide-reaching than in the legislation, but I do not think you are inhibited by the legislation. There should be quality control—the biggest aspect of peer review—with control standards for both policy and procedures, so that policies are objectives, and goals and procedures are steps taken to accomplish policies adopted.²⁴

The Auditor-General for Australia agreed. In hearings, he asserted that Section 48A was "nonsense", and provided the following illustration:

What if you had some idiot Auditor-General who brought in a number of standards that were so anti-diluvian that it was ridiculous, but he met them all.

²² Minutes of Evidence, 20 May 1994, p. 31.

²³ PAC Report no. 49, op. cit., p. 173.

²⁴ Minutes of Evidence, 20 May 1994, p. 23.

You would tick it, great, isn't he wonderful! Of course you have to go beyond that. It would be stupidity to just do that.²⁵

However, here the Committee faces a number of problems in the legislation as it presently stands.

The primary source of the peer reviewer's power is section 48A, as set out above. The relevant subsection here is s. 48A(2), which reads:

The review is to examine the auditing practices and standards of the Auditor-General and to determine whether the Auditor-General is complying with those practices and standards in the carrying out of the Auditor-General's functions under this Act.

It is clear that this 1992 subsection of the Act is specifying the narrower interpretation of the peer review concept, rather than the broader scope favoured by the PAC. This is paradoxical, because even the two internally-commissioned peer reviews of the Auditor-General's office conducted in 1984-6 and 1988-9 were very broad in scope.

Thus the Committee favoured one approach in 1989 (and continues to do so), but the 1992 amendments to the Act mandate another, more restricted, one.

A further problem arises from subsection 48A(6), which provides that:

Sections 36,37 and 38 apply in relation to the reviewer as if references in those sections to the Auditor-General were references to the reviewer.

The problem arises essentially from section 36(1)(b), which allows the reviewer full and free access to records and information .

for the purpose of exercising any other function conferred or imposed on the Auditor-General pursuant to this Act or other law.

The problem is that one of these "other functions conferred or imposed on the Auditor-General pursuant to" the Public Finance and Audit Act is precisely the conduct of broad-scope special reviews.

Therefore in a nutshell, one section of the Act (section 48A(2)) mandates a narrow scope for the peer review, and it appears that another (section 36 (1)(b)) allows a broad scope.

The Committee drew attention to this anomaly in the hearings:

Committee: The statutory scheme is a bit messy, is it not? There is provision for a wide review of a specific area of his work, as it turns out, in the NSW legislation. That wide focus is limited to special audits, but when it comes to a regular review of the whole office, that sort of thing is lacking.²⁶

²⁵ Minutes of Evidence, 24 May 1994, p. 59.

²⁶ Minutes of Evidence, 20 May 1994, p. 15.

It is clear that the provisions of the Act which relate to the scope of the peer review now need to be re-examined in the light of the intentions clearly expressed by the Committee in its 1989 report and reiterated in 1994.

The Committee intends to raise the matter with the NSW Treasury in the context of its (the Treasury's) current revision of the Act.

In the meantime, however, the Committee felt it appropriate that the forthcoming peer review have a broad scope, and explored this possibility with the current NSW Auditor-General and with the Treasury. The Auditor-General said:

If there is a legal view that [the Section] is restricted I ponder whether we should open it up in some way. I might be that our consent is enough. We could say, 'For your part you could do this and that', as a request from us as it were. We could somehow ask Treasury to give you the money so that it could be widened for our own purposes.²⁷

The Treasury stated:

The basic Treasury response is that we would expect the Committee to look at the effectiveness, efficiency and economy of the audit office. I am not aware that there was any intention of limitation in the existing section. I think it was intended to be a broad peer review.²⁸

The Committee therefore decided that a broad scope was indeed required for the peer review, and determined on the following recommendations.

Recommendation 1

That section 48A(2) of the Public Finance and Audit Act be amended to read: "The review is to determine whether the Auditor-General is achieving his or her objectives and fulfilling his or her statutory duties and is doing so economically, efficiently, effectively and in compliance with the law and with professional standards.

The Committee developed Terms of Reference accordingly. These are discussed in Part 6 of this report.

Recommendation 2

That the Committee proceed with a broad scope performance review, with or without the legislative provision, and direct the peer reviewer to determine whether the Auditor-General is operating his office economically, efficiently and effectively and in compliance with the law and with professional standards.

²⁷ Minutes of Evidence, 20 May 1994, p. 43.

²⁸ Minutes of Evidence, 20 May 1994, p. 38.

PART 4: SELECTION, APPOINTMENT AND REMUNERATION OF PEER REVIEWER

The basic question in our context is whether the peer review should be conducted by a public sector body, a private sector organisation, or a mixture of both.

It is important to get the choice right. As the Auditor-General for Australia told the Committee:

The potential for damage to my, and your, institution with the wrong Independent Auditor is quite clear. The potential for enormous gain from the appointment of the right one ... is evident.²⁹

There are advantages to having the private sector conduct the review. These include:

- The private sector can provide an infusion of new ideas, especially if the peer review belongs to international firm familiar with international best practice.
- The private sector can provide specialist skills, for instance in highly technical areas.

The advantages of having the public sector conduct the review include:

- The scope of public sector external audit extends beyond the traditional financial (attest) audits to examine agencies' objectives. The majority of public sector audit staff are trained and expected to work across a spectrum of audit work.
- The public sector is service and not primarily profit-oriented, and its disciplines and goals are different from those driving the private sector. A public sector auditor is more likely to understand those goals and constraints, and to appreciate the considerable complexity of public sector operations.
- A public sector auditor is more likely to understand the nature of Parliament as a client, and the need for accountability of a high order.

There are some corresponding disadvantages of having the private sector conduct the review:

²⁹ John Taylor giving evidence to the Commonwealth Joint Committee of Public Accounts, *The Review of the Independent Auditor*, Minutes of Evidence, p. 10.

- As has been claimed by a leading expert, "many private sector auditors have not and do not fully understand the public sector environment, and the differing objectives of public sector audit."³⁰
- Private sector auditors are generally required to audit compliance with the Corporations Law.
- Private sector auditors rely on other management consulting fees. As the same leading expert says, "Practitioners from the private sector seem to view the public sector as a lucrative source of professional fees. This may well influence their view about the efficiency and effectiveness of government auditors".³¹ In other words, private reviewers may face a conflict of interest.
- "Chinese walls" may sometimes be breached in the commercial interests in the firm.

The main disadvantage of having the public sector conduct the review is that it could be perceived as being an "in-club" exercise, with any needed criticism possibly being muted for that reason.

Because there are advantages and disadvantages in using each sector separately, the Committee felt it would be best to use both together. The Committee believed that if a team were formed with members from both private and public sectors, the advantages of each could be obtained and the disadvantages neutralised.

The Committee received a letter³² from the Auditor-General of the Northern Territory putting forward the same view:

From my perspective as an Auditor-General for ten years, after 36 years in private practice (22 years as a Big Eight signing partner), I hold a view that one would be unwise to ignore the value and contribution that properly skilled and experienced experts from both sectors can bring to an audit or review assignment.

There are simply too many facets of the machinery and operations of government, particularly in coming to an understanding of the political and overall control environment, that an Auditor-General needs to be mindful of in both managing his own operations and auditing the public sector, for a peer reviewer not to have a wide understanding of their importance and relevance.

Similarly, there is not doubt at all in my mind that leading practitioners in the private sector have such a wide, varied and rich experience and understanding of auditing as a professional pursuit, that to ignore the value and insights they could

³⁰ Prof. Bob Walker, *Twilight Seminar, Joint Committee of Public Accounts, Report no. 296, Reform of the Australian Audit Office*, 1989, p. 2.

³¹ *ibid.*, p. 1.

³² dated 8 June 1994.

add and offer would be to deny those who commission the reviewer very real and tangible benefits.

In today's highly competitive and action-oriented political, social and business environment the best result would come from bringing competence from both sectors into the review team.

Additional sources of expertise, the Committee believed, should be obtained from the professional accounting bodies and the academic community.

In undertaking a previous, but narrower, exercise, the Committee derived considerable benefit from a mix of expertise. In 1993, it commissioned a review of the Auditor-General's Special Audit functions, and appointed a private sector firm to conduct the review. The Committee also set up an advisory panel consisting of representatives of the Commonwealth Auditor-General's office, the Victorian Auditor-General's office and a leading academic representative from the University of Technology, Sydney.

The present review, however, has a much broader focus than the previous one. Accordingly, the Committee considered it more advisable in the present case for the review to be actually carried out by a mixed team, rather than having merely a mixed advisory panel.

In 1989, the Committee received evidence from the New Zealand Controller and Auditor-General to the effect that using a mixed team to carry out the review was beneficial. His evidence was based on the actual experience of his office: on two occasions, his office had been reviewed by a mixed team, with positive results.

Wherever the peer reviewer come from, they should, however, all meet the following selection criteria:

- Be a member of a leading practice in the field of auditing and consulting and hold a prominent and respected role in the accounting profession;
- Have an appreciation of the role of the Auditor-General and the goals of the Auditor-General's office;
- Have a general knowledge and understanding of the nature of public sector organisations and the New South Wales Government's system of financial administration ;
- Have knowledge and experience in the application of large scale audit project methodologies;
- Have a general knowledge and understanding of the nature of public sector organisations and the State's system of financial administration;
- Have the ability to allocate sufficiently skilled and experienced staff and other resources to undertake the independent audit of the New South Wales Auditor-General office; and

- Not be involved with an audit, examination, inspection or consultancy work which would give rise to a conflict of interest with the performance of his/her function as Peer Reviewer.

Remuneration of the peer reviewer

The Committee noted that under the 1991 amendments to the Act requiring the Committee to appoint a peer reviewer the remuneration payable is to be paid from money appropriated by Parliament for the purpose.

In discussing the scope of the proposed review with the Treasury, the Committee was reassured by the Treasury representative that the scope of the review should be broad:

Mr Scullion: The basic Treasury response is that we would expect the Committee to look at the effectiveness, efficiency and economy of the Audit Office.³³

A broad scope review will clearly cost more than a narrow scope review. The Committee considers that the extra cost of doing a broad scope review should be borne by the Treasury.

The actual cost and pattern of payments will be negotiated between the Public Accounts Committee and the respective parties at the time the appointments are made.

³³ Minutes of Evidence, 20 May 1994, p. 38.

PART 5: PREFERRED MODEL FOR NSW

The previous two chapters have discussed the scope of the peer review, and the possible composition of the team undertaking it.

The Committee determined that:

- The scope of the review should be broad, encompassing economy, efficiency and effectiveness;
- The review should be carried out by a team comprising representatives of the private and public sectors, the professional accounting bodies and the academic community.

PART 6: DRAFT TERMS OF REFERENCE

1. To review the adequacy of practices and procedures of the Auditor-General's Office in undertaking audits of financial statements in accordance with Australian Auditing Standards and practices.
2. To review the adequacy of quality control procedures of the Auditor-General's Office aimed at ensuring the integrity of the audit process.
3. To review the reporting processes of the Auditor-General's Office including the Reports to Parliament, the reporting on the results of audit to ministers and the Treasurer and the reporting to management on issues relating to audit and financial management.
4. To review generally the economy, efficiency and effectiveness of the operations of the Auditor-General's Office.

APPENDICES

APPENDIX 1: BIBLIOGRAPHY

- Australian Society of Certified Practising Accountants. *Members Handbook*, vols 1-4, Melbourne, as at Update no. 46, June 1994.
- Australian Society of Certified Practising Accountants, *The Importance of the Role of Independent Auditors-General*, Discussion Paper no. 8, March 1994.
- Australian Accounting Research Foundation. Exposure Draft (ED) 58 '*Codification and Revision of Auditing Pronouncement*': AUS 810 Performance Auditing, AUP 33, May 1994. op. cit., Planning Performance Audits ED 59, May 1994.
- Boreham, T. 'Professional Groups Seek Trial By Review', *Business Review Weekly*, 22 June 1990, pp. 93-94.
- 'Peer Review Faces Lingering Doubts', *Business Review Weekly*, 27 March 1992, pp.91-93.
- 'Winners and Losers in the Top 1000 Audit Stakes', *Business Review Weekly*, 14 March 1994, pp. 94-96.
- Cameron, E. *Report of the Independent Auditor on an Efficiency Audit of the Auditor-General's Office under the Audit Act 1901*, Canberra, 1982. op.cit., 1987.
- Cohen, G. 'Accounting Practices Group: A Progress Report', *Charter*, July 1992, p. 64.
- Economic and Budget Review Committee, Parliament of Victoria. *Report to Parliament for the Appointment of an Auditor to Conduct a Performance Audit of the Auditor-General*, Melbourne, 1992.
- Editorial. 'Practice Review', *Chartered Accountant*, February 1989, p. 4.
- Editorial. 'Quality Control and Practice Reviews', *Charter*, May 1991, p. 56-58.
- Electoral and Administrative Review Commission. *Review of Public Sector Auditing in Queensland*, Brisbane, 1991.
- Encyclopedic Dictionary of Accounting and Finance*, New Jersey: Prentice Hall, 1989, pp. 322-323. [Provides a definition of 'Peer Review']
- Francis, J. et al. 'Voluntary Peer Review, Audit Quality, and Proposals for Mandatory Peer Reviews', *Journal of Accounting, Auditing and Finance*, Summer 1990, p 369-378.
- Helns, S. et al. 'Quality Assurance at the State Audit Level', *Government Accountants Journal (US)*, Fall 1987, pp. 19-24.

- Joint Committee of Public Accounts, The Parliament of the Commonwealth of Australia. Report 296, *The Auditor-General: Ally of the People and Parliament, Reform of the Australian Audit Office*, Canberra: Australian Government Publishing Service (AGPS), 1989.
- Review of the Independent Auditor—Watching the Watchdog*, 1992.
- Millett, M. 'Govt Finally Strengthens Audit Office Independence', *Sydney Morning Herald*, 21 June 1994, p. 5.
- New South Wales Auditor-General's Office Annual Reports* (especially the period from 1988 to 1993).
- Parliamentary Committee for Electoral and Administrative Review, Legislative Assembly of Queensland. *Public Sector Auditing, Brisbane*, 1991.
- Peat Marwick Hungerfords. *Peer Review of the New South Wales Auditor-General's Office*, Sydney, 1989.
- Priestley and Morris. *Report on Peer Review of the Auditor-General's Office, New South Wales*, Sydney, 1986.
- Public Accounts and Estimates Committee, Parliament of Victoria. *Performance Audit of the Auditor-General of Victoria*, Melbourne, 1993.
- Public Accounts and Expenditure Review Committee, Parliament of Western Australia. *Report on the Recommendations on Independence of the Auditor-General and the Office of the Auditor-General*, Western Australia, 1992.
- Public Accounts Committee, Parliament of New South Wales. *Report on the New South Wales Auditor-General's Office*, Sydney, 1990.
- Inquiry into Review of Special Auditing Function of the New South Wales Auditor-General's Office*, 1993.
- Ryan, F. *Report on Performance Audit of the Auditor-General of Victoria Pursuant to Section 48B of the Audit Act 1958*, Melbourne, 1992
- Senate Standing Committee on Finance and Administration, the Parliament of the Commonwealth of Australia. *Government Companies and Their Reporting Requirements*, Canberra: AGPS, 1989.
- Sharpe, M. *Report on the of the Independent Auditor on an Efficiency Audit of the Australian Audit Office in Accordance with the Audit Act 1901*, Canberra, 1989. op. cit., 1992.
- Sheridan, T. *Australian National Audit Office Report on an Independent Review*, Adelaide, 1990.

Summons, M. 'Accountants Open up to Peer Reviews', *Australian Business*, 25 July 1990, p 116.

Taylor, J. 'Public Accountability Requirements', *Australian Journal of Public Administration*, December 1992, 51:4, pp. 456-460.

Unchaining the Watch-dog, Papers on Parliament, No. 7, Canberra, 1990.

Walker, B. 'Brought to Account:: Auditors and "Peer Review" ', *Australian Business*, 7 September 1988, p. 109

'Reform of the Australian Audit Office', *Twilight Seminar—JCPA Report 296*, Sydney, 1989?.

'The self-Regulation Game Gets Serious', *New Accountant*, 3 May 1990, pp. 18-19.

'The Compelling Case for Peer Review', *New Accountant*, 17 May 1990, pp. 12-13.

Waterford, J. 'Bottom Line on Public Service Accountability', *Australian Journal of Public Administration*, September 1991, 50:3., pp. 345-352

APPENDIX 2: CORRESPONDENCE RECEIVED FROM AUDITORS-GENERAL TOGETHER WITH COMMONWEALTH AND VICTORIAN LEGISLATION

On 1 June 1994 the Clerk to the Public Accounts Committee sent a letter requesting information relating to 'peer review' (see pp. 30-31).

Letters received:

Date	Name	Auditor-General	Page nos.
3 June 1994	A. McHugh	Tasmania	32-33
7 June 1994	J. Parkinson	Australian Capital Territory	34
8 June 1994	E. Isaacson	Northern Territory	35-41
16 June 1994	D. Pearson	Western Australia	42

Commonwealth legislation (see pp. 43-53).

Victorian legislation (see pp. 54-55).

Public Accounts Committee

Parliament House, Sydney 2000
Telephone: 230 2631
230 2111
Fax: 230 2831



PARLIAMENT OF NEW SOUTH WALES
LEGISLATIVE ASSEMBLY

FACSIMILE COVER SHEET

TO: Information Officer/Reference Officer in the Auditor-General's Office

FROM: Jozef Imrich ☐ 230 2632

SUBJECT: External "Peer Review" of an Auditor-General Office

DATE: 1 June 1994

Number of
Pages to
Follow :2

Section 48A of the New South Wales *Public Finance and Audit Act* [attached] requires a "*peer review*" of Auditor-General's office to be conducted under the auspices of the Public Accounts Committee once every three years.

In connection with the *first* such peer review, due by March 1995 at the latest, the Committee resolved at its meeting of 5 May 1994 to conduct a preliminary examination of the conduct of peer reviewers of Auditors'-General offices in other Australian jurisdictions.

The main purpose of the examination is to obtain background material on such a review. The Committee recently conducted public hearings and the following is a list of witnesses:

20 May 1994, Friday

- Michael John Sharpe of Coopers & Lybrand
- Ches Antony Baragwanath, Auditor-General (Victoria)
- Kenneth John Robson, Former NSW Auditor-General
- Fergus Ryan of Arthur Anderson

- Bob Scullion, The NSW Treasury
- Tony Harris, Auditor-General(NSW)

24 May 1994, Tuesday

- John Taylor, Auditor-General, National Audit Office]

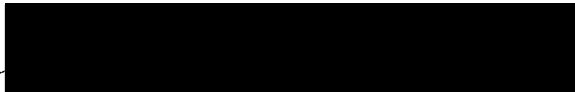
It would be greatly appreciated if the Committee could obtain from your office any background information that you might hold on this subject by 15 June 1994 .

In particular, we are interested to find out

- 1) whether your office is subject to external "peer review", if the answer is yes-can we obtain the title of the legislation with the relevant section.
- 2) Role of the external "peer reviewer" and how is the individual(s) appointed, selected, the tem of office, audit mandate (especially "efficiency audit" also known as "performance audit"); and finally any comments made on the topic of conflict of interest >

Thank you for you assistance.

Yours sincerely

A solid black rectangular box redacting the signature of Jozef Imrich.

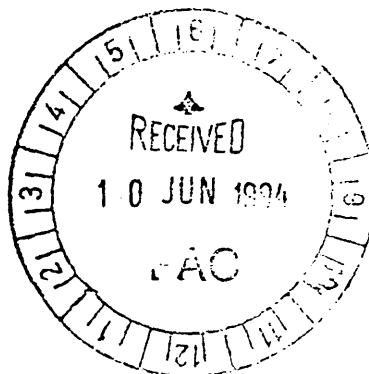
Jozef Imrich

Our Reference:
Your Reference:

Enquiries: Mr A J McHugh
Telephone: (002) 33 3093

3 June, 1994

Mr J Imrich
Information Officer
Public Accounts Committee
Parliament House
SYDNEY



Dear Mr Imrich:

EXTERNAL PEER REVIEW OF AN AUDITOR-GENERAL'S OFFICE

I refer to your facsimile request for information dated 1 June 1994.

1. This Office is not subject to a statutory peer review but I requested a review in 1993 and I intend to request another every 3 years.
2. The individual was selected by me in consultation with the Secretary of the Department of Treasury and Finance. The reviewer was requested to examine and report on
 - the audit methodology
 - the EDP audit methodology and use of CAATs
 - the efficiency of resource utilisation
 - the management information and planning system.
3. Conflict of interest

The reviewer should not have any personal interest in audit contracts with the Office under review. It is arguable that his or her firm should equally have no contractual interests at risk but given the likely narrow scope ("Big 6") from which to choose, this may be a counsel of perfection. Indeed this factor exists where an individual or firm hopes to secure audit work from that Office in the future.

.../2

There is also a more subtle potential conflict of interest since it is open to the reviewer to criticise the Office unfairly with a view to the ultimate goal of diminishing the audit mandate of that Office and so increasing the pool of work available to the private sector. The only guard against this possibility is to choose a person with appropriate character and professional standing as well as technical skills.

Yours sincerely

A black rectangular redaction box covering the signature of the Auditor-General.

A McHugh
Auditor-General



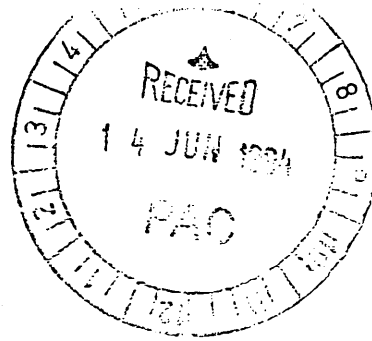
AUDITOR GENERAL

Australian Capital Territory



7 June 1994

Mr Jozef Imrich
Public Accounts Committee
Parliament House
SYDNEY NSW 2000



Dear Jozef

EXTERNAL 'PEER REVIEW' OF AN AUDITOR-GENERAL'S OFFICE

This is a response to your fax of 1 June 1994.

In relation to the particular matters raised:

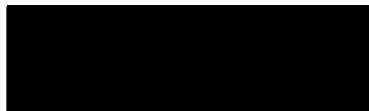
1. This Office is not subject to 'peer review'. A full review of the ACT Audit Act 1989 has recently commenced. I expect that the issue of peer review will be considered during the review.
2. Not applicable.

For your information I am in favour of Audit Offices being regularly subjected to external review. I believe this to be essential for accountability purposes and should also assist Audit Offices to operate at the leading edge of audit practice.

A full external review can be a highly expensive project. For this reason I would favour a four year cycle for these reviews. Of course internal reviews should operate much more frequently.

The matters of who should do the external reviews, who should appoint the reviewers, and reporting mechanisms will all be issues for future discussion in the ACT forum. Of these issues, in my opinion, the selection of the reviewer is paramount. For a complete, constructive and beneficial outcome to be derived from the review, those appointed must have wide and up-to-date knowledge of management practices and public and private sector auditing.

Yours sincerely



John A Parkinson



Northern Territory of Australia
Office of the Auditor-General

Auditing for Parliament and People... promoting improvement



Our reference

650-01-005
CWBT0601.LET

Secretary
Public Accounts Committee
Parliament of New South Wales
Macquarie Street
SYDNEY NSW 2000

Attention: Mr J Imrich

Dear Sir,

EXTERNAL "PEER REVIEW" OF AN AUDITOR-GENERAL OFFICE

I refer to Mr Imrich's facsimile request of 1 June 1994 and provide the following information.

There is no requirement for this Office to be subject to external peer review.

However, over recent months I have been negotiating with government for some modernization of the audit provisions in our Financial Administration and Audit Act. As a consequence broad agreement had been reached upon a Bill (to amend the Act) which was intended for presentation in the May 1994 sittings of the Northern Territory Legislative Assembly. A copy of this is attached.

Regrettably a general election was called before this could be presented, but I would draw your attention to the proposed section 58 provision for a strategic review of this Office.

In addressing your wider questions under part 2 I can say that my Assistant Auditor-General was an observer at the evidence given to your Committee on the afternoon of 20 May 1994 by Messrs Ryan, Scullion and Harris. He has informed me of your Committee's interest in:

- the scope versus probable cost of a peer review; and
- the issue of whether the reviewer should be from the private or public sectors.

Scope versus cost of peer review.

On balance I am inclined to a view that a wider scope review, taking into account the reasonable requirements of both the Committee and the Auditor-General has considerable merit.

I am persuaded to this by the need as a leader and manager in my own right to ask continually the questions:

- How are we going? Are we doing well?
- Are we achieving what we need and want to achieve?

Not to ask these questions and not to get the answers is to risk becoming irrelevant, even arrogant. It is appropriate that Parliament asks such questions about the Auditor-General from an independent and objective expert or experts and gets answers.

Private sector versus public sector reviewers

From my perspective as an Auditor-General for 10 years after 36 years in private practice (22 years as a Big Eight signing partner) I hold a view that one would be unwise to ignore the value and contribution that properly skilled and experienced experts from both sectors can bring to an audit or review assignment.

There are simply too many facets of the machinery and operations of government, particularly in coming to an understanding of the political and overall control environment that an Auditor-General needs to be mindful of in both managing his own operations and auditing the public sector, for a peer reviewer not to have a wide understanding of their importance and relevance.

Similarly, there is no doubt at all in my mind that leading practitioners in the private sector have such a wide, varied and rich experience and understanding of auditing as a professional pursuit, that to ignore the value and insights they could add and offer would be to deny those who commission the reviewer very real and tangible benefits.

In today's highly competitive and action oriented political, social and business environment the best result would come from bringing competence from both sectors into the review team.

Avoiding conflict of interest

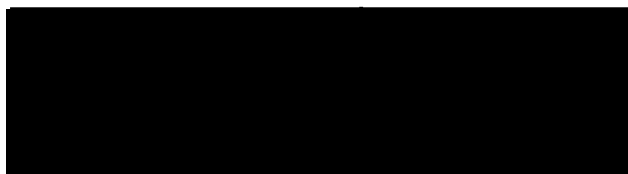
Given goodwill and common sense by those who choose and commission the reviewer(s) I cannot see why a conflict of interest situation would arise. Obviously diligent enquiry beforehand and appropriate protective measures during the review should expose/prevent such a situation occurring.

Should there be a specific matter about which those who commission the review have concern it would presumably be open to them to seek independent advice from an appropriate body. Such a body which my Office has used is the St James Ethics Centre, Sydney.

Prior to dispatching this to you I provided a draft copy to Mr Harris, Auditor-General of New South Wales.

Please feel free to contact me if you need any amplification of these comments.

Yours sincerely,

A large black rectangular redaction box covers the signature area. A thin, curved line extends from the right side of the box towards the right margin of the page.

E M ISAACSON
Auditor-General

8 June 1994

NORTHERN TERRITORY OF AUSTRALIA
FINANCIAL ADMINISTRATION AND AUDIT
AMENDMENT BILL 1994

TABLE OF PROVISIONS

Clause

1. Short title
2. Principal Act
3. Definitions
4. New section:

"47B. AUDIT OF PERFORMANCE MANAGEMENT
SYSTEMS"
5. New Divisions:

"Division 4 - Strategic Review of the
Auditor-General's Office

"58. STRATEGIC REVIEW OF AUDITOR-GENERAL'S
OFFICE

"Division 5 - Audit of Accounts
of Auditor-General's Office

"58A. AUDIT OF ACCOUNTS OF AUDITOR-
GENERAL'S OFFICE"

to amend the *Financial Administration and Audit Act*

1. SHORT TITLE

This Act may be cited as the *Financial Administration and Audit Amendment Act 1994*.

2. PRINCIPAL ACT

The *Financial Administration and Audit Act* is in this Act referred to as the Principal Act.

