



PUBLIC ACCOUNTS COMMITTEE

THE 2001-2002 ANNUAL REPORT OF THE OFFICE OF THE AUDITOR GENERAL: A PERFORMANCE REVIEW

Report No. 3

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Public Accounts Committee

The 2001-2002 Annual Report of the Office of the Auditor General: A Performance Review

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THE 2001-2002 ANNUAL REPORT OF THE OFFICE OF THE AUDITOR GENERAL: A PERFORMANCE REVIEW

Report No. 3

Presented by:

Mr J.B. D'Orazio, MLA

Laid on the Table of the Legislative Assembly
on 15 May 2003

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COMMITTEE'S FUNCTIONS AND POWERS

The Committee may -

- 1 Examine the financial affairs and accounts of government agencies of the State which includes any statutory board, commission, authority, committee, or trust established or appointed pursuant to any rule, regulation, by-law, order, order in Council, proclamation, ministerial direction or any other like means.
- 2 Inquire into and report to the Assembly on any question which -
 - (a) it deems necessary to investigate;
 - (b) is referred to it by resolution of the Assembly;
 - (c) is referred to it by a Minister; or
 - (d) is referred to it by the Auditor General.
- 3 Consider any papers on public expenditure presented to the Assembly and such of the expenditure as it sees fit to examine.
- 4 Consider whether the objectives of public expenditure are being achieved, or may be achieved more economically.

TERMS OF REFERENCE

On Wednesday 5 March 2003 the Public Accounts Committee resolved to undertake a review of the Office of the Auditor General for Western Australia's Annual Report 2001-2002.

CHAIRMAN'S FOREWORD

I have great pleasure in tabling the Public Accounts Committee's third report of the Thirty-Sixth Parliament.

Since its establishment in 1971, the Public Accounts Committee of the Legislative Assembly of Western Australia has played an important role in overseeing the State's Office of the Auditor General. For example, for a number of years the Committee has reviewed various reports of the Western Australian Audit Office.

This is the first time, however, that a Western Australian Public Accounts Committee has reviewed the overall performance of the Office of the Auditor General through a formal review of the Office's Annual Report.

The current Public Accounts Committee is committed to ensuring that public funds are expended efficiently and effectively. This is also the primary responsibility of the Auditor General, and reviewing the Audit Office's annual reports is an effective way of judging whether that statutory duty is being discharged satisfactorily.

Overall, the Committee is satisfied with the performance of the Office of the Auditor General during the reporting period. Contained in this report are a number of recommendations for the Auditor General's consideration to improve the Office's performance and future annual reporting.

The Committee is particularly concerned to ensure that recommendations of the Office of the Auditor General are actually implemented. To address this accountability requirement, the Committee will now require agencies the subject of Performance Examinations by the Auditor General to report to the Committee as to what actions they have taken to implement the Auditor General's recommendations. If the Committee is not satisfied with the agency response, the Committee may conduct public hearings and / or refer the matter back to the Office of the Auditor General with the recommendation that further action be taken.

In tabling this report, I would like to thank the Auditor General, Mr Des Pearson, for his cooperation in clarifying aspects of the annual report. I also thank my fellow Committee members for their collegiate approach to this review, and the staff, Simon Kennedy, Andrea McCallum and Alf Opie for their valuable contribution and competent advice.

I commend the report to the House.

MR J.B. D'ORAZIO, MLA
CHAIRMAN

ABBREVIATIONS AND ACRONYMS

Annual Report	Office of the Auditor General for Western Australia's Annual Report 2001-2002
ACPAC	Australasian Council of Public Accounts Committees
Committee	Public Accounts Committee
FAAA	<i>Financial Administration and Audit Act, 1985</i> (Western Australia)

FINDINGS

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Finding 1

The Annual Report does not provide information that explains how potential audits are prioritised, parameters of investigations are determined or how resources are allocated to each investigation.

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Finding 2

Two main benefits would result from direct monitoring of the implementation of recommendations by agencies. Firstly, it would provide general information on the impact of the Auditor General's work on the Western Australian public sector. Secondly, it would allow a means by which to rate the effectiveness of individual recommendations made by the Auditor General.

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Finding 3

The Parliamentary Survey provides some useful information regarding the Auditor General's performance, but the Committee considers the Survey to be inadequate as the sole measure of effectiveness.

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Finding 4

The Annual Report does not adequately explain how Matters of Significance are identified.

