



**LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL  
TERRITORY**

**STANDING COMMITTEE ON PUBLIC ACCOUNTS**

**(Reference: Annual and financial reports 2007-08)**

**Members:**

**MS C LE COUTEUR (The Chair)  
MR B SMYTH (The Deputy Chair)  
MS J BURCH**

**TRANSCRIPT OF EVIDENCE**

**CANBERRA**

**TUESDAY, 27 JANUARY 2009**

**Secretary to the committee:  
Ms A Cullen (Ph: 6205 0142)**

**By authority of the Legislative Assembly for the Australian Capital Territory**

Submissions, answers to questions on notice and other documents relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Committee Office of the Legislative Assembly (Ph: 6205 0127).

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## **Privilege statement**

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*Amended 21 January 2009*

## **The committee met at 10.48 am.**

Appearances:

Auditor-General's Office

Pham, Ms Tu, Auditor-General

Sheville, Mr Bernie, Director, Financial Audits

Nicholas, Mr Rod, Director, Performance Audits and Corporate Services

Smith, Mr Graham, Senior Audit Manager

**THE CHAIR:** We commence the public hearing into the 2007-08 annual reports for the ACT Auditor-General. Thank you all very much for attending. Firstly, can I just draw everyone's attention to the privilege statement. I imagine that you have all been here before and know the implications of it.

On page 1 you talk about lack of staff effectively. You were only able to complete five performance audits when you were hoping to complete seven, and further on through your report you also talk about staff issues. Can you fill us in on what is the situation with staffing, how many are you short and what should be done about it?

**Ms Pham:** Talking about our staff issues, our office is a small office. We have 33 staff members in terms of full-time equivalents, together with three contractors, so 37 staff, including part-time staff. This is a small number of staff to take care of a wide range of functions.

The issue with us in recent years was the turnover of our staff due to the high demand for auditors and accountants in general. Last year we had a staff turnover of 27 per cent, which is quite high. However, that is a common problem experienced across all audit offices. The average staff turnover in all state and territory audit offices is about 23 per cent, but some offices experience up to 32 per cent, like in Victoria, in the National Audit Office. For a small office the high staff turnover means that we faced the difficulty of completing the formal audit program, and when senior auditors left in the middle of an audit it meant they had to stop and start again. We do not have a big team working on performance audits. Often it takes two people to do a performance audit, so it makes a big difference.

So what have we done about it? It is quite a major priority for our office, and in the past two or three years we have put in place a number of measures to retain staff, including introducing a very good working environment and a learning and development program. We introduced special employment arrangements to keep good staff. I should note that 94 per cent of our staff have overall satisfaction with their work and the office, so the reason they left is not about the work of the office but more about the opportunity provided somewhere else that we cannot match, and a number of reasons for them to leave the office usually are outside our control. I had an exit interview with every single staff member leaving the office during the year and none of the reasons that they quoted for leaving the office are within our control.

**THE CHAIR:** None of them mentioned financial issues? We are paying the same as our competitors?

**Ms Pham:** I think there are two or three situations where they move on for a much better salary, including a one-off payment in the private sector. Immediately they signed, the contractor got \$10,000 in the hand. He had to sign a contract with a private firm. We could not match this arrangement. I do believe that we have done all the things that a small office can do to encourage staff to stay, so we work on the assumption that we will continue to experience a high staff turnover rate and, therefore, plan our work accordingly. Do you want to add to that?

**Mr Nicholas:** I think that covers off a lot of it. We have got the two streams to our functions—the financial audit and the performance audit. We are staffed up reasonably well for the financial audit. It tends to be a known quantity in terms of the deliverables there. The variation typically occurs more in terms of our deliverables in the performance audit activities. We can only do what we have the staff for.

As Ms Pham says, we have a fairly high turnover. It is not particularly different to the other jurisdictions. Our salaries are reasonably competitive. They are quite competitive when you compare them against the Australian National Audit Office, which one might guess is a reasonable competitor for us, although we do not lose staff to there; we have actually attracted more staff from that place than we have ever lost.

I do not think it is necessarily that we are not competitive in that environment; it is just that there is a fair amount of opportunity for our financial and performance auditors in the world of finance and other areas. They spend some time with us. They get trained up nicely and they spend two or three years, on average, with us. That provides them with a great deal of skill and a higher skill level that other agencies find attractive.

**MR SMYTH:** Just on that point, you mentioned training. I see in the second last paragraph on page 1 of this general discussion that you say, “We have put much effort into providing appropriate training to new staff.” But on page 53 I note that the training spend has gone from \$91,500 to \$47,500 in comparison with the previous year. Is there a reason for that drop?