3. DEFINITIONS

Section 3 of the Principal Act is amended by inserting after the definition of "Auditor-General" the following:

"'Auditor-General's Office' means the Agency, within the meaning of the *Public Sector Employment and Management Act*, of that name specified in Schedule 1 of that Act;"

4. NEW SECTION

The Principal Act is amended by inserting after section 47A the following:

"47B. AUDIT OF PERFORMANCE MANAGEMENT SYSTEMS

"(1) The Auditor-General may conduct an audit of performance management systems of any organisation in respect of the accounts of which the Auditor-General is required or permitted by a law of the Territory to conduct an audit.

Financial Administration and Audit Amendment

"(2) An audit under this section may be conducted as a separate audit or as part of another audit (including an audit of another organisation under this section).

"(3) The object of an audit conducted under this section includes determining whether the performance management systems of the organisation in respect of which the audit is being conducted enable the organisation to assess whether its objectives are being achieved economically, efficiently and effectively.

"(4) In conducting an audit under this section, the Auditor-General shall have regard to any prescribed requirements relating to the establishment and maintenance of performance management systems that apply to the organisation in respect of which the audit is being conducted.

"(5) In conducting an audit under this section, the Auditor-General may not question the merits of policy objectives of the Government including -

- (a) a policy objective of the Government contained in a record of a policy decision of Cabinet;
- (b) a policy direction of a Minister; and
- (c) a policy statement in a budget paper or any other document evidencing a policy decision of Cabinet or a Minister."

5. NEW DIVISIONS

The Principal Act is amended by inserting after section 57 the following:

"Division 4 - Strategic Review of the Auditor-General's Office

"58. STRATEGIC REVIEW OF AUDITOR-GENERAL'S OFFICE

"(1) Strategic reviews of the Auditor-General's Office shall be conducted under this section.

"(2) A review under this section shall be conducted at least every 3 years.

"(3) A review under this section shall be undertaken by an appropriately qualified person appointed by the Administrator.

"(4) The terms of reference for a review under this section shall be determined by the Administrator.

"(5) Before a person is appointed under this section, the Minister shall consult with the Public Accounts Committee and the Auditor-General about

Financial Administration and Audit Amendment

- (a) the appointment; and
- (b) the terms of reference for the review.

"(6) The remuneration and other terms and conditions of appointment of a person appointed under this section shall be as determined by the Administrator.

"(7) For the purposes of conducting the review under this section -

- (a) the person has all the powers that an authorised auditor has under this Act; and
- (b) this Act applies to the person as if the person were an authorised auditor conducting an audit under this Act.

"(8) On completing a review under this section, the person shall give a report on the review to the Minister and the Auditor-General.

"(9) Where the person proposes to include in the report a matter that, in the person's opinion, is a matter of significance, the person shall -

- (a) give the Minister and the Auditor-General written advice of the matter; and
- (b) include in the advice a statement to the effect that comments on the matter may be made in writing to the person within -
 - (i) 21 days after the advice is received; or
 - (ii) such longer period as is specified in the advice.

"(10) Where a matter referred to in subsection (9) is included in a report under that subsection, any comments given to the person under that subsection shall also be included in the report.

"(11) The Minister shall cause a copy of a report referred to in subsection (8) to be laid before the Legislative Assembly within 6 sitting days after its receipt by the Minister.

*"Division 5 - Audit of Accounts
of Auditor-General's Office*

**"58A. AUDIT OF ACCOUNTS OF AUDITOR-GENERAL'S
OFFICE**

"(1) The Administrator may appoint an auditor who is registered under the Corporations Law to audit the accounts of the Auditor-General's Office.

Financial Administration and Audit Amendment

"(2) An auditor appointed under subsection (1), in conducting an audit and preparing a report under this section, has the same powers and is subject to the same requirements as the Auditor-General when conducting an audit and preparing a report under this Act.

"(3) On completing an audit under this section, the auditor shall give a report of the audit to the Minister and the Auditor-General.

"(4) The Minister shall cause a copy of a report referred to in subsection (3) to be laid before the Legislative Assembly within 6 sitting days after its receipt by the Minister."

OFFICE OF THE AUDITOR GENERAL

4th Floor Dumas House
2 Havelock Street
West Perth 6005
Western Australia

Leaders in Performance Auditing
WESTERN AUSTRALIA

IDD Code: 61(9)
Telephone: 222 7500
Facsimile: 322 5664

Mr J Imrich
Public Accounts Committee
Parliament House
SYDNEY NSW 2000

Our Ref: 1466

Dear Mr Imrich


EXTERNAL "PEER REVIEW" OF AN AUDITOR GENERAL'S OFFICE

In response to your questions on external peer review put to my Office by facsimile on June 1, 1994, I make the following comments:

1. The Office of the Auditor General in Western Australia has been subject to an external peer review by the Deputy Auditor General of Victoria in May 1993. This review was self imposed by this Office and was not a requirement of legislation.
2. The role of the external peer reviewer should ascertain the extent to which an Audit Office complies with its established practices and standards across financial attest to performance examinations and where applicable, as in Western Australia, to performance indicators. I consider the best form of review is self regulatory and one including participation from another jurisdiction with first hand experience in public sector auditing. Such a review should occur at least once in every three years. The question on conflict of interest is a difficult one to answer but I believe the reviewer may be perceived to be in conflict if the reviewer or his/her firm has been involved with recent contract work or has prospects of/or designs on future work with the Auditor General subject to review.

I trust the foregoing information assists the Public Accounts Committee in its deliberations for peer reviews. Please contact my Director of Strategy and Planning, Mr Andy Yukich on (09) 222 7511 if further information is required.

Yours sincerely


D D R PEARSON
AUDITOR GENERAL
June 16, 1994

The Audit Act 1901 (Commonwealth)

Division 3 - Audits of Australian Audit Office

Interpretation

48J. In this Division, unless the contrary intention appears, "independent auditor" means the person required, in accordance with arrangements made under subsection 48K(1), to carry out audits in relation to the Australian Audit Office.

Audits of Australian Audit Office

48K. (1) The Minister may, on behalf of the Commonwealth, make arrangements, from time to time, with a suitable person for the person to exercise the powers and perform the functions of the independent auditor under this Division.

(2) For the purposes of this Division, the functions of the independent auditor are-

- (a) to carry out audits of the accounts and records kept, in accordance with section 40, in relation to the Australian Audit Office;
- (b) to examine the financial statements prepared by the Auditor-General under section 50.;
- (c) to examine the accounts of the stores of the Australian Audit Office;
- (d) to carry out efficiency audits of the operations of the Australian Audit Office; and
- (e) to furnish, in accordance with this Division, reports of the results of audits and examinations so carried out by him.

(3) Notwithstanding any other provisions of this Act, audits and examinations referred to in subsection (2) shall be carried out by the independent auditor.

(4) Arrangements with a person under subsection (1) may provide for the payment of such fees and allowances to the person as are determined by the Minister.

(5) Arrangements made with a person under subsection (1) have no force or effect unless the arrangements were made with the approval of, or have been approved by, the Governor-General.

(6) Fees and allowances payable to a person in accordance with an arrangement made under subsection (1) shall be paid out of the Consolidated Revenue Fund, which is appropriated accordingly.

Powers of independent auditor

48L (1) Sections 13, 14 and 14A apply to and in relation to the independent auditor as if references in those sections to the Auditor-General were references to the independent auditor.

(2) The independent auditor may obtain an opinion from the Attorney-General on any question concerning the exercise of his powers or the performance of his functions under this Division.

(3) The Auditor-General shall cause a copy of any financial statements prepared by the Auditor-General under section 50 to be given to the independent auditor.

(4) Sections 11, 41, 41A, 41B, 41C, 42, 45 and 45B, and section 52 other than paragraph (a) of subsection (1), apply to and in relation to the carrying out by the independent auditor of an audit of the accounts and records kept in relation to the Australian Audit Office as if-

- (a) references in those sections to the Auditor-General were references to the independent auditor;
- (b) references in those sections to all Departments were references to the Australian Audit Office;
- (c) the reference in section 41 to accounts and records kept in accordance with section 40 was a reference to the accounts and records kept, in accordance with section 40, in relation to the Australian Audit Office; and
- (d) the reference in section 45 to an accounting officer was a reference to an accounting officer performing duty in the Australian Audit Office.

(5) For the purposes of any section of this Act applied by this section to and in relation to the independent auditor, examinations, inspections and audits carried out by the independent auditor by virtue of the functions conferred on him by section 48K shall be deemed to be examinations, inspections and audits authorized or required by this Act to be carried out by the independent auditor.

(6) The independent auditor, or a person authorized by him, shall, at all reasonable times, have full and free access to all accounts and records in the possession of-

- (a) the Auditor-General;
- (b) an officer or employee performing duty in the Australian Audit Office; or
- (c) any other person,

being-

- (d) accounts or records which deal with, form a basis of, or relate directly or indirectly to-
 - (i) the receipt, custody or expenditure of any public moneys;
 - (ii) the receipt, custody or disposal of stores; or
 - (iii) any approval for the expenditure of any such moneys, in relation to the Australian Audit Office; or
- (e) records which relate, directly or indirectly, to operations that have been, or are being, carried on by the Australian Audit Office, or to procedures that have been, or that are being, followed by that Office for reviewing any such operations,

and may, subject to the directions of the Minister, make copies of, or take extracts from, any such accounts or records.

(7) For the purposes of an efficiency audit of operations of the Australian Audit Office-

- (a) the independent auditor, or a person authorized by him, may, at any reasonable time, enter any place occupied by the Australian Audit Office and carry out an examination of the operations of that Office at the place; and
- (b) the independent auditor, or a person authorized by him, is entitled to inspect, at a reasonable time arranged with the Auditor-General, any records relating to the operations of that Office that are kept at premises entered by him under this section, and to take copies of, or extracts from, any such records.

(8) Nothing in subsection (6) or (7) shall be taken to restrict the operation of any other provisions of this Act that apply to and in relation to the independent auditor by virtue of this section.

(9) An efficiency audit of operations of the Australian Audit Office shall be conducted by the independent auditor, subject to this section, in such manner as the independent auditor thinks fit.

(10) Without limiting the generality of subsection (9)-

- (a) an efficiency audit of operations of the Australian Audit Office may be carried out in conjunction with, and as part of, an inspection and audit of the accounts of the Australian Audit Office that is being carried out by the independent auditor under this Act; and
- (b) any information obtained by the independent auditor, in the course of carrying out an inspection and audit of the accounts of the Australian Audit Office, whether as a result of inspecting the accounts of records of that Office or otherwise, may, whether or not the independent auditor was at the same time carrying out an efficiency audit of operations of that Office, be treated as having been obtained for the purpose of carrying out such an audit.

Secrecy

48M. (1) The operation of sections 13, 14 and 14A, in their application in relation to the independent auditor by virtue of subsection 48L(1), and the operation of subsections 48L(6), (7) and (9), are not limited by any provision (including a provision relating to secrecy) contained in any other law (whether made before or after the commencement of this section), except to the extent to which any such other law expressly excludes the operation of any of those sections or subsections.

(2) Notwithstanding anything contained in any other law, and notwithstanding the making of an oath or declaration of secrecy, a person is not guilty of an offence by reason of anything done by him for the purposes of section 13, 14 or 14A in its application in relation to the independent auditor by virtue of subsection 48L(1), or for the purposes of subsection 48L(6), (7) or (9).

(3) A person to whom this subsection applies shall not divulge or communicate, except in the course of duty to another person to whom this subsection applies, any information which has come to his knowledge by reason, directly or indirectly, of section 13, 14 or 14A, or of subsection 48L(6), (7) or (9), in any case in which the person from whom the information was obtained, or from whose custody the records from which the information was obtained were produced, could not, but for the provisions of this section, lawfully have divulged the information to the first-mentioned person.

Penalty: \$5,000 or imprisonment for 2 years, or both.

(4) subsection (3) does not prevent the making, divulging or communicating, in any report of the independent auditor, of conclusions, observations or recommendations which are based on information obtained in pursuance of section 13, 14 or 14A or of subsection 48L(6), (7) or (9).

(5) The persons to whom subsection (3) applies are-

(a) the independent auditor;

(b) persons authorized by the independent auditor under subsection 48L(6) or (7); and

(c) other persons employed by the independent auditor in connection with the performance of his functions under this Division.

Reports of independent auditor concerning financial audits

48N. (1) As soon as practicable after the Auditor-General gives to the independent auditor a copy of a financial statement prepared by the Auditor-General under section 50 that relates to the Australian Audit Office, the independent auditor shall examine the statement and prepare and sign a report, in respect of the statement, that complies with subsection 51(1) and section 51A.

(2) For the purposes of subsection (1), subsection 51(1) and section 51A shall be read as if references to the Auditor-General were references to the independent auditor.

(3) The independent auditor shall forward a report prepared under subsection (1), with respect to a statement prepared by the Auditor-General under section 50 to the Auditor-General, who shall cause it to be included in, or annexed to, a report prepared by the Auditor-General under section 11A with respect to the statement.

(4) In addition to furnishing reports in accordance with subsection (1), the independent auditor shall draw the attention of the Minister to such matters arising out of the exercise of his powers and the performance of his functions under this Division (other than his powers and functions in respect of the carrying out of efficiency audits of the operations of the Australian Audit Office) as are, in the opinion of the independent auditor, of sufficient importance to justify his so doing.

Reports of independent auditor concerning efficiency audits

48P. (1) Where the independent auditor carries out an efficiency audit of operations of the Australian Audit Office under this Division, he shall prepare and sign a report of the results of the audit.

(2) A report of the results of an efficiency audit of operations of the Australian Audit Office carried out by the independent auditor-

- (a) may include such information as he thinks desirable in relation to matters referred to in the report;
- (b) shall set out his reasons for matters expressed in the report;
and
- (c) may include any recommendations arising from the audit that he thinks fit to make.

(3) The Attorney-General may issue to the independent auditor a certificate certifying that the disclosure of information concerning a specified matter, or the disclosure of a specified document, would be contrary to the public interest for a reason specified in subsection 48F(5).

(4) Where information, or the contents of a document, to which a certificate under subsection (3) applies is disclosed to the independent auditor in the course of the carrying out of an efficiency audit of operations of the Australian Audit Office, the independent auditor may include any of the information or any of the contents of the document, in a restricted report of the results of the audit prepared by him, and, if he does so, he may also prepare and sign a separate report of the results of the audit that does not include any of the information or any of the contents of the document.

(5) Where the independent auditor prepares a restricted report of the results of an efficiency audit of operations of the Australian Audit Office, he shall forward copies of the report to the Prime Minister, to the Minister and to the Public Service Board.

(6) Where the independent auditor prepares a report (other than a restricted report) of the results of an efficiency audit of operations of the Australian Audit Office-

- (a) he may include the report in the next report made by him under subsection 48N(1); or
- (b) he may treat the report as a special report and transmit signed copies of the report to each House of the Parliament.

(7) In this section, a reference to a restricted report of the results of an efficiency audit of operations of the Australian Audit Office shall be read as a reference to a report of the results of such an audit that includes any information, or any of the contents of a document, to which a certificate issued to the independent auditor under subsection (3) applies.

(8) Where an independent auditor is of the opinion that a matter arising out of the carrying out by him of an efficiency audit of operations of the Auditor-General's Office is of sufficient importance as to justify his doing so, he shall draw the attention of the Prime Minister, the Minister and the Public Service Board to the matter.

SCHEDULE 2

Section 39

**APPOINTMENT, CONDITIONS OF APPOINTMENT ETC.
FOR INDEPENDENT AUDITOR**

Appointment of Independent Auditor

1.(1) The Independent Auditor is to be appointed by the Governor-General, on the recommendation of the Minister, for a term of at least 3 years and not more than 5 years.

(2) Before making a recommendation to the Governor-General, the Minister must consult the Chairman of the Joint Committee of Public Accounts.

(3) The Independent Auditor holds office on a part-time basis.

(4) A person cannot be appointed as Independent Auditor unless the person meets the qualifications and experience requirements that are determined by the Minister after consultation with the Chairman of the Joint Committee on Public Accounts.

Note: The effect of section 19A of the *Acts Interpretation Act 1901* is that "the Minister" refers to the Minister who administers this clause. The administration of Acts or particular provisions of Acts is allocated by Administrative Arrangements Orders made by the Governor-General.

Remuneration of Independent Auditor

2.(1) The Independent Auditor is to be paid the fees and allowances that are determined by the Minister.

(2) The *Remuneration Tribunal Act 1973* does not apply to the office of Independent Auditor.

Resignation

3. The Independent Auditor may resign by giving the Governor-General a signed resignation notice.

Removal from office etc.

4.(1) The Governor-General may remove the Independent Auditor from office if each House of the Parliament, in the same session of the Parliament, presents an address to the Governor-General praying for the removal of the Independent Auditor on the ground of misbehaviour or physical or mental incapacity.

(2) The Governor-General must remove the Independent Auditor from office if the Independent Auditor does any of the following:

- (a) becomes bankrupt;
- (b) applies to take the benefit of any law for the relief of bankrupt or insolvent debtors;
- (c) compounds with his or her creditors;
- (d) assigns his or her remuneration for the benefit of his or her creditors.

SCHEDULE 2—continued

(3) If the Independent Auditor is:

- (a) an eligible employee for the purposes of the *Superannuation Act 1976*; or
- (b) a member of the superannuation scheme established by deed under the *Superannuation Act 1990*;

the Governor-General may, with the consent of the Independent Auditor, retire the Independent Auditor from office on the ground of physical or mental incapacity.

(4) For the purposes of the *Superannuation Act 1976*, the Independent Auditor is taken to have been retired from office on the ground of invalidity if:

- (a) the Independent Auditor is removed or retired from office on the ground of physical or mental incapacity; and
- (b) the Commonwealth Superannuation Board of Trustees No. 2 gives a certificate under section 54C of the *Superannuation Act 1976*.

(5) For the purposes of the *Superannuation Act 1990*, the Independent Auditor is taken to have been retired from office on the ground of invalidity if:

- (a) the Independent Auditor is removed or retired from office on the ground of physical or mental incapacity; and
- (b) the Commonwealth Superannuation Board of Trustees No. 1 gives a certificate under section 13 of the *Superannuation Act 1990*.

Acting appointment

5.(1) The Minister may appoint a person to act as Independent Auditor:

- (a) if there is a vacancy in the office of Independent Auditor, whether or not an appointment has previously been made to the office; or
- (b) during any period, or during all periods, when the Independent Auditor is unable to perform the duties of the office.

(2) Anything done by or in relation to a person purporting to act under this section is not invalid merely because:

- (a) the occasion for the appointment had not arisen;
- (b) there was a defect or irregularity in connection with the appointment;
- (c) the appointment had ceased to have effect;
- (d) the occasion to act had not arisen or had ceased.

Note: Section 33A of the *Acts Interpretation Act 1901* has rules that apply to acting appointments. These rules include a power for the Minister to determine remuneration and allowances.

GOVERNMENT BUSINESS

Notice of Motion*Notice given 28 June 1994****1 Minister for Defence (Senator Ray): To move—**

- (1) That a joint standing committee, to be known as the Audit Committee of Parliament, be appointed to:
 - (a) advise the Auditor-General of the committee's audit priorities in respect of Commonwealth bodies;
 - (b) advise the responsible Minister in relation to a government business enterprise (GBE) that the committee attaches a priority to a performance audit being undertaken of certain activities of that GBE, for the purpose of requesting that Minister, where appropriate, to seek the Auditor-General's agreement to undertake the performance audit;
 - (c) consider the resources of the Australian National Audit Office (ANAO) for the purposes of assessing the effectiveness of the ANAO in undertaking its charter and the adequacy of resource levels, including charge-out rates, to undertake an appropriate program of audit coverage; and as appropriate, make recommendations to the Auditor General and/or the Executive Government; and
 - (d) report to both Houses on any matters arising out of the committee's consideration of ANAO resources, reports of the Independent Auditor on the operations of the ANAO, or other matters relating to the performance of the Auditor-General's functions which the committee considers should be drawn to the attention of the Parliament.
- (2) That the committee consist of:
 - (a) the Speaker of the House and the President of the Senate each alternating as chairman and deputy chairman for periods determined by the committee;
 - (b) the chairman of the Joint Committee of Public Accounts;
 - (c) two Members of the House of Representatives to be nominated by the Government Whip or Whips, three Members of the House of Representatives to be nominated by the Opposition Whip or Whips; and
 - (d) one Senator to be nominated by the Leader of the Government in the Senate, one Senator to be nominated by the Leader of the Opposition in the Senate, and one Senator to be nominated by any minority groups or independent Senators.
- (3) That every nomination of a member of the committee be forthwith notified in writing to the President of the Senate and the Speaker of the House of Representatives.
- (4) That the members of the committee hold office as a joint standing committee until the House of Representatives is dissolved or expires by effluxion of time.
- (5) That the deputy chairman shall act as chairman of the committee at any time when the chairman is not present at a meeting of the committee, and that at any time when the chairman and deputy chairman are not present at a meeting of the committee, the members present shall elect another member to act as chairman at that meeting.

- (6) That the committee have power to appoint subcommittees consisting of 3 or more of its members and to refer to any subcommittee any of the matters which the committee is empowered to examine.
- (7) That the committee appoint the chairman of each subcommittee who shall have a casting vote only, and at the time when the chairman of a subcommittee is not present at a meeting of a subcommittee, the members of the subcommittee present shall elect another member of that subcommittee to act as chairman at that meeting.
- (8) That the committee or any subcommittee have power to send for persons, papers and records, to move from place to place, to adjourn from time to time, and to sit during any adjournment of the Senate and the House of Representatives.
- (9) That five members of the committee constitute a quorum of the committee, and a majority of members of a subcommittee constitute a quorum of that subcommittee.
- (10) That in matters of procedure the chairman or deputy chairman presiding at the meeting have a deliberative vote and, in the event of an equality of voting, have a casting vote, and that, in other matters, the chairman or deputy chairman have a deliberative vote only.
- (11) That members of the committee who are not members of a subcommittee may participate in the proceedings of that subcommittee but shall not vote, move any motion or be counted for the purpose of a quorum.
- (12) That the committee have leave to report from time to time.
- (13) That a message be sent to the House of Representatives acquainting it of this resolution and requesting that it concur and take action accordingly.

Section 48B of the Audit Act 1958

48B (1) *An audit shall be conducted under this section at least once every three years to determine whether the Auditor-General is achieving his or her objectives and doing so economically and efficiently and in compliance with this Act.*

(2) *An audit under this section shall be conducted by an auditor appointed by resolution of the Council and the Assembly, on the recommendation of the Economic and Budget Review Committee of the Parliament.*

(3) *An Auditor appointed under this section -*

(a) *shall be appointed on such terms and conditions and is entitled to such remuneration as are determined by the Economic and Budget Review Committee; and*

(b) *in conducting the audit, must comply with directions as to the audit given by that Committee.*

(4) *The remuneration payable to an Auditor appointed under this section shall be paid from the Consolidated Fund (which is hereby to the necessary extent appropriated accordingly).*

(5) *Subject to any directions given by the Economic and Budget Review Committee, sections 44, 44A, 44B and 45 apply in relation to an auditor appointed under this section as if references in those sections to the Auditor-General were references to the auditor appointed under this section.*

(6) *An Auditor appointed under this section must not make a report of an audit under this section unless, at least 28 days before making the report, the Auditor has given the Auditor-General a summary of findings and proposed recommendations in relation to the audit.*

(7) *The Auditor must include in the report of an audit under this section any submissions or comment made by the Auditor-General or a summary, in an agreed form, of any such submissions or comment.*

(8) *The Auditor, in a report of an audit under this section -*

(a) *may include such information as he or she thinks desirable in relation to matters that are the subject of the audit; and*

(b) *must set out the reasons for opinions expressed in the report; and*

(c) *may include any recommendations arising out of the audit as he or she thinks fit to make.*

(9) *The Auditor must, within 7 sitting days after making the report, transmit the report to the Legislative Assembly.*

APPENDIX 3: WITNESSES AT PUBLIC HEARINGS AND MINUTES OF EVIDENCE

Evidence of the following witnesses is presented in this appendix:

Date	Name	Organisation	Page nos
20 May 1994	M. Sharpe, AM	Coopers and Lybrand	2-13
	C. Baragwanath	Auditor-General of Victoria	14-22
	K. Robson	Former Auditor-General of New South Wales	23-30
	F. Ryan S Robertson	Arthur Anderson	31-37
	B. Scullion	Assistant Secretary, New South Wales Treasury	38-41
	T. Harris J. Mitchell T. Jambrich	Auditor-General of New South Wales	42-52
24 May 1994	John Taylor, AO W. Nelson	Auditor-General for Australia	54-62

MINUTES OF EVIDENCE

TAKEN BEFORE THE

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO

PEER REVIEW OF THE AUDITOR-GENERAL'S OFFICE

At Sydney on Friday, 20 May 1994

The Committee met at 9.30 am

PRESENT

Andrew Tink, MP (Chairman)
Peter Cochran, MP
Geoff Irwin, MP
Terry Rumble, MP

MICHAEL JOHN SHARPE, Chartered Accountant, of Coopers & Lybrand, [REDACTED]
[REDACTED] sworn and examined:

CHAIRMAN: Did you receive a summons issued under my hand?

Mr SHARPE: Yes.

CHAIRMAN: The Public Accounts Committee is required under section 48A of the Public Finance and Audit Act to be involved in a review of the Auditor-General's Office every three years. That time will come up some time early next year. We thought that it would be appropriate at this time to explore some of the issues that have arisen in similar peer reviews that have been conducted elsewhere, which is why we are particularly keen to have you along. Are you familiar with section 48A of the Public Finance and Audit Act?

Mr SHARPE: Yes, I am.

CHAIRMAN: As someone who has been through a similar exercise—maybe it was a different exercise; maybe the legislation or the powers you had were different—could you make some comments on the sorts of things we should be preparing for or looking at?

Mr SHARPE: I have with me some of the reports that I issued to the Commonwealth Parliament in my capacity as Independent Auditor of the Australian National Audit Office. I mention that because I think you have referred to scope—whether the responsibilities I had under the Commonwealth legislation are the same as you have under the section 48A of the Public Finance and Audit Act. In my report I said that the overall objective of my Commonwealth responsibility was to form an opinion on whether the manner in which the ANAO sought to achieve its aims and objectives was economical, efficient and effective. I think that is probably a slightly wider scope because it talks about the whole efficiency of the audit office. You might get down to matters of whether the rent they pay is correct; matters that would pertain to the accounts of the ANAO and the Auditor-General's responsibilities.

If my reading of section 48A of the State legislation is correct, the scope is a little less. It says, "To examine the audit practices and standard of the Auditor-General and to determine whether the Auditor-General is complying with those practices and standards in carrying out his functions". I see that as going more to the effectiveness and efficiency of what he is doing from an audit point of view, but I see it short of economy and examining whether he rented premises in the right position—to continue the analogy with the Commonwealth. I do not see it as enormously different because both the efficiency and effectiveness side of my Commonwealth responsibilities were by far the greatest. Having said that, I think scope is the most important thing. If you are examining audit practices and standards, I would take that in a fairly wide way anyhow. I do not think it just means that you look at the audit of the Roads and Traffic Authority, to take an example, and ask: was the opinion correct? Was the audit done in such a way to make sure the opinion was correct? Is it in line with modern standards? Was it done with too much labour, or too little? Was the right opinion efficiently arrived at? I see it wider than that—I see that you would go to the question, for example, is the Auditor-General independent? Is there anything that would stop him conducting a full audit for the State Government, the RTA or whatever you were looking at?

Is he getting all the information and explanations he requires? Perhaps when he submits his budget to whoever, perhaps the Treasurer, he is being given an allocation that makes it impossible for him to employ enough people to audit all the matters under his consideration. Is it correct for the people he is auditing to tell him how much he can spend on the audits? That is a problem we have in the private sector and, I suggest, it was a problem at the Commonwealth level. You may have followed the debate as to whether there should be a committee of Parliament to approve the Auditor-General's responsibilities. Independence is one of the matters you should examine in relation to that.