RECOMMENDATIONS

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Recommendation 1

The Annual Report should provide brief background information on the way in which terms of reference are determined for Performance Examinations.

Page 6

Recommendation 2

Notwithstanding the information regarding Follow-up Performance Examinations currently included in Public Sector Performance Reports, the Auditor General's Annual Report should provide brief summaries on Examinations and relevant conclusions drawn from Examinations.

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Recommendation 3

The Auditor General should liaise with the Public Accounts Committee regarding instances in which agencies are considered to be significantly deficient in responding to Auditor General Reports, including the failure to implement recommendations.

Page 8

Recommendation 4

The Auditor General should identify the rate at which agencies implement recommendations in Auditor General Performance Examinations and provide explanations for those recommendations not implemented, in order to provide a measure of the impact of his work in the public sector each year.

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Recommendation 5

An agency subject to Performance Examinations will be required to report to the Public Accounts Committee within 12 months of the Auditor General's Report being tabled in Parliament as to what action it has taken to implement the Auditor General's recommendations.

The Auditor General should take further action in the event that the Public Accounts Committee refers a matter back to the Auditor General regarding the agency's response.

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Recommendation 6

In order to enhance the Parliamentary Survey and improve the quality of feedback regarding the Auditor General's performance, the Office of the Auditor General should expand the use of face-to-face interviewing of Parliamentarians.

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Recommendation 7

The Annual Report of the Auditor General should include additional information to help assess situations where completion of work deviates from targets.

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Recommendation 8

The Auditor General's Annual Report should include more information on the process of identifying Matters of Significance.

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Recommendation 9

The Committee recommends that future Annual Reports of the Auditor General include results of staff surveys as an internal performance measure, according to categories appropriate to the Office of the Auditor General for Western Australia.

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Recommendation 10

The Public Accounts Committee should consider in detail its relationship with the Auditor General as part of its inquiry, *Review of the Role of the Public Accounts Committee: Ensuring Public Sector Accountability in the 21st Century*.

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Recommendation 11

The Auditor General's annual reports should provide relevant details of meetings of the Australasian Council of Auditors General, including general developments pertaining to management of audit offices.

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Recommendation 12

Future annual reports should include information on progress of peer reviews in which the Auditor General is involved and plans for future reviews of the Office of the Auditor General for Western Australia.

AUDITOR GENERAL'S RESPONSE

The Public Accounts Committee requests that the Auditor General provide a report to the Speaker of the Legislative Assembly within three months, or at the earliest opportunity after that time if the Assembly is adjourned or in recess, that outlines the action, if any, proposed to be taken with respect to the recommendations of the Committee.

CHAPTER 1 INTRODUCTION

1.1 Background

The Public Accounts Committee acknowledges the crucial role of the Western Australian Auditor General in safeguarding public sector accountability. The 2001-2002 Annual Report tabled by the Office of the Auditor General reflects upon a year of successful activity by that Office.

In the past, individual reports tabled in Parliament by the Auditor General were regularly reviewed by the Public Accounts Committee. While acknowledging the crucial importance of the Auditor General's individual reports, the current Committee has decided it is also important to focus on the overall performance of the Office of the Auditor General by assessing its annual reports.

The main objectives of the Committee in reviewing the 2001-2002 Annual Report are to assess the quality of information provided in the Report and suggest possible improvements for future reports.

In making these recommendations for improvement, the Committee is mindful to not hinder the Auditor General's important work for the Western Australian community. The Committee strongly advocates the independence of the role of the Auditor General and recognises his right to determine whether or not to implement recommendations made in this review.

Nonetheless, the Committee does not believe its recommendations are onerous to the Auditor General's functioning. The recommendations are intended to improve information provided in future annual reports and many are based on approaches to reporting by Auditors General interstate and internationally.

The Committee considers this review as an augmentation of its relationship with the Office of the Auditor General as outlined in the Standing Orders of the Legislative Assembly of the Parliament of Western Australia.¹ The Committee will assess further aspects of this relationship in its forthcoming inquiry, *Review of the Role of the Public Accounts Committee: Ensuring Public Sector Accountability in the 21st Century*.

¹ For example, see Standing Orders of the Legislative Assembly of the Parliament of Western Australia 285(2)(d) and 285(3).