**Ms Pham:** If you look at page 103, the amount spent on external training courses was about \$42,000, but the total cost of learning and development activity was over \$350,000. We provide a lot of on-the-job training, in-house training. There is a lot of expertise to be passed from senior managers to younger auditors. We also have an arrangement with the other bigger audit offices in Victoria and the National Audit Office to get training for our staff. Our learning and development program is very comprehensive and the majority of staff would say it is a very good program to train them and meet the needs of the job.

In terms of training time spent, it is 10 days per staff member. So if you look at the learning and development program as a whole, it is \$350,000 and we do not only concentrate on external training courses. Indeed, we find it much more productive and efficient to do on-the-job training and the training provided by other audit offices.

**MR SMYTH:** So that was a shift in how you deliver it rather than a need to spend less.

**Mr Sheville:** Probably the major shift in the reduction in costs that you are seeing in the financial statements arises from the decision as to whether we engage the Queensland Audit Office to provide our training. Last year we ran that training using our own staff, so it does not come up as an external cost to our office. We are bringing the Queensland training people in again in the current year, because periodically it is good to get an outside perspective as the methodology develops. The training is probably around \$40,000 or \$50,000 every year. That is for financial audit training alone. This year we will again have it run by Queensland, so our costs will increase again in the current year.

**MR SMYTH:** What were the two audits that you did not do this year?

**Ms Pham:** We delayed two audits this financial year. I think we intended to have a contracted-out audit of security of IT information. We believe that it is really important to look at how the ACT government protects information kept in its IT system. One of the performance audits that we will delay another six months is an intended audit of security of information kept by agencies.

**Mr Smith:** The other one was simply one that was delivered late. One on housing maintenance was delivered in July. It was originally planned to be delivered within the financial year.

**THE CHAIR:** My next lot of questions are referred to on page 5. You say that you operate principally under the Auditor-General Act, which I have an extract from. In the Auditor-General Act, it talks about ecologically sustainable development and what that means. My question is this. What is your capacity to audit under that part of your act? In the readings I am not seeing anything significant about it. Obviously, as a Green, it is very important to me.

**Mr Nicholas:** We deal with our ESD obligations under the Auditor-General Act in a couple of ways. A couple of years ago we specifically went out to recruit staff in the performance audit area who had experience in auditing in the environmental field. They lasted with us for about three years. They have now departed. We have not been able to recruit staff with that sort of experience since then. We are still on the lookout for them; it is not that we have forgotten.

**THE CHAIR:** Why do you think that you cannot get them—because it has just become more fashionable or popular?

**Mr Nicholas:** They just do not appear to be attracted to the advertisements that we have for the audit office. Some of our recruitment goes under the title of performance analyst; sometimes it is performance auditor. We specifically indicate environmental experience from time to time. These just have not been the skills or the experience that people have had when they have applied to our office for these roles.

The other aspect of our work with the ESD, though, is not so much auditing environmental issues per se but looking for environmental issues in relation to the audits that we are conducting. For example, at the moment we are looking at an audit on government accommodation. We will be looking at how they deal with some of the environmental aspects in examining the government's accommodation strategy.

So it is a range of matters that we have on our program. We look out for ESD related issues that are amenable to audit from our perspective. They feature on our audit plan, our audit program, from time to time, depending on the priority of that particular task against the other matters that we have got.

**THE CHAIR:** Do you anticipate doing more ESD in the future? I have skimmed through all of this—I will admit that I have not read every single word—but the environment is not really featuring in it.

**Mr Nicholas:** We certainly have turned our attention more to that aspect of our planning and we are looking for the opportunities to do so. I do not necessarily anticipate that the audit office will undertake a full environmental audit of anything; we do not have the skills for that. Our folks are auditors who are essentially working within an administrative field, so we are looking at administrative aspects of environmental areas. But we are focusing on it and it is certainly a key area for our consideration at the moment.

**Ms Pham:** The legislation requires us to have regard to ESD issues when we are doing audits. Once an audit topic is selected, we look at aspects of that audit that may have an impact on ESD policy and principles. When relevant, we take that into account. In our audit program we have a number of environmental specific audits such as water management. However, at this stage we do not feel that we have significant expertise to enable us to conduct an audit on water management. We are currently doing an audit on transport and road funding; we will look at how road funding addresses environmental issues. So we do have regard to environmental issues with the particular audit.

The second issue is about expertise. When we go out and recruit people, we do not want someone who just does environmental audits; we want someone who can do environmental audits and also do other audit activities. It is a small team; we cannot afford to have one specialist to do just environmental or one specialist to do health services. We need to have someone with a much broader skill set to be able to deliver our program. We need to balance all the requirements, including the requirement to have regard to ESD.