I think efficiency depends on the talent of your staff. I think you have to look at whether the pay rates are correct, whether the career plan of the people working on the audit is correct, whether their technical knowledge is correct. You would then go over not to the people working on the audit but what support does he have—income tax considerations of a technical nature whereby his staff can go to that expertise. Probably even more important is accounting standards. How competent is the staff? Is the advice right?

In Coopers & Lybrand if we were auditing something we would have a questionnaire. That questionnaire would say, "This is what you examine to see if we have done all the things we should have done". We would do that on a rotational basis for all our audits. That would just pertain to the audit in the example I gave of the RTA, but it would not take those wider things of independence, technical support within the office, making sure that the standard of the staff was right in the first place. Quite a few things are important, although not pertaining to the exact audit that you are examining which would affect the Auditor-General's performance on those audits. I believe you should go as widely as that if you are really going to get efficiency and effectiveness.

CHAIRMAN: In the context of tackling the job specifically, it is pretty obvious that we would want to retain a firm to do the job, as has occurred in both Victoria and the Commonwealth. I suppose one question is: how do you define the job? I suppose it is defined in terms of the Act.

Mr SHARPE: Yes, I think it is defined in terms of the Act. I would suggest to you that if you asked the people that felt they were best qualified to do the job to set out a proposal, which would be part of a tender, you would find they would set it out very solidly. They would lay down what they intended to do in regard to that examination. From there you would perhaps get an agreement between the Government or the Parliament and that particular person as to what you want them to do. I would leave it to him or her to decide exactly what they would do. It would be a bit like a letter of engagement; they would say, "In order to comply with this Act, I undertake to do this review and report to you in this way". You would then consider the various applications for that and appoint from there. I think that would make it easier for you. You would have the final decision as to what was done. You may even appoint someone and say, "We would like you to do that, but by the way you did not cover the training of staff. We would like you to look at that as well", and that type of thing.

Mr IRWIN: In the Committee's forty-ninth report one of the recommendations was that the review would be conducted either by a private audit firm, a public audit office or a team drawn from both of those sectors. What would be your preference there? I refer particularly to the last option. Would there be a willingness of private audit firms to be part of a team to conduct a peer review?

Mr SHARPE: When I was appointed Independent Auditor for the Commonwealth Auditor-General it was at a time when they seemed to be having public accounts inquiries into the Auditor-General. Straight after our appointment John Taylor, the current incumbent, had only just been appointed. As if that was not enough examination of the Auditor-General, they asked the South Australian Auditor-General to make some recommendations on how he thought the Australian National Audit Office could be improved. I thought that was funny; I thought that was my job, but they had appointed the man from South Australia. I thought it would make it easier for me to earn my money if I had access to his report. We started to work together. I would have no objection to working together—and I would be very surprised if any firm did.

I am not sure that it is that necessary. It is my preference to say that there are a few people in the private sector that understand the public sector well enough to give you all the information you want, or would have enough intelligence that when they are short of knowledge to go and ask somebody in other areas. If you have read my reports you will see that I spent a lot of time with Sir John Bourne, the Auditor-General in the United Kingdom. I thought a lot of things there were very good. I wanted some background to

put in my recommendations. If anyone knows they are lacking, if they are worth their salt they would do that. It could be done by either. I do not think there would be any objection to working together. My experience with the South Australian Auditor-General was satisfactory. I think we agreed, you will be surprised to know, on nearly every recommendation.

Mr IRWIN: Professor Fraser from the University of Technology made the comment that there were some advantages in having another public sector auditor in that he knew public sector auditing practices better and that gave him some advantage. In the case of Coopers & Lybrand is it not the case that you actually do some work for the Auditor-General and through that would have some experience of public sector auditing any way?

Mr SHARPE: Yes we would and I think it is fair to say that in the Commonwealth section that I am more involved with Coopers are the agent for the Auditor-General in Australia Post, which as you would understand is one of the larger ones. So I think I can claim to have a fairly large knowledge through that but over the last five years in particular there has been a much greater working together of the public and private sectors in auditing. Most Auditors-General are working more closely with the private sector and I think many of us have a better understanding than we did some time ago of what happens in the public sector. So I think David Fraser's comments might be a little out of date. I can certainly think of people—I will say other firms for the moment—who I think have a very good knowledge of the public sector who could do the job without the involvement of someone from the public sector. But I would like to reiterate, in case it looks like I am running a publicity campaign for the big six and their ability to do it, that I do not see any problem with an Auditor-General doing it as well. I think an Auditor-General would be quite competent to conduct that review. If you asked me to say which I think are better, the Auditors-General get together a lot, they talk about what they should do et cetera, I think it might be healthier to have someone from a private firm but I might be lacking in independence in making that statement.

Mr COCHRAN: I was interested in your remarks regarding professional development of the staff of the audit office. Is it possible staff of long standing who have been employed in the office for some time tend to become insulated? Is it possible that they slip behind best practice policies? Do you think it is necessary to integrate them with the private sector to have some sort of cross-training?

Mr SHARPE: Yes, I think it is very important indeed. If I could refer to five years ago, I think there were many people in the Auditor-General's office across the country that had been there for too long and in fact were not at the leading edge of practice. Part of that seems to me to relate to the very great difficulty that I have noted and reported on of the Auditor-General actually being able to dismiss his staff. It is a very great difficulty. I went through about 28 cases in the Commonwealth area of in which Auditor-General thought a person was not the right person and wanted to get rid of him. In the private sector that change can be made almost momentarily and I found the amount of time it took quite extraordinary. I think that has contributed to it. I think a lot of people have been there too long and the professional development of people under them suffered a little because I think you need the constant turnover of people that accounting firms tend to get. For example, in most accounting firms 80 per cent of staff would be under 30. They are not the leaders but they are a very important and thriving part of people working their way to the top, and I would suggest that those people are at the leading edge. If you have too many who are over 50 and who have been there for 30 or 40 years, my experience has been that it is difficult for them to stay at the leading edge. You need the vitality coming through. Sometimes the inability to achieve that in the public service is a problem that I have been very concerned about.

Mr COCHRAN: I have probably put the cart before the horse, but deliberately. In regard to recruitment, does there seem to be a propensity to recruit within the public sector with the old boy network providing some influence? There might be the

opportunity for the development of nepotism. I am concerned that if the auditor's office recruits predominantly within the public sector as opposed to the private sector at some stage down the road there might be a build-up of public sector employees in the Auditor-General's office as opposed to having that infiltration or injection of modern best practice thinking from the private sector.

Mr SHARPE: Yes, I would like to say a few things on that. In the public sector you often find that people right at the top are absolutely first rate, and we should not underestimate that in comparing the public and the private sector. I find that it is middle management that sometimes gets a little bogged down. I would like to see some private sector people in there. That may be a function of pay rates or how people see a career in those kinds of offices, whether they go public or private. I would like to see more mixing of the staff between the two. Most Auditors-General have given out more work to the private sector on a subcontracting basis and I would like to see a mingling of staff whereby the Auditor-General might have half a dozen of his people that work—in my case with Coopers & Lybrand—for the whole year and during that time carry out the audit of Australia Post but as that might take only two months of their time the other 10 months would be with us and we would give them the training and everything else. Similarly, we might have some of our people go across and learn the undoubted benefits that are available in Auditors-General offices. We currently have one man at quite a high level in Canberra working with the Auditor-General, and I am sure that they will both learn something. So I would like to encourage that and, wherever the training is best, let us do it. I have always said to Auditors-General, "What a wonderful thing that you have. If you are in any trouble you can pick up the phone and ring Price Waterhouse, Coopers & Lybrand or KPMG Peat Marwick. If I, as a senior partner in Coopers & Lybrand, ring Price Waterhouse constantly for technical help I would be in for a bit of a dig". So he can pick the best out of all that. I think we are all willing to help them. We are all professionals trying to do the best. The Auditor-General can help us and we can help him. There are some advantages in both camps. I like staff going across. I would like to do things to make sure that the auditing profession which I am so proud of in Australia is as efficient in every aspect of its operations as we can make it.

CHAIRMAN: Does that give rise to the potential for conflicts of interest in undertaking this exercise?

Mr SHARPE: You have to watch for conflicts of interests very carefully but I think you can overdo conflicts of interest. I would need almost to deal with an example of that. I do not see much problem with conflict of interest in any of the things that I am suggesting. You have to work with people in coming to solutions and so forth. Independence is the most important thing in auditing and you must examine every single aspect to make sure you are independent. If you are not, you have to go to somewhere else. Certainly within the profession we often ring up and ask another firm, "Would you like to do this?"

CHAIRMAN: But should it be a relevant question in relation to people who express interest in doing this job to ask them how much work they do with the Auditor-General's office, the nature of the work and its dollar value?

Mr SHARPE: If I may give a specific example, the Australian Auditor-General was giving out work on a subcontract basis when I was the Independent Auditor and Coopers & Lybrand were not included on the list. My partner rang up and asked why and the Auditor-General said, "Because your partner has been asked to do this review and I do not think it would be right". I said, "Oh, when I spoke to the Minister it was said that as long as I did not do any work for the Commonwealth Government Coopers & Lybrand could. I could not possibly accept the \$60,000 a year to do that job and find that my firm could not do any work for the whole Commonwealth Government. Therefore, if you think that is a conflict of interest then I will not even argue because I am not independent to say it. I hereby resign".

I am told that Cabinet discussed the matter and it was said, "Every big six firm would have the same conflict. We cannot get anyone. Perhaps we have to go to an Auditor-General". I said, "Be that as it may, I cannot accept that. I was given a verbal assurance that that would satisfy the conflicts of interest. But if you do not wish that to be so, I do not wish to be involved in anything like that. I have submitted my resignation. So be it". They then came back with a full written agreement by Prime Minister and Cabinet to say in writing what had been said to me by the Minister. I honestly do not think in any way that it would make anyone's decisions different, but I accepted that because it is almost impossible for a person not to have known an Auditor-General, not to have worked for him in the past. It seemed to me that it was in the public. It had been approved fully.

I say let the sunshine come in, let them see everything you are doing. I believe I would not be in any way affected in coming to my opinion that the Auditor-General gave a lot of work to Coopers or whatever else. I would be careful in anything I did that I did not review one performed by Coopers and Lybrand but would do something else. Yes, I am so aware of conflict of interest that I would resign if anyone said there was a problem. But there again, if you pick a man of integrity and tell everyone what the conditions are, and people such as yourselves set that kind of requirement, as Cabinet did in the case I referred to, I believe you must work for those people, trust them and then do it.

In nearly every litigation in which Coopers and Lybrand represents one side, we will probably—or perhaps—do the share registry for the other side, and that might make us partial. My belief is: put it on the table and say, if Mr Quinn, for example, is being sued by Coles, "I am sorry, we are representing Coles. I would like you to know that we do Mr Quinn's tax return", and Coles would say, "We don't give any regard to that, please continue to do it". There are conflicts of interest, but if everyone believes they can say these are the arrangements you must stick to, you must then make the decision whether you are happy with that.

CHAIRMAN: Please do not venture information in answering questions if you do not feel comfortable doing so. What are the procedures for dealing with conflicts of interest in firms where these sorts of issues arise? Is a deliberate decision taken that the partner dealing with a particular job should have no contact with people who may be working for the person being reviewed? How does it work? What sorts of procedures are employed to bring a level of comfort in such issues?

Mr SHARPE: Before we undertake an engagement we have a formal that requires people to be aware and to say what possible conflicts there might be. Then we discuss anything that comes up with clients and determines, one, whether we can accept the engagement and, two, whether or not they say yes, accept it, but anyone who works on that may not work on the other, et cetera. I remember when we were auditors for the Ford Motor Company—which we still are—and for British Leyland Corporation, they said, "Well, we are not worried about you doing both but we would prefer staff on one not to be staff on the other. To be perfectly frank, we have meetings from time to time at motor vehicles conferences, and seminars worldwide, and we would probably discuss more intimate things than you would be even capable of discussing. But we would prefer them to be kept apart".

We would then document that, put our rules out on it, and in that case, accept it. Sometimes people might say—it happens quite often—"We don't care about conflict of interest", and we will say, "Well, we do". The Australian Securities Commission asked us to give evidence against the directors of Adelaide Steamship. We, for certain reasons, were best qualified to do that in the opinion of the ASC. We had done an assignment for Adelaide Steamships at the time the banks were doing some work. Our legal advice was that we owed a fiduciary relationship to the directors of Adelaide Steamships, and therefore, even though the ASC said, "We don't mind. We want you to do it.

We know you will be impartial, and we are aware of the conflict, thank you, we still want you", we said, "Sorry, we were given information by the directors in relation to

this so we think we have a conflict of interest. We just cannot do it. I know you know about it but those are our firm rules". They are the procedures. I have been giving a few examples, but I am trying to say that every situation is different and you must be as absolutely careful as can be. Sometimes we have even had to withdraw from things because later we found something had happened that we had not understood in relation to some aspects of it. You have to be game to do that, and that results in financial loss at times.

CHAIRMAN: Public concern arose in relation to conflict of interest that emerged from the 1980s. Though that may have been ill-founded, I suspect people have vested far too much responsibility in auditors for what has gone on. They have expected the world of auditors when the world was never their brief. Nevertheless, that is a fairly strong perception that those types of conflict have contributed to.

Mr SHARPE: My only comment is that independence is absolutely paramount in anything the auditor does. If there is anything that in any way stops the person, in the case you are talking about, writing or receiving a report like that, if you think the man or woman who you have appointed to report to you is partial in any way because of anything, you should not appoint him or her, and that person should not accept it. That is paramount. If you felt someone was writing something and had reason to be partial, that person must not do it. That is a first rule of professionalism. Whether or not people in the 1980s broke down on partiality—they may do, but if that is the case, it is probably more as a result of management having power of appointment of private sector people and power over remuneration. I do not think that system is a very good one, but it is very hard to think of a better one. I would like to think the answer is a blank cheque that the auditor fills out when he has finished his duty. But that is not likely to be so. That is probably a greater conflict of interest than many of the others we have mentioned, in that it is a matter in the system, and it is properly perceived, et cetera.

CHAIRMAN: Should consideration be given to getting someone from outside the country with sufficient relevant experience to do the job? Would that be going to unnecessary expense to deal with an issue that, in substantial terms, is not an issue?

Mr SHARPE: It is a possibility. I think it depends on your view about any possible conflicts of interest that could arise in relation to that. The disadvantage would be cost, and I expect that would be reasonably large. But there is probably an extra cost as to whether or not people knew the current climate and audit standards which tend to be slightly different. The standards themselves are the same but practice tends to be different. I am little inclined to think that if I had someone auditing me I would not like him to be available locally and to know matters. You would have to start to build up a certain knowledge base, probably at the expense of the person who is paying you to do it.

But I do not think it is something you should rule out. When we had the inquiry into the Commonwealth Auditor-General by the Commonwealth Public Accounts Committee, they brought out the Canadian Auditor-General. The Commonwealth Joint Public Accounts Committee held a review of my own job. I believe they wrote to every Auditor-General across the world to examine my reports and what I had done. That was on the basis that they were wondering if they should change the Act because they felt it was so important, that they were watching the watchdog. So I was the watchdog, and they were watching me. They felt that was so important that they went around and got overseas comment.

CHAIRMAN: One could almost draw a cartoon of someone endlessly chasing their tail. It all sounds a bit silly.

Mr SHARPE: I am glad you said that, Chairman, because when I heard they were conducting a review of the man who was reviewing the Auditor-General, who was reviewing the whole Commonwealth, it did tend to get a bit that way.

CHAIRMAN: Assume we know nothing about any of this, even though I suspect committee members have some knowledge of it. The Commonwealth review was done and, after the fact, concern arose over aspects that may not have had anything to do with

the review, such as rent on premises, personnel in the Federal Auditor-General's office, and other matters. This committee would like to avoid the situation in which, after the fact, someone could ask, "Did you do the right job?" In your view, how can we avoid that nonsense?

Mr SHARPE: First, the suggestion in the report by the Joint Committee of Public Accounts was not to change the Act very much. They were kind enough to say in a press release that I had served Australia well and that the job had been very well done, which was very satisfactory to me. I asked them why they were reviewing. They said, "Because the task is so important to ensure that the Auditor-General is doing a good job, we must be dead sure that the results or reports that you are giving look at everything, or whether they should be done annually rather than every three years". This was the kind of question asked. You will always get a constant look and the question "Have we the right laws?" or "Are we asking the Auditor-General to do the right thing?"

I do not think there is any thought that you need investigation of it. The fact that there is an investigation in the auditor's office does not mean that office is wrong. It just means it is so important that we have to be bloody sure it is right. I do not think there is concern on that, and certainly their report made that clear. I am happy to be subjected to a review. We are all accountable, that is good, and I was very happy with the outcome. That is a good thing, in a way, as long as they are sure that what is being done is right and that we are effectively doing it.

CHAIRMAN: The reason for these hearings is to give thought to the selection mechanism so that the job can be done as quickly, efficiently and effectively as possible, so that Auditor-General staff are not tied up being reviewed themselves, in downtime from their normal work. The focus here is to zero in on what we have to do under this provision, that is, to get some meat on the bones, so that we do not have to review the reviewer.

Mr SHARPE: That is good. If you need some bedtime reading, could I suggest a transcript of this report. People from the Australian Accounting Research Foundation examined the technical basis of the review. You would find it very interesting to see what everyone did think about the Commonwealth review, which is not a lot different to yours. I happened to sit on a few committees with the Victorian Auditor-General. I think he was pretty impressed. I think he gave evidence at it. The Victorian Government now has something reasonably similar. It was at his instigation, if I remember correctly, that he had someone doing very much the same job that I had done at Commonwealth level.

The man who was appointed—I think the senior partner of Arthur Andersen—came to the Commonwealth to see what we did before he started off doing what he was doing. I believe, as Ches Baragwanath believed, that his review was extremely helpful. I think the Australian Auditor-General believes that, and I hope the New South Wales Auditor-General would also after you make your appointments. There is great benefit here. You should not be jumping at shadows. If you select the right man, he is a man of maturity as well as independence. I keep saying man but please read that as man or woman. The Auditor-General would get great benefit from it.

CHAIRMAN: What is happening at Commonwealth level has been the cause of political debate and concern about the Auditor-General's accommodation and leasing arrangements. Did you look at that? Was it already in issue, or was it still a matter for the future?

Mr SHARPE: I looked at the rent from the point of view of the economy of the office, et cetera. That contract was not signed during my term; therefore it is totally irrelevant to my responsibilities. But you would look at that—not before the event, after the event—to say whether or not you found the rent was in line with benchmarks that you were accustomed to in your practice.

CHAIRMAN: Was that still in the future at that time?

Mr SHARPE: Yes. I think my last report was in 1992, and that has been negotiated since. But I am sure the current independent auditor would look at that. In

fact, I think the Government asked him to look at it. Now they are having an inquiry. It is a longbow to talk about the independent review of the Auditor-General and one transaction on rent and so forth. I am sure it will be looked at, but I think it is far more important—to be honest—whether, at Commonwealth or State level, that the Auditor-General is conducting a proper review of the accounts, and that when Parliament and other decision-makers see those figures that they know they can get assurances. Knowing that it has been effectively done, that the office is efficient and is carrying out its other duties as well are very important. I think the other matter which is outside my time scale is a little bit of politics. I know very little about it, and I prefer not to comment.

Mr RUMBLE: Do you see any conflict in respect of peer review? Whereas Professor Frazer was making a comment that the group might not want to be too critical of the group they are reviewing because they will be in the situation themselves, and he says, and I am partially quoting, "There but for the grace of God I go, and my turn is not going to come for a review". So how much do you criticise another organisation? Do you know of, or do you see the potential of a peer review being bogged down to that extent because they know that they will be under the microscope themselves later on and they are less liable to criticise the organisation that they are reviewing?

Mr SHARPE: No, I do not. I think it would be quite unlikely that the Auditor-General would be reviewing me while I am reviewing him. He did not, I would hasten to add, because I would not do any work for the Commonwealth during that time. But I have to say that within my own firm we have international reviews, when people come from overseas to have a look at us, we have reviews from people within our own office, and we have reviews from other people in Australia. I must admit it has never even occurred to me when I am reviewing someone else that I had better go easy on him because he might be reviewing me the next time. My great motive is: I must review this properly because if Coopers & Lybrand are not doing an effective audit my whole livelihood is at stake. The same applies if I am reviewing the Auditor-General: my reputation is going to be on this. I did not know at the time that I was going to be reviewed by everyone of the big six firms, most Auditors-General round the world and other things. But if you are professional you do not do the right thing because you are going to be audited; you do the right thing because that is your professional duty.

Mr RUMBLE: How often is Coopers & Lybrand subject to peer review?

Mr SHARPE: It depends what you call "peer". Within our firm every partner has to be reviewed at least once every year on one of those scales—international, national or office. We have specific rules about that. I think also the institute of very recent days is bringing in peer review by other firms. They have had that in Australia, but the peer review Coopers have had to date is all internal and in accordance with our policy, which makes us pretty regularly reviewed. But the institute, I believe, will come in and will appoint someone to do certain reviews. That has not started as yet, but I have read that that will happen soon. But we have not been subjected to something outside the Coopers & Lybrand empire, so to speak.

CHAIRMAN: I was just wondering if I could go through the recommendations in the report. If you could just forgive us because some of these things might be blindingly obvious to some but perhaps not to me. On page ix, recommendations, the first issue relates to appointment. Our position is a little different from that, is it not? The State Act is basically saying that the committee has to appoint him. The Federal Act—

Mr SHARPE: Yes. I was appointed by the Minister for Finance.

CHAIRMAN: In our case the position is different, is it not?

Mr SHARPE: Yes, because I think you are going to do the appointing anyhow. What you are doing I believe is correct.

CHAIRMAN: I would just like to get a comparison for that. The selection criteria seem to be worth following. On page 5, at 3.1, there are eight points to be borne in mind that all seem to be good guidelines as to what we should do.

Mr SHARPE: I agree with that.

CHAIRMAN: Do you think that is right?

Mr SHARPE: Yes.

CHAIRMAN: Again, would that be so with 3.2?

Mr SHARPE: Yes. I would be in agreement with all of that. You will notice there that it says, "Have previous experience with government audits or access to such experience within his or her firm". I think that covers a little of the conversation that I had with Mr Irwin.

CHAIRMAN: I guess this is where things start to depart again. Is this concept federally of an independent auditor who has a term of office?

Mr SHARPE: Yes.

CHAIRMAN: In terms of constant oversight of the Auditor-General, is that right?

Mr SHARPE: I had a period of office of three years, and I was reappointed for another two years. The Government made the decision at that time that it might be sensible to have a maximum of five years—a fresh approach, the question of not having one firm in that position for too long. If there was anything in the conflict argument, then idea was, "Let's rotate it", as I understand it. So I am not sure where the authority for it is, but certainly in a letter to me the suggestion was for five years, and my second appointment was for two years. I think it is one of the changes they are bringing into the Act, and it is probably there now.

CHAIRMAN: Our position is totally different, is it not? The position under the New South Wales Public Finance and Audit Act is that at a particular time—once every three years—a firm is specifically charged with a particular task of doing a review, it comes to a conclusion involving a report, the Auditor-General responds and that is tabled in Parliament, and that is the end of it for three years. This really has somebody constantly engaged in an ongoing daily oversight role of the Auditor-General. So it is a different concept entirely.

Mr SHARPE: It is, but I think you will find that your reports will not be that different. That would be my guess. I think that you are still going to get a lot of the same kinds of comments, because most of the comments in my reports were in fact on the efficiency and effectiveness of the audits, and I think that is what you want. I signed the accounts every year, but that is totally different to what you are suggesting, that there be no responsibility, as I understand it, for signing the Auditor-General's accounts. But you will be giving once every three years a report. I would suspect that the outcome would be a report similar to that. In my five years I issued three of them. My belief was that it was better to have a more complete one than to issue one every year because there was so much for the Auditor-General to do that if I did it every year I would quite often be repeating things he had not finished from the last one. So I took the decision, as had my predecessor, to issue one, say, every second year.

CHAIRMAN: Is the Commonwealth unique in that?

Mr SHARPE: The Commonwealth was the first, and as I said Victoria I think was the second, to do this.

CHAIRMAN: So the Victorian Auditor-General has somebody from outside in a sort of standing oversight role?

Mr SHARPE: Yes. Because that is not my position, I cannot tell you exactly. But he does, as I understand it, a rather similar review to what was required by the Commonwealth Government.

CHAIRMAN: I must say that I had not understood that there was this system operating. It is interesting.

Mr SHARPE: I think in that case the Auditor-General actually makes that appointment himself. I think it is better for someone to make it. You can jump at conflict of interest all the time. I am sure Ches Baragwanath would not have in any way found any conflict in making the appointment for someone to review him, but if you want to be absolutely pure, I think it is better for a committee such as this to do the appointment. In most cases, you would probably end up with the same person, but so be it.

CHAIRMAN: Do you think that is a desirable model? Should we look at that type of model?

Mr SHARPE: I think you should run with the Act as it is. I think it is quite sensible. I think your Committee will benefit from the findings of the reviewer. I do not think it will be that much different from the Commonwealth and perhaps after you have had your first experience you might.

CHAIRMAN: Let me put it another way. Would you think the Commonwealth would be better with the New South Wales type of provision?

Mr SHARPE: I think some aspects of yours are better. I have often argued that the Auditor-General should report to a committee of Parliament, and that his budget should be approved by that within the budget area. I would have seen the independent auditor appointed by that same committee. Those were the kinds of comments that I was giving. It is very hard for the Ministry of Finance, being audited by the Auditor-General, to then tell him what rates he can pay his staff, or what money he can have. It seems to me that it would be better to do it through a parliamentary committee, and perhaps a joint committee on public accounts is the best one.

CHAIRMAN: That is why the Commonwealth system makes this important point about conflict of interest, is it not? That assumes the importance of standing briefs at a particular time.

Mr SHARPE: Yes. I think it is absolutely right that the incumbent should do no work. I am happy with that because I think it would be wrong if he did any work for the Commonwealth Government.

CHAIRMAN: I ask you another question on conflict of interest which has been of interest to the Committee in another inquiry. Do you think there is a conflict of interest where a firm is retained to do an internal audit and an external audit of a company?

Mr SHARPE: That is a very topical question.

CHAIRMAN: It is a crucial question.

Mr SHARPE: I hesitate to answer it, because it is still being heavily debated. You have asked me—and this is my opinion, it is not the opinion of any of the organisations I represent—I would find it very difficult to think that you could do both the internal and the external audit.

CHAIRMAN: Do you get any comfort from having one partner doing one and another partner doing the other?

Mr SHARPE: No doubt you do.

CHAIRMAN: But are they not both jointly and severally liable at the end of the day for their respective mistakes?

Mr SHARPE: Yes, they are.

CHAIRMAN: If a partner doing an external audit stumbles across a mistake made by the other partner doing an internal audit realises that there is a potential liability of hundreds of millions of dollars, could there not be at least a perception of someone being slow in revealing the mistake because they have a personal pecuniary interest in the problem? Would there be that perception?

Mr SHARPE: The law, as I understand it, is that if one of your partners knows something—whether or not he tells you—you are deemed to know it, and therefore I think the firm would be liable. That is my understanding of the law. Therefore the fact that he

did not tell him does not help the firm at all. Therefore he would be rather foolish not to tell him.

CHAIRMAN: There is still the question of whether the mistake will be discovered. Some people might rely on the external audit to find it out. He might come to the view, "If I don't say, no one will sheet it back to a failing of the internal auditor. They might blame the manager".

Mr SHARPE: If the matter is wrong, it would be very foolish of the partner not to have the external auditor aware of it, and in a series of audit committees in which one is bound to report these issues and both partners are sitting there that is fine. Having said that, however, I would not accept both appointments. I have a slightly different reason: that the external auditor is independent and must do what he wants to do, he cannot be told what to do by his client. The internal auditor, though, is directed by his client to do various things. I find it very difficult that one partner is to take instructions and the other is to be completely independent—I think that is confusing and not good professionally and I think it is best not to do that.