CHAPTER 2 AUDITOR GENERAL REPORTS TABLED IN PARLIAMENT 2001-2002

In addition to the Annual Report, the Auditor General tabled nine reports in Parliament in 2001-2002, including six Performance Examination Reports, two Public Sector Performance Reports and one Report on Ministerial Portfolios. The Reports are listed below:

- Level Pegging: Managing Mineral Titles in Western Australia (June 2002);
- Report on Ministerial Portfolios at November 30, 2001 (December 2001);
- First Byte: Consortium IT Contracting in the Western Australian Public Sector (December 2001);
- Life Matters: Management of Deliberate Self Harm in Young People (November 2001);
- Office of the Auditor General Annual Report 2001 (November 2001);
- Third Public Sector Performance Report for 2001 (November 2001);
- Righting the Wrongs: Complaints Management in the Western Australian Public Sector (October 2001);
- Second Public Sector Performance Report for 2001 (September 2001);
- Good Housekeeping: Facilities Management of Government Properties and Buildings (August 2001); and
- Lifting the Rating: Stroke Management in Western Australia (August 2001)

CHAPTER 3 INFORMATION PROVIDED IN THE ANNUAL REPORT

The Committee acknowledges the continued work of the Auditor General in serving the public interest and providing information regarding public sector accountability and performance that is both independent and impartial. As in previous years, the Office of the Auditor General has produced an impressive Annual Report that provides details of a successful 12 months.

The 2001-2002 Annual Report raises a number of issues regarding factors by which to judge the Auditor General's performance.

3.1 Focus of Reports

The method by which the Office of the Auditor General identifies issues for detailed examination is explained in the Annual Report:

...ideas and suggestions for Control, Compliance and Accountability (CCA) audits and Performance Examinations (PEs) projects (are) constantly generated as a result of regular scans and analysis of Hansard, media reports, letters of enquiry and complaint, meeting with key stakeholders and feedback from OAG field staff. Over the year some 250 ideas and suggestions were consolidated in a database which was regularly updated and reviewed to identify topics for more detailed examination.²

The Committee is concerned, however, that the Annual Report provides no explanation as to how audit tasks are prioritised, parameters of investigations determined, or levels of resources allocated to each investigation. The Annual Report provides little opportunity for the reader to assess these parameters.

Finding 1

The Annual Report does not provide information that explains how potential audits are prioritised, parameters of investigations are determined or how resources are allocated to each investigation.

² Office of the Auditor General for Western Australia, Annual Report 2001-2002, p.16.

Recommendation 1

The Annual Report should provide brief background information on the way in which terms of reference are determined for Performance Examinations.

3.2 Follow-up Performance Examinations

Performance Examinations are undertaken by the Auditor General to examine the accountability, efficiency and effectiveness of public sector agencies or specific areas within agencies. Following the completion of these initial Examinations, the Auditor General may return to complete a Follow-Up Performance Examination that assesses the agencies' responses to issues that have arisen.

Two Follow-Up Performance Examinations were undertaken in this reporting period, with summaries included in the *Second Public Sector Performance Report 2001*.

The Committee acknowledges the information regarding Follow-Up Performance Examinations that is included in Public Sector Performance Reports, but considers that the Annual Report should include more detail, such as parameters of Follow-Up Examinations and the allocation of staff hours.

Recommendation 2

Notwithstanding the information regarding Follow-up Performance Examinations currently included in Public Sector Performance Reports, the Auditor General's Annual Report should provide brief summaries on Examinations and relevant conclusions drawn from Examinations.

3.3 Implementation of Recommendations

Significant resources are devoted to producing the Auditor General's Performance Examinations and reports on public sector agencies, which include numerous recommendations to improve the operations of the agencies. To date, neither the Auditor General nor the Public Accounts Committee has a formal method of monitoring the progress of agencies in implementing recommendations.

It is of serious concern to the Committee that the potential benefits of the Auditor General's work are not currently being maximised due to the absence of regular checks on agencies following report tabling. The Committee envisages a more coordinated approach to monitoring the impact of the Auditor General's work.

At present, the Auditor General undertakes selective Follow-Up Performance Examinations approximately two years after the completion of the original reports to assess agencies' progress in the relevant area. However, there is no direct assessment as to whether individual recommendations from the original report have been implemented.

The Auditor General's communication with agency management at the conclusion of the usual audit process is limited to "Management Letters", which outline any shortcomings identified during audits and provide the basis for management to improve accountability processes, controls and develop quality reporting systems.³ Aside from Entrance and Exit Interviews that are undertaken with senior agency management to provide details on the substance of audits, no further interaction occurs unless a Follow-Up Performance Examination is undertaken.

