

**STANDING COMMITTEE ON  
ESTIMATES AND FINANCIAL OPERATIONS**

***BUDGET STATEMENTS***

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
MONDAY, 29 JUNE 2009**

**SESSION TWO**

**Members**

**Hon Giz Watson (Chair)  
Hon Philip Gardiner (Deputy Chair)  
Hon Liz Behjat  
Hon Ken Travers  
Hon Ljiljanna Ravlich**

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**Hearing commenced at 2.49 pm**

**MURPHY, MR COLIN**

**Auditor General, Office of the Auditor General,  
4/2 Havelock Street,  
West Perth 6005, sworn and examined:**

**GODFREY, MRS SADIE**

**Assistant Auditor General, Strategy, Policy and Corporate Services,  
Office of the Auditor General,  
4/2 Havelock Street,  
West Perth 6005, sworn and examined:**

**The CHAIR:** On behalf of the committee, I would like to welcome you both to this meeting. Before we begin, I must ask you to take either the oath or the affirmation.

[Witnesses took the oath.]

**The CHAIR:** You will have signed a document entitled “Information for Witnesses”. Have you read and understood this document?

**Mr Murphy:** Yes.

**Mrs Godfrey:** Yes.

**The CHAIR:** These proceedings are being recorded by Hansard and a transcript of your evidence will be provided to you. To assist the committee and Hansard, please quote the full title of any document that you may refer to during the course of the hearing, and please be aware of the microphones and try to talk directly into them. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today’s proceedings, you should request that the evidence be taken in closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that until such time as the transcript of your public evidence is finalised, it should not be made public. I advise you that premature publication or disclosure of the uncorrected transcript may constitute a contempt of Parliament and may mean that the material published or disclosed is not subject to parliamentary privilege. I remind members to please quote from any line item or particular budget statement during the hearing to assist Hansard.

**Hon LJILJANNA RAVLICH:** Auditor General, I am referring to page 507 of the budget papers, and specifically to the three per cent efficiency dividend. I notice that you will be making savings by reducing the financial audit coverage and the costs associated with that, you will be reducing the nonessential performance examinations and you will be reducing the audit support. In making these reductions, do you think that there will be less accountability in respect of the activities of government agencies?

**Mr Murphy:** The first point I will make is that the table that appears in the budget papers was part of a submission that we made to the Treasurer suggesting what the possible impact of the reductions to our budget might be. At this stage, I am not sure exactly which areas will be reduced, but it is unlikely to be the areas that are identified in that table. Specifically, we have great difficulty reducing the number of financial audits. Financial audits comprise some 70 per cent to 75 per cent of our audit activity. They are required by legislation and they need to be conducted in accordance with auditing standards. It is very difficult to do less than what is required. One of the issues for

discussion that we put in our communication with the Treasurer was the prospect of not doing some of those audits by using a provision in the legislation. That discussion has not taken place. I have not received any favourable feedback on that proposition, with the result that audits for the current financial year are well and truly in progress and there is little or no prospect of achieving savings in the financial audit area. That leaves the performance audit area of activity as the primary target. I believe it is likely that we will need to make significant reductions to the performance audit area of our activities, which will result in fewer reports to Parliament.

**Hon LJILJANNA RAVLICH:** In fact, you are saying that the financial audits are pretty much non-negotiable; you have sought a meeting with the Treasurer but have not been able to get that meeting, as of today; that with respect to the projected savings for the performance examinations—I think it is \$600 000 over the forward estimates—there will be greater savings and fewer audits conducted and examinations provided to the Parliament on account of the fact that most of the savings will come out of that area.

**Mr Murphy:** That appears to be the case, and that is exactly what I expect. I will continue to try to find ways of making savings within the financial audit area because, as I said, it is some 70 per cent or 75 per cent of our operations. We have looked at not doing some of those audits, but that was not met favourably by anyone. We also looked at the option of doing them later in the year, outside of the 90 days that is prescribed in the legislation, and I want to pursue that matter further. It is extremely difficult for us to achieve savings in the financial audit area, which means that we would need to reduce the performance audit area of our activities.

**Hon LJILJANNA RAVLICH:** Given that performance examinations are conducted across government agencies to investigate where there are difficulties or issues in those government agencies, is it true that by decreasing the number of performance examinations, there is the possibility that the government will be less accountable in respect of what is going on in government agencies?

**Mr Murphy:** There certainly would be reduced reporting on accountability issues within the public sector as a result of the reduction.

