

COMMUNITY DEVELOPMENT AND JUSTICE STANDING COMMITTEE

**INQUIRY INTO THE PROTECTION OF CROWDED PLACES
FROM TERRORIST ACTS**



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 10 OCTOBER 2018**

Members

Mr P.A. Katsambanis (Chairman)
Mr M.J. Folkard (Deputy Chairman)
Mr Z.R.F. Kirkup
Mr A. Krsticevic
Mr D.T. Punch

Hearing commenced at 10.20 am**Ms CAROLINE SPENCER****Auditor General, examined:****Mr JASON BEELEY****Assistant Auditor General, examined:**

The CHAIRMAN: Good morning. Thank you for coming in today. On behalf of the committee, I would like to thank you for agreeing to appear to provide evidence in relation to our inquiry into the protection of crowded places in Western Australia from terrorist acts. My name is Peter Katsambanis and I am the Chairman of the committee. The other members of the committee are Mr Mark Folkard, the Deputy Chair; the member for Dawesville, Zak Kirkup; the member for Bunbury, Don Punch; and the member for Carine, Tony Krsticevic.

It is important that you understand that any deliberate misleading of this committee may be regarded as a contempt of Parliament. If during the course of the hearing you believe that some of the committee's questions require answers containing sensitive or confidential information, you can request that the committee take that evidence in closed session. You will need to explain briefly why you feel it is necessary to move to a closed hearing. If we accept your explanation, we will take your evidence in closed session. Hansard will continue to record the transcript, but it will not be made publicly available unless the committee or the Legislative Assembly resolve to authorise its release. In those cases, we would have communication with you—no surprises. Your evidence is protected by parliamentary privilege. However, this privilege does not apply to anything that you might say outside of today's proceedings. Do you have any questions about your attendance today?

The WITNESSES: No.

The CHAIRMAN: Do you have a brief opening statement or do you want us to move to questions?

Ms Spencer: Very happy to move to questions, Chair.

The CHAIRMAN: Right at the outset, can you outline what capacity or ability your office has to oversee or review preparedness in relation to matters such as counterterrorism and whether there are any impediments or any particular weaknesses that you see in that process, if it exists?

Ms Spencer: I am very happy to speak to that, Chair. My office has a very broad remit in being able to review the performance of agency functions under section 18 of my act. I can look at not just the financial management of government agency functions, but also the effectiveness and efficiency of the performance of those functions. That includes all state sector and our local government entities. We can look at, and have looked at in 2009, preparedness for emergencies in the state.

The second part of the question in terms of how gaps or concerns look—that is considered as part of my forward performance audit program. That is the discretionary part of my role. We are required to audit all state sector entities' financial statements and controls and KPIs, but then I have a budget for a number of performance audits each year, and that is considered on the basis of a number of priorities and risks to the state and emerging themes. That is more broadly across any particular entity or matter in public sector service delivery and function.

In emergency management, the minister has asked my office to take on a role in providing assurance, and that has not yet been defined. We are having discussions with the State Emergency Management Committee on that, and obviously counterterrorism fits as a hazard within that.

I understand that the committee has had hearings and received evidence from a number of participants and entities within the emergency management space. My office could look at any aspect.

The CHAIRMAN: Sure. The discussion around that—just looking at emergency management. You said that had not been finalised yet. Is it about an ongoing role or a specific role limited to a particular review?

Ms Spencer: That is to be decided. I started in my role four and a bit months ago, and I believe there was discussion in the context of machinery-of-government changes around the Office of Emergency Management moving within DFES around February. Discussions occurred between my predecessor and the State Emergency Management Committee and the Department of Fire and Emergency Services at that time—but early discussions—and I have picked up some of those discussions. It is not yet decided. Obviously, it is subject to agreement on scope, usefulness of scope and funding. If you would like me to outline where discussion and deliberations are at, I am happy to do that—and concerns.

The CHAIRMAN: That would be helpful.

Ms Spencer: Broadly, as part of my meet and greets around town with senior leaders, I have met with the police commissioner and I have met with the fire and emergency services commissioner and because of this particular matter I have also met with the chair of SEMC, Dr Ron Edwards, and Deputy Commissioner Mal Cronstedt, among others. Mr Beeley has met with officers from the Office of Emergency Management around this particular state preparedness report and how that is collated.

Obviously, for us to prioritise emergency management as part of the performance audit program, when considered across the whole state and local government sector service delivery and functions, that will require funding and agreement on scope for that. I would, obviously, prefer that to be a matter for the Parliament to consider, but, in the absence of any explicit legislative requirement for me to have an assurance role on emergency management and in the absence of any particular funding, I have provision under my act to undertake audits on a fee-for-service basis. That is the provision that we would use, and have been in discussions with the State Emergency Management Committee.