It would be useful to directly monitor the implementation of individual recommendations in order to measure the effectiveness of the Auditor General's work in the public sector.

The Committee acknowledges the need to safeguard the Auditor General's independence and therefore suggests the Auditor General's activity in this area be limited to calculation of the rate of implementation by agencies, which can then be used as a performance measurement.

In itself, this measurement is restricted, but will provide a measure by which to assess the Auditor General's performance over time.

Situations where the Auditor General considers agency response to recommendations to be inadequate should be raised for the consideration of the Public Accounts Committee, which will determine whether to undertake further inquiry.

Finding 2

Two main benefits would result from direct monitoring of the implementation of recommendations by agencies. Firstly, it would provide general information on the impact of the Auditor General's work on the Western Australian public sector. Secondly, it would allow a means by which to rate the effectiveness of individual recommendations made by the Auditor General.

³ *Ibid*, p.22.

Recommendation 3

The Auditor General should liaise with the Public Accounts Committee regarding instances in which agencies are considered to be significantly deficient in responding to Auditor General Reports, including the failure to implement recommendations.

The Public Accounts Committee is impressed by the 2002 Annual Report of the Auditor General for New South Wales, which includes a section addressing the impact of its work. This section addresses the status of matters previously raised by the Office by directly assessing agency implementation of recommendations.

The Northern Territory Auditor General's Office also has an increasing focus on improvements within the Northern Territory public sector resulting from the Auditor General's work.

Included in the Annual Report produced by the Northern Territory Office of the Auditor General are:

- Numbers of recommendations in 2001-2002 agreed to by Agency management;
- Percentage of recommendations agreed to by management;
- Number of prior years' recommendations revisited; and
- Percentage of prior years' recommendations revisited which were implemented within one year.⁴

Recommendation 4

The Auditor General should identify the rate at which agencies implement recommendations in Auditor General Performance Examinations and provide explanations for those recommendations not implemented, in order to provide a measure of the impact of his work in the public sector each year.

⁴ Northern Territory Auditor General's Office, Annual Report 2001-2002, p.14.

Recommendation 5

An agency subject to Performance Examinations will be required to report to the Public Accounts Committee within 12 months of the Auditor General's Report being tabled in Parliament as to what action it has taken to implement the Auditor General's recommendations.

The Auditor General should take further action in the event that the Public Accounts Committee refers a matter back to the Auditor General regarding the agency's response.

3.4 Key Performance Indicators

Public sector accountability has developed from simple cash-based analysis to include assessment of outcomes and performance measures. Accordingly, the approach of the Office of the Auditor General now identifies Key Performance Measures by which to assess its own operations according to effectiveness and efficiency - a process adopted by all Western Australian agencies.

(a) Effectiveness Measures

The Auditor General's New Outcome and Outputs

The Auditor General relies exclusively on a survey of Parliamentarians to assess the effectiveness of his Office in the previous year. All Parliamentarians receive surveys annually to gauge the extent to which the Office's reports and services meet the needs of Parliament.

This process differs from previous years in which agency surveys were also used by the Office of the Auditor General to measure key performance indicators.

The Office of the Auditor General identified a new Outcome and new Outputs for 2001-2002. The Auditor General's new Outcome is identified as:

*An informed Parliament on public sector accountability and performance.*⁵

According to the Annual Report:

The new Outcome emphasises the Office's primary role in fulfilling its mission of serving the public interest by communicating to Parliament independent

⁵ Office of the Auditor General for Western Australia, Annual Report 2001-2002, p.56.

*and impartial information regarding public sector accountability and performance.*⁶

The revised Outcome led to a change in focus for the Office's Performance Indicators. As explained in the Annual Report, the Auditor General's exclusive focus on the Parliamentary Survey is intended to allow analysis that is more directly related to its new Outcome.

Parliamentary Surveys

The Committee makes the following observations regarding the Auditor General's Parliamentary Survey:

- While impressed with the results in the 2001-2002 Report, the Committee emphasises the need for negative responses to receive appropriate consideration from the Auditor General, including qualitative assessment of negative responses when useful;⁷
- In the absence of an informed opinion respondents may tend to rate performance as satisfactory or above, thereby distorting results;
- Committee concerns regarding the reliance of Parliamentary Surveys are supported by a performance audit of the Victorian Auditor General, which recommended a reduction in the use of survey questionnaires as a feedback tool for Parliamentarians in favour of face-to-face meetings with key stakeholders;⁸
- The Committee encourages the Auditor General to continue and expand the system of face-to-face interviews of Parliamentarians, which were conducted for the first time with seven Parliamentarians in March 2002;⁹
- The Public Sector Standards Commissioner, whose relationship to the Parliament is somewhat similar to the Auditor General's, has discontinued surveying Parliamentarians as a means to assess performance, partly due to "statistical unreliability";¹⁰

⁶ *Ibid.*

⁷ *Ibid.*, p.19.