CHAIRMAN: Could a similar situation not arise with somebody carrying out a peer review of the Auditor General? If a firm had been retained by the Auditor-General to do some work and there was a problem as between that appointment and the Auditor-General and the peer reviewer stumbled across the problem—which in some way caused a problem relating back to their professional status—in that case would the same kind of perception issues not arise as arise between a firm carrying out both an internal and external audit, that at the end of the day the person carrying out the review would be on risk for the mistake of his partner carrying out a job for the Auditor-General?

Mr SHARPE: You may remember my saying that I would never review a job in line with the requirements of the Act had any of my partners been involved in that job. It is my opinion that would be completely lacking. Surely it is a matter of disclosing that one would not review a particular job, and if the Committee felt that it was so important that the job be reviewed then it would be necessary to find somebody else for that. To be perfectly honest, to carry out the kind of review under consideration it would probably be advisable to pick out two jobs to test the standards and practices and determine the achievements that are made in practice. If one's firm had assisted with one or even five jobs out of perhaps 150 jobs that were being reviewed, one would have to say that one would not examine the jobs with which one's firm had assisted. It is up to the Committee to determine whether or not it is a restriction of some problem. After all, the Auditor-General is reviewing fully all of the work of every contractor. I would have thought that it would not be a problem but if it were considered that there was a problem then a conflict of interest would exist.

CHAIRMAN: I suppose what that means is that any job carried out by the reviewer's firm would necessarily not be examined.

Mr SHARPE: I hope and it has certainly been my advice to the Commonwealth Auditor-General, who has taken that advice, that the Auditor-General never gives up his responsibility to report to Parliament or his responsibility for the accounts of each of the entities when public money is involved. I fought against the idea that the private sector should carry out those audits. The responsibility for that audit is not taken away from the Auditor-General if a job is subcontracted to a different organisation. Therefore, a peer reviewer under section 48A of the Public Finance and Audit Act does not review the work of his firm but reviews the work of the Auditor-General. The Auditor-General would have provided for enough checks of that work to be sure that he is happy with the opinion given. A reviewer does not actually review the work of his firm but reviews the performance of the Auditor-General using the reviewer's firm as a contractor.

I would not do that, but I do not think that just because a reviewer did not review, say, five jobs out of 150 jobs the reviewer could not reach an opinion. I do not believe that those circumstances would in any way prevent a reviewer from issuing a report that was without fear or favour. However, as I have always said, my belief in these matters—

as I hope I illustrated by my resignation from the federal scene—is that the decision is up to the person appointing the reviewer. It is up to the reviewer to say that his firm has subcontracted to the Auditor-General on five particular jobs and that he would not examine those five particular jobs and to point out his other qualifications, for example, that his firm carries out management consulting work within the public service or that he has 40 years' experience. The decision would be left with the person making the appointment. The reviewer would have to be clear: he would say that he could carry out a review both impartially and independently, but that he would not be able to review particular jobs. In my case I would say that I do not want to carry out a review unless I have made everything clear to the person making the appointment—it is up to him to judge. I would not like to lead you in the matter; conflicts of interest are a personal matter.

Mr RUMBLE: In respect of internal auditors, both in the public service and in private enterprise, do you think as a matter of principle that the internal auditor should report directly to the chief executive instead of going through others in the financial maze?

Mr SHARPE: Yes, I do. In my mind, that gives maximum independence. If the auditor reports to the chief financial executive, which is often the alternative, he is reporting to the man whom he really is auditing. It would be even better if he were able to report above the chief executive, but, unfortunately, in practice that is impossible. Certainly when I am the chairman of an audit committee—as I am with the State Authorities Superannuation Board—I always ask the auditors, both internal and external, whether their scope has been affected. At nearly every meeting an auditor is asked whether there is anything he has been told not to do. If the chief executive told the auditor not to examine the Treasury, for example, because he was in the midst of doing so, that should be put on the table for the audit committee to endorse. I am strongly of that view: the report should be made to the chief executive but even then I would like the audit committee to take a great interest in every matter.

Mr RUMBLE: We have had problems with some groups in trying to get that point of view across.

Mr SHARPE: Then I hope I may endorse that for you.

(The witness withdrew)

CHES ANTONY BARAGWANATH, Auditor-General for the State of Victoria, of [REDACTED] [REDACTED] sworn and examined:

CHAIRMAN: Did you receive a summons issued under my hand to attend a sitting of this committee in accordance with the terms of the Parliamentary Evidence Act 1901?

Mr BARAGWANATH: I have received a summons.

CHAIRMAN: What we are trying to do today is to determine what we should be doing under section 48A of the Public Finance and Audit Act, which charges us in about March next year with organising a review of the New South Wales Auditor-General's office. That, unfortunately, coincides with an election, so we would like to make some progress fairly early on. Are you familiar with the provisions of section 48A of the Act?

Mr BARAGWANATH: Yes, I have examined it with considerable interest.

CHAIRMAN: I wonder if we might throw the matter open to you and ask you to make comments you think appropriate in the context of that provision and the exercises being conducted in Victoria. At this stage we are seeking general input.

Mr BARAGWANATH: When I examined section 48A(2) of the Public Finance and Audit Act I was particularly interested in the different approach envisaged in New South Wales vis-a-vis that adopted in Victoria. I am not trying to draw interstate comparisons—there are different horses for different courses. I felt that the legislative provisions seem to be extremely narrow in focus. It is my reading of the legislation that it requires a strict compliance audit as to whether the Auditor-General is complying with his own practices and standards. In my invitation to the meeting today I was asked to comment on what methodology somebody would adopt in such an audit. I thought to myself that the only methodology one could adopt would be to compare what is with what should be, so the approach taken would be a fairly simplistic.

By way of contrast, the review performed in Victoria was actually a full-scale performance audit, with all of the bells and whistles involved with that. The auditor was supposed to determine whether the Auditor-General was achieving his objectives and whether he was doing so economically, efficiently and effectively. It seems to me that under the provisions of the New South Wales legislation the work to be undertaken should be able to be carried out fairly cheaply and fairly quickly unless the reviewer is given further directions, and I notice that scope is provided for that in section 48A(4)(b).

I query what value the New South Wales Parliament or the New South Wales Auditor-General would get out of a review in which the reviewer followed the legislative requirements strictly, which is just comparing what he is doing in practice with his standards in the office. The performance audit carried out in Victoria canvassed right across activities, starting with the corporate plan and going through practices, resource management and issues such as whether or not the Auditor-General was criticising the merits of government policy objectives. That review canvassed the question of what is the appropriate nexus between the Auditor-General and the Parliament and raised recommendations regarding the appropriate way in which an Auditor-General's office should be funded. As I said, it is my opinion that if the reviewer followed the strict letter of the law and was not given specific directions to pursue those lines by this committee he should be able to carry out that work within a couple of weeks.

CHAIRMAN: You mention section 48A(4)(b). That provision would be driven by section 48A(2).

Mr BARAGWANATH: Yes.

CHAIRMAN: Section 48A(2) sets out the job to be undertaken. Any directions given would have to be consistent with the provisions of section 48(A)(2)(b).

Mr BARAGWANATH: That is the problem I perceive with the legislation. I feel that directions given under section 48A(4)(b) must be consistent with what is laid down in section 48A(2) so I am not sure whether there is scope to expand this review to canvass resource management issues. If I had that provision in the Victorian audit Act, and I went in to do a review of an agency, and the Act said I was to determine whether

the agency was complying with its practices and standards and I wanted to expand the scope of the audit, I am sure the agency would be saying that I did not have the legislative authority to do so.

CHAIRMAN: I guess that raises the question, which is not relevant to the peer review that we are looking at as such: should the Parliament look at whether or not it should have a wider review? Obviously, that would require legislation and so forth, but would that be a useful thing?

Mr BARAGWANATH: The Auditor-General's office should be subject to basically the same audit provisions and responsibilities as any State department. The Auditor-General has the responsibility to do audits of their financial statements and to examine questions of financial regularity and legal compliance. He also has the scope to do a performance audit of those agencies. If it is good enough for the auditee to be subject to that wide-ranging audit, one could argue that what is sauce for the goose is sauce for the gander.

CHAIRMAN: We come there in a roundabout way in New South Wales. A specific provision allows the New South Wales Auditor-General to do special or performance audits. We conduct an exercise—we have done this once through Arthur Andersen—which is a review of his special auditing work. I suppose that statutory scheme is really a bit messy, is it not? There is provision for a wide review of a specific area of his work, as it turns out, in New South Wales legislation. That wide focus is limited to special audits, but when it comes to a regular review of the whole office that sort of thing is lacking.

Mr BARAGWANATH: Yes. I think the New South Wales approach is better than the Victorian one. To some extent your system has been evolutionary. I suggest the appropriate end stop on that evolutionary process is that there should be a wide-ranging performance audit of all the functions of the New South Wales Auditor-General's office.

CHAIRMAN: Let us assume that we do not know much about Victorian legislation at all. When the Victorian Auditor-General's office is reviewed is that a one-off review which is done every so often, or is it what appears to be a standing oversight role by someone in your office, which seems to be what Mr Sharpe said? I do not think any Committee member understood that to mean that that was the nature of his job.

Mr BARAGWANATH: If I had been in Parliament I would have said, "I take a point of order, Mr Speaker". There is no standing oversight of the office. There is provision for a triennial performance audit, which is done over a short period. In addition, our annual report to Parliament is audited by private auditors and they come in once a year, basically.

CHAIRMAN: Is it the case in regard to the New South Wales Auditor-General's office that his annual report is audited?

Mr BARAGWANATH: Yes. I must admit that I do not have any private sector auditor looking over my shoulder. I might have a lot of other people, but definitely no oversight such as the oversight Mr Sharpe was referring to.

CHAIRMAN: Just going to the legislation, who knows what the view of the Parliament might be? One thing that could be looked at is changing section 48A to make it a broad review at three-yearly intervals of the whole of the office or to make it liable to be reviewed in that way. In that way it puts it on the same footing as all other public sector entities.

Mr BARAGWANATH: One of the most common questions that is directed to auditors-general is, "Who audits you?" I think, to some extent, it is nice to be able to respond to that by saying, "Our annual report to Parliament is audited by private sector auditors. In addition, we are subjected to a triennial performance audit". There are very few agencies upon whom we perform triennial performance audits.

CHAIRMAN: So they are more regular?

Mr BARAGWANATH: More regular than anybody else. As I said, to date the New South Wales approach, if it is part of an evolutionary process, is preferable. When

Mr Ryan of Arthur Andersen arrived to do the performance audit there was a considerable learning curve on his behalf and on our behalf.

CHAIRMAN: Was that successful from your point of view?

Mr BARAGWANATH: The burning issue on day one at the opening interview—the major issue that was raised—was the question of world best practice. Mr Ryan came with a proposal to compare us with world best practice. At the opening interview I said, "What is world best practice, Fergus, and who are you going to be using as a benchmark?" I said, "As Government Auditor I am not going to be particularly impressed if you are going to use Arthur Andersen's office in Chicago, Illinois, as a benchmark to compare us because, to some extent, there is an element of chalk and cheese". One of the areas where his report is deficient is that, basically, he has not set down what his criteria are and he has not explained what world best practice is. So to some extent we are still in the dark. But he concluded that I was meeting my objectives and doing so economically, efficiently and effectively and that he now regarded the Victorian Auditor-General's office as representing world best practice.

I think a major issue in the process that we went through was that nobody was ever too sure what benchmark he was using. It was certainly not set out in his report. I suggested to him in the early days that, if he was going to use a benchmark, it would be more appropriate to use another auditor-general's office as a benchmark—a State or regional auditor-general's office rather than the Federal one. But I felt that, at that time, the Canadian Auditor-General's office was probably the world leader and perhaps it would be used as a benchmark. It became an area that he really did not fully explain. He did not explain what he was using as a benchmark, et cetera. But I was quite happy with the end result, so I did not make an issue of it. One of the reasons why he found it difficult to make an assessment of our effectiveness was the fact that, whilst we had a clearly articulate corporate plan, he was not aware what Parliament's needs and expectations of its Auditor-General's office were.

CHAIRMAN: I know you have had a pretty interesting time in Victoria, but do these private sector guys have any idea of what the job is about? I accept that there is a narrow focus on the legislation in New South Wales. Some of these questions are not so much relevant to New South Wales at the moment, but they may be if there is any suggestion of widening the scope of the legislation down the track to achieve a more performance-related assessment. Do people in the private sector have any understanding at all of what it is like to be an auditor-general with all the buffeting from Ministers, Premiers and members of Parliament? Do they have any concept of what it is about?

Mr BARAGWANATH: I do not think they have, really. I think it comes as quite a cultural shock to them when they are suddenly exposed to it.

CHAIRMAN: Do you think they even get to the threshold of understanding the problems?

Mr BARAGWANATH: I think Mr Ryan does now. He was appointed, during the last administration, by the Parliament, so he was totally bipartisan. But the press at the time referred to his appointment as an attempt by the previous Government to nobble the Auditor-General. All of a sudden Fergus Ryan was deluged by reporters. Private sector auditors do not operate in that kind of limelight.

CHAIRMAN: They have been getting used to it recently.

Mr BARAGWANATH: Maybe the judicial limelight, but not in the press. I think he found it quite a cultural shock.

CHAIRMAN: Apart from what he had to contend with in that way there is still the other fundamental issue of whether they are competent to understand what public sector auditors-general do and what their daily working environment involves.

Mr BARAGWANATH: I must admit that I am inclined to agree with you. I think they are very good in what they do; they are very good in financial statement audits. I think we spend about \$4.5 million a year in contracting out audits to the private sector. One of the things that we specifically ask when doing such audits is for them to identify

for us issues that we might care to pursue on a performance audit basis. The silence in response to that request is fairly deafening. As I have said, they are strong on financial statement methodology, but in so far as identifying areas where there are indications of waste or a capacity to enhance revenue or minimise expenditure, they do not seem to focus on that to the same extent. Perhaps the management consultancy arms of private accounting firms do that, but certainly not the traditional auditors.

I do not think there is that much appreciation of the different role in the private sector. One thing that became a big issue between Fergus and myself was, to some extent, who was the client. We always refer to Parliament as the client and the agencies as the auditee. He was very strong on the client relationship. I saw my major client as the Parliament and I felt that there was a need for a good working relationship with the Parliament and parliamentary committees.

CHAIRMAN: That is an interesting point. You see the Parliament as the client. You see the Westminster system, where the Parliament is in a box and so forth, as one concept of Parliament. On the diagram it all works quite nicely. But when you go into a rough question time you see Parliament in another light with 99 individuals going for one another's blood. The stakes can be enormous and they may be enormous in the context of a particular audit. Quite often they are. When you look down from the public gallery and say, "There is my client", it looks like a rugby scrum out of control. To me those are some of the immense difficulties that you face. I suspect some of these people do not get to first base in regard to understanding that Parliament is a client.

Mr BARAGWANATH: When I talk about Parliament I am probably not talking so much about the bear pit where parliamentarians are at one another's throat; I am talking more about parliamentary committees. My experience over a long period has been that it is very rare that you get party politics in parliamentary committees to the extent that you do on the floor of the House. I can recall several years ago that in one of our reports to Parliament we suggested that the Government had expended \$35 million without proper parliamentary appropriation. The committee at the time, on which there was a majority of Labor members, agreed with us. I thought that was indicative of the fact that they saw the breach of Parliament's authority as very important—even the Labor members agreed. I presume they are all on the backbench now. When it comes down to principles, I think there is a non-partisan approach to issues.

CHAIRMAN: Would it be right as a rule of thumb that a private firm would be better able to handle the narrow scope of a review that is contemplated in New South Wales, than say the broader review of Victoria? As the issues widen, so do the difficulties. A private sector reviewer also becomes larger. It starts to move away from a nuts and bolts approach to one that encompasses all sorts of broader political issues where the private sector expertise diminishes. Is that a fair comment?

Mr BARAGWANATH: Yes, to some extent the most effective review that Parliament could get would be to identify somebody who has been in the heat of the battle and appreciates the role, and the interactions between an Auditor-General and the Parliament, the executive government and the parliamentary committees. Probably a retired Auditor-General, an overseas Auditor-General. Such an individual such as that would have a much greater appreciation of the role. I must admit, to give Mr Ryan his due, that while his learning curve might have been fairly steep, at the end of the exercise he had a reasonable appreciation of what was involved in the role.

CHAIRMAN: There was a strong media perception that there was a potential problem with a private sector reviewer coming in at that time. It became a big media issue.

Mr BARAGWANATH: There was a lot of speculation and conjecture about the relationship that the reviewer had with the executive government as to whether he was at arm's length. Frankly, I do not think that speculation and conjecture was warranted. My view is that Mr Ryan played it straight down the line. His integrity shone through. One of the most damaging problems with that kind of speculation and conjecture is that it

creates a perception of a lack of independence. As far as I am concerned, Mr Ryan was totally independent of the executive government. I think perceptions can be just as damaging as the actualities. To find somebody who is completely independent of the executive government can be quite a difficult task.

In Victoria at the moment, since the last election, we have consultants crawling all over the public sector—they are in every nook and cranny. The amount of government funding that has been directed towards the big six accounting firms is quite considerable. I will be interested to see who is next appointed to do the performance audit of our office; I will be interested to know whether they can find a firm which is at arm's length from the executive government. We are having the same problems. As I said, we spend \$4.5 million in appointing agents to do audits on our behalf. We are finding a considerable difficulty in finding someone who already does not have an involvement with the agency we are wishing them to do a contract audit on on our behalf.

CHAIRMAN: How important is the question of conflict of interest? We had a discussion with the previous witness about this. Perhaps it can be taken to an absurd level where the conflict issue becomes almost an obsession and reality goes out the window. There is obviously a trade-off between conflict of interest and someone who knows something about the area being audited and has some relevant experience. We could get someone from Rwanda, for example, who has no conflict of interest but would not have anything useful to say either. How important is the issue of conflict of interest? Specifically, we have a lot of trouble with this idea that somebody could do internal and external audits of a public company from the one firm. How important is it?

Mr BARAGWANATH: I think it is extremely important for the profession. I think the profession has to come to grips with the issue. There has been a lot of debate over the last five or six years about this so-called audit expectation gap. There are a lot of investors out there who are not particularly impressed with the fact that in July or August they receive a nice, glossy set of financial statements which are attested as showing fairly the affairs of the company, and disclosing a so-called profit, and the company concerned then going belly up about a month later, and into liquidation. That has produced the expectation gap. I think there is a perception in the community that some auditors in the past have been too close to management.

I think most accounting firms now provide quite a range of services. Most of them have management consultancy arms; some of them actually have share registry businesses in which they keep a register of shares from the company. The relationship has got, to my way of thinking, a bit too cosy. I feel that if these firms want to have these other businesses, they should hive them off to separate companies. The firms concerned would maintain that they have Chinese walls within their organisations—their various activities are segregated. I have seen vines growing over Chinese walls. I do not know whether that is a satisfactory process.

Having said that, I think we have to recognise that they are businesses—they are out there to market themselves. I spoke to a young partner recently. He said that his secondary focus when he goes into any firm is to identify opportunities for the firm to increase its business. His primary focus is to do whatever audit he is doing, but his secondary focus is to look around and see what other services the firm can provide to the auditing. Human nature is human nature. They are businessmen. By way of contrast, Auditors-General are mere bureaucrats on the public payroll. Even Auditors-General are occasionally accused of bias and even their independence is questioned.

I can recall quite vividly that I was appointed as Auditor-General on 31 August 1988—which was the day John Cain prorogued Parliament for the 1988 Victorian election. At the time, Mr Kennett said that when they won government—which they did not—that would be one appointment that he would revisit because he felt that the appointee was a Labor Party apparatchik. To give him his due, he subsequently said that that was not right. That was the kind of perception that was created. The whole question of independence is so important.

Unfortunately, Auditors-General are generally commenting on the activities of the executive government. I cannot recall of an Auditor-General criticising the Opposition. I have a lot of friends in Victoria who have said that I seem to be continually griping and complaining about the Labor Government. My response used to be, "They are in power". The Opposition would not be spending much in the way of government funds or running very many programs. People's perception of independence is important. In Victoria we have the major accounting firms crawling into every nook and cranny of the public sector. I am finding it very difficult to appoint agents who have no other connection with the agencies we wish them to audit.

CHAIRMAN: On the specific statutory provision we are looking at here, the question of conflict of interest is not likely to be too significant. The terms of the review are narrow; the narrower the review the less likely that is to be a major problem. Would that be a fair comment?

Mr BARAGWANATH: I think so. I know Michael Sharpe extremely well; I have known him for quite a number of years. His integrity cannot be questioned, nor can Fergus Ryan's. To some extent if the appointee is someone who is significant in the accounting profession they have their own reputation to uphold. I do not think there would be any problems about a lack of objectivity or independence. The perception in the community might be otherwise. I agree with you—with a fairly narrowly focused review you will get it very cheaply and very quickly.

Mr COCHRAN: Messengers—whether they be bank managers, auditors, accountants, et cetera—are often shot on the delivery of bad news. Auditors are public servants and, therefore, they might be intimidated with respect to delivering bad news. Do you think that has a great impact on the deliberations of Auditors-General when making judgment on the effectiveness and efficiency of government instrumentalities? I am trying to establish the impact of that sort of intimidation; the consequence of political intimidation. If that is the case, is it possible that the external auditors are able to expose that sort of thing?

Mr BARAGWANATH: That is an interesting point. I think I could truthfully say that in all the time I have been the Victorian Auditor-General there has been no covert or overt attempts at intimidation. There have been considerable differences of opinion at times, which have been quite stressful. As to whether an external reviewer would identify instances where an Auditor-General has caved in to extreme pressure, when he should have gone out all guns blazing, that is an interesting point. That could be one of the advantages of having someone external.

I would suggest that even if a fellow Auditor-General did a review he would identify it, as would anybody external. In my experience I am unaware of anybody allowing such pressures to affect the discharge of his duties. Most of us swear an oath to discharge the duties of the position without fear, favour or affection, a hangover from the old colonial days. I have never worked out what the affection side of it means. I think what you are saying probably leads into one of the issues that Fergus Ryan raises, that the Auditor-General probably should be insulated further from the possible impact of such pressure.

Mr COCHRAN: Perhaps I could give an example to help there. You have probably heard that there is a major city in New South Wales that will host the Olympic Games in the year 2000. The Auditor-General has undertaken an audit of the funding of those games, the budget. Obviously there would be dire consequences for the Government if the budget of those games were misjudged. The political consequences are so enormous that in any government anywhere there must be a tendency to protect one's back. I am just trying to establish whether an external auditor would reveal those sorts of intimidations. They might not be covert; there may well be unintentional consequences. There may be a fear of consequences within the mind of the Auditor-General or the staff that if they deliver bad news it will not be in their interests. I wonder whether an external

auditor would ever reveal that sort of thing. He might reveal the numbers but not the extent of any personal intimidation.

Mr BARAGWANATH: Probably not publicly, but they might do it in camera before a committee such as this. It would be a very difficult situation if the Auditor-General was in a situation with people trying to intimidate him by suggesting that if he reported on such issues it might jeopardise Sydney's hosting of the Olympic Games. Some of the bureaucrats in Victoria have suggested that I was one of the contributing factors to the State's downgrading by Standard and Poor and Moody's by reporting the financial circumstances of the State. To some extent any external reviewer would identify such circumstances, whether he was from the private sector, a judge or an overseas Auditor-General. If those circumstances arose any external auditor would pick that up.

Mr IRWIN: What do you think your office itself got out of the review? Was there something that you think could have been done which would given you greater benefit, particularly in view of how broad the review was? In areas such as quality control and so on do you think there were specific areas that were dealt with in too broad or too narrow a way? Do you think the review did not address issues such as quality control which you might have preferred it to?

Mr BARAGWANATH: They say that when you are standing on the gallows your concentration is focused very precisely. Once the performance auditor was appointed one of the benefits that we got out of the performance audit was that a lot of the things that we had been contemplating and had in the pipeline became imperative to get operational. To some extent it led to a very quick spring cleaning because we wanted to come out of the review with flying colours. That was a peripheral benefit that we got out of it. To some extent I felt that the review focused too much on financial statements, examination of working papers relating to the audit of State Electricity or the Gas and Fuel Corporation. I felt it was too narrowly focused. Not much attention was directed to human resource management practices, how we scheduled our work force to ensure that they did not have dead time between audits. I felt that it was very narrowly focused.

It was amplified by very broad macro issues such as the Auditor-General's relationship with the Parliament, the appointment of the Auditor-General and the funding. From the point of view at looking at myself as the manager of the resources there, it did not get into resource management issues to the extent that I would have liked and to the extent that we would if we were looking at a performance audit of an authority. I think the auditor spent one hour in our information technology area, which drives our whole management information system. I thought that was fairly sketchy. To some extent we got assurance from the audit that our practices as far as auditing financial statements was on a par with world best practice. Areas were identified in which we could improve, as to whether we should do an interim audit and a final audit and that type of thing, but it cost \$200,000.

I think the best benefit that came out of it was the peripheral benefit that when it was announced I called in my senior people and said, "If we do not get an A-plus report card out of this exercise I will have your heads on a platter". So we made sure that we looked at everything we were doing, all our procedures, all our processes and our methodology, et cetera, to see that they were spot on. I think Mr Ryan made some very good recommendations, however, in the issues of principal he raised about the appointment of the Auditor-General, funding of the Auditor-General's Office, the appropriate relationship that he should have with the Parliament and the fact that the Auditor-General needs to know what Parliament's expectations are.

On the day I was appointed as Auditor-General I arrived at the office and wondered what Parliament wanted. You talk about Parliament as your client. I think at that stage the then PAC or Economic and Budget Review Committee had not met for several years so we were not sure what Parliament wanted. It probably did not want to be disturbed, or the Executive Government did not want to be disturbed. I thought that was a very interesting thing to come out of the report. The Government has acted on it and a

new audit bill will commence from 1 July which requires the Auditor-General to prepare a corporate plan; for it to be cleared with the Public Accounts Committee; the Auditor-General to discuss with the Public Accounts Committee its program of performance audits and special audits; and the facility for the Public Accounts Committee to suggest areas for inquiry. To that extent I think the nexus has been tightened up a little.

CHAIRMAN: That is an interesting development. It is obvious that it is something that has been of interest to us here in the context of special audits. Others can speak for themselves but I suppose our view is that we would have strong views about the broad parameters of what is within the legislation and what is not but I think there is a strong aversion to suggesting areas of inquiry or areas that should not be inquired into. There is an operational side, if you like, that we feel we should not get into in detail. Another issue that arises that is not too far off this is the question of looking at draft reports of the Auditor-General. We have taken the view that we should not do that any more than, for example, the parliamentary ICAC committee that I am on should be looking at draft reports of the ICAC commissioner. There is an operational side that from a public policy point of view should not be any of our business. There are probably good practical reasons for that too. There are issues going to leaks and all those sorts of things. I am not saying that of this committee but it is a perennial issue. We have certain views in general terms about limits and have said things about that but in dealing with specific engagements, specific jobs and knowing too much about specific jobs we tend to stand back from that.

Mr BARAGWANATH: That interaction is fairly high level. It is basically our proposed program rather than the nuts and bolts of the individual audit. I would not see the committee being involved in that.

CHAIRMAN: To give you a specific example—it is not in the auditing area; it is in the corruption area—I have some very good contacts on the Queensland parliamentary committee that oversees the Criminal Justice Commission. That committee had a mandate to get involved operationally with the Queensland Criminal Justice Commissioner. As that played out in practice it ended up causing no end of trouble. People I know on it, across party lines, people such as Peter Beattie and Santa Santoro, said at the end of the day, "It is just not right for us to be involved at this level". There is a natural division of labour there. Notwithstanding that you and the CJC in Queensland are reporting to Parliament, significant operational issues are best left to your call on the basis that at the end of the day you report to Parliament by way of tabling something and that is the way it ought to be.

Mr BARAGWANATH: Under the current legislation I would not see the Public Accounts Committee getting involved in operational issues but I think there is a facility for an Auditor-General to raise issues before he actually reports them to Parliament. Just to give you an instance, we had a recent—

CHAIRMAN: A briefing is fine but I suppose the question is to what extent you go beyond a briefing. A briefing may be on something that is already set. Say you have a report that is ready to be tabled so the PAC gets a briefing, but it is to what extent you go beyond the briefing into actually having an input into draft material.