**Hon LJILJANNA RAVLICH:** You have already put on the public record that there will be those difficulties; that you felt the three per cent efficiency dividend should not be applied by Treasury; and that you report to the Parliament and therefore you would seek an exemption, for which you were seeking legal advice. Have you sought that legal advice?

**Mr Murphy:** No, we did not seek legal advice on that. The issue of whether the reduction could be applied to my office related to the 2008-09 financial year. The point I was making is that I had received an appropriation for that particular year from Parliament. I was questioning whether anybody could reduce that amount midyear. I do not question, at all, the ability of Parliament to impose reductions for 2009-10 and subsequent years. That issue related only to 2008-09. In the course of that year people left the office and I made savings. Effectively, there was no need to challenge that issue because we did manage to meet the savings in 2008-09, which were in the order of only \$250 000.

**Hon KEN TRAVERS:** Are you saying that the table you talked about—the three per cent efficiency dividend—is no longer relevant to where you will make the three per cent savings?

**Mr Murphy:** That is correct.

**Hon KEN TRAVERS:** Who provided that table in the first place?

**Mr Murphy:** That information has been compiled from a budget submission that my office made to the Treasurer. We provided information to the Treasurer suggesting areas that could be subject to a reduction and spelling out what the implications of those reductions might be.

**Hon KEN TRAVERS:** Why is the first item—the reduced financial audit coverage and costs—now not something that you thought was a possibility some months ago?

**Mr Murphy:** Budget submissions are made around about December or January, so that issue would have been discussed at about that time. The prospect was of simply not doing some of the audits of the smaller, lower risk agencies. That was a matter that I subsequently discussed with this committee, the Public Accounts Committee and within other public sector forums. I did not receive any favourable feedback on that proposition, for a number of reasons. All the Australian states and the commonwealth require all their entities to be audited by the Auditor General every year. For us to depart from that, I felt, would have been a significant move. It was also pointed out in discussions that if an agency was not to receive an audit, it would need to be aware of that in advance.

[3.00 pm]

The agency would potentially be exposed in some ways because they would be aware that they were not going to be subject to audit in that particular year, so there would be risks associated with that.

**Hon KEN TRAVERS:** Who actually made the final decision not to implement those cuts?

**Mr Murphy:** I did. All of the issues with respect to how the reductions are to be made are within my control, because I cannot be directed as to how audit effort is expended. My legislation makes it perfectly clear that that is my decision. The legislation does provide for audits not to be done. My understanding is that that provision was put in place essentially to deal with dormant entities rather than to meet budget cuts, but the legislation requires that, before I take action like that, I must discuss it with the Treasurer and I also need to advise both this committee and the Public Accounts Committee. So it is a serious step and that is accounted for in that way in the legislation.

**Hon KEN TRAVERS:** Have you advised the Treasurer that those three per cent cuts, in the way in which they have been listed, cannot be achieved?

**Mr Murphy:** No, I have not.

**Hon KEN TRAVERS:** Have you asked him for additional money, as a result of your decision not to implement the reduction in financial audits?

**Mr Murphy:** No. I believe I will be having discussions with the Treasurer and with Treasury as the year progresses, but no, I have not at this stage.

**Hon KEN TRAVERS:** Do you believe you have sufficient funds and resources to ensure, even on a risk management approach, that the state's revenue and expenditure is protected, and that it is carried out efficiently, effectively and properly?

**Mr Murphy:** That is a difficult question to answer. I certainly have adequate funds to meet my statutory requirements; there is no question about that. We do have adequate funds to meet the statutory requirements and to carry out the audits that are required. In the performance audit area there is a fair amount of discretion. I get to choose the areas that will and will not be subject to examination. The fact is that the more resources that are available, the more areas that can be covered, and the fewer resources available, the fewer areas that will be covered. I think you really need to look at the context of the savings. It is \$500 000, it is three per cent, so it is not a staggering amount. It would be difficult to sustain an argument that it was going to seriously hamper our operations; nevertheless, there will be less reporting to Parliament.

**Hon KEN TRAVERS:** What you have actually told us this afternoon is that it is three per cent of 25 per cent, is it not? If I work it out, it is about 12 per cent of your discretionary spend.

**Mr Murphy:** That is absolutely correct, and that is why I am trying to make every effort to achieve savings in other areas of my budget, to minimise the impact on the performance audit. I also need to explain that it is not an easy matter for me to turn off issues such as salaries and wages and pre-

existing contractual obligations. In the previous financial year we did have staff attrition. You cannot plan where that is going to occur, so I do need to be a bit opportunistic as the year progresses, to take advantage of any staff attrition that happens and to choose where we fill vacancies or do not fill them and those sorts of things.