At the moment we are looking at one to two performance audits in that space. Latest discussions are probably one audit on the state emergency preparedness report, and that would really be to understand where the value of external assurance lies over emergency management arrangements within the state and the fees for that. At the moment we are looking at about \$500 000 for a performance audit, which I believe given the complexity of the subject matters and the scope of the subject matter may cost more, but I would cap it at that.

The CHAIRMAN: Can you explain the differences and the nuances between a performance review and I think it has been termed an assurance framework or an ongoing assurance role, how they would differ and whether they would both fit into the scope of your work and your current act?

Ms Spencer: The model that I favour for describing where different layers of assurance fit is the four lines of defence or four lines of assurance model. That fits in any sector, any sort of organisation—public sector, private sector—in a well-governed environment. The first line of defence or assurance is having controls in particular processes or systems to stop things going wrong, and that can be financial management. Where we look every day is around bank reconciliations being done, not having people with inappropriate access to bank accounts. But in terms of information security it can be around passwords and patching—those sort of base level frontline controls. In emergency

management that is obviously about having people trained, having equipment, having arrangements in place.

The second line of defence or assurance that you would want to see in any well-governed environment—to make sure things are happening—is oversight of those and monitoring of those controls. The third line of defence is some sort of internal assurance function. So internal audit or, as proposed by SEMC and DFES—the assurance framework around the preparedness report—is some sort of quality control and assurance mechanism to see that people are doing what they are supposed to be doing both in implementing controls and in implementing oversight mechanisms, and then providing assurance to decision-makers, such as SEMC and those charged with particular government responsibilities, and that would be the relevant hazard management agencies.

Then there is the fourth line of defence, which is external audit, which is parliamentary committee inquiries, regulatory reviews and that sort of external, independent oversight and review, and that is when we come in. I obviously have to report independently to Parliament. But what you want in any well-governed environment—it does not matter what the subject matter or function is—is those charged with governance to know that controls and arrangements are designed and implemented and working effectively, and to make changes and corrections internally. Then we provide, on a risk basis, assurance externally to other stakeholders. So you want both internal and external audit or assurance to be operating.

The CHAIRMAN: You mentioned the financing piece—that is always a matter for discussion and debate. Outside the financing, what powers or capacity would you like to see in your current governing act that you do not have to give you broader scope in this sort of area?

[10.30 am]

Ms Spencer: I guess whether my office picks up the external assurance role in a more concentrated capacity than we otherwise would in terms of looking across the sector and risks across the sector, then I would like, ultimately, the direction of Parliament in terms of legislation as to what it would like my role to be. I am an independent officer and servant of the Parliament, and in determining my performance audit priorities, I have regard to the audit priorities of the Parliament. But, really, in terms of my existing legislative provisions, I have a fairly broad and powerful mandate to be able to examine closely documents and arrangements and interviews—seek evidence—as required. So I do not see an impediment at the moment based on my existing legislative mandate to what has been requested. However, there are two sort of access to information provisions that my predecessor has identified over a long time and I am sure you are aware of, but in terms of free access to cabinet information and information that is subject to legal professional privilege, we are currently working with Treasury on the drafting of that. There is a commitment by government and, in my discussions with the Leader of the Opposition, a commitment by the Leader of the Opposition to support those amendments. They will be forthcoming. I am not concerned about those.

The CHAIRMAN: It is an issue that the parliamentary committees grapple with too, as you would be very much aware.

Ms Spencer: Exactly!

Mr M.J. FOLKARD: You raised the fact that you can interrogate systems and that sort of stuff, but one of the things we found as a result of our inquiry were the, for want of a better term, the roadblocks the security industry has put up in our way. We had information from the Australian National University and some professors over there that this was actually more of a facade. Does your current act cover your ability to actually interrogate past those roadblocks?

Ms Spencer: You are talking in relation to sensitive security information?

Mr M.J. FOLKARD: Yes.

Ms Spencer: I guess I come out of a different protective security environment in the commonwealth where we had clearances. I have a security clearance up to a certain level. Certainly, you know, access to sensitive information is on a need-to-know basis. The way the commonwealth Auditor-General accesses security information is on a need-to-know basis and only those with appropriate security clearances, and those security clearances are granted after due process and for the relevant auditors and the Auditor-General. There is no such framework here in Western Australia around classification of information and clearances. Whether there should be or needs to be obviously having regard to state interests and national interests, those are important matters and I obviously support the need-to-know basis without such classifications. We still operate on that basis within our office.