**THE CHAIR:** Would you look at recruiting external expertise as consultants. I am just concerned because effectively you are saying that you do not really have the capacity—as I read what you are saying—to audit the environmental sustainability part of the acts. That obviously is of concern.

**Ms Pham:** That would be part of our planning for the audit program every year. If we have capacity to use expertise and use a contractor, we will, provided that we have money for it. Last year we worked against a very tight budget. It is the same this year. We allocate part of our performance audit capacity to take care of quality review, to put in place other initiatives to comply with new requirements externally imposed on us without additional resources. That is why it is getting harder and harder to have that capacity to hire in expertise.

This year again we looked at the program and some of the environmental related audit

issues coming up required outside expertise. We will consider that within our budget capacity.

**MS BURCH:** I have a question on page 5 around strategic planning and the action plan. It may answer some of those questions as well. Where is the plan? I went to the website and I could not find a copy of the plan. Is that available for folk to look at?

**Mr Nicholas:** The strategic plan is on the website.

**MS BURCH:** I could not find it, so I failed that intelligence test.

**Mr Nicholas:** The action plan typically is not on the website; it is more of an internal tool for our purposes. But the strat plan is there.

**MS BURCH:** In that planning—and I see here that you review it every 12 months—

**Mr Nicholas:** Yes.

**MS BURCH:** So some of these matters such as your staff training and staff retention and attraction—what is the process for feeding some of those new themes, as the world changes, into your plan?

**Ms Pham:** One aspect of planning for our yearly program is to look at the changing environment and the impact on our work, for example, of the new Assembly and the new focus of government policy, and a new focus of other Assembly members, and know that an environmental focus will have an impact on our operation, in that we will be taking it into account in our planning for the audit program. Every year, when we plan our audit program, we send a draft program to the public accounts committee to request their input and to get a view from them on the priority of the topics in the program. We have not only a yearly program but a three-year program.

I have to say that, in the past, we did not get a lot of input from the PAC. The PAC were quite happy with the program that we proposed. There is certainly an opportunity for the new PAC to input their view into the program. We will certainly consider that when developing our program for the year.

**THE CHAIR:** Are there any environmentally focused ones in the existing PAC program? I suppose I should know this, but I don't.

**Mr Nicholas:** Specifically, no, we don't have anything there at the moment that says, "This is a green audit," if you wish. Again, as Tu said, what we do with our audits is that we examine the scope, basically, for every topic. As I mentioned earlier, we were looking at something like government accommodation, so we will be examining how the strategy then deals with the ESD aspects or the environmental aspects associated with that. When we looked at the power station recently, the environmental aspects relative to the particular part of the job that we were examining were featured.

We examine each one of them, and I guess there is a bit of a green tinge to many of our audits. They may not be as overt as you might wish, but we are addressing that, and it is a common feature. It is certainly one of our criteria for selection.



**Mr Smith:** One more example I could raise is an audit whose planning stage is about to start, on accountability through performance reporting. That will have a particular emphasis on ESD reporting.

**MS BURCH:** I noticed in a number of annual reports that they do look at consumables, whether it is fuel, energy and things like that. Is that the notion there?

**Mr Nicholas:** We examined the reporting against ESD obligations a number of years ago and found the situation somewhat wanting. So part of the review we will do here—

**MS BURCH:** It certainly was not consistent across the reports that I have seen.

**Mr Nicholas:** Part of the review we will do here is to catch up on progress there. There were a number of commitments made by the government at the time.

**Ms Pham:** Two years ago, we also did an audit on the no waste management program and the way that the government reported on the “no waste” achievement. We also have on the audit program the topic of energy efficiency in houses. Tentatively, we have put on our list the merit of the new government policy on four-cylinder cars and whether or not it achieved the outcome that the government intended.

So we have got quite a number of potential audits on our list. I have to say that there is an expectation for us to do a lot of things with a very small team of 10 people. Every year we have a significant issue in that we are dealing with these equally important environmental issues. So we do what we can within the resources that we are given.

**THE CHAIR:** That is a good introduction to what was going to be a question of mine: how do you decide which of the audits you are going to do, given that you are clearly not going to do them all?

**Ms Pham:** We can table for the PAC a document which lists the way that we select our audits. We have a number of criteria and we list them and explain them if there is a need to. The first is about the “materiality” for the audit area in terms of a financial basis—whether or not they have a significant financial implication for the government. The second criterion is “significance”. We want to see whether or not that particular activity to be audited will have a significant influence on the way that the government manages its program or policy.

We look at the risk to good management and transparency, and the potential audit impact. We look at other people’s reviews and make sure that we do not reinvent the wheel. We look at whether or not the issue is actually auditable, in terms of our capacity to audit it, and the coverage of the portfolio across whole of government, because we do not want to concentrate all of the audit effort in one department, to create an audit burden for one agency. So we have to spread our audit activity across a number of portfolios.

