



LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: [Annual and financial reports 2016-2017](#))

Members:

MRS V DUNNE (Chair)
MR M PETTERSSON (Deputy Chair)
MS B CODY
MR A COE

PROOF TRANSCRIPT OF EVIDENCE

CANBERRA

TUESDAY, 14 NOVEMBER 2017

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Secretary to the committee:
Dr B Lloyd (Ph: 620 50137)

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents, including requests for clarification of the transcript of evidence, relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Legislative Assembly website.

APPEARANCES

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Amended 20 May 2013

The committee met at 12.44 pm.

Appearances:

ACT Audit Office

Cooper, Dr Maxine, Auditor-General

Sharma, Mr Ajay, Acting Director, Financial Audit

Stanton, Mr Brett, Director, Performance Audits

San Miguel, Ms Rosario, Acting Principal, Professional Services

THE CHAIR: I open the second public hearing of the Standing Committee on Public Accounts inquiry into annual reports. Today we will be hearing from the ACT Auditor-General and her officers. Welcome. Are you all aware of the pink privilege statement?

Dr Cooper: Yes.

THE CHAIR: Auditor-General, would you like to make an opening statement?

Dr Cooper: Yes please. In 2016-17, concurrently with focusing on our core activity of auditing, we also gave priority to implementing the recommendations from the independent strategic review of 2016 undertaken by Mr Pearson. Although the review concluded that the audit office is achieving its legislative objectives effectively and, in so doing, it is efficient and in compliance with the Auditor-General Act and other relevant professional audit and accounting standards, Mr Pearson did make 20 recommendations to further improve the audit process across the territory. Of the 20 made, 16 are our sole accountability. Those 16 recommendations have now been fully implemented.

However, to check that we actually satisfactorily implemented them, our audit and review committee, which is independently chaired, engaged Mr Pearson to review our implementation and he concluded that we have satisfactorily addressed our recommendations and that the envisaged benefits were starting to be realised.

One recommendation, however, from the 2016 strategic review was a significant benefit for the performance of audit activity going into the future. That was, to quote Mr Pearson:

... an appropriate level of Accumulated—

funds—

be determined for carry forward and that—

these funds—

be invested to finance additional transitional performance audit activity to achieve an even spread of performance audits across the program year;

The office used its accumulated funds, also referred to as cash reserves, to facilitate

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commencing performance audits early in 2016-17 and we will be completing an additional performance audit for tabling in 2017-18, or that is our plan. This approach allows us to use some of the funds.

In April 2016 the Speaker of the Legislative Assembly and the Treasurer agreed that we could incur an operating deficit of \$659,000 for 2017-18, which will be funded out of our accumulated fund cash reserves. Therefore, we are planning to do eight performance audits, which is about half that funding, and, with the other half, bring a whole lot forward and commence them early.

In 2016-17 we tabled seven performance audits and also one review. They were: certain Land Development Agency acquisitions, WorkSafe ACT's management of its regulatory responsibility for the demolition of loose-fill asbestos contaminated properties, the 2016 election, performance information in ACT public schools, maintenance of selected road infrastructure assets, mental health services transition from acute care, and the public housing renewal program. Many of these were complex and all but one was in our forward program. One of those audits had part of its origins in a public interest disclosure that was presented to us. We also presented a report for tabling in the Assembly on the Commissioner for International Engagement position creation and appointment process. It was not a performance audit, it was a review.

In respect of our financial work in 2016-17, we completed 60 audit reports on financial statements, 26 reports of factual findings on statements of performance. Eighty-eight per cent of the financial audits were completed within their required timetable. This was slightly up from 2015-16, where the percentage was 85 per cent. Actual results were lower than our 100 per cent target due to delays beyond our control.

In addition to audits and reviews, representations and public interest disclosures are managed. In 2016-17 the office received two public interest disclosures and 49 representations covering a wide range of issues. So far this year we have received 31 representations, some of which may actually end up public interest disclosures but that is yet to be determined. Public interest disclosures and representations do influence our decisions to conduct a performance audit and an example, as I just said, was certain Land Development Agency acquisitions.

Our financial position is sound, both in the short and the long term. We have an operating surplus of \$69,000, which was less than the budgeted \$213,000. But that was due to lower than expected expenses, in particular, employee expenses resulting from the time taken to fill positions when staff had left.

Staff turnover continues to be a feature of our workforce, 27 per cent in 2016-17, with departures relating to retirements, accepting promotions elsewhere or moving interstate. Key challenges for us include maintaining a workforce with knowledge and experience required to deliver quality work and providing sufficient career opportunities to retain people in a small agency.

In addition to monitoring our progress in implementing the strategic review, the audit office audit and review committee has completed two internal audits. One was a

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review of our compliance with ACT public service HR rules relating to recruitment, and the other was an audit of recruitment planning and workforce planning activities.

All audits undertaken by the office are subject to quality control. This is done through what we call hot and cold audits. They always identify areas for improvement and we take those on: for hot audits in the audit process, with the audit affected; and the cold reviews, which are done after the audits are tabled, we use for lessons going forward.