**Hon LJILJANNA RAVLICH:** Do you think it is in the public interest to have more performance audits rather than fewer performance audits?

**Mr Murphy:** I am certainly on the record as saying that I did not believe it was in the public interest to have fewer performance audits.

**Hon LJILJANNA RAVLICH:** May I just shift a little bit? In relation to your mission compared with the mission of the Public Sector Commission, there seems to be a little bit of overlap. Is that the way you see it?

**Mr Murphy:** Certainly not with the Public Sector Commission; I do not see any overlap there.

**Hon LJILJANNA RAVLICH:** Have you ever provided a performance examination of the freedom of information commission?

**Mr Murphy:** No, we have not. Typically, we do audits of other accountability bodies. We certainly do the financial audits of people like the Corruption and Crime Commission, Public Sector Standards Commissioner and the Ombudsman. We do a financial audit of them every year, and that covers not just the true and fair presentation of their financials, but also their controls and also their key performance indicators. But given that they report directly to the Parliament and they have oversight, typically by parliamentary committees, I think it would be very unusual to embark on a performance audit of the functions of any of those bodies. I go back again and remind you that I do have discretion over the prioritisation of areas for performance audit, and, as you would imagine, it is a very large public sector with a lot of diversity, so there are plenty of other areas to look at.

**Hon LJILJANNA RAVLICH:** Given that the Public Sector Commissioner does not report to the Parliament, is he in the same category as the Information Commissioner and the Ombudsman?

**Mr Murphy:** No; that category of accountable officials would report directly to the Parliament, so that would be a difference.

**Hon LJILJANNA RAVLICH:** It is fair to say that the Public Sector Commission was not established under statute, so, therefore, it is a government agency for all intents and purposes and would be treated as such?

**Mr Murphy:** That is my understanding. I could point you to a performance audit we did on the public sector workforce entitled “Help Wanted”, which is a pretty serious performance examination conducted by my predecessor, and which has received a lot of attention from the Public Sector Commission.

**Hon LJILJANNA RAVLICH:** What is the name of the report?

**Mr Murphy:** It is “Help Wanted”, which is an examination of public sector workforce issues.

**Hon LJILJANNA RAVLICH:** I guess the point that I am trying to establish is where in the role that you have does the Public Sector Commission in fact sit, because this is supposed to be an independent body established by the Premier, if you like, at arm’s length from government, yet when we have a look at the practicalities, it is actually another government agency that reports directly to the Premier.

**Mr Murphy:** That is my understanding of the situation, but I do not draw any comparison or make a distinction with that agency.

**Hon LJILJANNA RAVLICH:** You would treat it like you would treat the Department of Health, or the Department of Education and Training or any other government agency, as such; you will not treat it as you do, let us say, the Ombudsman or the Freedom of Information Commission.

**Mr Murphy:** That is correct, although I would point out that those latter agencies are also subject to audit.

**Hon PHILIP GARDINER:** I am sorry I arrived late for various reasons. I am going to recap a little bit. The conventional audit time compared with the performance audit or the discretionary audit time; what is the rough proportional between the two?

**Mr Murphy:** Approximately 70 to 75 per cent of audit effort goes to financial audits.

**Hon PHILIP GARDINER:** The 25 to 30 per cent is totally in your discretion about which areas of the government that you audit or is that on request by ministers or public servants, or is it your analysis of where the risk areas of government lie?

**Mr Murphy:** It is totally within my discretion, but I do take into consideration requests that come from members of Parliament and the legislation actually requires me to have regard to any requests that come from this committee or the Public Accounts Committee.

**Hon PHILIP GARDINER:** So if it was that you were going to maintain the same number of performance audits or discretionary audits—what do you say—are they core performance audits?

**Mr Murphy:** They are performance audits.

**Hon PHILIP GARDINER:** Are they the kinds of endangered species and roads; and that is what you call a performance audit?

**Mr Murphy:** That is correct.

**Hon PHILIP GARDINER:** Okay. So if you were to maintain the same number of those, then you are going to shortcut some of the financial audits.

**Mr Murphy:** It is extremely difficult for me to reduce the amount of effort that is applied to financial audits. Given that it is the largest part of our operation, I have spent a lot of time with my executive trying to find ways to reduce the amount of effort that goes into financial audits, and it is proving extremely difficult. They are required by legislation. The auditing standards are prescriptive about what needs to be done. There appears to be very little scope for me to reduce effort in that particular area.