**Mr Nicholas:** The environmental issues come into the question of significance,

because that is part of our consideration of significance. But with all of that, we have got a number of criteria that we use to identify various topics. We then have to do a bit of a balancing act, and the act becomes a matter of balancing up what we might want to do with the resources we have got available, with timing of the current audits. So we try and have a bit of a mixture of some of the larger topics, some of the smaller topics, perhaps some of the softer issues that might deal with human issues, such as the ambulance services, for example, and maybe more of the harder issues that deal with, say, maintaining the public housing that we have got.

So there is a whole range of matters that we juggle. Essentially, we do pick topics against those basic criteria. It is influenced to a degree by the sort of issues that are coming up through the Assembly, and some of the issues that are arising in debates in the community itself. So there is a whole range of matters. Essentially, we squash that down into six, seven, eight, nine or so audits in a year and work towards achieving that.

**Ms Pham:** Every year, we have unexpected issues coming up, like the data centre and power station. We had to drop another audit to be able to deal with that. We also have a number of representations from the community. Issues are drawn to our attention under the Public Interest Disclosure Act, and we need to act on these ones to meet our obligation under the PID Act. So usually we have a program. We have a very good plan to deliver these audits but also there is the flexibility to take on other audits that come in throughout the year because the Assembly has requested it or it is important having regard to the public interest disclosure representations.

**Mr Nicholas:** So our program, while we have it on a piece of paper, is always subject to change. Things like the representations that come to us from various places, including the Assembly—Assembly members in particular—often cause us to rethink the priorities associated with our various audits. With respect to the comment that Mr Smyth made earlier on about which audits didn't we do, it is not a question so much of our dropping them but that we perhaps defer them because something else comes into its place.

**Ms Pham:** To put it into perspective, can I add that we got a \$2 million appropriation from the government, and that is for corporate services, all other corporate requirements, investigations and performance audits. We recover costs of financial audit activity from audit fees, but generally speaking we have got a budget of \$1.5 million to do all the performance audits and investigations for the whole ACT government. It is not much money.

**MR SMYTH:** The last time I asked you about this, you had a list of potential audits, and you were up to about 75.

**Ms Pham:** Yes.

**MR SMYTH:** You very kindly provided that to the last committee. Is it possible for it to be provided to this committee?

**Mr Nicholas:** It needs a bit of updating again.

**MR SMYTH:** Just so that people know what you would like to do.

**Ms Pham:** We will, yes. It is an internal list for us. Every year we go through that list and decide which ones should be pulled out in terms of priority. But yes, we certainly can provide the internal list.

**MR SMYTH:** I notice that at the bottom of page 8 and going over to page 9, you make the comment that you asked for additional funding to address various requirements, both technical and relating to the desire to do more work, but that was not forthcoming by the government. Sometime shortly, this committee will get your budget proposal for the coming year. Are you still significantly underfunded to do the job you wish to do?

**Ms Pham:** I think Bernie will add some comments to my response. This year, we had to put aside a senior manager to work on the quality review issue to meet all the requirements of the audit standard. I also required the director to set aside a large part of his time to look after that side of the audit office. Hence we will operate with a larger deficit. I do not have any option but to comply with the nationally required auditing standard, and that puts significant pressure on us to deliver the performance audits at the same time.

**Mr Sheville:** Essentially we plan to again submit in the current year the same request for additional funding that we submitted in the previous year. We are asking for 1.8 full-time equivalent staff—one full-time staff member and also an offsider or a more junior staff member to assist with a lot of the administration that is needed.

In the current year, as Tu pointed out, it does take resources away from doing audits when you are reassigning people to meet these compliance requirements. In the case of the current year, the performance audit group was down one staff member for a significant period of time, assisting in doing all the analysis and work needed to, firstly, get us up to date on what the requirements were and then perform a gap analysis to identify which areas we need to work on. That work will be required; we believe that it is ongoing, so we intend to put in another request for additional funding in the current year.

I have not updated all the numbers for the current year, but my feeling is that we will run a deficit in the current year. It is not sustainable to keep doing that year after year, but we can carry the cost in the current year. But eventually we would like to see that funding issue addressed.

**MR SMYTH:** In that paragraph on page 8, you mention the ASAE 3500 and the APES 320. How much of a burden are they putting on your budget? You have legislative requirements to meet these, don't you?