The audit office has a comprehensive learning and development program and this, we are very pleased to say, has been recognised in the past and in 2016-17 by two professional accounting bodies in Australia: CPA and Chartered Accountants Australia and New Zealand. The recognition given to the office was due to our strong commitment to learning and development. In particular the office's learning and development program met CPA's international best practice learning and development standards for accounting and finance professionals, and we were recognised as a training employer by Chartered Accountants Australia and New Zealand, which is very important because it recognises that audit office staff learn on the job.

The audit office also, in terms of learnings and sharings, ran our annual financial audit seminar and our performance audit seminar. They were well attended. Results of the audit office survey show a high level of overall staff satisfaction at 79 per cent.

Our challenge for the year ahead includes delivering a performance audit program that has some very complex audits programmed, completing financial audits within the time frames, managing the increased representation, some of which may be PIDs, retaining our staff, and we are also planning to upgrade our website. We are working towards a paperless office and we are also trying to identify a means whereby we can securely share with auditees draft audit reports.

With respect to performance audits, one performance audit has already been delivered, which was on public art. Six others are underway and three are in the planning stages. There is a tender for the sale of block 13, formerly block 20 section 34 Dickson. We hope to present that to the Speaker for tabling in December. There is another audit for the Assembly on activities with regard to rural land in the ACT. That will come in early in 2018 for the Speaker's attention for tabling.

We have also another audit, ACT government agency performance indicators, which may be tabled in December or January 2018. Acceptance of stormwater assets is another audit, and there is another audit, ACT clubs' community contributions, and also one on physical security. We are also undertaking planning and scoping work for the following three audits: school services and support for Aboriginal and Torres Strait Islander students, ACT government agency services and support for vulnerable children between birth and eight, and the Health Directorate's response to the misreporting of data.

In terms of financial audits, we will be presenting to the Speaker for the Assembly three reports. The first report will look at the whole-of-government timetable, compliance with that, and the quality of agencies' financial statements. That is due to be presented to the Speaker, possibly next week. The second report will include a

discussion of the territory's financial results and the results of selected agencies, and we are looking to present that to the Speaker for tabling by the end of December. The last report will be looking at the controls over computer information systems, and that is looking like February 2018.

We have detected one error since the publication of our annual report. If I could, just for the record, say that it is on page 4: the last line in the second paragraph should read 2017-18, not 2016-17. I apologise for that error.

THE CHAIR: Thank you, Auditor-General. I have a series of questions about internal audit. You have spoken in the past about your internal audit system. On page 10 you talk about your audit and review committee, how it meets quarterly and what it does. I am a little uncertain: who is on the audit committee? I am not sure whether I read this correctly.

Dr Cooper: It is on page 43. Currently, we have Mr James Palmer. He was previously a partner with EY. Prior to him as the chair, we had Ms Janean Richards. She was a group manager, chief legal counsel, I understand, in the Department of Social Services. We have had Ms Clea Lewis, who is from the Australian National Audit Office. She has resigned, and we are in the process of securing someone else.

THE CHAIR: The other two people are—

Dr Cooper: Internal.

THE CHAIR: internal people. On page 10 you state that the audit committee considers, amongst other things, reports from the risk manager. Who is the risk manager?

Dr Cooper: That is Tim Larnach.

THE CHAIR: He is an officer?

Dr Cooper: He is one of our principal officers.

Mr Sharma: Tim Larnach is a principal in the financial audits area. He has significant experience. He has been on the office's audit and review committee previously as well.

THE CHAIR: That officer is the person primarily responsible for the risk register. But what is the process inside the audit office for ensuring that everyone is across the risk register?

Mr Sharma: Tim, being the risk manager, reports through Mr Brett Stanton, in terms of the executive involvement. Through that process the executive committee becomes aware, and we have management meetings that happen on a monthly basis. If there are significant matters, Tim will bring them to the attention of the managers. We also have monthly staff meetings. In the staff meetings Tim will bring to attention any significant matters. From time to time there are also briefings to staff on integrity types of matters and the training provided to staff.

Recently, Tim has also undertaken a security assessment against the ACT government's protective security and policy framework, the PSPF. That assessment is being done on an annual basis. There have been some changes and he will be doing another assessment. If there are any matters to bring to the attention of the executive committee, the assessment will be provided to the committee, as well as to the audit and review committee.

THE CHAIR: To what extent would you say, Mr Sharma, that the risk register is a live document that is updated, and that staff members, both up and down, are familiar with the contents?

Mr Sharma: I think staff are totally familiar with it. From the perspective of Tim doing an assessment, the audit and review committee has an internal audit program, and the risk identified in the program aligns to the audit and review program, in terms of where the activities happen. There are also business continuity activities that happen, in terms of looking at the risk, as you start looking at the business continuity. We have a planning day where we look at the office's strategic plan. On an annual basis, we have a discussion of what the office's overall objectives are, where the risks are and what are the key issues. That gets fed into the action plan and then they are discussed with the staff.