⁸ Victorian Auditor General, Annual Report 2001-2002, p.23.

⁹ Office of the Auditor General for Western Australia, Submission, 2 April 2003, p.3.

¹⁰ Office of the Public Sector Standards Commissioner, Annual Report, 2001-2002, p.62.

- The Office of the Public Sector Standards Commissioner also noted that a number of Parliamentarians were unaware of the Office's role, further exacerbating the unreliability of results;¹¹
- The Auditor General's most recent survey of Parliamentarians attracted a moderate response rate of 58% - a rate comparable to previous years, but considered adequate for the Auditor General's statistical purposes;
- It was notable that 87% of Parliamentarians who completed and returned a survey in 2002 were considered knowledgeable regarding the Auditor General's activities; and
- Although difficult to quantify, it is crucial that Parliamentarians apply appropriate weight to the content of the survey when their responses are used to generate the Auditor General's Performance Indicators.

Finding 3

The Parliamentary Survey provides some useful information regarding the Auditor General's performance, but the Committee considers the Survey to be inadequate as the sole measure of effectiveness.

Recommendation 6

In order to enhance the Parliamentary Survey and improve the quality of feedback regarding the Auditor General's performance, the Office of the Auditor General should expand the use of face-to-face interviewing of Parliamentarians.

(b) Efficiency Measures

In his forward to the 2001-2002 Annual Report, the Auditor General describes the Office's year merely as "adequate". According to the Auditor General:

*...many milestones weren't reached on time and too many divisional targets were missed. Opportunities to add value went unrecognised and initiatives to enhance operational effectiveness stalled.*¹²

¹¹ Commissioner for Public Sector Standards, Correspondence, 9 April 2003.

¹² Office of the Auditor General for Western Australia, Annual Report 2001-2002, p.6.

Despite these concerns, the Report confirms that all audit opinions were issued within statutory guidelines and 83% of surveyed Parliamentarians considered the delivery of Auditor General reports to be timely.¹³ The shortcomings referred to by the Auditor General are not clearly reflected in the body of the Annual Report. Depending on the exact nature of the issues referred to by the Auditor General, further information relating to efficiency may provide clarity.

Recommendation 7

The Annual Report of the Auditor General should include additional information to help assess situations where completion of work deviates from targets.

The Annual Report outlines efficiency indicators to assess costs according to the type of work undertaken. This section provides examples of actual costs exceeding target costs in 2001-2002.¹⁴

While it is crucial that the State's chief financial overseer remains disciplined in his expenditure, the Committee emphasises the need for the Auditor General to focus primarily on his auditing function and responding to issues as they arise. The Committee understands the difficulty in predicting costs at the commencement of each year given the nature of much of the Office's work.

Nonetheless, it is pleasing that costs for each major audit opinion were well below predicted figures. By contrast, costs to complete other audits and costs for each Matter of Significance were above predicted levels.

Matters of Significance

Matters of Significance were introduced in the Auditor General's Annual Report of 1999-2000 to provide a more effective quantity measure than the simple numbers of reports tabled in Parliament, as occurred previously.

The Auditor General's most recent Annual Report repeatedly refers to Matters of Significance, which are defined as:

*the "key messages" in OAG reports, which are the issues a general Parliamentary reader would take away from the report after the detail of specific findings and recommendations has receded into the background.*¹⁵

¹³ *Ibid*, p.18.

¹⁴ *Ibid*.

¹⁵ *Ibid*, pp.56-57.

The Annual Report for 2000-2001 breaks down costs according to the numbers of Matters of Significance that have been identified, which is far more reflective of performance than measures used in previous reports. As such the Committee approves of the use of the measure.

However, some aspects of the process of identifying Matters of Significance are of concern and are discussed below.

The Annual Report states that:

*Matters of Significance are recommended by reviewers independent of a report's authors, and finalised by Corporate Executive.*¹⁶

The Annual Report explains that Office staff directly involved in producing reports are not involved in identifying Matters of Significance. While this is to be commended, the Committee's endorsement of the process is weakened due to the fact the process is controlled by an "in-house" body.