**Mr Sheville:** Yes.

**MR SMYTH:** So you have no choice; you actually have to do these?

**Mr Sheville:** Yes.

**Ms Pham:** That is right.

**Mr Sheville:** APES 320 and the other audit standards are issued by the professional accounting bodies, so they are seen as mandatory. Where you have auditing standards that refer to the quality standard, if you were doing any audit under the Corporations Act not only is it something that you should comply with professionally but also it gets caught by the Corporations Act. So you do need to comply with these as best you can. Most audit offices are going through this process of assessing compliance now and upgrading their systems to comply. I believe that we are pretty much on par with what is generally happening with the other jurisdictions at this stage.

**Ms Pham:** Some audit offices spend millions of dollars to comply with the type of standard and we have no additional funding. The types of requirements from these standards are huge—really comprehensive—and are meant for much bigger audit offices. When they have these standards, they do not have regard to small offices like an office with 30 people or 20 people. They are meant for much bigger international and national firms. Regardless, we have to comply, hence the pressure on our budget and the current deficit that we will experience this year. It is not sustainable to have a big continued deficit. If we do not have further funding, we will need to revisit our performance audit program and further cut down.

**MR SMYTH:** The first sentence on page 9 says:

Without additional funding, the Office's capacity to address the requirements of APES 320 and other standards will continue to present a significant challenge in the future.

Have you quantified the challenge?

**Mr Nicholas:** Essentially that is the funding we are seeking. The requirements are about establishing a quality framework for your organisation and then demonstrating that you are meeting the standards. Much of that comes down to a documentation process, but there are also additional measures that we have to put into place to make sure that we have dealt with all of this. It is much the same with things like ASAE 3500, which is the new standard for performance engagements. A lot of that comes back down to ensuring that there is appropriate documentation to show that the processes are met et cetera. In general, we meet these processes, but the additional requirements of (a) documenting them, (b) reviewing them and (c) ensuring that there are additional quality reviews et cetera imposes quite a significant extra effort.

The other aspect, as Tu said, is that we have essentially set aside a senior manager who now has a large chunk of his responsibilities involving looking after the quality assurance for the organisation. And I am involved very heavily in that process as well. While we are not doing audits, the program suffers.

**Ms Pham:** In terms of quantifying other requirements, internally we put aside the equivalent to, say, \$150,000 to \$200,000 a year to take care of that requirement. We try to be efficient in other aspects to meet part of that requirement. Last year we requested—

**Mr Sheville:** It was \$211,000 last year. And this year, just because of changes in salaries and that, we are requesting \$230,000—in the current year. We believe with that we would be able to cover it. I feel that it is a modest amount relative to the size of the task. We do need it to ensure that we meet those requirements.

In terms of quantifying, the project that we are doing will give us more precise figures, because, as you go through the process of assessing compliance, that gives you a better idea of how much time will be ultimately involved. It is our best estimate at this time; we think 1.8 full-time equivalent staff.

**MS BURCH:** I want to come back to something on page 8 and page 12, but I want to go to page 11, the time lines. The additional resource would impact on time lines for delivering audits as well?

**Ms Pham:** Yes.

**MS BURCH:** So it is not just a money deficit—a bottom line deficit or surplus. It is performance generally.

**Mr Sheville:** You have to manage your whole budget. It may mean that, as in the current year, one of those 1.8 staff members came from financial audit and one of the staff members came out of the performance audit group to contribute—partly because you needed skill sets from both sides of the business to assist in getting compliance but also because, while they are working on the APES 320 project and this other compliance project, they are not actually delivering performance audits. So it does ultimately take resources away.

**MS BURCH:** How does the percentage of audits within nine months and 12 months compare to audits from other jurisdictions?

**Mr Nicholas:** Quite favourably, but the ACT is a bit influenced by the fairly small number of audits. You might do a couple of large audits that take up to 10 or 11 months, and some smaller audits. With respect to the outcome for this year, there were five specific performance audits that we did; two of those were fairly long audits, over 10 or 11 months, and one was just over 12 months. The others averaged less than five months. So it is a bit of a balancing act. We put the resources to the tasks where we need them. Some have greater needs. With others, we just have to make do with the staff. If you have got a large turnover, it obviously causes an impact as well.

**Ms Pham:** We regularly benchmark our performance against other audit offices. I am happy to say that, both in terms of time lines and in terms of output, we are acknowledged as one of the better ones when compared to other audit offices. All audit offices aim to have shorter audits, but the process is so time consuming, and to collect evidence to support our audit reports takes a long time, including having a fair procedure for challenging our findings. It is very difficult to do an audit report within six months. I always aim for six months. Everyone told me this was impossible to achieve. But for small and urgent audits, such as the data centre and power station, we put on a much larger team, and we can do an audit in four months but it means that for that particular period we can't do much other audit work because we put almost all the people that we have on it.