Dr Cooper: It is also infused: I would not expect staff members to look at the risk plan as such, but we make sure the actions from them are pushed right down.

THE CHAIR: I have another audit committee related question, but it does not actually relate directly to your audit committee. It was more about seeking your views or your understanding. When you are doing financial audits and the like of government agencies, do you look at the internal audit provisions that government agencies have?

Mr Sharma: Under the financial audit program, we look at the activities of the audit and review committee. As part of our assessment of governance of that agency, we look at the governance structure and at the activities of the audit and review committee. We look at any activities that might have been done by the audit and review committee in terms of audit risk, and reliance in terms of our financial audit work, and whether we need to do further activities to confirm that.

We look at it from the perspective of audit risk but we also attend audit committee meetings in an observer role. As part of our assessment of the governance arrangements, if we identify any shortcomings then they are reported in our management reports to the agencies. For example, we have reported where the person who is an internal audit manager is responsible for organising activities at the agency, and if the activities of the audit committee are done in the area of responsibility of that manager, we look at how conflict of interest and independence matters are managed.

THE CHAIR: Could I ask a direct question? When the committee last met, we learned that in the Chief Minister's directorate a number of audit committees in sub-areas like the Insurance Authority and the superannuation area had been disbanded and rolled into the wider Chief Minister and economic development

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internal audit process. Do you have a view one way or the other about whether that is appropriate?

Dr Cooper: We do not have a view. We would look to see whether the risk register and what they are doing was comprehensive and included everybody. In an amalgamation like that, the key issue would be what you have lost. You may actually gain something in terms of independence of the entities.

THE CHAIR: I do not have a strong view one way or the other, but I was interested in your view.

MS CHEYNE: Chair, I have quite a few supps related to internal audits and risk registers. Is that all right?

THE CHAIR: Absolutely.

MS CHEYNE: For the risk register, how do you determine what risks go on there, or how does your risk manager determine that? I know you said that staff are not necessarily looking at the plan all the time, but are they consulted in terms of what risks should go on there?

Mr Stanton: Yes, absolutely. Our risk manager, Mr Larnach, would periodically review the risk register. Last time it was reviewed was in June 2017, but that was the culmination of a fairly lengthy consultation process.

Dr Cooper: We also had a consultant come in.

Mr Stanton: That is right.

Dr Cooper: We brought in somebody from outside who would critique, who might even have knowledge well beyond ours in terms of what are current practices with risk management. In fact, they made some recommendations which we took up.

Mr Stanton: Between Mr Larnach and the consultant that we engaged, who we engaged through the Institute of Internal Auditors, Mr Larnach and the consultant reviewed the risk register and consulted with the executive and other senior managers and principals within the office. Out of that process we made some amendments to the risk register. I believe we added two to three additional risks to the register and otherwise reviewed the other risks to see if we needed to change the ratings on those or do anything different as far as the management, monitoring and mitigation of those risks is concerned.

Dr Cooper: Then I think—my team will correct me if I get it incorrect—after that we had our simulation for our continuity plan.

Mr Stanton: The risk register itself is used to inform a range of different documents within the office. Basically a subcomponent of the risk register is our fraud control risks; that informs the fraud control plan. Then the risk register, as well, informs what we do in terms of business continuity planning. That led to activities to review and revise our business continuity plan and conduct the simulation.

MS CHEYNE: I am not sure what risk matrix you use—there are a few different kinds—but how many of your risks, before they are mitigated or before the controls are in place, are extreme or whatever is your highest category?

Mr Stanton: I do not know the answer to that directly at this point in time.

Dr Cooper: It is sitting on the right-hand side of my desk, and I can visualise it. I think there are one or two, and we have measures in place for some of those.

MS CHEYNE: Which brings it down.

Dr Cooper: Yes. And we take it right across the board, including recruitment for staffing.

MS CHEYNE: Sometimes that is one of the biggest risks, isn't it?

Dr Cooper: Yes. In some of our recruitment where we have identified one of these risks coming through, the person has not gone forward and had their employment maintained with us. I can remember that very vividly.

MS CHEYNE: Is that right?

Dr Cooper: Yes. That was a very tough one.

MS CHEYNE: Mr Stanton, you said it was last reviewed in June of this year. When was it last reviewed before then?

Mr Sharma: I think about 12 months ago.

Dr Cooper: It is an annual process in terms of our actions. And it gets reviewed: if there is a risk outside that time period where we think that this is significant, we will change it. It is really, at the review, whether the same level of risk is still there or whether it has gone up or down for our review. Sometimes we will add one or take one off.

MS CHEYNE: That is what helped with the consultant?

Dr Cooper: Yes.

Mr Stanton: That is right. I should add that June 2017 was the culmination of months of work that led into that through the work of Tim and the consultant.

MS CHEYNE: Were the two internal audits that you did this year informed by the risk register? And were they areas of considerable risk?

Mr Sharma: Yes. The internal audit program has about two audits per year on a three-year cycle basis. These audits were out of the program that was developed, the internal audit program for the office. They were developed through the risk analysis.