Mr BARAGWANATH: There is no intention that they should be involved in the operation. Like most Auditors-General I would resist it if a parliamentary committee asked us for an interim report. I think the pitfalls and problems would be enormous.

CHAIRMAN: We have been pursuing the question of internal audit and would like to push the Australian Council of Public Accounts Committees, at its meeting in June-July, to make resolutions effective throughout Australia on elements important for internal audit control. Is internal audit an important issue?

Mr BARAGWANATH: A few issues are still raging about internal audit. However, there has been government acceptance of the need for internal audit in most jurisdictions. There has also been, particularly in Australia, government acceptance and, I think, legislative requirement for agencies and organisations to have audit committees.

CHAIRMAN: The major issue is not so much legislation, which has been in place in this State for some time, but that the chief executive officer, for internal audit to be effective, has to be committed to it, has to resource it, have the right reporting lines, and have it taken seriously within the organisation. The committee is attempting to develop a statement along those lines.

Mr BARAGWANATH: I think the public sector has been slow to recognise the value of internal audit. Coming up in the plane this morning, looking at the *Financial Review*, I saw a job advertised, an audit position with a package of \$120,000 to \$130,000. I thought to myself you would not get that kind of money in the public sector. I think remuneration is fairly low in the public sector and there is a need for positions to be upgraded. It is a classic case of paying peanuts and getting monkeys. I agree with chief executive officer involvement but also suggest that as we go down the path to corporatised type bodies there is probably need for non-executive directors, if I could call them that, to be involved. The structure of an audit committee and the reporting level for internal auditors is very important. But it is a profession that has not attracted the best people in the public sector, which has led in some cases to wholesale contracting out of it in Victoria, where there is hardly an internal audit unit left standing.

There were very significant internal audit units such as at the State Electricity Commission and the major trading authorities, but they have been contracted out. To some extent it is quite amusing that those organisations are prepared to pay very big money to have internal audits contracted in when they were never prepared to finance their internal audit units to the same extent. Some of the major battles have been fought, but the question of the standing of internal audit within the public sector still probably needs to be addressed. To some extent internal audit is a bit like motherhood. Most chief executive officers would tell you they are in favour of it, but if you ask them what it was, in a lot of cases they would not be too sure about that or what value they got from it.

CHAIRMAN: We are trying to change that.

Mr BARAGWANATH: I think it is a cultural problem. It is their first line of defence. If they have an effective internal audit unit, the possibilities of them being criticised in the press by Mr Harris would be even more remote.

CHAIRMAN: Do you think it is remote now?

Mr BARAGWANATH: No; I was reading in the paper this morning he came out with all guns blazing.

CHAIRMAN: Apart from specific matters on peer review next year, do you think there is scope to broaden the legislation so that future reviews could look at more broadly based performance questions?

Mr BARAGWANATH: Yes. To some extent perhaps the Committee should go back to Parliament and say, "We would like to put the Auditor-General on the same footing as other audit agencies which are subject to full scale performance audits". I think both Parliament and Mr Harris would get value out of a more wideranging review.

(The witness withdrew)

KENNETH JOHN ROBSON, former Auditor-General of New South Wales, [REDACTED], sworn and examined:

CHAIRMAN: Mr Robson, you would be familiar with section 48A of the New South Wales Public Finance and Audit Act. Could you give your views on how we should proceed with the review next year?

Mr ROBSON: Peer review is a review of an organisation to see whether it is complying with procedures and laid-down standards and is operating effectively. The boundaries of what should be covered in a peer review should be far more wide-reaching than in the legislation, but I do not think you are inhibited by the legislation. There should be quality control—the biggest aspect of peer review—with control standards for both policy and procedures, so that policies are objectives, and goals and procedures are steps taken to accomplish policies adopted. Peer reviews undertaken previously in the New South Wales audit office were not under existing legislation but were undertaken for very good reasons. The first one, back in 1985, was undertaken by Priestley and Morris, who were our financial auditors. That peer review was not very successful; not very much came out of it.

CHAIRMAN: When you speak of these types of reviews, in the ordinary course they would occur in any professional occupation with an accountancy focus. As a matter of best practice you would have people reviewing yourself. Is that how those reviews came about?

Mr ROBSON: Normally accountancy practices—picking on the big six—have their own system of internal peer reviews both within the country and by people overseas. Prior to around the mid-1980s I do not think any reviews were undertaken of audit offices, certainly not within New South Wales, though I cannot speak comprehensively of other states or the Commonwealth. Prior to 1983 the Auditor-General even audited his own financial statements. Increased accountability came in then. The second peer review, by KPMG, was commissioned following review by KPMG of the salary structure of the organisation.

We thought it necessary to undertake a full peer review, one reason being concern in the audit office about quality control procedures put in place. Also, staff within the organisation were of the opinion that what they were doing was as good as you could get. The peer review indicated that was not the situation and that we had shortcomings in our systems and manuals that needed to be addressed. That was when it was decided to send a couple of people overseas to see what manuals and procedures were the best to be adopted by New South Wales. That was the real reason for the change of procedures and policies, and that really emanated from the peer review.

CHAIRMAN: You said earlier you did not think we needed to be constrained by the legislation. Why is that?

Mr ROBSON: Report number 49 states, at point 11.5.3, that the committee proposes that issues to be discussed in each review remain a matter for negotiation between the Auditor-General and the peer reviewer, that such reviews might well be selective and avoid unnecessary duplication and allow for facts on contemporary issues, and that the boundaries placed on each review should be formally described in the introduction to the report.

CHAIRMAN: Without becoming overlegalistic, since that report Parliament has amended the Public Finance and Audit Act and specifically provided for review of the Auditor-General's office. It could be said that, in legal terms, Parliament has considered the PAC report and that is what it decided. Surely one would be flat out going outside the legislation?

Mr ROBSON: You would be under section 48A(2), which is fairly restrictive.

CHAIRMAN: The Victorian Auditor-General seemed to be saying that this exercise is governed by section 48A(2). He added that he thought section 48A(2) was too narrow and that we could do better in New South Wales if we followed the Victorian approach of a much more broad based performance type review of the whole office, in

other words to put the audit office on the same basis for review as the whole public sector. I understood it to be a clear inference that if that was to be so down the track—and it certainly could not be done in the next report—as a matter of policy the Act would have to be changed. If the Committee were so inclined, it might recommend to Parliament that the Act be changed. However, I have no idea what the Committee thinks of that, as that question has only arisen today.

Mr ROBSON: I would think that would most certainly be the case. My understanding when we were getting provisions for a peer review back in 1990 was that it was to cover these other aspects.

CHAIRMAN: You are saying that the way it has turned out and the way Parliament has gone has made it much narrower than you would have hoped for?

Mr ROBSON: Yes. Public Accounts Committee report No. 49, at point 11.3.2, noted that, as agreed with the Auditor-General, a number of aspects of the operation of the audit office were not covered during the review. Since that time, the human resources side of the audit office and its organisation and structure have been subject to reviews by the Auditor-General. A firm of accountants came in to undertake those reviews. They also assisted with quality control within the organisation.

CHAIRMAN: That is management getting in people for specific tasks?

Mr ROBSON: The management of the resources itself, yes, and also as far as delegations were concerned.

CHAIRMAN: Yes. As a general principle, the idea of putting the audit office on the same footing as the rest of the public sector in this respect—which is I think what the Victorian Auditor-General was saying—is not something with which you would have a problem?

Mr ROBSON: I would not have a problem with that, mainly because I am not there any longer.

CHAIRMAN: Would it make any difference if you were?

Mr ROBSON: No, it would not.

CHAIRMAN: As to the specific exercise that this proposal be undertaken, it is fairly narrow, is it not?

Mr ROBSON: It is, yes.

CHAIRMAN: The conflict of interest issues and so forth that you have heard raised this morning in some of the questions and answers are not likely to arise in this exercise to the extent that they do in the—

Mr ROBSON: No. It is, as far as the operational side of the organisation is concerned that this is restricted to, only to the coal-face auditor.

CHAIRMAN: It is interesting in the context of the legislation as it is currently drafted that the Committee, by virtue of the specific provisions relating to performance audits, is charged with organising fairly broad reviews of how they have been going, but it has in that sense produced strange results. You can go in on a broad basis to review one aspect of the office's work, but as to the office as a whole the focus is quite narrow.

Mr ROBSON: I am sure you can appreciate that the provision for that type of review of those audits came in after the provisions of this Act were put into place.

CHAIRMAN: That is starting to look like the tax Act in terms of bits and pieces all over the place.

Mr ROBSON: Yes. It is in dire need of review again, I would think.

CHAIRMAN: These are useful things that could perhaps be put up in the context of the review of the Public Finance and Audit Act that is going on at the moment.

Mr ROBSON: I was not aware there was one going on, but they are the sorts of things that should be sorted out now.

CHAIRMAN: I do not think anybody on this committee understood before today that, with the Federal Auditor-General, there is a standing oversight brief by a private sector reviewer. We had Mr Sharpe in this morning. I do not think any of us understood

that there is a standing oversight of the Commonwealth Auditor-General by Mr Sharpe. What are your views on that type of model?

Mr ROBSON: My understanding of the Commonwealth legislation is that the efficiency audit provisions apply to the audit office. I do not know how frequently the efficiency of the audit aspects are applied to the audit office. I would not think it is necessary for it to be of a term less than the three years that we have in New South Wales.

CHAIRMAN: In the Commonwealth, they apparently have an independent audit who is appointed for a term of not less than three years and not more than five. The position of New South Wales and Victoria seems to be that every three years, or at the end of every regular period determined by Parliament, a reviewer comes in for a specific purpose, does a review, presents it to the Auditor-General, the Auditor-General comments, the review is tabled in Parliament. Then they go away and three years later that happens again. In Canberra, it seems that they have got somebody over their shoulder all the time.

Mr ROBSON: I do not know that that is how it really should be read.

CHAIRMAN: Maybe it should not.

Mr ROBSON: In New South Wales we have much the same provision as far as the financial audit of the Auditor-General's office is concerned. I think that applies as with the Australian Audit Office. But on top of that I think it is in the Australian audit legislation that that auditor will do the efficiency audits or has the same powers to do the efficiency audits. That is where that situation arises, whereas in New South Wales you have got two separate sections: one is for the financial audit, which the person is appointed—I cannot remember for how long; and then there is the peer review every three years.

CHAIRMAN: My personal view on that is that the system that you have just described is the better one.

Mr ROBSON: I believe so. There is no real need for the financial auditor to be the person who does the peer review. I do not think that the peer review is needed than every five years.

CHAIRMAN: Nor is any sense of continuity in relation to a peer review. That comes in as a one off.

Mr ROBSON: Yes. It is a new look. Also, I think it would have an adverse affect for a peer review to be undertaken more frequently than three years.

CHAIRMAN: You then get to the situation that they seem to have had in the Commonwealth where they have actually had an inquiry into the review, which seems to be ridiculous.

Mr ROBSON: I was not aware of that.

CHAIRMAN: This is a report 19 of the Commonwealth, review of the independent auditor watching a watchdog. You just go round in circles.

Mr ROBSON: I am sure that whoever the auditor was—I do not know whether it was Michael Sharpe at that stage—when he undertook the audit, I do not think he would be aware that he would be subject to a parliamentary committee inquiry. It would be rather frightening for some of these people from the private sector when they are not familiar with committee proceedings.

CHAIRMAN: Something was raised with the Victorian Auditor-General a little bit earlier. How able are private sector reviewers to understand the job of an Auditor-General? It seems to me that you take a partner from a big six firm and you have to ask their understanding of a working environment of an Auditor-General, dealing with members of Parliament, Cabinet ministers, premiers, the press and the public. Whilst the heat is rising, the public profile is rising a bit at some of the public company private audits that have been done. Is there a concern that private sector auditors who are retained to do these reviews really just do not understand the issues?

Mr ROBSON: I heard a previous person say that it is a very steep learning curve. It would be extremely steep. Whether by the time they finish the review they understood all the difficulties associated with an audit to an Auditor-General, I doubt very much. However, the profession being what it is, they would get as much information as they possibly could.

CHAIRMAN: Is the conclusion of this that the people doing these reviews should be other Auditors-General rather than members of the private profession?

Mr ROBSON: I would personally lean towards that way. In my time, the New South Wales Audit Office undertook two key reviews of other Auditors-General. One was South Australia and the other was the Australian Capital Territory. I am aware that the feedback from both Auditors-General was that they were absolutely delighted with the results of the peer review. They were not very complimentary reports. They immediately took action to rectify the situation. But theirs was a little different to what is here now. It is the same as when the New South Wales Audit office had a peer review. It was not necessary to publish it. Maybe if it was going to be a published document, it would not have been as hard-hitting as what was finally reported to each organisation.

CHAIRMAN: On that issue, on the one hand you have private sector people who may not understand all the issues and pressures, and on the other hand you may have a perception—only a perception—that if someone from an audit office in Australia, apart from the one being reviewed, did the job there would perhaps be a perception that they are coming at it from the same professional perspective and that there is not the relevant attachment. Is there a way that you can have a group of people involved in some private and some Auditor-General input to give some overall guidance? In doing the special audit I think we had private sector people. We had Fergus Ryan, an academic and somebody from the Federal Audit Office. They were not involved in the day-to-day work but they had a couple of meetings with the committee and with the people actually doing the job and they set some parameters.

Mr ROBSON: A steering committee?

CHAIRMAN: Yes. You have a bit of blending of the different groups.

Mr ROBSON: That could have advantages, although I think the steering committee in this particular case would be your committee itself. They would set the parameters and I would imagine that you would like progressive input and reports as to the direction in which they were going, although a reviewer reports to the Auditor-General in the first instance. I could not see anything wrong with having a mixture of both private and public sector auditors involved in that review situation. It could have advantages. It could assist the private sector person in understanding the implications and difficulties associated with auditing and the public sector.

CHAIRMAN: Just in general terms, how seriously do you see problems relating to conflicts of interest in the private sector these days, relating to these sorts of jobs?

Mr ROBSON: I am a little out of it nowadays. The one conflict of interest that concerned me was one that you have traversed already. That is the internal external-audit relationship.

CHAIRMAN: As lawyers would say, it is not unprofessional conduct for an accountant or a firm, or the partners of a firm, to do both the internal and external audit of a public company.

Mr ROBSON: It is not unprofessional. The issue was very high on the agenda of the Auditing Standards Board years ago when I was on the board, and I am afraid I do not know what has happened to it since. There was a great deal of discussion I think for two years. It was not resolved as far as whether a firm could do the internal audit and the external audit.

CHAIRMAN: The fundamental point is that the partners of the firm are jointly and severally liable. If one partner is doing the internal audit, and the other partner doing the external audit picks up a problem that might put them at risk, the perception at least is, are they going to blow the whistle or let it go?

Mr ROBSON: That is where we get the old saying with the Chinese wall: it is there.

CHAIRMAN: It is more than that because they are actually at risk.

Mr ROBSON: I take that. On the other side of the coin, I think that the integrity of professionals within the accounting area is extremely high, by and large.

CHAIRMAN: The level of public concern about auditing, given some of the big corporate pressures and so forth, is such that the issues are very much alive.

Mr ROBSON: The previous witness spoke of the expectation gap. That is a matter that has been evident for seven or eight years now. It concerns what the public perception is of auditors and what the public relies on auditors for.

CHAIRMAN: The other issue is that of professional insurance. It seems that it can be difficult to get cover for certain kinds of jobs. From a public policy point of view, one would question whether there should be a cap on the liability of auditors. I would have thought that any legislative body that started considering that matter would also have to question the situation in which one firm carries out both the internal and external controls and ask whether it was not time that something clear was laid down in that regard. It ought to be part of the package that issues of conflict of interest need to be put on the table if the accountancy profession wants this kind of protection—and it may be in the public interest to give that protection to a certain point. There is a necessity for robust outcomes in this regard. People should not be doing two jobs, that just is not right.

Mr ROBSON: I personally hold the view that one organisation should not carry out both the internal and the external audits.

Mr IRWIN: Looking back on the peer reviews undertaken in your time as Auditor-General, what were the most important things that you got from them?

Mr ROBSON: The lack of good quality control was the main aspect highlighted by the KPMG Peat Marwick group review. Action was taken to review control. In my mind, a peer review examines the health of an organisation and, if necessary, leads to the enhancement of procedures being followed.

Mr IRWIN: Was quality control a blind spot with the organisation or was it something new on the scene—something you had not picked up at the time?

Mr ROBSON: It was not a blind spot, we knew about it. It was a matter of trying to convince the staff that there was a problem in that regard. Getting an outside person to review procedures was a very good way of convincing staff that a change was necessary. The outside firm came up with the same answers that had been reached by the executive at that time.

Mr IRWIN: Even the Auditor-General has to go cap in hand to Treasury for a resource allocation. Would you consider it essential to have areas such as salary scales, material resources necessary to carry out different tasks and funding for information technology addressed particularly in a review, perhaps to back a case for additional resources that would enable the Auditor-General to lift the standard of performance?

Mr ROBSON: The Auditor-General does not go cap in hand to Treasury; he forms his own budget. The Auditor-General's office has been a self-funding organisation since about 1987.

Mr IRWIN: But he does get Treasury grants for matters such as special audits?

Mr ROBSON: Special audits are the only item for the which the Auditor-General gets grants from Treasury, and that is because the money cannot be recovered in audit fees. As far as reviews of salaries and staffing are concerned, it is important that the organisation examine those itself, and that has been done in the past. As I mentioned earlier, in my time the administration examined the structure of the organisation, delegations and salaries. Salaries were also subject to review by outside organisations. Unfortunately, because the office is within the public sector, salaries and the remuneration of officers are to a certain degree tied to those applicable in the public service. That is a fact of life.

The position is somewhat different in the United Kingdom in that the Auditor-General sets the salaries of his staff. When I appeared before the July 1990 review of the Auditor-General's Office I said that I would have liked the New South Wales Auditor-General's Office to mirror the system applicable in the United Kingdom in that the Public Accounts Committee would review the office's budget and would allocate funds. That would have removed the necessity to charge audit fees and would have provided for greater accountability. In the United Kingdom it is a matter for the Auditor-General to determine the salary levels of his staff. To come back to the main question: yes, it is my opinion that there should be reviews on other aspects and particularly on human resources.

Mr COCHRAN: With regard to duplication, there is a broad scope to be covered by any peer review on the performance of the Auditor-General. It seems to me that if this review is to be conducted every three years then some direction should be given to prevent a great amount of duplication. Would it not be preferable that at the each three-yearly review the external auditor be required to concentrate on certain areas of performance?

Mr ROBSON: I doubt very much whether duplication could be avoided when it comes to the operational side of the review because the reviewer would have to be aware of the procedures of the organisation and relate those back to what is actually happening. There is no way out of that.

Mr COCHRAN: I am concerned that some areas could be neglected in the review process.

Mr ROBSON: If the scope of the terms of review were widened, it would be possible to have a broader review. However, duplication could not be avoided in a review of the auditing practices and standards.

Mr RUMBLE: I should like to take you back to the 1989 review, in relation to which adverse comments were made. You might remember that of five assignments three were found to be unsatisfactory. In the main, was it qualified accountants who were performing that work?

Mr ROBSON: Yes, qualified accountants performed the audit work.

Mr RUMBLE: What about the back-up staff? Would they have been people in training or qualified accountants?

Mr ROBSON: There would have been a mixture of both. From memory, about 80 per cent were qualified and another 10 per cent were in training. Only administrative staff were not qualified persons.

Mr RUMBLE: And the deficiency was acted on at the time and, as far as you know, the problems raised during the 1989 review have been sorted out?

Mr ROBSON: I certainly hope they were sorted out. We tried to address all of the issues raised. Training and education is a very important aspect in this regard. The important factor is convincing staff of the need to have proper procedures in place. The manual that the office was operating under at the time was several years old and was out of date. It was just a matter of a new manual. As well, our methodology was changed in 1990.

Mr RUMBLE: When listening to your previous evidence I got the impression that as far as a peer review was concerned you thought priority should be given to another Auditor-General and that further down the line a mixture of people from both the public sector and private enterprise could be involved.

Mr ROBSON: Probably, I still hold that view. We spoke earlier of the steep learning curve that has to be followed. Involvement of both public sector and private sector appeals to me.

Mr RUMBLE: Would you give equal weight to involvement from the public sector and the private sector?

Mr ROBSON: I see no great difficulty in achieving a blend of the two.

Mr RUMBLE: Would you say it was preferable to have another Auditor-General carry out the review or a blend between public and private sector involvement?

Mr ROBSON: I would say that it is preferable for another Auditor-General to carry out the review, provided it was clear to everybody that it was not an in-club review. It might be advisable to get somebody from outside Australia to undertake the review.

CHAIRMAN: When we were considering out the carrying out the review of a special audit program one factor that had to be taken into account was the prior experience of Fergus Ryan. The Committee calls for expressions of interest and so forth and people make their proposals, but prior experience can make the difference between acceptance of a proposal. It is a matter of record that Arthur Andersen got the job previously. I think the factor that weighed the balance was that Fergus Ryan had a track record in the area. I suppose the problem is that if we keep making decisions in that way, Fergus Ryan and Arthur Andersen will tend to collar the market, which is a little undesirable in the sense that although they have the experience they will also have a virtual monopoly position. We are looking for someone to undertake this review but I am not sure to what extent we should look to the only person who has experience in this area as distinct from spreading the work to others. From the public interest view, it probably would be desirable for other people to get experience in these matters.

Mr ROBSON: In all due respect, Fergus Ryan would have to have started somewhere himself. He may be the expert in the field now but I am sure that if others embarked along the same track they would also be equal to the task.

CHAIRMAN: Are you saying that indeed it could be a case this time around that we should try to expand the pool of experience?

Mr ROBSON: There would be nothing wrong with that, bearing in mind the very steep learning curve we talked about before.

CHAIRMAN: In the short term it might cost a little more to take on somebody new. Fergus Ryan, for example, has experience and will be able to carry out the review fairly quickly. An auditor from one of the other firms might have to go through the learning curve and may cost a little more. Perhaps we should be saying that it is in the public interest to have a wider pool of people experienced in this work and it is worth paying a little more to widen the level of expertise. Do you consider that an acceptable way to go?

Mr ROBSON: Yes, of course it is. Whichever way you go I think would be acceptable, whether you take anyone who has experience or anyone who does not have experience and so broaden the pool. I heard the previous witness mention that Fergus Ryan took some time from the time he started until the time his report came out. I do not know how many hours or days were involved in that.

CHAIRMAN: It is not that clear in the private sector. If you are looking in the private sector for this type of thing you would have to go to the person with experience, would you not, provided the cost of the proposal was not off the wall? Significant weight would be given to someone with experience in the area. I am asking whether it is appropriate from a public policy point of view for a body such as this to be deliberately spending a little more money to widen the pool. I just do not think that would even come into the equation in the private sector.

Mr ROBSON: In the private sector it would not.

CHAIRMAN: They would say, "Go with the expertise".

Mr ROBSON: Or the cheapest. A lot of low-balling goes on as far as the private sector is concerned.

CHAIRMAN: But you would think that, with a job like this, we could look at someone who did not have a level of experience or who had not done it before in a deliberate attempt to widen the pool of people who have that experience?

Mr ROBSON: I could see nothing wrong with that, but I sound a word of caution, if I could. The Committee has to make the decision as to who should conduct the peer review. I think it would be absolutely necessary for the Auditor-General to be comfortable with the person you appoint. There may be some reasons why he would be uncomfortable with other people.

CHAIRMAN: The way these things typically go, you end up with a short list of people who are well-known in the profession and whose reputations are beyond question. It gets to the point where you are making a decision out of that group. The question of experience and cost may or may not make any difference. But within the final pool there is not really any question raised about competence.

Mr ROBSON: Also about integrity.

(The witness withdrew)

FERGUS DENIS RYAN, Accountant, Arthur Anderson, of [REDACTED], and

STUART JOHN ROBERTSON, Accountant, Arthur Anderson, of [REDACTED], sworn and examined:

CHAIRMAN: The purpose of these hearings is for us to work out our responsibilities under section 48A of the New South Wales Public Finance and Audit Act and to get a review under way by about March next year. Our purpose in asking you to give evidence today is to get your perspective on a similar, wider review that was conducted in Victoria. The Victorian Auditor-General appeared before us this morning to talk about this as well. But we would be grateful to hear anything you would like to put to us and we would like to hear your views on what is required of us under section 48A. What was the situation in Victoria?

Mr RYAN: Peer reviews continue to be a moving target. They continue to become more rather than less extensive. In the private sector they are now very much imbedded within firms and, in more recent times, there have been external peer reviews. Let me use my own firm as an example. Our peer reviews are done from outside our practice from other countries by bringing in whoever—Stuart Robertson or Fergus Ryan, for example. The institute and society are now imposing their own requirements. I think the trend is being further complicated in the private sector because of the need for more and more specialisation. It used to be the case that you could simply review an audit practice. Now there are levels of industry complexity, as in the Commonwealth Bank, Telecom and so on, and there are functional complexities as in Treasury, information technology or whatever.

So the layers of review are deepening. Having said that, I think there is a risk of missing the wood for the trees. As to the first step I think it is always critical to decide what the peer review ought to achieve rather than how it should be achieved. We will concentrate on what it should be directed to achieve first and then we will move on to how it should be achieved. As to the what, generally speaking, peer reviews that are focused on the literal interpretation of an Act or a specific set of objectives tend not to get the quality result that one would hope for if bettering the quality of public administration is the broad objective. So, more often than not, there is clearly a choice between, "Yes, there is section 48A, that is what we are focusing on, and we will exclude everything else", as against, "Yes, there is section 48A and we need to ask that question, but let us also leave sufficient room so that the reviewer can add some value, in adding dimensions for consideration".

That may not reflect at all on the quality or otherwise of the Auditor-General, but it may add some value in the public administration context. Unfortunately, or fortunately, whichever way you look at it, the more you do that the more you have to go towards a high quality of reviewer because there are not that many people who have the range of experience to encompass that width, if you like, and also to understand both the Government side and the professional side. So you run some risk when you open it too broadly. Therefore, I think the discussion with the individuals that you appoint, before you appoint them, becomes much more critical because you are looking for much more than technical excellence in the context of the narrow framework. You are looking for somebody who has an understanding of public administration, broadly, who can express a response to this in the broader context of what parliamentarians and others are about.

That is part of the what. There are dangers in opening it too wide and there are dangers in keeping it too narrow. Stuart and I did the Victorian review together, so we are very much partners in that respect. There are three or four layers in the Victorian Act, in terms of our experience. The Victorian Act talks about efficiency, economy and effectiveness, which is a broadening out. We interpreted that very widely as meaning: what should the role of the Auditor-General be in the broadest effectiveness sense? Hence we got into questions dealing not just with the State Electricity Commission of Victoria or

the Department of Health but also with policy departments which, in effect, mandate what many of those other subsets do in the budget sector, the outer budget sector, or whatever.

So we interpreted that question of effectiveness very broadly. I think we—I include ourselves, the Auditor-General and the parliamentarians—were able to deal with that very constructively, without anybody saying, "You are outside the scope", or whatever. It was a natural evolution. You might want to talk about, as I think we have in the past, the top end of that, particularly the central agency aspect of it which Stuart and I believe is critical. That model in Victoria took that broader direction.

Peer review is a critique; it is about reporting facts, but you come across an awful lot of subjective elements. One of them for an Auditor-General at State or Federal level is soft issues, such as relationships with their clients. This is very important, going forward as they get into privatisation and how they service their clients. There are a whole heap of issues outside of that responsibility, such as external trends on privatisation, on specialisation, et cetera. In a holier than thou sense you could be critical of the Auditor-General because he or she has not done that; realistically you know that they do not have the resources and cannot.