The Committee does not doubt the Corporate Executive's motives, but notes that this group's integrity is the only factor protecting the veracity of this particular measure. Much of the Committee's concern is based on the eventual use of Matters of Significance to break down and analyse costs for the year, as the Corporate Executive retains the potential to unduly influence the indicators used in the Annual Report.

No discussion is provided in the Annual Report as to the method by which the weight of matters is attributed, nor what is considered by the Corporate Executive to be "significant" or "insignificant".

While evaluation and reporting is crucial, the Committee is also concerned that any over-emphasis on identifying Matters of Significance might divert the focus of the Auditor General's staff from their most immediate tasks in ensuring public sector accountability.

Despite limitations, the Committee is satisfied that using Matters of Significance as a performance measurement is the most effective method available at this time; it certainly represents an improvement on methods used in previous annual reports. The Committee encourages the Auditor General to continue pursuing improved measures of performance in the future.

Finding 4

The Annual Report does not adequately explain how Matters of Significance are identified.

¹⁶

Ibid.

Recommendation 8

The Auditor General's Annual Report should include more information on the process of identifying Matters of Significance.

3.5 Auditor General's Office Management

The Annual Report provides valuable information regarding the breakdown of the Auditor General's staff according to gender and position within the organisation.

Male representation remains dominant in the senior positions, but the Committee notes the equal representation of male and female employees in the middle tiers of the Office.¹⁷ The Committee endorses the Auditor General's stated aim to increase the number of women in management and, in time, it is hoped these female employees will have opportunities for promotion to senior levels. It is also notable that female employees outnumber males by approximately two to one in the junior levels of the Office.

When examining reports from interstate Auditors General, the Committee is impressed by those reports that include staff satisfaction surveys as an indicator of performance. Results of staff surveys in New South Wales, Victoria and Tasmania appear to offer significant assistance to performance assessment in these offices over time.

As reported in the Victorian Auditor General's Annual Report for 2001-2002, staff members were asked to rate their satisfaction with the Office in the following areas:

- Information technology;
- Ethics and integrity;
- Relationship management;
- Empowerment;
- Organisational profile;
- Job satisfaction;
- Recognition and awards;

¹⁷ *Ibid*, p.28.

- Policy and planning;
- Coaching and training; and
- Ideological strength.¹⁸

Recommendation 9

The Committee recommends that future Annual Reports of the Auditor General include results of staff surveys as an internal performance measure, according to categories appropriate to the Office of the Auditor General for Western Australia.

¹⁸ Victorian Auditor General's Office, Annual Report 2001-2002, p.52.

CHAPTER 4 COMMITTEE OVERSIGHT OF THE AUDITOR GENERAL

The Auditor General reports directly to Parliament, but is not strictly an “Officer of the Parliament” because the Office is not legislated in that way. The Auditor General does not benefit from specific legislation establishing the Office, but instead is provided for by the *Financial Administration and Audit Act, 1985*.

Section 71 of the FAAA provides that the Governor shall appoint the Auditor General and the Auditor General may only be suspended by the Governor and removed from office if so resolved by each House of Parliament (S.75).

By approval of the Governor in Executive Council, the Treasurer has administrative responsibility for the Office of the Auditor General. The annual budget appropriation therefore appears under the appropriation of the Deputy Premier and Treasurer.

These arrangements have safeguarded the Auditor General’s independence from Parliament and the Executive. However, it remains fundamentally important that the Auditor General remains accountable to Parliament, and it has been customary for the Public Accounts Committee to be the point of contact between Parliament and the Auditor General.

The Western Australian Public Accounts Committee has a limited role in overseeing the Auditor General in comparison to other Australian jurisdictions.

The nature of the relationship between the Committee and the Auditor General in Western Australia will be considered thoroughly in the Committee’s forthcoming inquiry to review its own role, but a number of possibilities will be briefly mentioned here. The Committee is also considering methods by which it can assist in maintaining the Auditor General’s important virtues of independence and impartiality.

The Committee is reluctant to advocate change at this time due to proposed amendments to the FAAA that will impact on the operations of the Office of the Auditor General.

Nonetheless, there are significant differences in the interactions between Public Accounts Committees and Auditors General around Australia that may be worth considering for possible implementation in the Western Australian context. The following sections include discussion of a number of aspects of the Committee’s relationship with the Auditor General that might be varied in future.