MS CHEYNE: So it is two to three internal audits a year?

Mr Sharma: Yes.

MS CHEYNE: So this past year it was two?

Dr Cooper: Yes. That is what we feel we have adequate funding for. And for an office of our size, we think that over a three-year period it hits the high-risk areas.

Mr Sharma: Yes, and even the program has references back to the risk from the risk register.

MS CHEYNE: With that two to three, for offices of your size, would you apply that same sort of thinking to other offices or would it depend on what sort of work they undertake?

Dr Cooper: It would absolutely depend on what type of work. There are some that could have thousands of people but the risks might be very limited, and others which only have a few and they would have many more risks. It is the business.

MS CHEYNE: You mentioned that the risk register informs your fraud awareness and training, as in a lot of agencies. Can you tell me what sort of training you have in the office?

Mr Stanton: I have the position of SERBIR, senior executive responsible for the business integrity risk. I have the opportunity to speak to new staff as they are inducted into the office. Periodically we have induction sessions; I have the opportunity to speak to staff as part of that process. Then, as we review and update key documents within the office, I take that opportunity to advise staff through an all-staff meeting. As I recall, we reviewed and revised our integrity code earlier this year, 2017; as we did that, I took the opportunity to brief staffing on that and discuss some of the issues around our integrity code.

MS CHEYNE: So you do not have an on-boarding online module or something when people join the organisation to take them through fraud and risk?

Dr Cooper: We do that.

Mr Sharma: We have an induction program for the office. When staff initially join, they are taken through key policies, and one of those is the integrity code and the office values.

Dr Cooper: But it is not online; we give it one to one.

Mr Sharma: Yes.

Dr Cooper: We are so small. The other advantage of being small is that often the monitoring is pretty tight. I know that does not guarantee it—you have to have the systems in place—but just the smallness allows us much more immediate awareness, we hope.

MR PETTERSSON: I have a question about the table on page 28 of the report. It is about the percentage of recommendations accepted in the financial audits. The 2016-17 actual was 74 per cent. The target was 95 per cent. The actual for the previous year was 80 per cent, six per cent higher. Why would recommendations go down? Is it the nature of the audits that were undertaken or is it that the nature of work is changing?

Dr Cooper: It is more likely to be the issues that are identified.

Mr Sharma: In terms of the recommendations, when coming up with the audit findings we have a discussion with the agencies and we want to make sure that the observations that we have for areas for improvement are agreed upon. We get a strong agreement in terms of the observations and the implications but sometimes the agency may have a difference of view in terms of how that recommendation is to be implemented. We will come up with a suggestion based on what we think would be a manner in which a recommendation can be implemented. The agency can either note it or not necessarily agree with it. Sometimes there will be agreement in principle, where they agree with the observation.

However, there were a number of recommendations made in relation to computer information systems. Some of the systems were dated and needed a significant upgrade before the recommendation could be implemented. In those types of cases you would get “agreed in principle” and the agency would look to the future in terms of when that recommendation would be implemented. We will not count that as an agreement in terms of liking the indicator. Where there is a direct agreement in terms of the recommendation, then it is counted for the purpose of this measure.

There are also other types of indicator findings which would relate to the agency monitoring, for example, implementation of accounting standards, where we would say that there is a future standard that the agency would need to become aware of. In those types of cases the agency might say “noted” because the work would be done in the future in relation to those.

Dr Cooper: If you go to page 30, only four per cent, eight out of 185, were actually not agreed. Mostly they do agree, even if it is not explicitly “we agree in principle but we will do it a different way”. I hope that helps.

MR COE: Could you please talk the committee through the interaction you have with auditees during the audit process?

Dr Cooper: Can we split FA and PA? For financial audits, Mr Sharma.

Mr Sharma: The first interaction starts from a debriefing in terms of the previous year’s audit. We would go through and identify the matters that needed further discussion with the agencies. We would organise an exec meeting. There we would canvas the issues that we had in the prior year and then the next engagement would be in terms of providing a seminar.

Our financial audit seminar takes agencies through the key reporting issues for that

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calendar year and beyond. The things that the agencies would need to think about could be changes in the reporting requirements, changes in legislation. It could be lessons learned from the past and the whole-of-government reporting timetable.

MR COE: Do some of those issues go beyond what is published in your audited statements as produced in the annual report? Could it be that there are additional comments that are not so significant that they make it into the audited statement?

Mr Sharma: Some of them do. Only significant matters are reported in our audit report.

Dr Cooper: In answer to your question, yes. Some are not reported publicly but it is for management to consider where we really think that they are not that significant.

Mr Sharma: And this could be also in the categories where we recommend a number of changes to disclosures in the financial statements and statement of performance, which would help the reader better understand the results. Some of these areas are not reported in that much detail in our report because they are areas for improvement.

Dr Cooper: And if they do not improve, we keep on making the same comment in the hope that they will improve, even though we do not report them publicly. And then during the audit—?

Mr Sharma: Before the audit commences there is a planning meeting to go through the timetable and to discuss at the staff level the audit team and the team from the auditee's perspective in terms of the people that we will be liaising with during the audit. That is the planning meeting.