There is a second level of reporting that is not there to be critical, but to comment on the external factors that are influencing the Auditor-General's existence and say that there are gaps. It is not surprising that there should be gaps—and we are not critical of that—but they are, nonetheless, having consequences. Finally, the thing to be avoided most in peer reviews is what some agencies are sometimes accused of; that is, the gotcha syndrome—you get the fact, you put it on the wall, you hold it up for everybody to see and you say, "I won". That is dangerous and it does not get you anywhere. All you need to do is illustrate principles and points, rather than pour it on. They are the three different levels of issues we talked about in Victoria on the what.

Mr ROBERTSON: As you would be aware, if you reviewed our report, in Victoria the EBRC was fairly specific in the brief it gave us. Certainly it was prepared to move beyond the words of the relevant section. For example, obviously the Victorian section—the equivalent 48A—is worded very differently and requires an examination of the efficiency and the economy of operations of the Auditor-General's Office, which does not just encompass how well he does individual audits, but how well he runs his department and whether, in an overall sense, he is doing the right things and not just the things he does well.

The EBRC decided that it was appropriate to expand that mandate beyond the terms of the statute to encompass effectiveness, to turn it into what you might call a full-scale performance audit. That was decided on the grounds, essentially, of the brief the Auditor-General had been given to undertake his audits within the Victorian public sector. It was appropriate that the audit office was evaluated as well with respect to the effectiveness of its performance. The EBRC took a fairly hands-on approach to the structure of that review. It did things like mandate a requirement to survey a range of clients of the Auditor-General; it was something that we had proposed in our proposal for the engagement anyway. It was fairly prescriptive with those sorts of things. It took a very proactive role, both in terms of asking what we really wanted to do with respect to the review, as opposed to what the legislation says is the minimum. It also asked what we expected the reviewer to be doing to achieve those objectives.

CHAIRMAN: It is sort of like revisiting old ground with that special audit report where we had these issues arising in relation to what the Act said. This issue came up with Mr Robson this morning. A previous Public Accounts Committee made recommendations about what this sort of review should involve. On my reading of the recommendations, they have left it a lot more open, as would be the ideal. The reality seems to be that the Act is more limited. The problem we have is that the assumption is that Parliament has looked at the Public Accounts Committee report and it has come to a view having taken on board all of what the committee said. We need a narrower focus than what our predecessors recommended. I do not see a way to avoid that,

unfortunately. I think there is a very real issue which has arisen today which has underlined what you say—whether we should look at a review of this section. People seem to speak positively about the Victorian situation. Maybe we need to look at trying to change the Act. For the purpose of this exercise we seem to be restrained in a much more narrower focus than in the Victorian one.

Mr ROBERTSON: That is the case if your view is that what the Act sets out is not the minimum that is required from the review, but is actually setting out the parameters of the review.

CHAIRMAN: I guess that is an interesting question, is it not?

Mr ROBERTSON: Yes. Again, in the Victorian experience the EBRC decided to view the provisions of its Act as a minimum, and added the requirement for the consideration of effectiveness which was not a requirement of the Act.

CHAIRMAN: Are the words of the Victorian section set out in these reports?

Mr ROBERTSON: Yes, they are. It is appendix 2, the last page, section 48A—coincidentally.

CHAIRMAN: It is very different. Perhaps these are lawyers' opinions, but it gets to the question of what the mandate is from Parliament to spend money on this exercise.

Mr ROBERTSON: If I could just interrupt, I referred you to the wrong excerpt from the Act. I think you need appendix 1, which is the document outlining the instructions that we got from the EBRC and attachment A to that, which is page 5.

CHAIRMAN: It is the same thing.

Mr ROBERTSON: No, not quite. This is the review requirement in respect of the Auditor-General in Victoria; 48B(1) is the requirement to consider whether the Auditor-General is achieving his or her objectives and doing so economically and efficiently in compliance with the Act. It was then the decision of the EBRC to add an effectiveness provision on top of the economy and efficiency requirements of section 48B of the Victorian Act.

CHAIRMAN: I see the point. At least those things are in play. We do not have any reference to them at all here. It gets to the question of the scope to spend money. The difference between doing one and the other might be quite significant in terms of cost and time, which is not to say that the broadest based one is not worthy. The argument is that it is not what Parliament has charged us to do. We agree that it would be a positive step if at some time 48A in New South Wales was considered for amendment to embrace section 48B of Victoria.

Mr ROBERTSON: If what you want from the review, or if you think it would be beneficial for the review to report back to you on questions of resource management focus of effort, issues such as training and the broad issues that we dealt with in Victoria, yes, that certainly seems to be significantly broader of a review than the review that is envisaged by the current New South Wales requirement.

CHAIRMAN: The committee heard evidence from the Victorian Auditor-General this morning. He put to us that he thought that was a worthwhile exercise—that broader based exercise.

Mr ROBERTSON: That is certainly my view.

Mr RYAN: It raised some fundamental issues that would not otherwise have surfaced.

CHAIRMAN: We also got into an interesting discussion this morning—I am probably asking you to comment against your interests to some extent—about who should undertake such audits and such reviews. We referred to some of the public policy considerations. The first point put up was that it is not necessarily easy for private sector auditors to understand all that Auditors-General in the public sector have to deal with.

There are two consequences of that. One is an argument that the best reviewers in the situation are other Auditors-General rather than those in the private sector. The second, alternative, point is that if private sector reviewers are appropriate, it does take a

little time to come up to speed and a little experience on the job to come to grips with all that is involved in a public sector auditor's job. If that is right, the question is whether people who have now got the experience such as yourself should get the job or whether from a policy point of view it is important to get other people started, if you see what I mean.

Mr RYAN: Yes.

CHAIRMAN: I am sorry, that is really laying—

Mr RYAN: No, it is a fair question. I do not think it is necessarily one or the other. It is clearly true that some Auditors-General would do an excellent peer review on others. If I may broaden it—I am taking it too far but I will do it just for illustration—it is not just private sector auditors versus auditors generally. Without being trite, if you take the fashionable definition of leadership versus management—I think the textbooks say leadership is about doing the right things; management is about doing them right—it is not a bad working model. You have to clearly distinguish those two things when it comes to peer reviews. Doing them right, doing what you are told to do, is one definition of a peer review which is the typical one. In my view it can be done by some AGs and some in the private sectors.

When it comes to doing the right things, as in a fundamental issue like the central agencies, which is at the core of these looking policies, that is a different dimension. I would suggest to you that many business people or government people, quite apart from auditors, are quite well qualified to come up with broader public policy issues like that. In deciding what you want to do you really need to distinguish whether you are asking what the auditor has been asked to do has been done properly versus whether he has been asked to do the right thing. That fundamental question is there. This report challenged that illustratively at least on the central agency issue, which has not really been addressed by the Auditors-General in other reports to my knowledge.

Mr ROBERTSON: I think that is right.

Mr RYAN: It is still a bit iffy as a concept. So far as Stuart and I are concerned, it is absolutely fundamental to the audit of the public sector going forward into the next century. It is a matter of common sense. Yet it has not happened. With the greatest respect, there is that cutoff in the decision which you have to decide first. Do you really want to challenge whether you have asked the Auditor-General through the Act or whatever other mechanisms to do the right things or are you simply asking: has he done what I have asked him to do? It is a bit philosophical.

CHAIRMAN: Has he done what who has asked him to do?

Mr RYAN: What he has been asked to do under the Act.

Mr ROBERTSON: The Act tells him to audit the accounts of certain bodies and it tells him to go off and do some performance audits. He can do each of those individual things perfectly adequately but that does not necessarily mean that the focus of his efforts is being applied as well as it could be to the places to which it should be applied.

CHAIRMAN: I come at all this with an outsider's view, and probably misunderstandings. But what you just said seems to go to the heart of it: what he is asked to do, and it is all there in the Public Finance and Audit Act but that is what makes it a very difficult job and atypical of the sort of auditing that is done by the private sector. That is the very heart of it. I wonder how easy it is for people coming from the private sector to comprehend what an Auditor-General has to do in practical terms under the Act. It is sort of like a brief across the board for the whole of the private sector, picking priorities and being very visible a lot of the time.

There is a lot of media interest. I suspect in terms of what we are required to get under way under this statute they are not all that relevant but if we are looking towards the proposal that it be broadened in scope to look at economy, efficiency and effectiveness these things start to become pretty relevant. I still do not get the impression that in the private sector all these things come into play. Maybe they do. Maybe an audit

engagement for something like BHP ranges across the whole operation and you have your own discretions on these things. I still do not see it as being the same job.

Mr RYAN: Speaking for myself, I would certainly acknowledge that government is much more complex in that sense.

CHAIRMAN: But there are also different and very special pressures which—

Mr RYAN: Yes.

CHAIRMAN: Take for example this jurisdiction. This is probably a very atypical Parliament from what we have been used to in the past. In the HomeFund inquiry the Auditor-General is assisting a committee of the Parliament on a specific engagement pursuant to terms of reference that have been brought up and ultimately brokered as part of the deal—to be crude about it—to get something out of the Chamber. I think it was actually so that the Chamber could adjourn. The House could not get up. I would have thought the sort of pressures that come out of that environment are extraordinary in the context of anything you would meet in the private sector. It would be difficult to assess performance on how that type of engagement has been handled. One assumes progress based on a plan for the year. All of a sudden out of left field there may be a special demand to do work for a parliamentary committee. Treasury is probably not keen on providing funds and you immediately have to hive off funds from another program planned at the beginning of the year. I suspect that these are things that Parliaments and the public sector can dish up which would not happen in the private sector. I wonder as a private sector reviewer how you are able to get a handle on dealing with and reviewing those sorts of things.

Mr ROBERTSON: I am not convinced that this, if you like, clear dividing line between the public and the private sector is as clear as it has been in the past, working both ways, with the move of public sector entities into the more commercial structures of operation and with the outsourcing of expertise requirements of the public sector into private sector consultancies. I think there is a far better understanding from the public sector and therefore from, say, the Auditor-General's perspective of how to deal with essentially large and complex quasi private sector operations operating along commercial lines than there was perhaps a few years ago. If you identify the right people in the private sector, there are many people now who are far better attuned to the particular demands and requirements and the way that the public sector operates. I am not of the view that it is now quite right to say that there is this dividing line and a lack of comprehension or experience on either side of that line of the way in which the other side operates.

Mr RYAN: If I may clarify, your concern is who is best qualified to do such reviews?

CHAIRMAN: I am just interested in the question and the impression I am getting at the moment is that there are some parts of an Auditor-General's work which the private sector is very well qualified to do, not least because a lot of work is now going to the private sector on a regular basis anyway in the context of auditing public sector entities. But I suspect that there are some special pressures and concerns relating to clashes between executive government and Auditors-General which only other Auditors-General who have been in exactly the same situation really understand.

Mr RYAN: With respect, I think that is not so. I challenge that fundamentally. It is the sort of club assumption, that only those in the club can evaluate others in the club. I do not intend to suggest that it is a club but I think there is something fundamentally flawed with the proposition that anybody external to government, be it Parliament, its subcommittees, its Auditors-General or whatever representation, is not qualified to take an independent view on that whole government process. It may well be that government and its subcommittees, structures and AGs do not agree with that view but I do not think you can dismiss the whole of the public sector on the basis that it has not had the experience and therefore it cannot come up with a view. It does not make any sense. So the only place you will typically get that advice from is from within the system.

I am not deriding the system; there are people in the system eminently qualified to do the review, but the proposition that there are not people well qualified outside the system to do it is a nonsense. There is one hell of a difference between the two, and that contrast in itself is quite valuable. Without belabouring the point, if everybody agrees that to review the central agencies and to concentrate on policies is so important, why has it not come up before in all the other reports done but within the system? What is the magic? It is commonsense observation. It does not take technical expertise. So forgive my forcefulness but I think that is fundamentally wrong.

CHAIRMAN: Oh no, the point about this is to try to clarify a few issues. If it is done by action and reaction, so much the better. The point you are making is made.

Mr RYAN: I think Stuart is right: there are a lot of people in the public sector now who have had a lot of experience within government. If you take a big six firm—I am guessing—but it would not surprise me if 20 per cent of its work was in the public sector these days. As you know, we all have exchange programs with government and the private sector in which these firms put people on boards and so on. So there is not the same wide distinction that there used to be. I can name five or six of my peer group who would have an excellent knowledge of the public sector and parliament and the pressures that you described.

It might be imperfect but nonetheless it would be sufficient for them to have a conceptual understanding of what was involved and to be able to talk to people like you—not at the same level of understanding but at least to relate and to understand what the concerns are. I really think at the end of the day I would not presume that either to be an AG or private sector activity. I think the contrast of itself is valuable from time to time, and it really gets down to the experience of individuals, not just technically but also in the width of their experience and their ability to deal with the dimensions that you are concerned about. If the question is can an auditor who has a technical focus on private sector auditing do this, the answer is no. I would agree with you that it has to be broader than that. But they do exist.

Mr COCHRAN: What is the appropriate range of costs of an auditor? A figure of \$200,000 was suggested in Victoria.

Mr ROBERTSON: \$200,000 was the cost of our audit of the Victorian AG.

Mr RYAN: That is what we billed. I think gross fees incurred were probably \$400,000.

Mr ROBERTSON: \$350,000 to \$400,000.

Mr RYAN: Obviously there was a challenge in this task and we felt it was quite deliberate. We billed about \$200,000 and it would cost about \$400,000 to do it properly. When people come in and tender for these things, that is what happens. But I think there were quotes of less than \$200,000. Frankly, you will get a great variation from \$40,000 to \$240,000, depending how people handle exactly the questions we are talking about here.

Mr ROBERTSON: That is right. There were quotes significantly less than ours but they were for a significantly more constrained review than the review we were proposing. The committee in Victoria made the decision to go with the broader scope review.

Mr COCHRAN: Costs are directly relative to the terms set by the committee.

Mr ROBERTSON: Absolutely.

CHAIRMAN: That is why I do not think we can ignore the legislation. Your point is whether or not that is designed to set parameters or just to be indicative?

Mr ROBERTSON: Well, to set the threshold or to actually set the parameters.

Mr COCHRAN: Section 44(A)(4)(B) of the Act says that the reviewer, in conducting a review under that section, must comply with any directions as to the review given by the committee. So the terms set by the Committee predetermine the likely cost. If the Committee determines that the terms of reference will be expanded, either through

legislation or by direction of the Committee, that becomes directly relevant to the cost of the audit.

Mr RYAN: There is another way to look at this. Stuart and I looked at this when we looked at the United States, Canada, England and so on about a year or 18 months ago. Most of the issues are in our report and in a couple of others by people you have been talking to. So in some respects there is little point asking us to go away and identify the issues. I think we know what the issues are. If the Auditor General in talking to you is able to demonstrate a response to those issues or an understanding, I think it is probably money wasted to go to consultants and say, "Do the big thing and tell me what all the current issues are". I think the agenda is already well set, and no doubt he should be working with that agenda, even if he does not agree with it—and he may not agree.

I have no knowledge of New South Wales at all in this respect, but if you were comfortable and that is understood and we were having that discussion, in my view that would significantly direct you towards a narrower scope than you might otherwise have done. In the Victorian environment at the time—we have come out of a pretty difficult sort of decade one way or another—the concerns were pretty broad and that was very much the background. You could cut it off, as long as something was done with the agenda in a different context. But you do not need consultants to do it.

Mr COCHRAN: You suggest that the Committee should be focusing on areas, that a direction should be given to the Auditor General to focus on certain areas of greater need that happen to be the agenda at the time?

Mr RYAN: In the Victorian context we were not under any constraint. We could pretty much write what we wanted to write. Therefore, what we have put in this document is best practice from around the world. It lists all the issues such as the central agencies. I think most people around the world would agree that these are the issues. I do not think you necessarily have to go to another set of consultants to ask them to do the same thing, to do this again. You could quite justifiably take a narrower view and just ask whether the Auditor General is complying with this. But in a public administration sense you would need to be satisfied that the Auditor General is at least doing something about these other issues that the whole world agrees needs to be dealt with. Does that make sense?

Mr COCHRAN: Yes, it does.

Mr RYAN: Stuart, do you agree?

Mr ROBERTSON: To an extent. It seems to me that the Parliament of New South Wales has made a decision that it is to the advantage of the public that the operations of public sector entities are reviewed for the effectiveness of their operations. In part it seems to me the question is whether you take the same attitude to the operations of the audit office or whether you decide, for whatever reason, that the concerns that led Parliament to take that view in respect of the operations of the entities in the public sector are for some reason not relevant to the operations of the audit office.

(The witnesses withdrew)

ROBERT SCULLION, Assistant Secretary, New South Wales Treasury, of [REDACTED] [REDACTED] sworn and examined:

CHAIRMAN: What is meant by section 48A(2) of the Act seems to be taking up a lot of time. What is the job at hand? The issues that have been canvassed include whether subsection (2) sets the limits; whether that is another matter to be specifically taken into account; the breadth of the review to be taken by the Public Accounts Committee of the day; and whether there are some objective practices and standards which are relevant, but which do not appear in the Act, against which the exercise is taken? In the context of breadth, the Committee has heard that the relevant Victorian provision mentions economy and efficiency, but the New South Wales section does not. Does that mean that the New South Wales section is narrower? The Committee would appreciate your comments on those issues.

Mr SCULLION: The basic Treasury response is that we would expect the Committee to look at the effectiveness, efficiency and economy of the audit office. I am not aware that there was any intention of limitation in the existing section. I think it was intended to be a broad peer review. I notice that in other jurisdictions the terms of reference had been broad and basically limited to those three matters.

CHAIRMAN: Why are the words not in the section?

Mr SCULLION: I suppose the legislation can always be improved. But I do not see that it necessarily places a restriction on you.

CHAIRMAN: How do you envisage the Committee going about this task?

Mr SCULLION: I suppose from the Treasury viewpoint, as I indicated, we would expect you to look at the three areas of economy, efficiency and effectiveness. We think there are some matters you might care to examine, some of which emanate from Treasury's dealings with the audit office and other agencies in relation to audit matters. I have listed some matters under the heading of compliance. I expect you would want to be assured that the Auditor-General has complied with the relevant legislation—the Public Finance and Audit Act—accounting standards, the statement of accounting concepts, statements of accounting practice, guidance releases, the statements of auditing standards, statements of auditing practice, Treasurer's directions and Treasury accounting policies.

In relation to methodology, we would think that you might want to look at the approach that the audit office employs in formally assessing materiality and risk in determining the most appropriate and cost-effective means of performing audit assignments, and whether audit coverage is adequate at the agency level and at public sector level. There seems to be some debate about the extent of reliance on the results of internal audit—whether audit coverage is perceived as adequate—whether the methodologies being used are appropriate, and the extent and use of computer technology—I am very well aware that the audit office has made significant advances in this area. You may wish to look at that area. I think I mentioned risk management before.

Another aspect that might be worthy of examination—given the Government's commitment to contracting out—is an evaluation of the criteria used by the office in determining whether to contract out audit work. Although you have already done a review of special audit powers, you may want to mention again whether there are any constraints associated with those powers. Under the heading quality assurance, you may wish to examine quality of service on the basis of appropriate performance criteria, such as the audit recommendations that have been accepted by the management of agencies or by the Government and the success officers had in detecting fraud. We have certainly seen some interesting evidence of that in the volume 1 report.

The quality of staff is an issue, as are recruitment and training. I refer also to the quality of working papers, the audit manual and other documentation, and the quality and the extent to which there is reliance on internal audit. Perhaps you might also wish to examine the quality of annual and strategic audit plans of the audit office, the quality of

the relationship with clients, and with internal audit—be that the Internal Audit Bureau of New South Wales, an in-house internal audit or a contracted internal audit.

Another item frequently raised by agencies is that of fee structure. There is certainly a belief amongst agencies that fees are imposed without there necessarily being a full explanation of the way in which the total amount was arrived at. Perhaps it would be useful to compare the system used in determining fees as against commercial practice and establish whether that level of fees is appropriate given the business of the Auditor-General's Office.

CHAIRMAN: Does that go to the question of the charging of fees and the way in which the office is funded?

Mr SCULLION: The office is not funded except in relation to special audit work.

CHAIRMAN: I realise that.

Mr SCULLION: I am raising the issue of the appropriate level of fees. The form of reports produced by the office would be the final item to be considered. From a Treasury viewpoint, the reports are very useful and acceptable but, as with any output, they may be subject to review. Those were the broad comments Treasury thought would be useful in a peer review.

CHAIRMAN: Speaking personally, I am somewhat frustrated by the wording of much of this Act. I accept what you have said about section 48A, and in some ways I am glad to hear you say it. I draw the Committee's attention to the section on policy which has headings on not questioning policy, policy objectives and then policy objectives, policy directions and policy statements. It seems that this is a recurring problem. It is my opinion that section 48A could be much more clear. I should also like clarity on some aspects relating to a special audit review. Some matters do not seem to be as clear as they might be.

Mr SCULLION: I could not agree more, and that is one of the reasons that Treasury is reviewing the legislation.

CHAIRMAN: Is section 48A under review?

Mr SCULLION: We are undertaking a fundamental review, a review of the whole legislation.

CHAIRMAN: Is work being done in relation to section 48A?

Mr SCULLION: The whole legislation is being reviewed by a working party. The working party includes the Auditor-General, so I am sure that his views will be obtained. The Public Accounts Committee has already made one submission on the legislation. We would be happy to accept further submissions. It is not expected that new legislation will be introduced before the next election, so there will be considerable time during which interested parties will be able to make further submissions.

CHAIRMAN: It is interesting that the Federal legislation does not make a reference to policy.

Mr SCULLION: I do not believe it does.

CHAIRMAN: There is a view taken by the Commonwealth Auditor-General. There is a specific reference in the New South Wales legislation but it is couched in terms of policy objectives. This leads to difficulties of interpretation.

Mr SCULLION: That approach was a request made by the government of the day. Personally, I do not like even the term special audit—I think that is a particularly meaningless term.

Mr COCHRAN: The Act refers to practices and standards and gives the reviewer authority to examine the auditing practices and standards of the Auditor-General and to determine whether the Auditor-General is complying with those practices and standards. That reference is made twice in the one section. Where would you place the benchmarks for establishing practices and standards?

Mr SCULLION: There are existing auditing standards that are issued formally through the Auditing Standards Board of the Australian Accounting Research Foundation

and there are best practices carried out by the major accounting firms in conducting audits. They are two suitable benchmarks.

CHAIRMAN: The Act seems to indicate that the requirement is to review the auditing practices and standards of the Auditor-General, which presupposes that there are some standards—or does it?

Mr SCULLION: I think it does.

CHAIRMAN: My question is relevant to a recommendation made by the Committee in Public Accounts Committee Report 49, "Report on the New South Wales Auditor-General's Office", recommendation section (xviii), which reads:

27. It is recommended that the Auditor-General publish a Comprehensive Statement of Auditing Standards (including, where relevant, guidelines on compliance with those Standards) that shall apply to audits conducted under the Public Finance and Audit Act.

Do you know what became of that recommendation?

Mr SCULLION: From memory, I think that recommendation was not accepted.

CHAIRMAN: Section 48A(2) seems to be predicated on the basis that there be standards of the Auditor-General. I do not know what those standards are.

Mr SCULLION: There are the formal auditing standards produced by the Auditing Standards Board.

CHAIRMAN: But that is not what is stated in the legislation. It would make sense if it stated that the reviewer was to review the audit office against the standards and practices of the Auditing Standards Board. Does that make any difference?

Mr SCULLION: I believe it does not.

Mr COCHRAN: To what extent is Treasury considering recommendations made by the previous Public Accounts Committee? What other process of consultation is undertaken? From which other agencies does Treasury seek information or guidance in conducting the present review of the legislation?

Mr SCULLION: An interdepartmental committee has been established. This committee includes: representatives from central agencies—the Premier's Department, The Cabinet Office and Treasury; the Auditor-General; representatives from a major trading agency, Pacific Power, and from one of the large departments, the Police Service and representatives from the private sector. The committee will be producing a report on the review of the legislation and intends to distribute that report widely so that any interested person has the opportunity to comment on it.

Mr COCHRAN: I should like to clarify this matter. Is the interdepartmental committee undertaking a review of the entire Public Finance and Audit Act?

Mr SCULLION: It is undertaking a functional review of the entire Act.

Mr COCHRAN: How long ago was the most recent recommendation on the Public Finance and Audit Act made by the Public Accounts Committee?

CHAIRMAN: Ten months ago.

Mr COCHRAN: What is the specified cutoff date for receipt of submissions?

Mr SCULLION: The committee has not established a cutoff date. Once a report has been produced there will be plenty of opportunity for people to comment further. For your information, the current legislation was passed in 1983 and replaced a 1905 enactment. It is indicative of the pace of change in the past decade or so that it took 78 years before one re-enactment was required but only another 10 years before it was considered that the current legislation needed review. The current legislation does not cater properly for the financial reforms introduced by the Government.

CHAIRMAN: We are talking about what is probably the most important Act of Parliament in New South Wales, that is, if one assumes that the collection and expenditure of public money is of fundamental importance. I am bothered that there seems to be real arguments about the scope for the expenditure and quantum of public money on this exercise. There are reasonable arguments to be made about the limitation on this review, which could mean expenditure of \$250,000 or of \$1 million to a private consultant. The fact that there is any doubt about the scope is not good in that it arises under the very Act

designed to superintend the expenditure of public money. I do not direct that comment at you personally, Mr Scullion, but that is why I am bothered and why I am perhaps harping on in a way that is getting a little tiresome. On a fundamental issue, the question of policy, it seems that the Act provides for three or four different possibilities, none of which is really clear—everybody has a proposition about what is right. That is a matter we have to fix.

Mr SCULLION: Funding is a difficult issue, as you know, Mr Chairman. I think I could not possibly address that issue in any way this afternoon. The interpretation of the Act will always present difficulties. I think there will always be variations of opinion in relation to what is policy and what is not policy, and I am not sure that you will ever be able to get such a clear definition that there will be no argument.

CHAIRMAN: Even if we concentrated on the word "policy", to my mind that would be an advance on where we are at the moment. We have had a reference to policy, objective, statement and direction. It seems to me that they are all sending conflicting messages. I suppose the main point is that a review is under way.

Mr SCULLION: It is, yes.

CHAIRMAN: Do you have any idea of the approximate cost of the exercise if it looked at all the things to which you have referred?

Mr SCULLION: Not off the top of my head, but it would not be a cheap exercise. I suppose I would look for guidance to reviews that have been conducted in other jurisdictions.

CHAIRMAN: From a Treasury point of view, you do not have any problem with this review looking at economy, efficiency and effectiveness?

Mr SCULLION: I do not.

CHAIRMAN: If we were to advertise and get people in and we said to them, "We want you to have a look at economy, efficiency and effectiveness" would that fall comfortably within this mandate?

Mr SCULLION: I believe so.

(The witness withdrew)

ANTHONY CLEMENT HARRIS, Auditor-General, of [REDACTED],
affirmed and examined,
JAMES REGINALD MITCHELL, Assistant Auditor-General, of [REDACTED],
[REDACTED], and
THOMAS BELA JAMBRICH, Assistant Auditor-General, of [REDACTED],
both sworn and examined:

CHAIRMAN: Do you acknowledge receipt of a summons?

Mr HARRIS: Yes.

Mr MITCHELL: Yes.

Mr JAMBRICH: Yes.

CHAIRMAN: I throw the hearing open. We wish to obtain your general comments on what you have heard and on what we are trying to do in the context of section 48A of the Public Finance and Audit Act.

Mr HARRIS: First we should look at the terms of the review. It had occurred to me when I read the legislation back in the middle of 1992 that it was not the same as Victorian legislation. The review was tighter than we had seen elsewhere, although the Victorian review had not occurred. But I think in some senses that is disappointing because it would be important to subject the office to the same examination as the office is able to subject other agencies, which is efficiency, effectiveness, economy and compliance with all relevant law. Not that we have ever subjected all agencies to that in any short period. If there is a legal view that it is restricted I ponder whether we should open it up in some way. It might be that our consent is enough. We could say, "For your part you could do this and that", as a request from us as it were. We could somehow ask Treasury to give you the money so that it could be widened for our own purposes.

