

**STANDING COMMITTEE ON  
ESTIMATES AND FINANCIAL OPERATIONS**

**BRIEFING ON  
FINANCIAL MANAGEMENT BILL  
AUDITOR GENERAL BILL**

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
MONDAY, 29 MAY 2006**

**Members**

**Hon Giz Watson (Chairperson)  
Hon Ken Travers (Deputy Chairperson)  
Hon Shelley Archer  
Hon Anthony Fels  
Hon Nigel Hallett**

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**Hearing commenced at 2.36 pm**

**BARNES, MR MICHAEL**

**Acting Executive Director, Finance, Department of Treasury and Finance,  
Level 14, Governor Stirling Tower,  
197 St Georges Terrace,  
Perth 6000, examined:**

**JOLOB, MR MICHAEL**

**Acting Director, Financial Policy, Department of Treasury and Finance,  
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**NETOLICKY, MR JOSEF**

**Assistant Director, Financial Operations, Department of Treasury and Finance,  
Level 10, Governor Stirling Tower,  
197 St Georges Terrace,  
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**PEARSON, MR DESMOND**

**Auditor General,  
Level 4, 2 Havelock Street,  
West Perth 6005, examined:**

**ROWE, MR BARRY**

**Director, Standards, Office of the Auditor General,  
Level 4, Dumas House,  
2 Havelock Street,  
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**The CHAIRPERSON:** On behalf of the committee I would like to welcome you to the meeting. All of you will have signed a document entitled "Information for Witnesses". Have you read and understood that document?

**The Witnesses:** Yes.

**The CHAIRPERSON:** These proceedings are being reported by Hansard. A transcript of your evidence will be provided to you. In order to assist the committee and Hansard, please quote the full title of any document you refer to during the course of this hearing. Please be aware of the microphones and talk into them and ensure that you do not cover them with papers or make any noise near them.

I remind you that the 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 media in attendance will be excluded from the hearing. Please note that until such time as the transcript of

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your public evidence is finalised, it should not be made public. I advise you that premature publication or disclosure of public evidence may constitute contempt of Parliament and may mean that the material published or disclosed is not subject to parliamentary privilege.

I hand over to you to start wherever you wish.

**Mr Barnes:** Thank you for the opportunity to provide this briefing. The plan is that I will run through a presentation focusing on the Financial Management Bill. I have copies of that presentation to provide to the committee. I will just step you through that presentation and take any questions that you may have as we go through. As I said, this presentation focuses on the Financial Management Bill, and then I will hand over to the Auditor General to discuss the Auditor General Bill.

I will refer to the two bills as the FMB and the AGB. The two bills are proposed to replace the current Financial Administration and Audit Act, which is now more than 20 years old. At a broad level, the FAAA provides the framework for financial management and accountability for departments and statutory authorities in the Western Australian public sector. It also establishes the position of Auditor General and outlines the powers of that position. We started comprehensively reviewing the FAAA a couple of years ago, because we were concerned that it had become out of date and less suited to today's accounting and financial management environment. That reflects two main factors. The first is the increasing arms-length nature of the relationship between the executive arm of government and government agencies. That arms-length relationship was cemented by the establishment of operating accounts for each agency back in 1997. These are the main accounts that agencies operate against, in which they receive their appropriations and into which they pay any revenue that they retain from their fees and charges, and out of which they meet their day-to-day operating costs. Prior to the establishment of those operating accounts, agencies effectively operated directly against the consolidated fund, which was a much more centralised arrangement, and was the environment in which the FAAA was established. There has been a significant change in that environment over the past decade or so. The second major factor is the change in the accounting environment, particularly the shift from cash to accrual accounting in recent years. Both of those factors made it necessary to review the FAAA, which we have done. It is proposed to replace that act with these two bills.

In the development of the bills, there has been a fairly extensive consultation process involving a large number of government agencies and the professional accounting bodies. Both of the bills were tabled in the Legislative Assembly as green bills in November last year, and the Treasurer referred them to the Public Accounts Committee. The Public Accounts Committee reported on 6 April, and its report was generally very positive. It concluded that the bills have the potential to significantly enhance accountability for financial management practices and outcomes and adequately reflect the current government accounting environment. The Public Accounts Committee made a total of seven recommendations, four of which involve relatively minor amendments to the bills. The government is currently considering its response to the Public Accounts Committee recommendations. My expectation at this stage is that the two bills will be introduced into Parliament some time next month.

The main broad objectives the Department of Treasury and Finance set itself for rewriting the Financial Administration and Audit Act and developing the Financial Management Bill were fourfold. The first objective was to take whatever opportunity we could to enhance accountability for financial management practices and outcomes. The second was to modernise the legislation and make it more reflective of today's accounting environment. The third objective was to simplify and streamline the legislation wherever we could, and the fourth objective, which is related to that one, is to enhance the robustness of the legislation by outlining the key accountabilities, controls and principles in the act itself and devolving a lot more of the operational or prescriptive details to Treasurer's instructions and regulations, which could be updated more readily than the act.