During the audit, once we get the financial statements and statement of performance, we will get the working papers for it and then we will go through the audit and, as matters arise, there will be discussions with the auditee. If further advice is needed, if there are complex accounting treatments for example, then there will be further discussions involving the executives of the organisation. Shortly after we have finished the audit of the details, there is a summary report, which is a closed report, which informs the executive in terms of the key issues identified and how they were resolved in the audit.

Then the audit report is issued. After that there is an exit meeting in terms of going through the audit process and key issues identified. During the process we also encourage agencies to discuss with us any matters from their side. Then there is a satisfaction survey that goes out to the agency, which provides us detailed comments in terms of any—

MR COE: Is it informal communication or is it—

Dr Cooper: It is all part of the process. I would not say it is informal.

MR COE: Is there much?

Dr Cooper: I do not think so. I think it is all quite a formal part of that process and if

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we get a slamming survey result then I will meet with the executives and we will have the teams meet to say, “Well, what went on here? Was it an issue of substance around auditing or was this some kind of personal issue between staff?” We try to work on it. But mostly, no. The staff are quite instructed on that independence of the office. Everything has to be on the record as if they were sitting here. Whatever they are told they should be able to say quite frankly whatever has occurred. And in a performance audit—?

Mr Stanton: In a performance audit we start with the concept of an audit that we are interested in doing. We will do what we can to identify key people, executives, managers within the agency who are likely to be influential or otherwise knowledgeable of the subject matter. We will engage with them for the purpose of scoping and planning the audit.

We will communicate with them and we will come up with our objective, criteria, scope and the like. We will formally engage with the director-general of the directorate, advise them of the objective, scope and criteria, offer the opportunity to have a meeting and then we will be into the audit process itself.

What informs our communication or interaction with the agency is what we call a communications strategy or a communications plan. It sets out at the commencement of the audit who the key people from the audit office are and, if we use any contractors or consultants, who they are. It sets out the key people from the agencies as well and it sets out basically the roles and responsibilities of those different parties. The key executive contact from the agency would be responsible for facilitating our communication and interaction with other areas of the directorate.

Then we will go through the audit process. The engagement leader, with the support of the audit team, will be responsible for conducting the audit and collecting information for the purpose of the audit, and they will be doing that as widely as necessary across the agency or the directorate to satisfy themselves that they have got relevant information, appropriate information and evidence.

Then we will typically get towards the end of the field work stage. We will be communicating throughout this process with the agencies to identify issues of interest and issues of potential findings and the like before we get to the draft report. The draft report will be issued by the Auditor-General directly to the director-general or chief executive, and that commences basically that reporting consultation process.

Throughout that period, over the next few weeks or months if necessary, we will be talking to the director-general and key executives from the agency in relation to the findings in the draft report, with the next iteration of the draft report being a proposed report. We have got at least two iterations of the report that goes to the agency. For some audits, we have had more versions of the report in that reporting process, with a view to coming up with the final report to be presented to the Speaker.

MR COE: And if there were a significant private sector or non-government entity involved, would they get a draft?

Mr Stanton: Absolutely.

Dr Cooper: They have to get it first, under the legislation.

MR COE: And are there any restrictions on what those entities are allowed to do with the advance documents?

Dr Cooper: We can put on section 35s under our legislation so that, when we give a report to someone, only they can look at it. If we give you a section 35, only you can look at it and only you can give us comments back. If we do not do that, we give it usually to the head of the agency, and they are in charge of making sure they manage it as protected information. We do not say specifically to whom information can or cannot go but Chief Minister's actually have some people there who are willing to give advice to the agencies as to how to communicate information.

Definitely the controversial ones will have section 35s and where you have got commercial in-confidence and things like or where they may be able to infer a staff name although we do not put the names in. But for others, for instance with credit cards, we do not. We rattle off a few where we give it to the head of the agency and it is their job to protect the information. Credit cards stick out as one because it is a systems issue. It is across agencies. They then take the protocols to talk to each other.

Mr Stanton: For the audit last year of the public housing renewal program there were no directions issued under section 35, neither was there for mental health services, maintenance of selected road infrastructure assets and the like.

MR COE: Are there any restrictions on ministers seeing advanced copies?

Dr Cooper: It is generally not done but again I am not sure how the agencies brief. That is an issue for the agencies, how they brief, and we stay out of that. It would be, I think, inappropriate for us to comment or to get involved in giving them advice.

THE CHAIR: In relation to non-government organisations that may be subject to an audit comment, who gives them advice about the handling of a draft audit report?

Dr Cooper: We would provide that—not advice. If it is a section 35, which I think it has always been, it goes just to them and them only, except they can get legal advice. They can source legal advice. We tell them all that.

MS CHEYNE: I will go back to internal auditing.

THE CHAIR: You are even more interested in internal auditing than I am.

MS CHEYNE: I used to be the director of the governance office in A-G's; I feel I need to do them proud! In terms of your internal audits, who conducts them?