4.1 Consulting with the Public Accounts Committee regarding audit priorities and annual work program

The Auditor General has indicated a preparedness to consult informally with the Committee as to his Office's proposed annual work program and the Committee will review the usefulness of its input.

The degree of Committee input varies between the various states of Australia. In Victoria, for example, the Auditor General must obtain feedback from the Public Accounts and Estimates Committee on a draft work plan before producing its final program of activity for the coming year. The input of the Victorian Committee is limited to making suggestions to the Auditor General and it is not able to direct the Auditor General's activity.¹⁹

There is a comparable relationship at the Commonwealth Parliament between the Auditor General and the Joint Committee of Public Accounts and Audit. The Committee is impressed by these arrangements and will closely consider the merits of applying them in Western Australia.

4.2 Budget for the Office of the Auditor General

The Western Australian Public Accounts Committee is not involved in any way in discussions or negotiations regarding the Auditor General's annual budget. By contrast, Public Accounts Committees in the Australian Capital Territory, Queensland, Victoria and the Commonwealth Parliament have some level of involvement in determining an appropriate budget for the Auditor General.

The Committee is interested in investigating further the potential of this role, which could be easily included as part of discussions regarding the Auditor General's annual audit priorities and work program.

4.3 Public Accounts Committee's role in reviewing the Auditor General's performance

The Committee is considering steps to ensure the Auditor General's work remains accountable and of the highest standard. Some Public Accounts Committees in

¹⁹ Thompson, G. "The changing relationship between Public Accounts Committees and Officers of Parliament, including Auditors-General", paper presented at ACPAC Conference, Melbourne, February 2003.

Australia have statutory requirements to review Auditors General and a similar role for the Western Australian Public Accounts Committee may be useful.

The Victorian Public Accounts and Estimates Committee is required by statute to undertake a number of functions relating to the Victorian Auditor General's Office. One of these is to oversee a review of the Victorian Auditor General's Office every three years by an independent auditor appointed by the Committee.²⁰

The situation is similar in New South Wales, pursuant to section 48A of the *Public Finance and Audit Act 1983*, which requires the Public Accounts Committee to review the Audit Office at least once every three years. The Committee sets the review's terms of reference and appoints the reviewer.²¹

4.4 Appointment and Tenure of Auditor General

A recent trend for Public Accounts Committees is to have direct input into the appointment of the Auditor General. At present, the Western Australian Public Accounts Committee has no role in this process.

Public Accounts Committees in some jurisdictions in Australia have significant input into proposed appointments to the position of Auditor General; in others, the Public Accounts Committee has veto power over a nomination.

In Queensland, for example, the Public Accounts Committee has a consultative role in the appointment and dismissal of the Auditor General. The responsible Minister is required to have consulted with the Committee before making an appointment to the role of Auditor General.²²

Proposed appointments in New South Wales must be referred by the Treasurer to the Public Accounts Committee, which then has 14 days in which to veto the proposed appointment, should it so choose.²³

Security of tenure is widely viewed as important in preserving the independence of the Auditor General. At present in Western Australia the Auditor General is entitled to hold office until the age of 65 years, but changes in other Australian jurisdictions have

²⁰ *Audit Act, 1994* (Victoria).

²¹ Section 48A, *Public Finance and Audit Act, 1983* (New South Wales).

²² Subsection 50(2), *Financial Administration and Audit Act, 1977* (Queensland).

²³ Section 57A, *Public Finance and Audit Act, 1983* (New South Wales).

established fixed and non-renewable terms of seven years for Auditors General. Victoria is slightly different in providing the option for a second seven-year term.²⁴

The Committee endorses the Statement of Principles published by the Australasian Council of Auditors General aiming to protect the independence of office holders. The Statement favours non-renewable terms of between seven and ten years and comments that moves in this direction would be “consistent with modern practice.”²⁵

The Committee is keen to be involved in the appointment process for future Auditors General.

Recommendation 10

The Public Accounts Committee should consider in detail its relationship with the Auditor General as part of its inquiry, *Review of the Role of the Public Accounts Committee: Ensuring Public Sector Accountability in the 21st Century*.

²⁴ Section 94C, *Audit Act, 1994* (Victoria); section 74(1) *Financial Administration and Audit Act, 1985*;

²⁵ Australasian Council of Auditors-General, Statement of Principles - Independence of the Auditor General <http://www.acag.org.au/indep297.htm> (accessed 4 March 2003).