Mr M.J. FOLKARD: I am sort of mindful that you are going to go into a space, particularly with the 27 risks set out in the Emergency Management Act, and we speak of those four levels of assurance, in particular, that are independent validation of the other audits to me gives comfort, but in that space, with these roadblocks, will you see that as an impediment to you actually coming up with a fair reflective of where the organisations sit?

Ms Spencer: Look, I can imagine that there is potential for those claims to be made that there is sensitive information that requires a security clearance to be accessed, and particularly if it feeds into the national planning and security arrangements. But from a state sector in the absence of an information classification framework, then I do not know that those claims would be valid in the sense that my legislation allows me to see information within agencies. But, as I say, as it relates to national security information and the interrelationship of those, there may be valid claims around classification of information.

The CHAIRMAN: Do you think the national framework could be a guide to what we do in the future in Western Australia?

Ms Spencer: Around information security and classification?

The CHAIRMAN: Around information, classification and then the appropriate authorisations for access.

Ms Spencer: Look, it certainly could be. It would take some time to implement because it is a way of doing things, and behaviour. I can see that it would take some time to implement fully, but certainly it is a model that works.

The CHAIRMAN: In the absence of that or in the time that it would take to fully implement it, do you think you have got the appropriate mechanisms to get, let us call it, behind the veil, for want of a better term?

Ms Spencer: At this stage, I have not detected any defensiveness or reluctance to allow us in to look at emergency management arrangements in the discussions I have had, so I have no reason to believe that there would be any impediment at the moment for state sector or local government sector information.

The CHAIRMAN: If you found any impediments in the future, would your process be to report those up to Parliament?

Ms Spencer: Absolutely.

Mr Z.R.F. KIRKUP: Ms Spencer, I am keen to understand your perspective, if we could, about the sort of oversight arrangements that we presently have in relation to police and sort of this counterterrorism inquiry that we are looking at here. Something I have been prosecuting or been

very interested in as part of this inquiry is the commonwealth oversight functions that exist within Parliament. For example, there is a national security intelligence committee, I think it is. Members of the House of Representatives have a direct line of sight, I suppose, into those security organisations. In absence of a parliamentary function as elected members, do you think there is some value of an officer who reports to the Parliament directly to have a similar type of function to that, that there is a consistent sort of oversight role that can, not just like the Victorian 2009 report, quite regularly do updates—I appreciate the 2009 report similarly that the former auditor did—but with a sort of more regular insight role? I am keen to understand your thoughts on whether or not you think that would be valid, given the importance of counterterrorism and the like and whether or not that function could be performed by yourself or a delegate of yourself in your office.

Ms Spencer: There is certainly no reason to believe that any independent officer charged with those responsibilities that was appropriately supported by legislative remit and funding could not perform that function. I guess it comes down to priorities of the Parliament and the allocation of funding. Certainly, my office in terms of being responsive to the needs of the Parliament—there are functions that I have that my counterparts in other jurisdictions do not have around section 82 of the Financial Management Act and around disclosure of information to the Parliament by ministers. So those sorts of functions could be allocated. Obviously, in terms of my role as Auditor General, I look broadly across the sector. There are other independent officers, such as the Commissioner for Children and Young People and Inspector of Custodial Services, who would perform functions similar to what I imagine you are considering may be feasible in shape and I am aware of the Inspector-General for Emergency Management in Victoria, and that is broader than just security arrangements. I understand security events are treated broadly in most jurisdictions in accordance with emergency management framework, so a function that looked across those is an approach that is adopted by other jurisdictions.

Mr Z.R.F. KIRKUP: In absence of, say, a dedicated role perhaps then, Ms Spencer, do you think it would be prudent for the Parliament—in absence of a role like that, could perhaps the Parliament look at doing something whereby we alter your act to ensure that every two years the Auditor General looks into this area and reports back or something like that? Do you think there is a need for more regulation to make sure that there is not a sort of every decade we look at this, but rather every couple of years? Do you think, in absence of a sort of dedicated function, whether or not that is something that could be looked at? Are you aware of that in the other jurisdictions outside of the inspector obviously for emergency services in Victoria, I think it is? Is that something that you think would be well suited to your role in your office?