**Hon PHILIP GARDINER:** If I may just push you on that a little bit further, in the budget papers I think there is an investment of roughly \$500 000 for this year in computer services, computer hardware or computer facilities in the asset investment component.

**Mr Murphy:** That could be right.

[3.10 pm]

**Hon PHILIP GARDINER:** Do you see that that will help you in any, if you like, efficiencies—getting more from the dollar than you have been getting in the past—or is that really a plan for the future?

**Mr Murphy:** We are certainly considering upgrading our audit methodology, and I would be very hopeful that in the longer term that would deliver efficiencies in public sector audit. Unfortunately, the nature of the implementation of new systems is such that you generally experience a hump in costs in the implementation long before you deliver the efficiencies. That is my expectation. Our costs are likely to suffer a bit of a bump in the initial years and then I would certainly be looking for efficiencies in the out years.

**Hon PHILIP GARDINER:** I think the numbers show much the same investment going in the out years as well, per year, so hopefully —

**Mr Murphy:** As you would imagine, we have a pretty small operation and a pretty small capital investment. The largest capital investment relates to the fact that all of our officers have laptops and they are replaced on a three-year cycle. The rest of it is just keeping our systems up to speed.

**Hon PHILIP GARDINER:** Back to the core of the question, really, which is, for the executive, in a way—forgive me for making a comparison—of a corporation, the corporation's internal audit reports for the board rather than for the managing director. The board identifies where the risks are in the organisation and then directs the internal audit to do those over a period, and so on. What are the big risks that you see in the government for the work that you think you might need to be able to apply? Which areas would you be putting forward? The second part will be: what will be given up as a result of how much you have got in your budget?

**Mr Murphy:** In terms of the risks, if you have a look at what has changed in the current environment, really the factors that have changed are that the global financial crisis has had a big impact. That will require a different audit effort around things like valuation of assets, and also an examination of fraud, and those sorts of things. That will have an impact on the audits. The other issues relate to government spending initiatives like the federal stimulus package, which will involve some spending by state government agencies in Western Australia, and the royalties for regions, which is another spending initiative that is both new and large. They are a couple of the factors that are there. The other issue that has come up for note is the three per cent efficiency dividend itself. Agencies have been asked to find ways to achieve reductions without cutting front-line services. I do not have any problem with that as an initiative. I think it is a useful question to ask from time to time—how can things be done more efficiently? I just want to be assured that reductions are not made in areas that impact on internal controls and accountability. That is another area that has come up on our risk rating as something to have a look at—how agencies have actually implemented that reduction. They are a few of the issues. I am sorry, there was another one.

**Hon PHILIP GARDINER:** Then, really, what will be left off the list?

**Mr Murphy:** That is difficult to say, because in any given year I would have many more topics suggested than we actually have resourcing to be able to examine. That process is always a prioritisation of what the material issues are and have some risk associated with them. We look at issues like coverage across the sector to ensure that we are not typically focusing on one area all the time. We have a look at the context to see whether it is the right time for an examination to be done, which is a difficult issue. It is not an easy matter to say what will not be done. It is a matter of prioritising—conducting investigations and examinations into those areas that are of the highest priority.

**Hon PHILIP GARDINER:** When you draw up the prioritisation of those subjects, that must be pretty difficult if it is only left to you as the only person to decide. Do you have anyone else to help in the deliberations of that prioritisation, and what you leave out?

**Mr Murphy:** Absolutely; we have a process within the office whereby we go through and analyse proposals. We develop proposals against a range of different topics. They can emerge from anywhere. We get requests from the public, members of Parliament, and from a wide range of different areas. Our auditors examine what is happening in other jurisdictions. We get feedback from the fact that we are out auditing all the agencies in the public sector. We put all of those issues together and do proposals for matters of interest and then we assess them against a series of criteria. I do that together with the executive and experienced audit professionals, but ultimately you are quite correct: the decision is ultimately mine.

**Hon PHILIP GARDINER:** If you had your way with what was available to you in terms of budget resources, how much would the budget differ for you to do the job to your standard?

**Mr Murphy:** I have made the point previously that in the current economic environment, I do not think it is appropriate to seek additional resources, so I have not at any stage asked for more than what was in the forward estimates. I did really question whether it was appropriate to remove three per cent from the forward estimates, but I have never at any stage suggested that the office should receive additional funding beyond what was in the forward estimates.

**The CHAIR:** You mentioned royalties for regions. That is a new area of spending. Is there an additional cost to your office, or is it just another bit of work that needs to be done?