**Mr Smith:** That is a good example of the vicissitudes, because there was a specific audit—in fact, it was the accommodation audit—that was effectively put on hold for that period, because we do not have resources to pull from anywhere to keep that audit going. So we had to make that decision to put one of them on ice, and it was the accommodation audit.

**Mr Nicholas:** So the accommodation audit might come out next year, with a relatively long elapsed time. But we put the effort into reducing it elsewhere. With respect to Tu's comment about the impossibility of six months, it is not quite impossible but it is a matter of scoping the audit and fixing the team up. Typically, when you are looking at an average process, six months would be fairly ambitious for most tasks.

**MR SMYTH:** Apart from the submission of the annual budget, have you had other discussions with the Treasurer and the government about the need for additional resources?

**Ms Pham:** The budget process for our office is provided within the Auditor-General Act. So we follow the normal process of providing our budget submission directly to the PAC. We also send a copy to the Department of Treasury, to keep them informed of our bid. We do have informal discussions at an official level with Treasury officials and from time to time we also talk to the head of Treasury. But I do not have a formal conversation with the Treasurer.

**THE CHAIR:** Moving on, on page 15, in the last paragraph dealing with report No 8, you say:

The audit found scope for significantly improving financial reporting processes in the Territory.

Has this happened? Have you had any feedback on that?

**Ms Pham:** Bernie will add more information, but every year, when we start a financial audit program, we come back to each of the audited agencies and seek a response regarding the extent to which they implemented the recommendations from the last year's financial audit. We rate their effort in resolving audit recommendations and follow up these audit recommendations from the last financial year. We also take a lot of action to work with ACT Treasury to improve the general financial reporting framework and time line in terms of financial reporting.

**Mr Sheville:** The process that we use to assess the quality of agency statements is that we assess the quality of what the audit office receives at the beginning of the financial audit process. That is before we actually audit the final numbers. We think that gives the best indication of the quality of the statements.

Through the audit process, we make lots of recommendations to improve the accounts. Some are taken on board; some are not. Our objective is to get the best possible set of statements into agencies' annual reports by the time of the annual reports. So what you see in the annual reports of agencies is the end of that process. We believe that,

with reporting, the focus really needs to be on getting agencies to do the best possible job they can to improve their reporting, without relying on the audit process to give them assurance in relation to their financial reporting.

Every year, we assess an agency's financial reports. We use criteria—good, satisfactory, fair or unsatisfactory—and we simply list them and we do an assessment. We provide comments against the criteria and we put it on a record. In the current year, reporting did improve, pleasingly. There is still a significant number of agencies that need to improve their reporting processes, but between when this annual report was prepared and when we did the assessment of the 2007-08 financial reports many agencies had improved their processes and their reporting.

**Ms Pham:** This year, we still did return a number of financial statements to be re-signed by government agencies because they did not sign good financial statements.

**Mr Sheville:** In other terms, we assessed 20 per cent of agencies' financial reports in 2007-08 as fair, which is borderline quality, or okay, and 11 per cent of the ones we received were unsatisfactory. It is probably fair to say that most of the unsatisfactory ones were from the smaller agencies that may not have a full reporting function and specialised CFOs, and they do tend to rely on the audit process a little bit more to assist them in getting across their reporting responsibilities.

**MS BURCH:** I am not quite sure if this comes into this discussion where you say that some reports that come in are unsatisfactory. On page 12 there is a comment that some organisations provided feedback and expressed concern, whilst they are happy with the audit process, as to whether the audit office understood the context of the business of the agency that they have been looking at. How do you balance that? How do you have assurances that you understand the context, and therefore that the executives of those organisations do?

**Ms Pham:** We take very seriously any feedback from an audited agency. Indeed, we send out a very comprehensive survey so that we get a good view of various aspects of the audit, from the process to the content of the report and to the outcome of the report, in the view of the audited agency.

Last year, we got two poor ratings—one for a performance audit and one for a financial audit. Both poor ratings indicated that the level of communication from the audit office to the agency was not sufficient. Certainly, it looked as if we did not meet their expectation in terms of regularly keeping them up to date with the audit findings or the audit outcome—throughout the audit, rather than at the end of the process. Usually, at the end of the process, we follow procedural fairness and we send them a draft copy of the report for them to comment on. This activity is at the end of the process. The poor ratings related to communication during the process. In both situations I sent both directors to talk to the agency, go through their concerns and agree on how we are going to manage that particular issue.

In terms of understanding an agency's operations, we have such a wide range of government activities that it is not always possible for an auditor to walk in and understand what the agency's operations look like and their complexity. Last year, I also organised a number of seminars and invited agencies to talk to the whole audit

office about their operations, their challenges and constraints, so that we have a better understanding of the agency. But the need to obtain relevant information during the audit required a lot of training of junior staff on our part.