[10.40 am]

Ms Spencer: Very, very happy to receive either requests from parliamentary committees. Obviously coming from a parliamentary committee that has inquired into a particular area is something that I would have higher regard for in terms of a priority for the Parliament for me to examine into. Certainly, legislation would then cement that in perpetuity, whether it is something that would need to be, given that changes to legislation can take time, perhaps a little more responsive. But certainly if the Parliament asked me to look at this, and that is certainly what we have foreseen in our discussions with SEMC and the Fire and Emergency Services Commissioner, is that any initial review that we did would really be, I believe, a scoping exercise. There would be assurance provided, but it would be scoping to say: What is of value to the Parliament? What is the nature of arrangements in the state—a bit of a baseline understanding of arrangements? But then: what is of value to the Parliament? That would occur both during consultation during the audit, but also at the end of the audit and then for the Parliament to consider. That is what we envisage for the Parliament to consider the nature of arrangements into the future. Certainly whether it was a legislative

amendment, a request from one of my parliamentary oversight committees, the Public Accounts Committee, the estimates or the joint audit committee, or another committee of the Parliament, I would have very close regard to that request.

Mr Beeley: I think, we did see from the broader performance audit side of things, but you can also see a little bit in the annual production of the preparedness report, that persistent oversight does gradually improve things; it does lead to improvement potentially more quickly or more demonstrably than, as you put it, coming back once every decade. The persistence certainly pays off. It is then that question of judging the value. Then the frequency, I suppose, is whether you keep going every year, every two years, whether it lengthens out after that. But that persistent oversight I think and transparency can have a big impact on improvement.

Mr M.J. FOLKARD: But is it not that the oversight that we have seen to date has been self-regulation, and that is the stuff? We encountered a couple of moments through our inquiry in relation to a fairly narrow focus. In counterterrorism, it was like, “We audit ourselves”, so we had no independent validation of how well they were travelling. This is where, even in our conversations with Dr Edwards et cetera, it was almost that complacency in that, “We audit ourselves.” Bearing in mind that we have focused in fairly narrow with this committee, but for me I saw 27 exposures that were risks within the act. Where we sit within those 27 things and if the State Emergency Management Committee is self-regulating themselves by doing their own audit, how do we know that the rest of those are actually—that is the question, I suppose. Where do you sit with that comment?

Ms Spencer: There is always value in a fresh set of eyes and independence where there is no either bias that arises from a particular role, or history and context, but can look across the system, if you like. As I said, having internal quality control and assurance is vitally important, because if they are relying on the external auditors or reviewers or parliamentary inquiries to get to the bottom, it is too late; usually things have fallen through cracks. For continuous improvement, you need both internal and external assurance. Just to give you some context, my discretionary performance audit budget is about \$6 million a year. As I said, an audit of this scale I think will cost, just one initial audit, at least \$500 000. We do, sort of, short skinny audits that can cost as little as \$150 000—we have done some bigger ones. But we push out over 20 performance audit products a year to prioritise with an existing budget, and I guess that is why I am concerned with resources. To prioritise a performance audit in emergency management every year or every two years, I would obviously be seeking some indication from Parliament that it prioritises that sort of review and, therefore, in terms of funding, would also request —

Mr D.T. PUNCH: Can I ask what the basis is that you apply to working out the cost of an audit?

Ms Spencer: Time and materials, basically. How many resources I need to put into benefit —

Mr D.T. PUNCH: Are they subcontracted resources or are they in-house costs?

Ms Spencer: No, performance audit is all in-house. Sometimes we get contractors to assist us and they may be people who have worked for our office previously. Certainly, just something that I am looking at in terms of developing better practice guides in an unrelated area around audit committees and financial reporting, to deliver those in time for next financial reporting season I might need to contract some firms to help me deliver those. But, for this, I would see it as in-house delivery with specialist expertise subject matter.

Mr D.T. PUNCH: This may be an odd question, but in a sense, who watches the watchers in terms of your costing? Do you have a benchmark framework in terms of your comparative cost to other sources of information?

Ms Spencer: We determine our charge rates each year and that is a factor of salaries and overheads. Those charge rates are then used to determine the cost of delivering our audits. For financial audits, obviously, we get good feedback on our charge rates and our costs from agencies that have to pay for their financial audit each year. Performance audits, they do not pay for the privilege, that is an appropriation. There is no cost recovery for that, that is an appropriation from the Parliament, but with those cost rates, cost-rate methodologies apply consistently across the office. I guess, in terms of accountability, for that bucket of discretionary funding that I get for performance audits, it is to meet KPIs; basically, in the budget process, how many audit products will I deliver in the forthcoming year and then accountability for that in terms of annual reporting against that.