Mr Sharma: When we look at the scoping of the audit, generally we use contractors. It provides independence in terms of our staff looking at the issues that they might be involved with. Basically, we get in the contractors and people who are specialists in those areas. For example, if we are looking at recruitment, we will go to those agencies that specialise in recruitment activities and are also familiar with government

rules in terms of compliance. We would go to external parties who are specialists in those areas.

MS CHEYNE: You do not contract EY for four years or something like that; it is based on exactly what type of audit you want to do?

Mr Sharma: That is correct. We also look at the whole-of-government internal audit panel and at the firms that have been selected as part of that panel.

Dr Cooper: I will ask Rosario to answer. We have one auditor to audit our financial statements, but that is organised by Madam Speaker. Do you want to talk about who that is and how that works?

Ms San Miguel: The financial statements of the audit office are also audited. Of course, these are done on an annual basis. The external auditors are Charterpoint, and they were engaged by the Speaker.

Dr Cooper: It is for a three-year period, I think, with options.

THE CHAIR: With an option?

Dr Cooper: Yes, I think so.

THE CHAIR: That is my recollection.

Mr Stanton: With internal audits, as we have been discussing them at this meeting, there have been two to three audits a year that are commissioned by the audit committee itself. The audit committee also has an important role in overseeing the quality assurance work that the office undertakes. So there is a separate body of work, which is quite significant, robust and important for our operations, which provides assurance with respect to both our performance audit and our financial audit activities.

Dr Cooper: We use other audit offices to come and audit us. We have a whole suite of audits that we do during the year around helping us keep our quality where we think we need it.

Ms San Miguel: That is a good point. We also engage independent reviewers to do the quality assurance. This is part of the cold reviews that were previously discussed. These audits are done after the fieldwork and the report have been completed. In the past we have used former executives from the ANAO and also former executives from other audit offices. They provide that experience when they conduct the reviews, and also fresh views on what we have in place.

MS CHEYNE: With the internal audits that you conducted recently, how many recommendations are outstanding?

Dr Cooper: One had no recommendations. That was the one on recruitment, I recall, and the other one had one recommendation on workforce planning, and that was to create the one plan, and we have just done that.

Mr Sharma: This was in relation to the workforce planning and review policy. The office had a policy that covered the whole office. The recommendation was to split it into the areas of financial audit, performance audit and professional services. The plan had strategies and initiatives that are implemented as part of workforce planning. The recommendation was to take these initiatives and strategies at the area level in the case of financial audit, performance audit and professional services, and provide a facility through which it can be reported back, to say how we are actually implementing these strategies.

MS CHEYNE: With your audit and review committee, you mentioned that Mr Palmer is a former executive director at EY?

Dr Cooper: Partner.

MS CHEYNE: Partner. I know Ms Janean Richards from DSS, and I assume Ms Clea Lewis is the same Clea Lewis who used to work at ANAO. How do you source your external members?

Dr Cooper: We look around for the areas that we think the committee may be lacking in. For instance, Clea was very capable in the financial area. We looked around to see where we could get somebody in the financial area. We approached ANAO and they offered her to us and we said, "Thank you very much." At the moment we are trying to get somebody who really understands performance audits because Mr Palmer understands financial very well. So we are trying to get that balance through our externals.

MS CHEYNE: Are your external members paid?

Dr Cooper: Yes and no. It depends on whether they are willing to do it for their own professional development or whether they do want to be paid. If they want to be paid, we pay them; but in some cases, I think with our last two, we did not pay them.

MS CHEYNE: If they were commonwealth public servants, probably not.

Dr Cooper: Yes, but that could be training for them. That would be viewed as really important training. When they do not get the local government-territory type exposure, that is invaluable to them. That is how we manage it.

MS CHEYNE: Do you pay on a per meeting basis for your chair currently?

Mr Sharma: Yes, we do.

MS CHEYNE: Are you able to share how much that is?

Dr Cooper: I do not know.

MS CHEYNE: I am happy for you to take it on notice, to check if you can tell me.

Dr Cooper: Yes, we can give that to you. I cannot see any reason why you should not know.

THE CHAIR: Could I go back to a point that you raised and that I know has been discussed previously? I refer to the retention of staff. Do you have the capacity to offer retention incentives?

Dr Cooper: Yes.

THE CHAIR: And do you offer them?

Dr Cooper: We have only one in place. We select them very carefully because it has to be in a situation where you know that retention would make a big difference. Often it is not the money; it is actually getting further career experience that we cannot possibly give. I have shied away from retention bonuses. When I first joined the office it was certainly very heavily applied. I have pulled right back and said, “Absolutely only in a situation where we can really see that it might make a difference.” The audit office was giving retention bonuses to people and it did not seem to have an impact, so I have stopped it.

THE CHAIR: That seems like a reasonable thing to do. If you are giving people retention bonuses and they are still leaving, it is probably not value for money.

Dr Cooper: No.