**Mr Murphy:** No, it is not an additional cost, but it will push something else out of the program. It is simply a matter that has achieved that prioritisation out of the large number of issues that we could potentially look at.

**The CHAIR:** In terms of the deal that has been introduced to govern the royalties for regions program, would your office be taking an interest in submitting on whether it thought that it is structured in a way that provides for the sort of accountability and transparency that you would expect of a new program?

**Mr Murphy:** We are currently developing our program for royalties for regions. It is as yet undeveloped, so we do not really know exactly what that program is. Since early days for me in this role, once a program has been developed I have put it up on our website under work in progress so that people can see. Once we have developed our program for royalties for regions, we will do that with it. It will be available on our website for people to see what the scope of that work is. I make the point that my expectation at this stage is that there will be an initial look at what is going on, but if it is intended that the program will go on for a number of years, there may well be subsequent activity beyond our initial examination. To get to your question about legislation, typically we do not look at legislation and comment on whether it is good, bad or otherwise. We see a very clear boundary between government policy and the conduct of government agencies. The Parliament is free to put in place whatever legislation it chooses, and it is not my role to criticise that.

**Hon LJILJANNA RAVLICH:** Just as a follow on from that, Auditor General, I noticed that you have been reported as saying that you would be looking at the risks involved in the government's \$2.7 billion royalties for regions program. Can you please identify for me some of the risks that you will be evaluating this program against?

**Mr Murphy:** We use the term "risks" all the time in audit. I think it is probably a slightly different use of the term from that in common usage. Risks for us are things that are large and new—those that would come up on our audit methodology as things we need to look at. Typically, if we go into an agency and it is well run, has continuity of staff and there are no major changes in the current year, we would assess its risks as low.

[3.20 pm]

If the functions of the agency had changed and the staffing had changed significantly, our risk rating would go up and that would involve us conducting more audit work in that area.

**Hon LJILJANNA RAVLICH:** So it is a risk continuum as opposed to a number of criteria that have been established against which to measure it.

**Mr Murphy:** That is absolutely correct. I have made the point, and I make it again, that we do not believe there is anything inherently risky about royalties for regions. I do not make any comment at all about the nature of the program. Any new program that is significant in size that had not been conducted before in the Western Australian public sector would attract our examination as meeting the criteria for having audit risk.

**Hon LJILJANNA RAVLICH:** Is this program a bit unprecedented? Generally, programs do not cost \$2.7 billion and above.

**Mr Murphy:** Every government does something that is unique. There are always unique issues every year.

**Hon KEN TRAVERS:** I go back to the issue of risks. You identified the ones that you have seen already. I want to raise another one that I am concerned about and get your opinion on it. Firstly, we have seen a situation this year where despite having increased the Treasurer's Advance Authorisation Bill, it became very clear to us during estimates that the Treasurer's advance bill is



likely to be fully allocated this year; in fact, Treasury has asked some agencies to defer expenditure because they do not have the capacity to advance expenditure. Secondly, around 10 June Treasury exhausted its borrowing capacity, so it was no longer able to provide additional cash to agencies; agencies were required to operate within their existing cash reserves. Do these two issues highlight a risk for you? That is my first question. Secondly, in particular, when you go to the financial audits this year, will you be applying a greater scrutiny on agencies that have cash that is restricted, controlled or subject to approval purposes and that money has not been used outside the guidelines, controls or restrictions that apply to that cash to try to manage the circumstances that agencies have been put in over the past three weeks?

**Mr Murphy:** I will respond in general terms rather than specifics. Certainly in general terms, compliance with financial legislation and financial limits are very much the work of the Auditor General. The sorts of things that you are talking about would attract our attention. Things of that nature are drawn to our attention from time to time. If they are drawn to our attention, we would incorporate them into our financial examination of agencies at year end. I would add that looking at spending behaviour around year end is very normal practice for auditors both in the public and the private sector. Year end spending—that is, either advancing or delaying spending around whatever the balance state might be—is something that does attract audit scrutiny.

**Hon KEN TRAVERS:** Is there an increased risk this year? I do not think we have ever got to the point where our Treasurer's advance has been as fully allocated as it is this year. I am not aware of the last time the state reached the point where it had no ability to borrow cash to manage its cash flow requirements. Does that not increase the risk that agencies may be forced—actually they are not forced; even if there are tough times, they should manage within their budget. Is there not an increased risk that agencies may have improperly used money that was subject to control or approval by other bodies during this last period? Does that not increase the need for your intensity of examination of those matters this year compared with previous years?