Mr D.T. PUNCH: I guess a separate question would be that if there was a persistent rolling review of how this sector was functioning, your office would build up, in a sense, a history but also expertise in the area, which would be an advantage.

Ms Spencer: Yes, and having something that is every year, just from a resourcing perspective, is probably more useful because I can keep staff on, so it is not lumpy, but then they also get used for lots of other work. Perhaps Jason can contribute to this.

Mr Beeley: As the Auditor General said, that first piece of work would be a bit of a scoping, because we would be trying to work out how much resources it really did consume. The other thing to bear in mind, I suppose, is that we are working to auditing standards, whereas the things that SEMC, for instance, are doing now, that kind of internal scrutiny does not work to the same kind of standards. That is because the Auditor General has to provide that opinion and that assurance in line with those standards. That number is a bit of an estimate and could go a bit up and down depending on how we do it. The other thing to bear in mind is that one advantage for us is that we have the remit to look at local government now, which are a big component of the emergency management space, but obviously that takes time and effort and resources as well to make sure we do cover that off. We do more broadly as well benchmark ourselves against all the other audit offices in Australia, and the cost is pretty much in line with everybody else's. We are not the cheapest, but we are not the most expensive either. I think it is probably a reasonable estimate for a first go, but we could not sit here and say it will cost that every single year. We would have to find out. As you say, we would build up some expertise, which would help over time, and we would build up a better understanding of that environment to be able to be a bit more, I suppose, precise about how long it was going to take and what it was going to cost.

Mr D.T. PUNCH: A very final question: our inquiry has looked at the three levels of government, but there is also a private sector component in this space with responsibilities. Have you any thoughts about how that sort of performance review framework could encompass private sector stakeholders?

Ms Spencer: Where they deliver government services and receive government funding, they are classed as related parties under my act, so I can audit them. But I understand from a counterterrorism perspective, the private sector, where they run events—say, the operators of Perth Stadium as private sector operators, but also other crowded places that will attract crowds, shopping centres and the like—I do not know, without considering this more fully, whether they would be captured under that because they are not in receipt of public funding and whether I would be able to examine with the same level of investigation any functions delivered by them in relation to emergency management.

[10.50 am]

Mr Beeley: Where a private company and a hazard management agency were designated for it, the follow-the-dollar powers and existing powers would cover them, so we would not be that

concerned. We have dealt with a couple of those entities, one in particular, on other reports. We do have precedent, if you like. We have audited private-sector entities around the activities that they provide for or on behalf of government, so I think we would probably be okay, within that context of them being designated to fulfil that role of an HMA.

Ms Spencer: If they are a prescribed HMA, but in terms of their role in security audits, there are those self-assessments at a national and state level, I believe. I do not know if we could go into those—Westfield, for example. I believe they provided evidence to the committee. It would depend on how they are characterised.

Mr D.T. PUNCH: I guess in the scenario where the state, for example, is licensing security agents, there will be a threshold where your performance review of the systems that underpin that process could go to, but there would be a barrier at some point once it was in the private domain of the organisation that is employing the security officers.

Ms Spencer: I imagine so, and that is really the value I would see in a scoping audit around current arrangements.

Mr D.T. PUNCH: To test those thresholds?

Ms Spencer: Exactly, and then I can provide that advice to the Parliament.

Mr D.T. PUNCH: Thank you.

Mr A. KRSTICEVIC: You mentioned the systems that obviously result in better outcomes at the end of the day. This obviously has many different levels and layers and many different players in it, some of which, as you mentioned, you can access and others you cannot. In terms of persistence, unless you have the resources, you cannot do that. As an example, now that you are in the local government sector, the CCC has done lots of inquiries into local government corruption at many different levels—procurement; you name it—and it is consistently doing that regularly and consistently finding problems. Therefore, the question is: is persistence in itself, without looking at every single layer specifically, really going to make a difference when there are examples of where persistence, in a very serious area, does not seem to be getting the outcomes we want?

Ms Spencer: There are a few factors of maturity of arrangements and understanding as well as a commitment to a particular outcome that would result in factors. Certainly in local government, from an audit perspective, now we have that mandate for the very first time, I am hopeful that being a permanent presence in that space will improve capability as well as confidence in the sector. As auditors, we focus our efforts on a risk basis, so where the highest risks lie, we will look at those areas, both in terms of function, but also delivery or dollars and public or parliamentary concern about people performing their particular roles or functions in a certain place. Certainly ongoing oversight by an independent auditor or reviewer would provide awareness of the importance of issues, and that is a lot of the value that can be derived through those mechanisms. But it needs to be building an understanding about the why—why it is important. Without that I do not know that you can see lasting improvement.