I am quite happy to have a fully fledged review. As to who should do it, that is a vexed question also. We have a very complex relationship especially with larger accounting firms. At one end we employ them and I would wish you to be satisfied that that relationship will not interfere in the frankness of their report. My worst nature is being vindictive. I am not really, but you have to be satisfied for yourself. The second relationship that we have is as a competitor. For example, the accounting firms provide advice especially to the larger of our audit clients. That causes us problems from time to time, particularly because they do not provide the accounting advice as independent agents. They do not say, "Our advice is provided as an independent agent". Because they provide that advice it can cause problems when we come along and we do not necessarily agree with the accounting advice provided. I would like to do more of that kind of work to avoid future problems and thus take away some of the work that they are currently doing.

CHAIRMAN: I do not want to go into the pros and cons of the issue, but in relation to the harbour tunnel there have been questions concerning bringing things to account. Peat Marwick and Price Waterhouse have a different view on the issue. If someone from one of those firms were to do the review do you think that would create a problem when we are dealing with an issue which I suppose is of some importance?

Mr HARRIS: It ought not to.

CHAIRMAN: Advisers in Price Waterhouse have a view on a particular thing and somebody else who comes in has a different view.

Mr HARRIS: It is a very big issue, especially for Price Waterhouse. I understand that a third firm is involved as well as ourselves, so it is a very big issue.

CHAIRMAN: Are those not the sorts of things that could be ignored in the context of this type of review?

Mr HARRIS: No. A series of issues relate to that one matter which was touched on by one or all of your witnesses today. That matter is client relationships, which I can come to in a little while. But the firms will tell you that they were not providing advice as independent agents. It is just unfortunate that it is now public and there has to be a

resolution of the issue. The third relationship, which also deals with competition, is that we have been advised that we can seek to review certain local government councils. We do one by invitation, that is, Sydney council. We are seeking to do more in the Sydney area. That will also cut across our competitors. Can our competitors come in, look at us, write a report on us and not use that to their advantage or to our disadvantage, whatever it might be? I do not know. I presume that is why they do not have peer reviews in an external sense.

I would like to suggest that the audit office is different from private accounting firms in several respects. An easy example is to say that we have no million dollar partners in our firm. We cannot hire and fire, as Michael Sharpe discussed, with the same ease that they used to be able to hire and fire. We do not have the same overheads because we have tied customers in some senses of the word. Nobody in Coopers or Price Waterhouse looks like me and has a responsibility for audits, for accounts, for representing the firm and for managing it. They are not involved in reporting to the same extent that we are. So the relationship with their clients is quite different because they can say things to their clients knowing that it is all going to be held privately. Whereas our clients, if they say things to us, may end up reading them again in a report to Parliament, and deservedly so. But that changes the nature of the relationship that we have with audit clients. To put it another way, some senior people in this Parliament have said to me that they like the Auditor-General being the auditor because they miss things. You do not say that in the private sector because the private sector can do deals with the auditor.

CHAIRMAN: Perhaps I did not put this as clearly as I might have done to Fergus Ryan, but I attempted to put to him in general terms some of those things that you just mentioned. I got the impression that he did not understand the difference. He has just done a review of the Victorian Auditor-General's office, but I gained the impression that he did not understand the difference because he did not think there was one of any substance.

Mr HARRIS: There are big differences. For the same reason our audit clients will not be as frank with us as they will be with private firms. That is why we have to use an anonymous surveyor to survey what our audit clients think of us because they will not tell me what they think. We actually know that they will not tell me, my predecessor or the Office of the Auditor-General what they think. But sometimes they will tell an anonymous surveyor. I think there are other differences as well that are equally interesting. I believe we have a more risk averse nature to our audit than the private firms. This might be exemplified in the State banks. The New South Wales State Bank is the only State bank that has not collapsed or been in grave difficulty. It is also the only State bank that has been audited by the public auditor; all the rest were audited by private auditors. With the recession and depression I believe that some of the risks taken—

CHAIRMAN: Is that a widely understood point?

Mr HARRIS: I cannot say QED.

CHAIRMAN: No, but it does start one thinking.

Mr HARRIS: It is not widely understood. I think they took risks and those risks surfaced in the recession. In a booming economy those risks would not have surfaced; they would have been closed over by the growth. How else would you explain that one month Tricontinental was profitable and the next month it owed \$2.4 billion? How do you explain that? It is not true that auditors are being blamed for the losses; they are being blamed for not knowing that there were losses and for signing an opinion which said something else. That risk aversion costs.

CHAIRMAN: I do not quite understand what you mean by risk aversion.

Mr HARRIS: In practical terms, it means that we do more substantive testing than would the private firms. We would follow the vouchers more often. In spite of the fact that we have a risk based methodology which allows us to reduce substantive testing, depending on the degree of reliance we put on internal control mechanisms, we will always do more substantive testing.

Mr IRWIN: What is the incentive for you to do that?

Mr HARRIS: I suppose we can do it because we are a monopoly. I suppose we do it because we think that is what the methodology requires us to do.

Mr IRWIN: Does that suggest that cost cutting and so on amongst private sector auditors would lead to them not being as thorough as your office?

Mr HARRIS: Yes.

CHAIRMAN: That gets back to the public-private sector perspective of the type of work that you do and should do, and what is value for money, does it not?

Mr HARRIS: I am just talking about financial and ancillary work.

CHAIRMAN: But even there.

Mr HARRIS: Yes, even there.

CHAIRMAN: If the issue is even there, it tends to underline the point that it is probably more likely to be there in some of the other areas which are more specially the province of public sector Auditors-General than they are ever likely to be faced by private sector auditors.

Mr HARRIS: I think so.

CHAIRMAN: You are now talking about an area which is quite commonly faced by private and public sector auditors. One of the key differences is that you tend to put more resources in to do a more thorough job.

Mr HARRIS: We think we do.

CHAIRMAN: It might be QED. It is an interesting point about the State Bank.

Mr HARRIS: The State Bank, nevertheless, is a very cheap audit, being the fifth largest bank it is cheap compared to the fourth largest bank and the sixth largest bank. You have asked why we do it. I suppose because you think that is the job.

CHAIRMAN: Would it be fair to say that if people in management positions know that there is likely to be a more thorough audit, they are a bit more prudential about what they do in the first place?

Mr HARRIS: I suppose in something that was reported today that we were doing a thorough audit in the area concerned it had certain consequences. They got ready for it. In some senses that is right.

CHAIRMAN: In referring back to the bank example, I am trying to say that the fact that it is a public sector audit in New South Wales and it has a certain level of thoroughness it meant that the management was a bit more prudential perhaps than other banks.

Mr HARRIS: Yes, they could not fire the auditor.

CHAIRMAN: That trickles back to the decision-makers who are therefore more or less cautious depending on what they know to be the scope and thoroughness of the audit.

Mr HARRIS: I think so. It then begs the question: why are we contracting out? We could follow that down the line. We contract out in areas where it would be too expensive to do it and where we do not think the risks are very large. We are taking back some work we had contracted out. Then there are differences that do not relate specifically to the financial audit, one of them being compliance. We do not do enough compliance audits in the New South Wales office; in some respects I think we are too much just financial auditors. But that is an area of work that still distinguishes us. When we hit a compliance issue we stop—we stop if we are going through our financial audit, turn up a rock and something is there; the private auditors, so long as it does not affect the financial statements, just keep on going.

They might say, "There seems to be something funny to the management, but they do not have to do very much. We have to stop and unravel it all. Even so, we do not have a good enough approach to compliance. Then we go on to reporting to Parliament, something I touched on before, with respect to its effect on the audit. We then go into the area of special audits, which are extremely difficult and very vexing. As an aside, I am on the record as saying that I would not mind giving it up for something else so difficult

is it to do properly. We are not the same in many respects. I do not know to what extent people understand that. I think it would vary from person to person, from partner to partner.

CHAIRMAN: Is there anything else you would like to say about anything that has been raised or anything else you think is relevant?

Mr HARRIS: The one area you touched on this afternoon was the policy area. Perhaps it would be sensible for me to give you what I think is an example of policy; that is, any decision of the Minister, especially decisions that have effects that can be used for similar events. If a Minister says, "I want SRA trains painted blue", that is a policy decision. If the next week he says, "I want them painted green", that is a policy decision too. If a Minister says, "I want to depart from this policy at this time because of these characteristics", that is a policy decision. Typically, Ministers make hundreds and hundreds of policy decisions. That is a public servant definition of policy, but I think it is one that is shared by people who have worked for a long time in the Westminster public service.

It always seemed to me that there was a difference between policy and policy objectives. I have had quite a long discussion with the Government on this recently. For example, if we take CountryLink, the Government's stated policy objective is to transport New South Wales residents—it does not say, "Let's have trains running everywhere". It refers to transport and safely, efficiently and effectively. If that is the policy objective, one can look at how it was achieved and whether it was achieved effectively. In Victoria a good analogy—because it is a real event—is the Auditor-General saying that the cleaning of schools should be contracted out because it is as effective and more economical.

The then Premier said, "No, our policy is to employ people to clean the schools". The Auditor-General said, "No, surely your policy is to have clean schools. Then you decide that you will achieve that by employing people". He ran with that line and they contracted out the cleaning. It is as effective, cheaper and more economical. If the Government wants to say, "Our policy objective is to clean schools by employing labour", I think that in some sense that excludes me. If the Government says, "Our policy objective is to transport people by using trains", that is fine—that is its policy objective. But that is a very funny policy objective, of course, because there is no particular reason.

CHAIRMAN: To me there seems to be so much grief tied up in buying into those areas. I wonder whether the return, so far as the audit office is concerned, is worth the grief and agro. For instance, the example of the contract cleaners is very interesting. As I understand it, there is a clear policy distinction between the Opposition and the Government on this question. There is a policy wall. What is the return for all the agro?

Mr HARRIS: I have an answer to that: when I started in the public service in 1969 one of the first things I set my eyes on was tariffs. I do not think the tariff debate ended until 1993 when the Federal Labor Government did not employ tariffs as a political argument in the election. It took 24 years. I did not do it; but I was involved in it for 24 years. The tariff war started before I started in the public service, and it took a long time. I regard it as the most important decision that the Federal Government made in recent times.

CHAIRMAN: Is it the role of the Auditor-General to be involved in that sort of thing?

Mr HARRIS: Tariffs or CountryLink?

CHAIRMAN: Tariffs.

Mr HARRIS: I do not know whether it is or not. I have not given any thought to that. There are some arguments which are worth winning but take a long time to win. There is no doubt in my mind that there will be a big revolution with passenger trains in Australia.

CHAIRMAN: But to me, to get into that debate at any level, you would either want to join in the political debate formally or take it up with the transport department.

Mr HARRIS: The report was welcomed by some parts of the bureaucracy. It could be welcomed by the Government if it just happened to have that on the agenda—it did not. In some sense I try to extract myself from that. I say things that even Parliament might not wish to hear.

CHAIRMAN: A special audit of the Parliament would be a good start.

Mr HARRIS: It has been suggested!

CHAIRMAN: Whilst we have individual differences about particular policy issues—there are partisan reasons on some issues—the Government or the Opposition might welcome you with open arms. You are a credible voice in the armoury of debate which is pushing one line. Nevertheless, it is probably precisely for that reason that there are also big risks. On one area we all agreed; that is, pensioner travel. The question that kept coming back to everybody was: why buy into that?

Mr HARRIS: I can tell you why I worried about it. I am at the front of the age wave—being born nine months after World War II—and there is a whole heap of people behind me who will be retiring in the next 10 or so years. If grey power is so powerful now in distorting resource flows, they will be extremely powerful in 10 or 15 years, and very expensive.

CHAIRMAN: My response to that is: that is fine and it is a view that anybody is entitled to have in a society such as this, but it is the sort of view you put if you are running for office.

Mr HARRIS: Okay, then I say there is one area where this is visibly obvious because most jurisdictions, whether Labour or Liberal, do not allow pensioners to travel at peak periods at concessional rates. I actually did not answer the question; I only asked it. Why do we allow pensioners to travel at peak periods at concessional rates? Does anybody know why the Government has allowed that? They can say if they want, "We are doing this because the electorate wants us to do it". Fine. But if they are saying that they are doing it because the pensioners are going to the doctor or for some other reason, let us see the evidence. Somebody said that CountryLink was important because we subsidise city travellers so we should subsidise country travellers. In fact, only one out of every three people on CountryLink is a country resident.

One out of every three does not even live in New South Wales, and one out of every three lives in Sydney. If people say, "We are doing this for this reason", let us put a bit of sunlight on why we are doing it. Once people say, "That is our objective. We are doing this for electoral reasons", then I am out. But if they are saying, "We are doing this because we have a policy of transporting people efficiently, economically, effectively and safely", and they are not, as anybody will say they are not, as SRA will say they are not, then why does the Government not come out and say, "We are not doing it for this reason, we are doing it for these other reasons"? Do you see what I am saying? They are saying they are doing it for a reason that does not exist.

Mr JAMBRICH: By way of extension, if you look at the policy objectives and the statement all you will find, as the Auditor-General stated, is that the objectives were defined as transporting people safely, economically and whatever other words were ascribed to it, but there was nothing else to it. So in order to carry out the audit in accordance with the wishes of the Public Accounts Committee, and to do the audit and carry out the special audit in terms of efficiency, effectiveness, economy and compliance, we embraced everything. We looked at all the issues. That was one of the issues. There was nowhere a policy statement that would have either stipulated or stated as to pensioners or as to the use of rail. I suppose that is what the report stated.

Mr HARRIS: I was told that in New South Wales there are not many policy objectives for programs. I said, "Fine, if I see one I will say: there is no policy objective for this. Would it not be nice to have one?" I was told, "No, you cannot do that because that is intruding on to policy. If you say there are no policy objectives when the Government does not want there to be policy objectives you are getting involved in policy". That is a chapter of "Yes Minister" that has not yet been written.

CHAIRMAN: When it gets down to the question of definition, there is reference to policy objective and there is also reference to policy and there is, I think most confusingly, in practical terms a reference to policy directions and statements. This goes on in all governments and I think it is one of the worst things about public administration today that the media bear down very hard and unreasonably in relation to a lot of issues and Ministers react, often driven by the media. I suspect that in practical terms a lot of policy these days is made by press secretaries in conjunction with Ministers who are about to be hammered on the Alan Jones show or who have just been hammered on the Alan Jones show. It probably does not fit well into a traditional text of what should happen in a Westminster government. That is very much the reality and the pressure.

The question of where to find government policy is interesting. On the question of pensioner travel, as politicians we all instinctively went to a couple of press releases. We are pretty comfortable with the idea that when we have Brian Langton's press release on pensioner travel and Bruce Baird's one that they would provide the view of each side on the issue. Because we think that is the reality of the way policy and shadow policy—whether a Liberal, Labor or any other type of government—is made, that is what you are hitting against. Yet in terms of it being a policy objective which you would find in one of Max Moore-Wilton's filing cabinets as being the chapter and verse of what we do on concessions, it just does not happen that way.

The follow-on point is that precisely because it is in that type of hothouse atmosphere, that is exactly where all the aggro is. The action and reaction out of that environment at times can be quite hideous. At the end of the day you ask yourself: what is the point of buying in at that level? What are the cost and benefit of buying in at that level? We look at these public-private partnership things which we have just been looking at and say that what we, I hope, are trying to do on a bipartisan basis is to stress the openness of it. We say that these sorts of things ought to be out in the open but for public policy reasons other things should not be. Where they should not be, you should have the role of vetting everything against what from a public policy point of view ought to be made public. But consistent with basically just laying it out, the next level, which is the ultimate justification for a proposal in respect of which Government and Opposition might be at loggerheads about whether there ought to be light rail, a road or something like that, we say that they should fight it out on the hustings. If at the end of the day light rail is what the punters want, the Government goes.

Mr HARRIS: That is right, but they wanted tariffs, and probably they still do. We could reflect on the question today that they probably want hangings and all sorts of things. I suppose we are just trying to shed a little light on it. We do not make policy but we can shed a little light on it. But to answer your specific questions, yes, the legislation does talk about policy as well but you know that we have got that legal opinion that we sought in respect of HomeFund, which I thought was what the legislation said.

CHAIRMAN: I cannot recall it, but my personal feeling about the opinion was that it was not that clear.

Mr HARRIS: In my view it differentiated between policy objectives and how you achieve them. It is not clear because you can define something. The second issue is that if you say there is to be no policy, any decision by a Minister is a policy, so I am not allowed to look at any decision by a Minister. The third thing is that I do not think the Government is saying, "If it is not important or not controversial you can look at it even if it is policy, but if it is important or controversial and we do not want it on the agenda then you do not look at it". The Premier's memorandum 94/10 about a special audit, in our old understanding of the word, that we did on public sector housing, mentions the word policy four times. We commented on the old policy, we criticised the old policy, so the Government has introduced a new policy. He does not say, "Hey, you got into policy". If the Government wants to say that if it is controversial I should not comment on it, that is a funny understanding. Nearly everything that we do will touch on policy. It was Minister Griffiths' policy to train his corrective services people in their own patch.

Mr IRWIN: Does that mean that there is virtually no boundary at all? Where would you draw the line?

Mr HARRIS: No, the Government has said, "We want to subsidise New South Wales transport in country areas". Fine, let us subsidise it.

Mr IRWIN: But is there any point where you acknowledge something as being policy and do not go into that area or is there no limit?

Mr HARRIS: I do not think I have looked at a question and said, "That is policy. I am not going to go into it". I have looked at it and said, "That involves policy objectives. I am not going to go into that". But if I make rules about policy and say that there are different kinds of policies, I do not know what that means.

CHAIRMAN: It is sort of like things passing in the night. I do not get the impression that any area as such is off limits or should be off limits in terms of the quantification of costs or figuring out what the administration is like or doing right or wrong from an auditing point of view; it is the actual commentary that comes on what I think almost is perceived as the type of stuff that would otherwise be in a policy speech or ought to be said in Parliament.

Mr HARRIS: Now you have not really seen that since 1992. You are referring back to 1992. They were questions more than anything else. But I have stopped that since then. If you look at CountryLink, it says that buses take people closer to their homes than trains do. Buses are cheaper than trains. Buses are as safe as trains and there is no other reason that we can think of for not using buses except that people like trains. No, they do not—people like to have trains there. They do not like to use them. That is all very factual and, strangely enough, three weeks after we put out our report SRA consultants put out a report that said exactly the same thing. It will not change very much immediately but that is okay. People might start to think that trains are very expensive. I am talking about country trains, not city trains. Other people can build on that over time. We also made some other recommendations which we thought were quite sensible, such as that parliamentarians should not have gold passes because the accountability is very difficult, the CSO payments should be streamlined, and I think the Government has said that it is going to do that. I do not think that it took away gold passes.

CHAIRMAN: I have got mine in my pocket. I do not use it.

Mr HARRIS: A good question is what is the FBT on it?

CHAIRMAN: We know what they cost to replace. I guess there is no answer to any of this really. I think a good start would be having another look at that section.

Mr HARRIS: That is the section that is in Victoria, as we know from earlier, and that is the section that is in Westminster. Sir John Bourne is coming out in, we think, the middle of this year. We can have a chat with him. I do not think it causes them a problem as much as it seems to cause here. I discussed the Government's media response. The Government had not read the report when it responded to it, which I thought was unhelpful. If you have not read something, normally that is the response you give, especially as we had already discussed it. So it caught me quite by surprise. But this has happened to the Auditor-General in Victoria and the Commonwealth Auditor-General. It has happened here. It has happened in New Zealand. It has happened in Canada. I presume it has happened in the United Kingdom. I think that after a bit of sandpaper we learn to live with each other.

Mr COCHRAN: Do you think a peer review of the Auditor-General's office is necessary?

Mr HARRIS: I think it would be helpful. If I do not know certain things, I would like somebody else to use their experience to tell me about them as a kind of benchmark. So it would be helpful to me. It is probably necessary to do it because I am a monopoly. I have a great hatred of monopolies because they tend to get fat and sluggish.

Mr COCHRAN: My understanding of section 48A(2) is that the review is to examine ordinary practices and standards. We have heard that practices and standards are

established not only on the basis of Auditor-General office internal requirements but also the obligations of individual practitioners, professional accountants and so forth. What is to be gained in that over an internal audit? Is it the mere cost?

Mr HARRIS: I suppose you get the assurance that you have an audit office that is reasonably doing its job.

Mr COCHRAN: So it makes you feel comfortable?

Mr HARRIS: Yes. Why have external audits of the Sydney Water Board—because you want some assurance that the data you are reading is reasonably accurate. But they will or should help me in my management role, especially if they make recommendations as they have for the Commonwealth. It takes me three years to fire an incompetent person.

CHAIRMAN: We do not sack our staff at all, do we?

Mr HARRIS: You are better off than us.

CHAIRMAN: Do not get an enterprise agreement like our illustrious Speaker has negotiated for us?

Mr MITCHELL: Mr Robson spoke in evidence this morning about the benefits he saw from the two internal peer reviews, and he had an accurate description of those. There were internal benefits but they were from internal peer reviews. I think Mr Harris is saying that not only the office and he as Auditor-General will get a benefit, but the Parliament, being the major client, will get the greatest benefit because it will have the knowledge that we are operating efficiently, effectively and economically.

Mr COCHRAN: I ask the question I asked this morning and that I know the Auditor-General has been waiting for me to ask. I have an interest in this question because it concerns shooting the messenger and political consequences of that. Given that the Auditor-General and his office are often bearers of bad news, is any intimidation, overt or unintentional, perceived within the office? Do those in the office have a perception that they are intimidated by the political consequences of delivering bad news, and does that affect the outcome of your deliberations? Does an outside audit have the capacity to identify those problems if they do exist?

Mr HARRIS: The answer to the latter question is no, it is not generally conveyed by a medium that would allow others to pick it up. I would say that is generally true. Yes, we do get pressured unreasonably. I am occasionally told that I am going to be sued for defamation on draft reports.

CHAIRMAN: Is that a legal possibility?

Mr HARRIS: I would have a certain amount of privilege, but it would be possible if I acted capriciously, I suppose, or if I made a mistake, though a draft would have more privilege than most other things. Yes, they have done that. They have refused to recognise the warrants of officers, they have required all questions to be written down, and they have withheld access to documents. But that is not very often. It would be unfair to say that occurs other than incidentally. I suppose the most interesting issue is that the Government thinks I am an external auditor for the Government and am here to comment on the Water Board or the RTA or the SRA. But once they start talking about the Government, that is wrong. In a sense, they regard it as wrong because they think they are accountable to me and they do not want to be accountable to me. I keep telling them they are not accountable to me, that all I do is inform Parliament. They say, "Well, you make the judgments".

Mr COCHRAN: Taking a more positive approach to your role, the departments largely would see you performing a valuable complementary service in maintaining credibility, as opposed to the office being seen as a policeman?

Mr HARRIS: Ninety to 93 per cent of our resources go to writing opinions on financial accounts. If they were not paying me they would be paying Ernst and Young to do it. There is no particular hassle about it, unless a qualification is involved. The other areas of probity and compliance, special reviews and special audits are the areas that are very testy.

CHAIRMAN: I have been reading the volume 1 report. You know I am a Macquarie University councillor?

Mr HARRIS: Yes.

CHAIRMAN: I read in appendix 2 that in relation to the Macquarie University professorial superannuation scheme financial statements for 1991, 1992 and 1993 have not been received. That is not very good, is it?

Mr HARRIS: No. You will see there was perhaps as long a list last year. But they are getting there. They will get there. This issue is unique not only to Macquarie University. It has been the subject of non-rendered accounts for a number of years.

CHAIRMAN: According to appendix 2, the only other in the hunt for that length of time is the University of New England.

Mr HARRIS: This year, yes. I would think that some months before that was put to bed there would have been other responses. That has not been drawn to my attention as an important matter. Another issue with Macquarie University was that one of its subsidiaries had unrendered accounts.

CHAIRMAN: It was not mentioned in the narrative so I thought I would let it go.

Mr HARRIS: I do not know the details other than that. They have been in good company. We are hoping that they will get out of bad company.

CHAIRMAN: I have made myself sufficiently unpopular up there perhaps to leave it alone.

Mr HARRIS: They got a clear opinion on it.

CHAIRMAN: They have an audit committee in also.

Mr HARRIS: Yes, which is quite effective.

CHAIRMAN: Is there anything else you want to raise in connection with the review?

Mr HARRIS: My colleague this morning said that we do not beg for money. That is true. We have some limits on us. This is a very difficult area. Obviously I have to be accountable and subject to some controls, but some of the controls were quite odd, such as SES controls. There is a related political issue, but if the Government says because of that political issue—and it has not yet—that SES numbers cannot grow any more, and we take on four or five area health services, that means they are saying they cannot necessarily do them, perhaps. Those kinds of issues are reasonably tractable under current arrangements. As to performance audits, you have made a recommendation relating to budget, and we will see how the Government responds to that this year. You have already done a review on special audits. I am not sure of the time length of this review, but presumably you would see it encompassing special audits again, which may affect your own recommendation to have another special audit review a year after that. So that is another issue you might have to look at.

CHAIRMAN: That is a good point. There is no reason why that could not be wrapped up in this review.

Mr HARRIS: It is still probably too early. We are just hiring the SES now. This fiscal year we were told that the \$500,000 would be built into a base. The rest of the time it was just going to float around somewhere. But you have the indicative listing.

CHAIRMAN: You have prompted my memory on the extent to which a public accounts committee should get involved in draft reports and programs of work. We have not actually said so in a report, but reading the Committee's collective thinking we do not think it is right to have operational type issues. The Committee appreciated the note about proposed briefing for volume 1, but unfortunately it did not happen. What is your view about getting involved in the draft?

Mr HARRIS: The draft relating to the RTA was given to you so that you would know our thinking when it came to preparing your own report, not so much that you could advise us on what our thinking should be. It is common practice for us to give drafts out to a number of people.

CHAIRMAN: I appreciate that in the context of those who have a stake in the report. I understand how that operates. As it has turned out, none of us have looked at that report. Perhaps the ICAC analogy is not appropriate. You have a tradition, almost ordinary practice, to put out a draft report. Perhaps that makes the difference.

Mr HARRIS: You do not typically get drafts of special audits.

CHAIRMAN: No. I do not think Mr Temby used to send out draft reports.

Mr HARRIS: We do not either, to you.

CHAIRMAN: He did not send out draft reports to people substantially and directly interested.

Mr HARRIS: No, he did not.

CHAIRMAN: In that sense it was different. I think the Committee takes the view that even though it might go to those who are substantially interested and directly interested, as in your case, it was something we should consider.

Mr HARRIS: I suppose it is unusual as you are working on the same subject. We thought it might be easier for you to know; if you do not want to know, that is fine.

CHAIRMAN: The way we handle that is basically to take the view that we do not want to double up on that work. We felt reasonably comfortable with what we were recommending, and it was highly unlikely it would impact adversely.

Mr HARRIS: Some Auditors-General in New Zealand and in the United Kingdom spend a lot of their time with their parliamentary committee choosing special audits. They do so because they want Parliament involved in the next process. In other words, if Parliament owns the topic it will do something about it; if it does not own the topic, sometimes it falls in between, especially in this State, where reporting requirements of government or for responding to requirements are so lax.

CHAIRMAN: The Committee I have been involved with, which Jim Longley was involved in before me, has taken the view that we try to do things that we feel reasonably comfortable with so that at the end of the day we have a result and there is a strong chance we will be bipartisan. The only example where we did not achieve that—and it is not something I want to repeat—was on Port Macquarie. At the end of the day I do not think there was a level of calm contribution that was ultimately effective. On many occasions your concentration is on the very things that we tend, because of that approach to our work, not to be involved with.

Mr HARRIS: That is fine. I do not mind that approach.

CHAIRMAN: Do you understand what I am saying?

Mr HARRIS: Yes. I do not mind that approach. What we should be careful of in any review of the Act—which is another topic—is to have an approach which more clearly allows the Government to respond to your report, and which has some nexus between my reports and a system that involves you. Like the JPAC where Auditors-General reports, PAC reports are subject to a process, and I know that some of your staff have been thinking about—

CHAIRMAN: There are recommendations that we have put in to that effect. We follow on all the reports that you have done.