**Mr Murphy:** You are making a case that that is there. I am more comfortable answering in general terms rather than the specifics around this year because I am not fully across them to give a detailed answer. As I said, legislative arrangements and funding limits would attract the scrutiny of my office. I could point to previous audit reports, such as the acquisition of land around Wellington Dam, which was criticised by the Auditor General as being an acquisition that was undertaken specifically to avoid spending limits on the consolidated fund at that time. Behaviours to get around spending limits are the sort of thing that would attract the attention of the auditor.

**Hon KEN TRAVERS:** Maybe now that I have raised it with you, you can take it on board and look at it. I suspect that there is a risk but I would certainly appreciate a professional opinion. That is certainly my understanding of the circumstances. They borrowed their last lot of money on the tenth and we had evidence from the Under Treasurer and also during estimates hearings that agencies had been asked to manage their appropriations to try to stay within limits and also that they had to manage within their existing cash reserves. As you know, a number of agencies have some fairly significant cash reserves but they are often subject to some form of control, approval or restriction.

What increase in your appropriation for 2009-10 is necessary for you to maintain your level of audits, both performance and financial, at the same level as you are doing in the current financial year?

**Mr Murphy:** Essentially, I believe that the amount that was provided in the forward estimates before the three per cent reduction would be sufficient to maintain the same level of output.

**Hon PHILIP GARDINER:** As an advocate of royalties for regions, I am very pleased to hear about the attention you are going to give it, because there will be hiccups along the way with anything new. Coming from the pre-emptive, I think there is a couple of million dollars in the regional development ministry allocated to capacity enhancement, which I understand is to do with governments and that kind of thing. Do you have any role in working with the ministry to try to deal

with some of the procedures, because a lot of delegation will come out of the royalties for regions program and those people will not necessarily have all the government's knowledge? Do you have any pre-emptive role in trying to get that worked out procedurally?

**Mr Murphy:** We do not have any role in that. There is a difficulty with the independence that we need to maintain from the agencies that we audit. Typically, it would be very important for us not to be involved in the development of policies or practices going forward that we will subsequently be required to audit. However, that does not mean that we will not involve ourselves with discussions about best practice or good practice if we are invited to.

**Hon PHILIP GARDINER:** Invitation is the key.

**Mr Murphy:** That is correct. We need to be aware of where the line is so that we can have discussions, make suggestions and offer advice without compromising our independence and our ability to subsequently audit that activity.

**Hon LJILJANNA RAVLICH:** How many new agencies are there and what sort of an impact is this likely to have on you?

**Mr Murphy:** I believe there is a new Public Sector Commission, a Department of Transport, a Department of Regional Development and Lands and a Department of State Development. There is also some restructuring with functions from Housing and Works being transferred to Treasury and Finance, the Office of Multicultural Interests transferred to Local Government and Regional Development, Heritage Council transferred to the same department, Office of Native Title transferred to the Department of the Attorney General, State Supply Commission merged with Treasury and Finance, and the Office of Road Safety transferred to Main Roads.

**Hon LJILJANNA RAVLICH:** How many agencies have closed?

**Mr Murphy:** That is my understanding of the restructuring. Some of that merging of entities such as the supply commission would be closure of an entity. To pre-empt a question on the audit, changes like that increase audit activity in the year that the transfer happens.

[3.30 pm]

**Hon LJILJANNA RAVLICH:** That is exactly my point, because the audit activity has increased and in real terms your resources have decreased.

**Mr Murphy:** This increase in our audit activity will need to be the subject of a discussion with the Treasurer and the Department of Treasury and Finance. Typically, in the past where there have been increased audit costs that have been subsequently recovered from the agency as audit revenue, I have been able to achieve supplementary funding.

**Hon LJILJANNA RAVLICH:** Are you hopeful of achieving that?

**Mr Murphy:** In past years and in the current year, where there has been the need for additional audits for issues like this, there is additional expenditure from my office and additional revenue from the entity that is being audited. In those cases the Treasurer has, in the past, agreed to supplementary funding to meet those costs, and I hope and expect that that will continue into the future.

**Hon LJILJANNA RAVLICH:** Auditor General, can I put it to you that this year is unlike previous years because the three per cent efficiency dividend has not been imposed in previous years; this is something new. Given that this is something new and given the current financial circumstances, are you still optimistic?

**Mr Murphy:** I am, and the reason is that expenditure for these audits is offset by revenue, so there is no net impact on state finances as a result of this activity. The entities need to meet additional audit costs.