MR COE: Could you please talk the committee through the systems that are in place to manage the evidence and information that you accumulate for performance audits in particular. I guess that with a financial audit it is more likely that there is only going to be a handful of data sources, whereas with a performance audit they can be many and varied.

Mr Stanton: Taking you back to basically the engagement letter for the audit, where we have kicked off an audit into whatever topic it might be, what guides the engagement leader, the audit team and the conduct of the audit is what is called an audit test program, which outlines the objective, the criteria, the different lines of inquiry that are going to be pursued to answer the criteria, and the source of evidence.

The source of evidence could be source documents from the agency: plans, strategies, documents produced by the agency. It could be meetings with agency staff. We will note down assertions that might be made in the course of those meetings; we will record those. We use interviews under oath or affirmation for some audits as well.

Those sources of information go into the mix for the audit. We have what is called Aspire, which is a database for the management of audit evidence. We structure Aspire—it is up to the engagement leader how they structure Aspire—to answer the particular criteria and the questions, and we put all of our relevant audit evidence into that Aspire database.

Dr Cooper: That includes documents that we source, but also it might include notes from discussions, and that occurs definitely if it is under oath or from an interview being recorded and is a transcript.

PROOF

Mr Stanton: That Aspire database serves a very useful purpose in managing the audit evidence, but is also a source of cross-reference material for the reporting process. As we produce the draft, the proposed final report, those reports will be cross-referenced back to the audit evidence as it is in Aspire. So down the track, if we need to try to answer a question or work out where the particular evidence came from for a particular part of an audit report, we can refer back to the Aspire database and answer the question that way.

Dr Cooper: And then the time of the report going to the agency, the initial draft, is a critical time because the agency then has a chance to give us any information that they may think we do not have, and therefore may consider our key finding or our conclusion erroneous. They are never shy about providing information if they have it.

Mr Stanton: I will just add that with the Aspire database, as with other subfolders on our G drive, if necessary, and if the audit specifically warrants it, we will restrict access to that particular file on the Aspire database or G drive to only those team members who need to have access to that. So we minimise the risk of information getting out inadvertently.

MR COE: How long have you been using the database?

Mr Stanton: Aspire, I believe, was implemented in about 2010 or 2011 or so. We have been using it since then, refining our use of the database over time as well.

MR COE: Do you use that for financial audits as well?

Mr Sharma: It is similar. It is a Lotus Notes based product.

Dr Cooper: We will be moving forward with a new system, because it is coming to the time when other audit offices using these systems are saying, “When we first got these products, they were specifically designed. Now there are a few on the shelf.” All of our collective audit offices across ACAG are looking to see which ones we should migrate to.

MR COE: Are there any other audit offices around the country that are using Aspire?

Mr Stanton: Yes. Queensland initially were using it, and we basically adopted the system from them, again in 2010, 2011 or so. I think they might have recently moved away from Aspire.

Dr Cooper: No. I have just come back from ACAG, and we are going to be engaged in a project—Mr Sharma does not know it, as I just got back this morning, but he will be on the project team—to find the replacement for this. We are looking to get a replacement that will cover financial and performance, the one system.

MR COE: I doubt that it would happen very often, but in the event that there has been a relevant audit in the past, are you able to easily put your finger on data or evidence from past audits?

Dr Cooper: It depends how far back we go.

MR COE: Or is it simply archived?

Dr Cooper: No. It depends how far back we need to go. Also, over the time—I will give my colleague Mr Stanton a compliment here—some staff were reluctant to use it. Although we might have had it in 2010 or 2011, some were reluctant to use it; it took some training and time. But definitely from last year or the year before we would have a very good chance of being able to access the exact working papers around a particular issue.

Mr Sharma: And we keep electronic archives onsite so we can go back. Even if it has been archived, we have access to data from the file.

MR COE: With the Lotus Notes product, are you able to develop time-series data based on previous audits or are they isolated year by year?

Dr Cooper: I would say that they are isolated, yes. That functionality will be something that I think we would be looking for under the new one. Whatever system the office goes into, we will be looking for that higher level of sophistication.

MR COE: What is the time line for that?

Dr Cooper: We are working cooperatively, and we rely upon the goodwill of particularly the Queensland Audit Office, who have done all the benchmarking, all the heavy lifting. We will join the working party group. It could be—we are hoping not—a year. We are hoping to go quite quickly, but it may be up to a year.

MR COE: So perhaps for financial statements for 2018-19, something like that?

Dr Cooper: We would hope. It has quite an aggressive timetable, because when Queensland goes off it completely—and I think Victoria also; I am not sure—because we rely upon them for support and help with ours, we do not want to be on a system where we do not have that support.

Mr Sharma: Normally there is a training and development element to it as well. We tend to introduce it on the December financial audits before we try it on the June ones. After the product has been developed, there is quite a bit of training to be had and some local policies to be developed before it can be implemented.

Dr Cooper: Hopefully about a year, I would say.

MS CHEYNE: You have a new strategic plan for 2017-20?

Dr Cooper: We update it every year.

MS CHEYNE: Do you? This says 2017-20.