Mr HARRIS: I am trying to think of some which have languished for no particular reason. The public sector housing report just emerged, so that was fine.

Mr JAMBRICH: Basically, what was just described was our understanding as well. That is why we sent you the program after we had finalised it. Quite clearly, after we discussed it with respective chief executive officers we also advised the Ministers so that you could get the program. At the same time, we thought it was important for you to see what we had on the list—for you to understand our way of thinking—so that you would see the type of projects being undertaken.

CHAIRMAN: We appreciate that. I think that is probably the right sequence.

Mr JAMBRICH: At the end you will get our reports—not in a draft form but in a final form. Let me raise one more issue. Mr Harris has already referred to combining the special review, which you are scheduled to do next year, and this one. Quite

obviously, from my point of view, I would welcome that. Earlier, you and Mr Harris touched on how far public sector auditing should go in relation to financial statement auditing. You might just like to consider, in relation to the public sector, whether the auditing standard should be extended to include some of the probity and other questions that may not be applicable in relation to the private sector. The rationale for that in relation to the private sector probably would be that you invest your own money at your own volition. In relation to the public sector, the public do not really have that option. As a consequence, the accountability factor in respect of these entities ought to be somewhat greater than the private sector. The only thing is that it requires more work and there would be a cost differential. You might just like to consider that.

Mr HARRIS: That actually reminds me of an issue of difference as well. The private sector does not work in monopolies. It works in a market environment. When it is looking at assets those are marketable assets. Our audit clients are all monopolies and it is extraordinarily difficult for us to determine the value of the dam, the pipes, the roads or the power stations because accounting is moving more towards economic measures. The monopoly status of these organisations stuffs up the measure. I do not think the private sector understands that either.

CHAIRMAN: Should we be looking more towards some other auditor-general doing this job rather than the private sector?

Mr HARRIS: I had discussed with auditors-general the fact that some of them might collectively provide staff for me in September to do an audit at my own cost. I am comforted by the fact that, if they provided the best of their officers and the audit was headed properly, they might be able to do a good job. All those questions just rely on very fine judgments.

(The witnesses withdrew)

The Committee adjourned

MINUTES OF EVIDENCE

TAKEN BEFORE THE

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO

PEER REVIEW OF THE AUDITOR-GENERAL'S OFFICE

At Sydney on Tuesday, 24 May 1994

The Committee met at 8.15 am

PRESENT

Andrew Tink, MP (Chairman)
Geoff Irwin, MP
Terry Rumble, MP

JOHN CASEY TAYLOR, Auditor-General for Australia, [REDACTED]
[REDACTED], Australian Capital Territory, and

WILLIAM GEORGE NELSON, Acting National Business Director, Financial Audit,
Australian National Audit Office, [REDACTED]
Australian Capital Territory, both sworn and examined:

CHAIRMAN: Do you both acknowledge receipt of a summons signed by me?

Mr TAYLOR: Yes.

Mr NELSON: Yes.

CHAIRMAN: The Committee is inquiring into how to organise a review of the Auditor-General's Office in New South Wales, which it is required to do on a regular basis under section 48A of the Public Finance and Audit Act. The Committee members thought it appropriate to look at what should be done at this stage by talking to some of the people who have already been through a similar exercise. Will you give a general comment on section 48A, which I understand you are familiar with, as to whatever the Commonwealth experience has been with a same or similar exercise.

Mr TAYLOR: Section 48A is clearly narrow. Your Committee can give instructions and my advice would be to leave it to the reviewer or reviewers to roam as they see most appropriate within a scope. The Committee would not want the equivalent of a major royal commission lasting three years.

CHAIRMAN: Is it important to have a time limit? Should it be an engagement that is limited in time for report back?

Mr TAYLOR: Yes, I would think so, absolutely. On the powers and functions, we think they should have the powers of an Auditor-General, there should not be any constraint on what they see, what they can get at. That is so in the case of this Committee. On the boundaries, I have already said that I think they should be allowed to raise with the Committee areas they think are important. If it would go beyond the bounds already set, in either time, money, methodology, financial statements and professional development, I am inclined to look at the best private sector practice. Also, we are putting some time and attention into seeking to understand what the Parliament wants over and above a normal commercial private sector audit in such areas as probity, ethical approach, fraud, et cetera.

It is quite difficult in the Commonwealth, as you know, in that we have had a very thorough review by the Joint Committee of Public Accounts in 1988. The recommendations of that review were quite wide-ranging and have not been implemented by the current Government. We are waiting for the spring session when legislation will eventually be brought in, only because that was a way of avoiding a Senate inquiry in a particular problem case for the Government. I cannot say that there is any great support for the Australian National Audit Office. Our experience is not necessarily representative. Of course, this was the experience of the two previous Auditors-General, not only my experience. We have been given a very thorough review by independent auditors from the private sector, going back to Mr Cameron from KPMG through to Michael Sharpe from Coopers and now we have Mr Boymal from Ernst & Young.

It has rebounded on the Department of Finance, if its intention was to tie us up and to embarrass us. The recommendations of those outside independent people have largely reflected, in substance, the recommendations of the Joint Committee of Public Accounts and also the recommendations of the Auditor-General of South Australia, who was also brought in immediately after JCPA reported to try and cut down the number of resources that were being suggested for us. He also suggested similar reforms to the JCPA. Obviously I would believe that the sort of review that we have had, which is a constant presence—not every day, but they are alongside you to a certain extent—has worked well. Some of the misconceptions about the role of the office, the way it goes

about its work and the vision that we seek to achieve, are fully understood by the private sector.

Public sector work is Byzantine, it is unlike the commercial sector. The signals are mixed and confusing. It is not the sort of thing that one can review in three or six months and then come back three years later and say they are right up on the learning curve. It is just not true. There is a tendency for Auditors-General to be masochistic in that they are reluctant to say, "No, I am being reviewed too much", which of course is the cry from all the auditees. In my case there is no comparable body in size and budget which is reviewed as much; that is with reviewers. Apart from that every report we put out is reviewed. It is reviewed by the central co-ordinating authorities, by the press and by parliamentary committees, and sometimes it is quite difficult.

For example, the submarine report where private consultants were against us. The submarine corporation was against us. Elements of the committee were against us. I think we will be proven to be correct on the facts. It is hard. You need friends wherever you can get them. You, as a Committee, are obviously the Auditor-General's friend. I think the Committee members have to ask themselves whether the people who say, "Yes, effectiveness, efficiency, economy, let's give them the works as wide as you can, as often as you can, isn't it beaut", sometimes may have an ulterior motive. If the Auditor-General is convulsed by a continuing invigilation, they are less likely to be doing it to others. Inevitably there will be something embarrassing in their cupboard which can be used to discredit them.

I strongly believe that when an Auditor-General comes in he should be given a fair amount of rope, not necessarily to hang himself, and also a lot of support from the Committee. An Auditor-General should be talking a lot to parliamentarians and should be sensitive to what parliamentarians see as their needs. An Auditor-General should also be given trust, loyalty and support. To be whizzing in too often with inquiries is counter-productive. So, where do I come out? Obviously, you have to have a review three-yearly. I think you are doing the right thing in testing the water in the way you are. I do not think you necessarily should accept that you have to go for broke and review absolutely everything. My advice would be to have a mixture of private and public sector, to accept the subsidisation by the private sector of their time. In fact, they may even want to offer it free as a public service for the honour of working with an Auditor-General and learning more about the public sector because there are useful spin-offs by way of current knowledge and future results flowing from that.

You might be surprised at the willingness of the private sector to take such a positive role. The reality is that modern government is so complex and so difficult to unravel for parliamentarians, let alone the people in the street, that we need all the expertise that we can to be applied to particular problems. We do this a lot. For example, in the Commonwealth Bank we have given up the idea that we know all about Treasury operations. We get the best people we can find elsewhere and use them ruthlessly. Similarly, with aircraft leasing in Qantas. With the seven volumes of legal papers that are signed over the Irish Sea, which change every time a plane is leased, why should we specialise in keeping up-to-date with that? It is ludicrous. We are in support of a proper relationship with the private sector.

No offence to politicians, but government is too important to be left to the politicians and bureaucrats. I am a bureaucrat, so I am being open about that. We should involve others in it because nothing breeds suspicion more than to not know what is going on. It is a support for better government. Where I come out is this: Auditors-General are not terribly important. Why is so much time and attention paid to what is a minuscule, infinitesimal part of the budget—in fact in your case probably not even on the budget—when all that the Auditor-General can do is report? There is no decision-making in the hands of the Auditor-General. All that the Auditor-General does is support the Parliament.

I think you have a very strong aid to the better use of your own parliamentary scarce time; help the Auditor-General. The best way to help him is to get two people who have other staff available and cut your costs as much as you possibly can by using that combination of expertise in a helpful way to the Auditor-General. That is all I want to say.

CHAIRMAN: I want to understand the difference between the New South Wales and the Commonwealth situation. When Mr Sharpe gave evidence before the Committee I got the impression, without it being fully formulated, that there is a standing role for Mr Sharpe over a period.

Mr TAYLOR: Yes.

CHAIRMAN: It seems to have two elements, the first is to conduct a review from time to time and the second is to audit accounts on a regular basis.

Mr TAYLOR: Yes. He does both. You are quite right.

CHAIRMAN: I am not quite sure how that works in comparison with New South Wales. As I understand it New South Wales has someone who signs the accounts every year and they become part of the annual report.

Mr TAYLOR: Yes.

CHAIRMAN: Then there is the review process—that is entirely separate—that occurs on a regular basis, but there is no suggestion of there being any standing group to do the job.

Mr TAYLOR: I think it is horses for courses. I would never suggest that what might be appropriate for the Commonwealth is appropriate anywhere else and I think there are real signs that different Auditors-General have different ways of doing their work and it might be more appropriate to have one thing here and one thing there. In our case I am very comfortable with what is happening. It has not really worked in practice outside the audit office that financial statement auditors are a source of information for performance auditors. I always thought they would be, but they do not seem to be sparking a lot of ideas from the financial statement work that can later be followed up by performance auditors. That may be changing.

CHAIRMAN: Does Mr Sharpe's firm do both jobs?

Mr TAYLOR: Yes. Absolutely. It did.

CHAIRMAN: But different people doing—?

Mr TAYLOR: Yes. My recollection is that Mr Sharpe and Marc de Cure from Coopers & Lybrand were particularly involved in the financial statement audit and Mr Sharpe and other selected people from Coopers & Lybrand, and probably also Marc de Cure, were involved in the efficiency side of it. Even though it is unusual, I thought there were certainly economies of scale involved, though my colleague may want to bring me more up-to-date with what is happening, to have a financial statement auditor say, "There is a great idea to review this". They are usually very focused on the attest side of things.

In the case of Michael Sharpe and, in particular, Ernst & Young they pinpointed some real difficulties in our financial information systems as a result of their financial statement work and also in discussions with me more broadly about where I wanted to go in the office. I found it extremely helpful to have the one group do both. I should have looked up the legislation before I came. I do not appoint, nor does my committee appoint, the external auditor; the Minister for Finance does that. It is the Minister for Finance's man. I do not think that is a good idea. I think there are potentially real problems there. As it turns out we have had problems, in the case of Centenary House, with who should do the audit, but I will not bore you with that.

My recollection is that Mr Sharpe decided that he would do three efficiency audits in five years. There is not one group of 480 people in the history of the Commonwealth who has ever had one audit that I remember, but not three in five years. Maybe that is a bit of overkill, I do not know, but maybe we should be doing three audits in Treasury every five years. Perhaps that could be arranged, but we will see. I am pleased that

Michael stayed for five years because it took a lot of time for us to really understand each other and where everyone was coming from, and for him to really understand what we were doing and how we did it.

Mr NELSON: I would only add to that that in terms of the five-year tenure for Michael Sharpe the start-up costs in terms of getting the knowledge is significant. It would take the first two cycles to really get an insight into our office, then you get the benefit over the next three cycles out of that five years and I think the five-year cycle was far better and beneficial to us overall.

Mr TAYLOR: We have conducted some major audits, some of the biggest in Australia. It is not easy to conduct a financial statement review of Telecom—18 separate business units, for example—the Commonwealth Bank, which is worldwide, or Qantas, in the days when we were the sole auditor of Qantas. We could go on, 400 different statements of a very significant degree.

CHAIRMAN: Another issue was the fee, if any, that should be offered or sought. In light of some of the recent work we have been doing in other areas, there is a bit more comfort in putting it out to the market and paying good money on the basis that that is the market's response to the job on offer. To do something for free can raise a few perceptual problems.

Mr TAYLOR: Those problems are there anyway. The reality is that to audit an audit office, particularly in a performance sense, is to open an enormous lid on what is going on in the bureaucracy. What do you do if someone is already the internal auditor of the particular body? Do they then audit that? No, they do not. We watch that very carefully. What if they were to look at the Treasury operation in, say, the Commonwealth Bank and they are a potential private audit group that becomes privatised? It is an enormous minefield whether they pay the full price or not.

I agree with you, and our attitude to audit tendering is that we do not particularly like it. In fact, we do not like it at all, but how can one assess what is a fair price? But we do not necessarily accept the lowest tender. I agree with you completely, one has to look for quality. Quality is what is important. That is what worries me a little about the Finance Department or the normal attitude of Treasury to auditing. They seem to be very obsessed with cost benefit, but they do not seem to worry too much about quality. This is the 1990s. It is the decade immediately after the 1980s when \$6 billion was lost to public funds through lack of public auditing.

CHAIRMAN: We are putting up a motion on internal audit to the Australasian Committee of Public Accountants at its next meeting which, hopefully, will be of some relevance. One of the committees that can remain nameless for the time being has written back saying it thought the opening of the draft statement of New South Wales overstated the problem.

Mr TAYLOR: On internal audit?

CHAIRMAN: No, overstated the problem of the financial fallout of the 1980s.

Mr TAYLOR: Yes. I have seen a ridiculous suggestion that the cost of auditing is so high that it is dwarfing the cost of the 1980s. That is just nonsense. It just cannot be supported, even with arithmetic. But what would have happened if there had been no auditors at all?

CHAIRMAN: The section talks about a reviewer. Under the Interpretation Act "a person" can mean people, plural, but it goes to the question of how one would do it if one were to have some type of joint exercise involving both the private sector and the Auditor-General from somewhere. How would that work? I think it is what you are suggesting we might look at, a joint effort.

Mr TAYLOR: Yes, I think it is worth suggesting.

CHAIRMAN: How would that work?

Mr TAYLOR: I think you would have to pay the expenses of the Auditor-General, but it would not be a hefty fee. I understand your sensitivity about not charging, and you are probably right, but I am merely, semi-mischievously, pointing out that I

believe that a number of people, who are extremely well paid as things stand, would be prepared to do it out of public spirit.

CHAIRMAN: Can I get very cynical for a moment? A lot of loss leading goes on around town to get work and the perception may be that that is what this exercise amounts to.

Mr TAYLOR: It may well be, but—

CHAIRMAN: I would be more comfortable with an approach such as, "Here is the job. Please put forward a proposal if you are interested. Tell us what you—"

Mr TAYLOR: One has to make some judgment about the quality of the man, but I would not press that. It is not difficult to get a working relationship between the public and the private sector. Mr MacPherson, the South Australian Auditor-General, and Mr Boymal were working out their own arrangements for doing a review of Centenary House, for example. That is not a problem. I do not think one should be too prescriptive about it. I would give two requirements. One is a total budget and a time and the second is that they could each report separately on any question if they disagreed and could come back to the committee at any time to talk to it.

That puts a lot of pressure on both of them actually to be sensible and to compromise because nobody wants to come back to a committee with a different story. I am a little bit reluctant to have peer review in the sense of Auditor-General reviewing Auditor-General. If it is State on State maybe that could work, but I still do not like the idea because it looks a little bit too much in club. In the case of the private sector where there is peer review, it is usually within the particular company—in fact, it is only within the particular company and you might say, "Well, what sort of a review is that?" The reality is that it is a very harsh one because they are liable for the mistakes of their partners. So peer review can work reasonably well there, but I am not so convinced that it will work as well in the Commonwealth without a private sector partner involved, if for no other reason than merely appearance. I think Auditors-General who are particularly powerful, in the sense of being able to report and look at anything, have some standing in the community and have to be above suspicion. That is why I was the one who said there should be an inquiry into Centenary House and when nothing happened I did something about it myself.

CHAIRMAN: Another slight variation on that idea is to have someone actually doing the review and a group to provide advice from time to time to the committee.

Mr TAYLOR: Not a bad idea.

CHAIRMAN: We tried that sort of thing with the special audit review and there was a professor from Sydney University, Professor Fraser?

Mr TAYLOR: Yes, David Fraser. I know the name.

CHAIRMAN: I think we had some people from your office.

Mr TAYLOR: Yes.

CHAIRMAN: They met on two or three occasions at various times during the job and the Arthur Anderson people met with them and gave a progress report. They then went back and did some further work and so forth. That is another way.

Mr TAYLOR: It is another way. It is potentially more expensive and it is also more tedious but it does provide a more consensual community view of what is a very difficult area. You remind me that the United States Senate Committee on Government Affairs contracted in May 1993 the National Academy of Public Administration to produce a study named, "Examination of the role, mission and operation for the US General Accounting Office". It was to report on 28 February this year and it will report in a few days time, on 31 May. That is an entirely different thing. That is after a period of many years to have a fundamental root stock, and whatever, review of that office. Now, you cannot. You have to do it every three years so maybe at some time that will have to be done as well. There is one point that I should have mentioned but I have just forgotten it.

CHAIRMAN: The other issue I want to touch on was the question of scope. I had a view, as I always tend to do, that you take the Act and have a fairly narrow view of

what the Parliament wants. I guess that is the legal approach, but it surprised me that the strong view of witnesses last week was that there ought to be a performance review and in general terms the Auditor-General's Office should be, for these purposes, treated in the same way as the rest of the public sector.

Mr TAYLOR: A review every 20 years? That would be treating it the same as everybody else, or with the Commonwealth, every 40 years. This is not right. They are not treating the audit office like everywhere else. What they are doing is giving it to them in spades. Now Auditors-General say, "Yes, we have got to agree because that is the way the system is". I think 48A is nonsense to be quite frank. What if you had some idiot Auditor-General who brought in a number of standards that were so anti-diluvian that it was ridiculous, but he met them all. You would tick it, great, isn't he wonderful! Of course you have to go beyond that. It would be stupidity to just do that.

Look at what I am doing. I have brought a partner from a private firm in to work with us running the Telstra audit, the Telecom audit. That is benchmarking, that is reviewing, getting in. We brought in another partner from another private firm to benchmark our core government auditing. He is not reviewing us; he is sitting in the office for two years—no adjectives. That is benchmarking, that is reviewing, that is getting to know what is happening in the office and that is helpful. What Tony needs is time to get his act together and some help in making sure that he is doing it in a way that is consonant with your objectives as a committee because, after all, he exists for one reason only—maybe one or two more—to help Parliament, to support the Parliament in a very difficult and complex task. The most complex business in Australia is government, not BHP, not AMP, not even the banks—it is government. It is the most difficult task that men and women have to do and Auditors-General are a window into that complex world, a window that is not available anywhere else. There is no comparison with private sector auditing, none.

CHAIRMAN: You speak very forcefully about all the points I was trying to make last week, without success I might say.

Mr TAYLOR: I am very unsuccessful too, so we ought to start a club, only I do not think you are unsuccessful. I am.

CHAIRMAN: I was making very heavy weather last week with the proposition that there were significant differences between private and public sector auditing.

Mr TAYLOR: But there are. They are palpable.

CHAIRMAN: I was having a lot of trouble, and also on this question of the width of the review.

Mr IRWIN: In some ways—and certainly in regard to your last point about what you actually get from the review—generally speaking the perspective is that we see what everyone else gets out of the review, but in terms of what you get out of the review compared with the types of things you have mentioned such as having partners in the office and so on, what do you get out of the review and what would you see as a better way of getting just that in terms of the operation of your office.

Mr TAYLOR: Maybe I will surprise you but I think I have given enough indication of this answer. What I got was comfort, and I think that is what Tony is looking for as well. What I got was one of the top people in Australia, supported by one of the best firms in Australia, giving me their advice, their insight into how I could do my business better. I think it worked particularly well because we quickly developed an environment of trust, partly because I did not try to close them out or do what a lot of auditees actually do—not all of them—but some auditees do and because I said, in effect, "If you have got a better idea than I have got, I will have implemented it before you write your report". It was seen as a partnership and I got a lot out of it, I really did. Do not forget I am not an auditor. I needed a lot of support in just reviewing whether the advice I was getting from within the place was what I thought should happen. You can only go so far on commonsense—actually you can go a hell of a long way on commonsense.

Interestingly, if I could just make the comment about the reaction to auditing, the very good managers in the public sector love auditors. Do not believe they all hate auditors; they do not. They do what I do and say, "Please tell me what you think I am doing wrong. If I do not agree with you, I will fight you to the death. If I do agree with you, do not bother to write it in the report because it will be done"—great—and we found that with government business enterprises in particular, particularly the private sector people on the government boards, they see us as manna from heaven because they do not want to be liable and we have a reputation, as Tony's operation has, of absolute integrity. We have the protection of Parliament and we are able to take on people sometimes, and that it is very difficult for the private sector to do without losing business. To their credit a lot of private sector people have lost business rather than do the wrong thing, but we are able to do that. The combination of the two, the way we are working with the private sector, has allowed us to develop the best of both, the best from both.

One of the important things that Michael Sharpe did, as later happened when I got to meet more and more of the private sector people on the boards, was that he reassured me about the private sector. I realised that not all of them had audited Lawrie Connell and not all of them would have done it that way if they had; that there is a lot of integrity as well as expertise there. That was a very necessary thing for me because my predecessors were against the private sector because they did not have a high opinion of them. In a way it is learning to live together that helps. I have got a lot out of it.

Mr IRWIN: But you remain critical of the frequency of reviews and, I gather to some extent, the demands of the people who set those reviews in place?

Mr TAYLOR: I do because I am sceptical about their motives. But being an Auditor-General it actually does not worry me because I know that I have got so much cultural change still to drive through the office that I need all the help that I can get and outside, independent reviewers who know that the auditee is prepared to say, "Yes, I will buy that; I will try and do that" are a very great help but yes, they do overdo the review. In part it is because I think committees do need a bit of reassurance. Nobody wants a J. Edgar Hoover as an Auditor-General. It is always good to have a bit of review of them. It is a very powerful position. I think people have a right to say, "Hey, gosh, when is enough enough?"

In my case, how many reviews have I had and they still have not done anything about them? What is the point in having another 20? Because I can guarantee you that anybody I get into the office to review us, if they sit and listen they will be converted because the facts are there. How many more times do we need to go through it? Until they can find something wrong? We can tell them what is wrong. The difficulty is fixing it. He knows what is wrong [indicating the Auditor-General for New South Wales in public gallery]. He just wants somebody in to tell him so that he can say that it is so. He can tell you. It still might not work. It does not work in my case.

Mr RUMBLE: What would your opinion be of an Auditor-General being a reviewer from outside Australia, for argument sake?

Mr TAYLOR: A waste of money. I do not know who is the best public auditor in the world. We pick and choose. Canada had a great approach, in my view, to the way they selected particular projects, project audits, and I unashamedly stole their matrix and am using it. The National Audit Office has a particularly pellucid style in writing reports, and we in our own less gifted way try to do ours in a more understandable way. The Scottish office is particularly good, but Australia is different and Australian States are different. It would be silly for me to go up and review Queensland.

Mr RUMBLE: The United Kingdom Auditor-General and private people could sit in on the meeting and make a joint report.

Mr TAYLOR: I think they would be out of their depth. When I went to live in America the most sensible advice that was given to me was, "Just because you can read the street signs it does not mean that you are not in a foreign country".

Mr RUMBLE: You have to understand the culture?

Mr TAYLOR: Absolutely! We are different; by God we are! And they know it! If you just want a show pony out here, great, but we have plenty of good people ourselves, public and private.

CHAIRMAN: There is actually quite a good example of that, not in the auditing area but in the area of police. We had a Canadian mountie in New South Wales as Inspector General. He is a very nice fellow and I dare say that he was a first-class senior police officer in Canada, but in New South Wales he was just not in the hunt. He was swimming in the wrong pool. It is a totally different situation. He just did not come to grips with the situation.

Mr TAYLOR: I have to say, in fairness, that Frank Blount coming from America for Telecom was a marvellous thing. But that is different; he is running a business.

CHAIRMAN: That is the point you are making. It is partly due to the substantial differences between the public sector and the private sector in this country. Transferring somebody from a private bank in America to a private bank in Australia is one thing, but transferring someone to the public sector is quite another thing.

Mr TAYLOR: Yes. Public sectors are so different. I was chairman of the international organisation and I am still on the governing board. I know a lot about what is happening in France, Germany, the United Kingdom and China and I am close to the Japanese and the Chinese. Iraq, Iran and Israel share common principles with us, but we do everything differently.

CHAIRMAN: We are touching on an area that is of great interest to us, that is, the question of standards. We have been looking at internal audit standards and we have had a bit of a fight with Mr Abba and other people. There is an interesting question concerning internal audit standards. On the one hand we need as much common ground as possible around the world because businesses from one country need consistency in another. But on the other hand local conditions need to be taken into account. The best example we found is the Independent Commission Against Corruption in this State. Any internal audit in the public sector would have to have standards to be able to take into account issues raised by the ICAC. Yet you would not find anything like it in any jurisdiction in Organisation for Economic Co-operation and Development countries. To that extent it appears as though something has to be specially designed to cater, for example, for things that are defined as partial conduct. There is a great reluctance to do that, but it appears to us that, for better or worse, the real situation has a direct impact on internal audit. But we are not sure how you work all that out.

Mr TAYLOR: It is not hard, unless I have misunderstood. I am chairman of the International Audit Standards Committee. I have been chairman for about four or five years. Some of our auditors-general have been Cabinet Ministers, so how independent are they you might ask? Yet we have auditing standards that have been accepted by all of them. It has taken years but we have developed certain principles that we believe are important. As a world organisation associated with the United Nations we have all put our mark on it. But we say they are guidelines; they are standards to be aspired to. We accept all of them and we apply all of them, but others will pick and choose. That is better than having people saying, "We do not agree with any standards at all", or, "We are not going to use these standards". We had a number of difficulties with courts of audit, which are quite different—the Latin-American and European audit courts—yet we were able to successfully resolve those difficulties.

CHAIRMAN: What you are saying is that that is almost an acceptance that there are local variations that need to be catered for?

Mr TAYLOR: You have to. The world has not been made from the same cookie cutter. In Beijing we actually had sitting in the same row representatives from Iraq, Iran, Israel, Jordan and South Africa. At the time the Iraqis were at war with the United States. We operate through all the wars and all the rest of it. We keep talking and we get results.

CHAIRMAN: There would not be anything special about the International Institute of Internal Auditors in this regard? It is very proud of its international standards.

Mr TAYLOR: I do not know why it could not do this. We would give it help if it wanted help. We would be very happy to do so.

CHAIRMAN: Again we have to accept that there are variable local conditions which have to be catered for?

Mr TAYLOR: You have to if you are a profession.

CHAIRMAN: If you are disposed, as I am, to professional bodies doing this sort of work rather than governments, you would then look to the professional body and say, "The ball is in your court. You need to work on some guidelines".

Mr TAYLOR: Yes. William Bishop is President of the Institute of Internal Auditors, in Florida. That institute, which conducts peer reviews, will even conduct peer reviews of external auditors. There is a large and active internal audit operation. If we can help you in any way we would be happy to do so informally. I might have gone a bit around the traps, but I think it is really for you to select from the smorgasbord what you think is important. If there is any supplementary evidence or help we can give we would be only too willing to do so. We wish you well.

(The witnesses withdrew)

(The Committee adjourned)

ISBN 0 7310 2162 2