**Hon KEN TRAVERS:** Who actually audits the integrity of the *Budget Statements* presented to Parliament to ensure that they are an accurate statement of the state's finances as at the date the budget was cast? Is that your role?

**Mr Murphy:** No, it is not. It is not my role to audit the *Budget Statements*. We audit variations between the budget and the actual when the *Annual Report on State Finances* is audited and tabled. We do not audit the *Budget Statements*.

**Hon KEN TRAVERS:** If you are not doing it, is someone else doing it?

**Mr Murphy:** I do not believe that anybody independent of the Department of Treasury and Finance performs an examination of the *Budget Statements*.

**Hon KEN TRAVERS:** Is that something that you could do under your audit, if the committee were to refer it to you?

**Mr Murphy:** There are aspects of budget papers that we could examine. Certainly in the past, there was a performance audit done of Treasury's forecasting. Specific aspects of the budget papers could be subject to a performance examination, but there is no legislative requirement or anything specific in the legislation about audit of the *Budget Statements*.

**Hon KEN TRAVERS:** I ask because earlier today the Waste Management Authority appeared before the committee and we received advice from the chairman of the authority that, in his view, the additional revenue contained within a budget is unlikely to be achievable over the coming financial year and for the period of the forward estimates. Even without the deferral, that was his expert advice. There are a range of other areas where we have received evidence about revenue sources and, when asked, the agencies have been unable to justify how the figures were arrived at. To me, that provides a grave risk to the state because we cannot rely on the integrity of the *Budget Statements*. I could go through a list of items in the current budget. I am not even talking about situations in which there might have been a shift in interest rates after the date on which the budget was cast; I understand that the government has to pick a date and make an assessment at that point. What concerns me is whether the budget information is an accurate reflection of what was known at that date.

I have another question that leads on from that: what if issues were known about by cabinet but cabinet did not provide information about them to the Under Treasurer at the time, so that those issues could be included in the *Budget Statements*? We were talking earlier about holding back expenditure and cabinet holding back on decisions. There are a number of high-profile projects around Western Australia where the state had requested money from the commonwealth government and the commonwealth government was able to include a sum in its budget, but the state government was unable to. How can we ensure integrity in those circumstances? Is this something that you could look at if you are asked to by the committee?

**Mr Murphy:** I would have thought that the process we are going through today goes a fair way towards providing transparency and accountability for the budget papers. There are different approaches in other jurisdictions. I believe that Victoria and South Australia have some input into the budget papers. There are some difficulties, as the member pointed to. A lot of the things that go into the budget papers require estimates of things like oil prices and exchange rates; those sorts of things. The budget papers are a very public document and are subject to enormous amount of scrutiny by Parliament, media and the public. I think that provides a fair degree of accountability, but if I was asked to have a look at some aspect of the budget papers, or if there was some discussion about the involvement of my office, I would certainly examine it. As I said, however, I really do not have a good understanding of what that might be.

**Hon KEN TRAVERS:** I understand that, and I accept to some degree that there is an argument that it is a necessary political debate, but my great concerns are about priorities and how money is allocated. Most people would accept that the amounts included in the budget have a degree of

accuracy. I accept that things can change after the date on which the budget is brought down. My point is about the public having a belief that what is contained in the budget is accurate, otherwise it can be seen as just a political debate. That is a different thing from having an independent auditor going in to say, “Look, nothing justifies that figure regarding the revenue that is expected from the Waste Management Authority or from numerous other increases in fees and charges, and it was plucked from the air and put into the budget.” That is the stuff that I want someone to go and look at so it is not about a political debate, but about an independent person saying, “There is nothing to justify that figure being put in the budget.”

**Mr Murphy:** There certainly is external scrutiny after the event, at the end of the year, when the agencies report on variations from the budget. Both the variation itself, and the explanation for the variation is required to be audited. If there were problems with the original estimate, it would need to be declared as having contributed to the variation from the outcome after the event.

**Hon KEN TRAVERS:** The difficulty is that that could be 18 months after the budget has been brought down and long gone.

**Mr Murphy:** Certainly 12 months, yes.

**Hon KEN TRAVERS:** If the budget is brought down now and you perform the analysis of the state’s finances, your audits are finished on 30 September and your analysis is done after that, it says to me that it is about 18 months after the budget has been brought down.

**Mr Murphy:** Our opinion on the *Annual Report on State Finances* is done within the 30 September time frame.

**Hon KEN TRAVERS:** Is the report not then handed down by Treasury until some time later?

**Mr Murphy:** No, I believe it is tabled within that —

**Hon KEN TRAVERS:** It is still 15 months; it is still a long time afterwards. It is great to be proved right in hindsight, but in the current climate we need to have some degree belief in the integrity of the budget figures as of today.