**MS BURCH:** I think it is a good idea that agencies come in and talk to the audit office. Does that happen with the organisations you are about to audit, so that there is a—

**Mr Nicholas:** There is a very significant part of our audit process that is devoted to planning. I guess that is where this understanding of the entity comes into it. It is inevitable that the auditee will know more about its own business than the auditors will.

**MS BURCH:** And the range in these reports is just extraordinary.

**Mr Nicholas:** It is. We will not typically have auditors who specialise in aged care assessments or specialise in public accommodation. We have to get to know this ourselves. With our performance audits, probably about 30 per cent or thereabouts of our time is devoted to the planning process. Much of that is just gaining an understanding of the organisation sufficient for us to identify the critical areas and the critical performance measures, to understand processes that are being applied, to meet people at officer level through to executive level, to look at benchmark material and to examine material from similar audits elsewhere. There is a whole range of matters, all of which help us to generally understand the process.

**MS BURCH:** So the forward thinking and the planning, which are probably not in your report, are a large portion of your work.

**Mr Nicholas:** That is right. There is not a lot of it that is referred to specifically in the reports. We have communications with a whole stack of people during the course of an audit. It may not always be at the executive level towards the end and it may be that there are communication problems within the organisation itself. The matters that our auditors are discussing at their officer level with the staff of the agency are not necessarily being communicated upwards.

When the document arrives as a draft report, it goes to the executive or the chief executive. The chief executive looks at it and goes, “Golly, I didn’t know about this. How come?” We might ask questions that some folks think are naive and it might just be a difference of opinion. We might have a view that certain criteria are amenable to this particular organisation or certain benchmarks are appropriate; they may have a different perspective. Sometimes that is reflected in a comment that we do not understand their business. I am not trying to make excuses here; there certainly will be occasions when we do not know as much, obviously.

**MS BURCH:** No but it is good to hear that you have those planning process in place.

**Mr Nicholas:** It is a very important part of our task and I am confident that it is an important part of the financial task as well.

**Mr Sheville:** It is standard operating procedure to get an understanding of the agency,



its governance arrangements and its financial information systems. As Rod and Tu have indicated, part of the process of establishing that understanding is that the auditor, by asking lots of questions around the organisation, can come across to the agency as maybe not knowing very much. But that is part of the process of confirming and making sure that we do understand. The audit profession is a fairly conservative profession and we appreciate that many of our audit findings and issues that we identify can be very sensitive in nature, so we do tend to close off our understandings at every point if we can.

**MR SMYTH:** I go to pages 86, 87 and 88, and there is a bit on page 84, and this whole issue of communications. For instance, on page 87 it says:

The Chief Executive of the Department of Treasury provided a poor rating relating to the cross-agency performance audit on records management ... The Chief Executive expressed concerns on the lack of communication during the audit.

It is one thing to be critical. Are you aware that the departmental heads have done something to solve their own internal problems or will this crop up again?

**Ms Pham:** If I could, I would like to make some comments about different expectations from different agencies. It is a cross-agency audit. From my memory, all other audit agencies give it a very good rating—with the same audit team. Indeed, the same audit team deals with maybe four or five different agencies, including the Territory Records Office. All gave a very good rating except Treasury, so maybe there is a different expectation from the Department of Treasury.

**Mr Nicholas:** We understand the circumstances that arose there. There was some discussion towards the very end of the report about the availability of some evidence. We made some statements and we did not want to change that until the evidence was provided. Part of that comes across as a lack of communication. Again, I am not trying to make excuses. We are seeking to get an open communication arrangement with all of our auditees at every stage of the task. Depending on the nature of the audit, I will meet at executive level with executive officers of the agency at various stages across the process. It is not as if things just land out of the blue. On this occasion, we were unable to meet the expectations and obviously we disappointed the chief executive.

**MR SMYTH:** Did they provide the information required?

**Mr Nicholas:** We have the information and that is recorded in the report. It all came good, if you like. The outcome is one that we are quite satisfied with in terms of the audit report. We will see how it works out next time.

**MR SMYTH:** Going back to page 84, I notice that it says:

The Audit Office was unable to provide two of the expected audit opinions because the financial reports for the Lyons Joint Venture were not provided ...

Is there a reason they were not provided, and have they been provided since?

**Mr Sheville:** Those two joint ventures—the audits are in progress, if you like. We have only just recently received the financial statements. As I understand it, we will be meeting with them next week to discuss the actual reporting arrangements because I am not particularly happy about the timeliness of reporting or the quality of what we are receiving. It involves the statements being prepared by the private sector partner and, because these audits fall outside the whole-of-government reporting timetables they are a bit more relaxed about when things occur. We are trying to get them to comply a bit better and report on a more timely basis.