Mr A. KRSTICEVIC: In terms of the quality of auditing, I know that the local government, for example, said you are going to be qualifying or approving audit firms that are capable of doing these audits. However, I have a concern that the standard of auditing across the community as a whole is being lowered consistently. The reason I have that concern is because there are audit firms out there who are doing jobs. Let us say that they are costing it at \$2 million and that is a realistic cost, other firms are then coming in and undercutting them quite significantly. It is obvious that for that price they cannot do the job properly. There does not seem to be that understanding out there that there is a minimum standard that is required. You cannot achieve that minimum standard below that cost,

which you would know yourself perfectly well. If some other audit firm came along and said that they could do it for half the price of the Auditor General, yes, they can do it for half the price, but they will give you a third of the job. How do you balance that in the choices you make with the audit firms you are using and saying that they have to be realistic about what they are delivering and how they are delivering it?

Ms Spencer: For audit firms that we choose in the financial audit space, we prequalify based on a review of files and a number of factors, but basically on discussions, knowledge and skills of the team as well as a review of files. Certainly quality can be very closely related to time spent on an audit and time spent obviously impacts cost. There are decisions that can be made by an auditor exercising professional judgement appropriately around risk areas and also knowledge of a particular sector or client, and those can impact on the judgements made in areas of close review. But certainly I see a very important role for audit committees in understanding what a high-quality audit looks like and being able to identify a high-quality audit, as well as the value of a high-quality audit in providing assurance to both the entity and to its stakeholders. If the question is around how we select financial auditors to conduct a quality audit in the local government space, we have given them a one-year trial this year for the 46 and we are in the process of our first round of that, so we will be closely reviewing the quality of their work. Based on interactions and interim work, we have confidence in them, but we will be doing a full review at the end of this first audit cycle.

The CHAIRMAN: Can I follow on from that and extrapolate a bit based on some of the evidence we have received as a committee. Obviously you are talking about assessing tenders in an area where the Auditor General and the Office of the Auditor General would be considered to be subject matter experts, so you can do exactly what you just outlined. Evidence we have received as a committee is a concern—we have not had any direct evidence here as an issue—that perhaps at the state government level the procurers do not have that in-depth knowledge of the product or the service that they are buying in. Therefore, the risk that a low-priced but inappropriate quote would be accepted is escalated in that aspect and price essentially becomes the determinant because they are not doing any of the qualitative assurances because simply they are not expert. In areas of security, in particular, clearly there is less expertise in just an average government department outside of WAPOL than there is in the businesses that are providing those tenders. Overall, can we provide some form of assurance framework in that space that would ensure that tenders are assessed beyond just the lowest price, and in areas where the tendering department is not a subject matter expert, how can we build that capacity to give the public an assurance that they are picking an appropriate third party that has the capacity to deliver the work to the quality and the standard that is expected? Sorry for the longwinded question.

[11.00 am]

Ms Spencer: I understand your concern, Chair. There is often the assumption in government procurement that the cheapest price fits the value-for-money box, and that is what those procuring are told to do—achieve value for money for the state or for the local government on behalf of whom they are procuring because they are spending other people's money. Quite obviously there are differences. We know in our own personal lives that there are differences—you get what you pay for, generally. The point at which procurement officers need to inform themselves over what it is they are actually procuring—what questions to ask and what services to scope—often involves discussions with the experts. Then that point at which they engage and seek information from prospective suppliers, without breaching procurement rules, is a matter of judgement. There is some guidance, I believe. I am not yet an expert on procurement frameworks in Western Australia, but I soon intend to be, and I think this is an important area for my office to look at and potentially provide some better practice guidance, just based on procurement within my own office, and the

questions that we ask and the role of the central agency, the Department of Finance, in doing that but also in what we see in our audits. I have seen other jurisdictions and it is a perennial issue around how procurement is both well controlled to achieve value for money but also probity and transparency and accountability of procurement officers is achieved, and demonstrated. It requires judgement as well as frameworks in which to operate. I am shortly about to table my first performance audit on local government procurement. We looked at eight local governments and often those considerations are identified and made to some extent by those procuring, but they do not want to get into trouble. What appears to meet their requirements most demonstrably will be lowest cost and to not engage with potential suppliers to ask questions around what appropriate scoping is. I would like to see over my time in this role that people working within appropriate frameworks feel confident exercising judgement based on the principles of achieving value for money for the public they serve that they achieve services or goods that are fit for purpose, and that they do indeed achieve value for money. It is about principles rather than just following rules, and that is a message that we have been giving to local governments that we are auditing in that space.