CHAPTER 5 AUSTRALASIAN COUNCIL OF AUDITORS GENERAL

The uniqueness of the Office of the Auditor General within the Western Australian public sector emphasises the importance of ensuring best practice through comparison and communication with relevant interstate and international Auditors and their equivalents.

The Public Accounts Committee is pleased to observe the involvement of the Western Australian Auditor General in the Australasian Council of Auditors General. However, while the Auditor General's Annual Report refers in general terms to its relationship with Auditors in other jurisdictions, there is little information explaining the nature of these relationships.

Details on liaison between offices appear to be covered in previous annual reports and the Committee is keen to see more recent results in this area.²⁶

Recommendation 11

The Auditor General's annual reports should provide relevant details of meetings of the Australasian Council of Auditors General, including general developments pertaining to management of audit offices.

5.1 Peer Review

Meetings of the Australasian Council of Auditors General have provided opportunities for interaction beyond simple liaison between Auditors General, including regular peer review, and the Committee encourages the Auditor General's continued involvement with the Council.

In 1998, a review team of senior officers from the New South Wales and New Zealand audit offices conducted an external independent review of the operations of the Office of the Auditor General as part of arrangements of the Australasian Council of Auditors General. The review team returned in 2000 to complete a follow-up evaluation of changes in the Western Australian Office.²⁷

²⁶ For example, see Western Australian Office of the Auditor General, Annual Report 1998-1999, p.11.

²⁷ Western Australian Office of the Auditor General, Annual Report 1999-2000, p.16.

Unfortunately, the 2001-2002 Annual Report of the Western Australian Office does not disclose the current status of any reviews or if there are plans for future reviews.

Recommendation 12

Future annual reports should include information on progress of peer reviews in which the Auditor General is involved and plans for future reviews of the Office of the Auditor General for Western Australia.

CHAPTER 6 CONCLUSION

The Committee is satisfied that the Annual Report produced by the Auditor General in 2001-2002 is of a high quality and represents a year of impressive activity and achievement.

The Report is thorough, well presented and provides detailed information relating to the Auditor General. As such, it provides a worthy example for agencies in the Western Australian public sector to follow.

The Committee has made a number of recommendations for future annual reports to enable more effective assessment of the Auditor General's performance. The Committee's intention when making these recommendations is to enhance information relating to the Auditor General's performance.

The shared objectives of the Committee and the Auditor General towards public sector accountability provide an inevitable inclination towards cooperation between both parties. The exact nature of the current relationship and the preferred form of future relations between the parties are currently being assessed as part of the Committee's review into its own role. In undertaking this inquiry, the Committee recognises the benefits in maintaining a cooperative relationship with the Auditor General.

APPENDIX ONE

WITNESSES TO HEARINGS

Date	Name	Position	Organisation
19/03/03	Mr Des Pearson	Auditor General for Western Australia	Office of the Auditor General for Western Australia
19/03/03	Mr Kerry O'Neil	Deputy Auditor General for Western Australia	Office of the Auditor General for Western Australia

APPENDIX TWO

SUBMISSIONS RECEIVED

Date	Name	Position	Organisation
02/04/03	Mr Des Pearson	Auditor General for Western Australia	Office of the Auditor General for Western Australia

APPENDIX THREE

LEGISLATION

Legislation	State (or Country)
<i>Audit Act, 1994</i>	Victoria
<i>Financial Administration and Audit Act, 1977</i>	Queensland
<i>Financial Administration and Audit Act, 1985</i>	Western Australia
<i>Public Finance and Audit Act, 1983</i>	New South Wales
<i>The Public Finance and Audit Act, 1987</i>	South Australia
Standing Orders of the Legislative Assembly of the Parliament of Western Australia	Western Australia

REFERENCES

Audit Office of New South Wales, Annual Report 2002

Australasian Council of Auditors-General, "Statement of Principles - Independence of the Auditor General" <http://www.acag.org.au/indep297.htm> (accessed 4 March 2003)

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Northern Territory Auditor General's Office, Annual Report 2001-2002

Office of the Auditor General for Western Australia, Annual Report 2001-2002

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Office of the Auditor General for Western Australia, Annual Report 1997-1998

Office of the Public Sector Standards Commissioner for Western Australia, Annual Report 2001-2002

Queensland Audit Office, Annual Report 2002

Report on the Operations of the South Australian Auditor-General's Department for the year ended 30 June 2002

Tasmanian Audit Office Annual Report 2002

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Victorian Auditor General, Annual Report 2001-2002