There are no legislative requirements that apply to these particular joint venture audits. They are normally governed by an agreement that says, “You must have an audit or get a financial report done every six months.” There has not been a lot of activity in the early days of the joint venture and I suspect that that is why they have not needed to get audited numbers. But we are in the process of auditing now and I expect that we will have audit opinions out in the next month or so.

**MR SMYTH:** The Lyons joint venture is the Burnie Court redevelopment?

**Mr Sheville:** Yes.

**Ms Pham:** It is also a reflection of how well the department responsible for the joint venture monitors the compliance of the joint venturer for reporting purposes. I remember I did write a letter to the relevant chief executive to express my concern that these reports were not supplied as required under the joint venture papers.

**MS BURCH:** So there is no legislative requirement about the joint venture arrangement.

**Mr Sheville:** There can be implications for the department’s accounts because their share of the results of the joint venture has to be brought into the department’s financial report. We have tried to get the ACT party to the joint venture to put a bit of pressure on the private sector partner to prepare adequate statements, and part of my meeting next week will be to get all the people in the room so that we can set a better framework for proper reporting of the joint venture going forward.

**MS BURCH:** I have a final quick question. It is around your recommendations. In the main, they are supported? My read of this is that they are supported.

**Mr Nicholas:** We had 100 per cent agreement—agreement, agreement in part or agreement in principle—with the recommendations out of the performance audits last year, so that is good.

**MS BURCH:** I do not know how much better you can get than 100 per cent.

**Mr Nicholas:** No. It is very comparable with our other audit jurisdictions. They are all achieving generally a fairly high rate there. Partly, it shows that we have communicated well with the agency, because part of our process is to try to get to a stage where (a) there is recognition of the issues and (b) some acceptance of the way forward. It is quite important that we work with the agencies to get to recommendations that they can accept and that we will recognise as addressing the

particular issue.

**THE CHAIR:** I will go to the end of the ESD section. On page 126, when talking about your accommodation, you state:

The accommodation offers several energy reduction measures, including more efficient heating and cooling systems, and sensor-activated lighting.

I thought, “Great.” But then you read the numbers. How can it be more efficient when your energy use has gone up at the same time? I appreciate that you probably can’t say much about this as you are tenants, but you are also auditors.

**Mr Nicholas:** There is a serious difficulty with us reporting this. Essentially, what we are showing here is a pro rata energy use for the building. It does not give us the rates. We have 500 square metres out of 11,000, I think it is, in that building.

**THE CHAIR:** How can you say it is more efficient? That is the thing I have the problem with. How can it be more efficient when it uses more? I appreciate that you are only a tenant.

**Mr Nicholas:** It may well be that we had only just been moving into the building in the previous year. It is certainly more efficient than our previous office, in Scala House. That was not very useful for us.

**Ms Pham:** Sorry, I’m a bit lost. Which part are we talking about?

**THE CHAIR:** You show that electricity use per employee has gone up—

**Ms Pham:** Yes.

**THE CHAIR:**—over the two years, but you say it is more efficient.

**Ms Pham:** No, it shouldn’t be more efficient.

**Mr Nicholas:** We will have a look at that.

**Ms Pham:** I think some of it here, I have to say, is due to the workload—if the staff work on more weekends and for longer hours, as happened last year. I could recall times when we all worked some unusual hours during the weeks due to the pressure on us, and that could be reflecting the amount of time spent in the office. But I agree: that is not consistent with the table and we need to look at it and report more correctly.

**Mr Nicholas:** I could suggest that that is a hangover from our statement previously, which was probably comparing it to our Scala House occupation, which was our former premises. But we will attend to that.

**THE CHAIR:** Can I suggest that, as tenants, you try and put some pressure on the other people there and actually achieve some energy efficiencies. On the same line, it is good to see that your fuel efficiency has increased slightly. Given that you do not need to take other people around, or goods with you, 11 litres per 100 kilometres is

not—

**Mr Nicholas:** There should be a change to that in the next year.

**THE CHAIR:** It is not a very wonderful figure. I look forward to improvement in next year's report.

**Mr Nicholas:** We have moved to a couple of smaller four-cylinder vehicles instead of a couple of six-cylinder cars that were there. There is also one less executive vehicle to be reported against.

**THE CHAIR:** Good.

**Mr Smith:** Often they tend to be very short trips in city traffic.

**THE CHAIR:** Maybe look at a Prius—not that I wish to advertise one, but that is the area where the hybrids shine, small trips—or buses.

Thank you very much, ladies and gentlemen. Thank you for your attendance, and we look forward to working with you in the future.

**The committee adjourned at 11.53 am.**