Mr A. KRSTICEVIC: When you do your audits, even in the security field, I suppose you will come up with a set of guidelines, as you said, a best practice approach et cetera. Is that something that you see yourself, or do you currently do it where you have this best practice, you send it out to everybody that you have influence over or who is in that sector and say, "This is what we expect you all to be doing. This is the standard we expect you to be meeting. If you are not meeting it, or if you are not following it, please tell us and we will come and audit you," as an example. That is about changing behaviour. So they know that this is what you expect—you expect them to self-report if they are not meeting it, and you will go in and have a look to help them out, not to hit them over the head with a big stick. Do you do things that way, or is it worth considering doing it that way?

Ms Spencer: I was appointed by the Parliament in 2015 to review the performance of the Office of the Auditor General, and I had fairly robust discussions with my predecessor around the role of better practice guidance and why or why not it might be beneficial for the sector. Certainly agencies need guidance on how to do their jobs, and having some consistency across the sector with the ability to apply fit-for-purpose approaches that still meet those overarching principles I just spoke of is important. Where central agencies are not providing that guidance in other jurisdictions, I have seen it very successfully provided to agencies and highly valued by those agencies as auditors. Particularly around financial management and broader governance matters, we are experts in the frameworks. We know the framework, we audit against it, so why not share it with those entities in the form of better practice guidance so that they then can self-assess themselves, and then the conversation and our findings move to that next level of improvement rather than coming back to base level all the time. That is certainly something I would like to do to issue better practice guidance. Just on whether we are experts in security, I would say absolutely not; we are experts in audit. But over time, being in the space and building up experience, knowledge and capacity to audit in that space, we would become very competent in providing assurance over that space. It is just like Jason and his performance auditors are very good at looking at health and education, because you are in there every year, and the officer builds up expertise in that. Certainly as a base level we start with what is the legislative framework, including regulatory framework, that is in place. Are entities meeting their obligations in relation to that? That is where we start as a starting point in terms of our audits.

Mr A. KRSTICEVIC: Even in terms of security, sometimes it is not that people do not have the knowledge, they do not have the expertise, it is just that they are not vigilant anymore; they have become a bit complacent. That happens obviously in a lot of fields. In this particular space it is a

matter of making sure people understand that the number one key indicator is to maintain that alertness and focus and being on the front foot continually, irrespective of the fact that you know everything, something that you do not know will occur.

Ms Spencer: Indeed, and having the prospect of a public report that essentially is a scorecard on how you are doing can focus the mind, as can an event. It brings that into focus and prioritisation.

Mr A. KRSTICEVIC: The other thing too I think is that the knowledge and expertise is there, but actually activating it is a different story all together. In a meeting room people can sound like they tell you all the right answers, but when they walk out the door their actions do not reflect that.

Ms Spencer: We see that all the time!

Mr A. KRSTICEVIC: So you need to make sure that the actions reflect the words that they are saying.

Ms Spencer: That is why we corroborate.

Mr Beeley: If I can elaborate a little, we are looking at a process, particularly with local government actually, around some self-assessment tools that mean we can provide that best-practice guidance as part of doing the audit, so they can get something out of being part of the audit and then we can still do that independence bit of: does what they think of their capacity and their situation translate into the reality? Can we go then and verify what they are telling us? But then they have a map of how they might look at it around governance in local governments at the moment. We use that for some of our information systems assessments with state agencies. There are models out there that, as you rightly say, can potentially drop into that security or that emergency management set-up as well. That is kind of what the preparedness report is based on at the moment. That assurance about whether what is reported is actually what is going on on the ground is possibly the bit that is missing at the moment.

Mr M.J. FOLKARD: No argument. I have one final question: I am reassured about the conversation I have had with you today. I think the main thing is resourcing and the fact that you are building capacity within the Auditor General to look at this space. Great—keep it up. Put pressure on the right people so that that capacity is further enlarged. I picked up on comments about some of our public-owned enterprises—VenuesWest being one—having the ability to interrogate in that space. Another is Synergy with energy resources. How does your ability fit in that space to look at those particularly public-owned companies, for want of a better way of putting it?

Ms Spencer: My office conducts the financial audit of Synergy. We could examine their role, their preparedness —

Mr M.J. FOLKARD: So there is no —

Ms Spencer: I do not believe so. With VenuesWest, I believe the actual running of the stadium and of events is outsourced to VenuesLive, a private sector entity. I would see those as a related party because they are delivering state services, so my follow-the-dollar powers would allow me to look at their delivery.