Dr Cooper: Yes. We look at it every year, and then we update it. This Friday, we are about to have another look at it. It hardly changes, because of the legislation.

PROOF

MS CHEYNE: That is what I was going to ask. Is your strategic plan really exciting?

Dr Cooper: We think so and, again, it is practical. How much energy do you put into something? Fundamentally, audits are us; we are there to deliver audits. It is about putting energy into the systems we use, the risk registers, the actual audits, and spending a lot of time with staff, trying to have a strategic plan that is different from year to year when fundamentally it is the same framework.

MS CHEYNE: So the values which guide your work have not changed for a number of years?

Dr Cooper: If the committee has any suggestions, we would be open to them. We gave a lot of consideration to the word “cooperation”, because of course that is a good principle. But we did not have that as one of our values because we did not—

MS CHEYNE: Collaboration?

Dr Cooper: Sorry, did I say the wrong word? I should have said “collaboration”. We did not have that as one of our values because that could compromise independence.

MS CHEYNE: Related to your strategic plan and to previous questions about recruitment, do you have any ways in which you are achieving a more diverse workforce?

Dr Cooper: I would have to say that I think our workforce is pretty diverse. The statistics there are that we have over 50 per cent who say they are from culturally diverse backgrounds. We have roughly got even men and women. And the age—

MS CHEYNE: Do you have even men and women at senior executive levels?

Dr Cooper: I think it is reasonable.

MS CHEYNE: Looking here, yes.

Dr Cooper: I think it is reasonable. We probably have a few more men—I am just trying to think—at the manager level.

Mr Sharma: Probably just a few more men.

Dr Cooper: Yes, we do. And we provide a lot of training—for all the staff, but particularly for staff from non-English speaking backgrounds. We do try.

THE CHAIR: I am going to ask a prospective question. You have an audit in this year’s audit program in relation to the acquisition of rural land. Is there a timescale, a particular period?

Dr Cooper: There is that we are looking at, yes, and there is a particular location, because of the way things have fallen for the audit.

Mr Stanton: I believe 2012 onwards is the key time frame for the audit.

THE CHAIR: That would include the land that was acquired out at Stromlo at the very end of the life of the LDA?

Dr Cooper: If you have a particular area, that helps us more, because there is so much.

THE CHAIR: The property Winslade.

Mr Stanton: The Winslade property, I believe, is part of the scope of the audit. If it is not, we will advise otherwise.

Dr Cooper: Otherwise assume it is.

MR COE: Going back to communication with auditees, how regular an occurrence is it that you get auditees contacting you, after reports have been finalised, published or presented, with issues or concerns about the final product?

Dr Cooper: I am not aware of that, because I have never been approached afterwards. We spend a lot of time trying to agree on the facts. If we disagree on the interpretation, we will put that in the report.

MR COE: What about with regard to referral options? If you were to come up with something criminal, I imagine you would refer it to the police, but are there any options at your disposal for referral other than going straight back to the agency and asking them to implement the recommendations?

Dr Cooper: We could bring it to the attention of the public standards commissioner if it were to do with culture and values; we would talk to that person about those kinds of issues, as I think we have in the past. That is one avenue. Also, apart from the agency, I would talk to the Head of Service, saying, "This came up. You may wish to consider the matter further, but we are not."

MR COE: How many times have you referred an issue to the police?

Dr Cooper: We have not referred an issue to the police, but we are aware that from our reports the police have been aware of things. Under the Corporations Act, we have referred them to—

Mr Sharma: ASIC, the Australian Securities and Investments Commission.

Dr Cooper: We have done that, I think, twice.

Mr Sharma: Twice, yes.

Mr Stanton: We did that in relation to a performance audit on Calvary hospital and its financial and performance reporting.

Dr Cooper: So definitely we will refer it on if we think there is an avenue.

MR COE: From whom do you receive advice on whether something is criminal or

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not or whether something is a breach of the Corporations Act? Does it just become apparent or is there somebody who actually will review evidence to make an initial call?

Dr Cooper: They are legal matters. It depends on the issue. We may go to the GSO or the AGS. If we want advice on that, we would go to one of those two. If we thought that the GSO was someone who had already advised the government or there were a conflict of interest, we would go to the AGS.

THE CHAIR: So you have that capacity?

Dr Cooper: Yes.

THE CHAIR: You would be buying in services from the AGS?

Dr Cooper: Yes. Under the arrangements with the commonwealth, we go through the GSO, so they know we are going to the AGS, but they do not know the subject matter, because they have a payment arrangement.

MR COE: Do they tend to have expertise in whether something has engaged the Criminal Code?

Dr Cooper: We have referred all kinds of things to them; we are usually quite specific: "This is an action. Please advise." We do not specifically say it is under this code, that code or some other piece of legislation.

THE CHAIR: I thank the Auditor-General and staff for their presence here today. You will get a transcript, as is the usual case, and there are a couple of things that you noted you would take on notice. If members have questions on notice, they can be addressed within five days of the transcript coming out. Then we will ask you to answer those questions within five subsequent days.

The committee adjourned at 1.46 pm.