**Mr Murphy:** That is correct; it is 15 months afterwards. There is a lot of transparency about the documents, a lot of scrutiny goes on within Parliament and in public, and there is reporting after the event. Whether that is adequate is really a matter for the Parliament and other people to examine.

**Hon KEN TRAVERS:** Moving along on the same theme, you brought down a performance report in September 2004 in which you dealt with fees and charges within agencies. You outlined the process through which you believed fees and charges ought to be raised by agencies. I have two questions. Firstly, are you satisfied that those recommendations have now been implemented by agencies? Is there still a problem with agencies not properly calculating or explaining those increases through their annual reports? Secondly, evidence has emerged during estimates hearings that in many cases, agencies were told by external bodies they should just charge a particular fee. Does that meet the requirements of the process you outlined in 2004?

[3.40 pm]

**Mr Murphy:** Firstly, it is not our role on an ongoing basis to ensure agencies have taken the action that we recommended; it is our role to report to Parliament. Having said that, I point out that the Public Accounts Committee does follow up with the agencies to ensure that they are addressing recommendations, and that committee does involve us in that process. From both my knowledge of what is going on in the sector and feedback through that process, I am convinced that a significant amount of attention is given to our recommendations, specifically in relation to the report that the member raised and more generally with respect to our recommendations. I believe that agencies have paid attention to that report. Do I believe that all agencies are now complying? I cannot answer that. I do not know, as we have not done the work. I am simply not in a position to be able to say that they have. If it became clear to us that a significant number of agencies were not following

appropriate procedures for setting their fees and charges, then again that may be the subject of a follow-up examination and something that we would prioritise and undertake.

**Hon KEN TRAVERS:** Except you have no money to do it at the moment! The issue of a cabinet subcommittee imposing that fee and charge onto an agency and directing that agency that that is what it is going to charge, rather than the agency going through the process that you have outlined, does that conform with your September 2004 recommendations or would that go completely against what you recommended in 2004?

**Mr Murphy:** I have not examined this issue, but it certainly would not appear to be consistent with the recommendations.

**Hon KEN TRAVERS:** If there are any examples of where government agencies have been instructed to charge a fee —

**Mr Murphy:** I would be pleased to have those drawn to my attention.

**Hon KEN TRAVERS:** All right. Maybe the Perth Parking Management Authority is one you could start to look at, just to give you something to do today! I want to continue on that point, as well. We had a situation in the budget in which a fee is being imposed upon an agency. The agency has a taxing power, but that is for certain purposes. The government has included the revenue in the budget, but it has not included any additional expenditure in the areas in which it is permitted to spend that money. Again, I have concerns about the impact of that on the integrity of the budget because revenue is included that can be used only for controlled purposes, but there has been no increase in controlled expenditure. That may suggest that the budget bottom line is far healthier than it is. Is that an issue that would cause you concern as Auditor General?

**Mr Murphy:** I would certainly be happy to look at that.

**Hon KEN TRAVERS:** Except you still have no money to do that, have you!

**The CHAIR:** I am aware of the time, so we probably need to move on.

**Hon KEN TRAVERS:** May I ask one final question?

**The CHAIR:** Yes, indeed.

**Hon KEN TRAVERS:** Does your agency have responsibility for ensuring that the government is complying with the Government Financial Responsibility Act 2000?

**Mr Murphy:** It is certainly one of our roles.

**Hon KEN TRAVERS:** Have you looked at that issue in recent times or would you be prepared to look at it?

**Mr Murphy:** I am very much prepared to look at that, yes.

**The CHAIR:** If members have further questions, please submit them. It seems as though there are no additional questions, so no homework, even better!

**Mr Murphy:** Thank you.

**Hon KEN TRAVERS:** Other than that, maybe next time we see you I would not mind some feedback on some of these issue that we have raised with you. Rather than asking you questions, I would like you to consider providing feedback, or would you require the committee to formally resolve to invite you to look at those?

**Mr Murphy:** I would be happy to have an informal discussion with the committee after we have had a chance to examine some of those issues.

**Hon KEN TRAVERS:** That would be very useful, from my point of view.

**Mr Murphy:** I would be pleased to.

**The CHAIR:** I am sure we will have occasion to invite you in again.

**Mr Murphy:** It has been a pleasure.

**The CHAIR:** Thank you very much for your time.

**Hearing concluded at 3.44 pm**