[11.10 am]

Mr Z.R.F. KIRKUP: I have a question if I can. Sorry to keep you. It is loosely related to cyber, but just because it is a rare opportunity to have the Auditor General in front of us like this. In relation to a number of reports recently on cybersecurity and cyberattacks and things like that—and, obviously, we have been talking in this inquiry about crowded places—and I realise that the Auditor General's office is trying to build up the skill base in this space. Do you see that, out of those newer emerging areas that might also be attached loosely to cybersecurity or cybercrime and counterterrorism or terrorist activities, is cyber an area of interest for the Auditor General's office? Is that something

that you will see an increasing focus on? The password one more recently, I think, was pretty amazing to me and something that I am more interested in. But this is sort of about, I guess, that security bandwidth that we are all looking at here of agencies. I realise that it is probably an area that is a bit hard because the technical expertise may not exist, just like for counterterrorism I suppose. Is that another area that you guys would be looking at?

Ms Spencer: Certainly, as I said, I come from a different protective security environment in the commonwealth and I have noticed a difference—that is in response to direct threats in that environment. But certainly I do not see the risks to information security and then physical security as being that different here really. Making sure that entities understand the risks and are making informed decisions around the management of those is obviously very important.

Mr Beeley: I think there is an intersection for us between the cyber vulnerabilities of things like critical infrastructure, and we, as an office, probably have more history and more expertise around the cybersecurity end of things because we have invested more in that over time than we necessarily do in the pure security environment. But there is definitely an overlap for us, which I think, given that the forward program is kind of risk based, we would be looking to take some of those things into account.

Ms Spencer: I will certainly be maintaining a watching brief on information security.

Mr D.T. PUNCH: I imagine that that issue in relation to cybersecurity would start to become implicit in all of your audit processes across all agencies, and that that would be a test point.

Ms Spencer: I would not say “all”. We have recently tabled an audit on young people leaving care. That was sort of frontline service delivery to vulnerable people, and so we did not touch on that there. But certainly, I see a risk, and I am happy to share this, in that we do general computer controls audit work in the top 40 entities in the state sector. I do not believe that the other 100-plus state sector entities will not have the issues that we find in the top 40; it is just that we do not do the same level of work around general computer controls. I will be seeking funding in the next budget round to look at general computer controls working in each state sector entity as well as in local government, because they hold sensitive information and they deliver frontline services, at least once every three years, I believe, because that gives us an understanding of what the risks are, what the issues are and how they are being managed. Then we expect that those entities will then follow up on those recommendations. I believe audit committees have a really important role in terms of following up recommendations that we make, and that is another area of focus for me and my office over the coming few years. Certainly, cybersecurity is not only going to be an increased focus both for my office but also for the sector. By necessity, we are starting to understand what those risks are. I have actually seconded my head of information systems audit to the Department of the Premier and Cabinet to help them build that capacity there now. He is there until the end of the year at least to basically share the knowledge that we have because the office has been that sort of lone voice and presence in the space in the sector.

The CHAIRMAN: Yes, there is a lot of food for thought there. It is probably a little bit beyond our scope but part of the whole picture. We know the vulnerabilities that exist in cyber in relation to terrorist activity and the increasing stranglehold that they seem to have on that area.

We will conclude for today. I will let you know what we intend to do. You indicated you intend to table a report, a performance audit, shortly. We also intend to table a report quite shortly, probably in the next week or so, that will be the first report. It will scope out the issues and some of the things that we have identified, and will seek further input from all stakeholders as to how we can better prepare and better cover off those issues that we have identified. We would welcome your input going forward and perhaps after we have tabled that report, we can have some further discussion

about where we go from here. We might then reconvene and have another discussion if you deem it might be worthwhile.

Ms Spencer: Absolutely—very happy to be of service to the committee.

The CHAIRMAN: But, initially, we would really welcome your feedback on our report. We thank you for your evidence today. You will get a transcript of the hearing and you can make corrections on it. If you do not make any corrections within 10 days, we will just deem that you believe it is a fair and accurate record. You cannot use the corrections process to introduce new material or change the nature of your evidence, but if you want to provide us with any other material—if you go away and think, “Perhaps we should’ve spoken about this today”—just send in a supplementary submission. We would be very happy to have that. That will conclude the hearing. Thank you for your time today. We wish you well in your ongoing endeavours to protect our state and make sure our public service is functioning properly.

Ms Spencer: Thank you very much, Chair.

Hearing concluded at 11.16 am