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The major change that has come out of this exercise is that we propose to split the FAAA into two separate acts, being the Financial Management Act and the Auditor General Act. At a broad level, the Financial Management Bill provides for the financial administration of central government and government agencies. It outlines the accountabilities of key agency positions, which I will discuss a bit later on, and provides for annual reporting by agencies. I will leave it to the Auditor General to discuss the Auditor General Bill shortly. Another major change in the FMB is that it largely removes the distinction between departments and statutory authorities, as reflected in the FAAA. That distinction is now a bit artificial, and the FAAA contains quite a number of duplicated provisions that deal with departments and statutory authorities. We have taken the opportunity to remove that duplication. In some instances there is a need to continue to distinguish between departments and statutory authorities, and we have preserved that in subsections and definitions, but in general the FMB treats departments and statutory authorities the same, and refers to them generically as agencies. The FMB also introduces the term “sub-department”. This is a new term that is not reflected in the FAAA, but basically it formalises current practice. We currently have several sub-departments that are part of a parent department. One example is the Office of Shared Services, which is a sub-department of the Department of the Premier and Cabinet. The FMB simply formalises that current practice, and essentially treats a sub-department as a separate agency in its own right. A sub-department must maintain separate accounts from the parent department. It must be a separate division within the budget estimates. It has an accountable authority which is not the chief executive officer of the parent department, and must also produce its own separate annual report.

As is the case currently with the FAAA, corporatised government business enterprises, such as the Water Corporation and Western Power, will not be subject to the FMB. They have their own enabling legislation, which is based to a large extent on the commonwealth’s Corporations Law, and that will continue to be the case.

**Hon KEN TRAVERS:** Are they currently subject to the FAAA?

**Mr Barnes:** No, they are not.

Last year, Parliament passed the Financial Administration Legislation Amendment Bill. One of the things that legislation did was to shorten the deadline for agencies’ annual reports to 90 days from the end of the financial year. That bill amended the FAAA, and that amendment flows straight through into the Financial Management Bill. Agencies - both departments and statutory authorities - now have 90 days from the end of the financial year in which to table their annual reports. That is a significant shortening of the previous reporting deadlines, which were 128 days for departments and 174 days for statutory authorities.

Another change, which to a large extent is about terminology, requires a bit of explanation. The FAAA currently refers to the Treasurers’ accounts. Under the Financial Management Bill, the Treasurer’s accounts will be replaced by something called the public ledger.

[2.45 pm]

The public ledger is very similar to the FAAA Treasurer’s accounts, but it excludes trust accounts that are under the control or administration of agencies, like agencies’ operating accounts that I mentioned before. Basically that means that the only change it really has is that currently agencies’ trust accounts are centrally administered and reported by Treasury, as part of the Treasurer’s accounts, and under this change, that will no longer happen. Those accounts will be administered and reported at the individual agency level in the agency’s annual reports, as they are their accounts. The FMB changes the title of the “consolidated fund” to the “consolidated account”.

**Hon KEN TRAVERS:** Are you saying that trust accounts will not appear in the annual budget?

**Mr Barnes:** They will still appear in the *Budget Statements* for each agency, and each agency will report their actual balances of their trust accounts in their annual reports each year. All we are

doing really is devolving that currently centralised reporting to the agency level. I suppose that is a further step in the decentralisation, it would seem.

**Hon KEN TRAVERS:** So, how are they currently reported?

**Mr Barnes:** Up to now they have been reported in a document called the “Treasurer’s Annual Statements”. One of the changes made by the Financial Administration Legislation Amendment Act, which was passed in 2005, was to abolish the Treasurer’s annual statements and remove the current duplication, because these trust accounts were being reported at both the central level in the Treasurer’s annual statements by DTF and at the individual agency level in their annual reports. We were concerned that the duplication was unnecessary and inefficient, and given the decentralisation that has happened in the past 10 years or so, it makes sense for these accounts to be reported in the agencies’ own annual reports, rather than in a central document prepared by DTF. So that change went through with that legislation last year.

**Hon KEN TRAVERS:** So no-one in Treasury will be maintaining and monitoring all those accounts?

**Mr Jolob:** If I can step back a little, we have a number of systems within Treasury. One is the Treasury information management system, which is our budget control system. The detailed financial control and monitoring of agencies’ financial affairs is done through that system. We had within the Treasurer’s accounts effectively just notional accounts for those trust accounts. The FAAA required the Treasurer to maintain the trust fund with those individual trust accounts. However, back in 1997, when we did away with the central accounting system - GAS, the government accounting system - and devolved all the accounting down to agencies, the detailed information was retained by agencies and they, to comply with the legislation, on a monthly notional basis provided us with gross expenditure and gross revenue. So we effectively maintained accounts that we did not use for any purpose, other than to comply with the legislation. Complementary to that system is the TIM system, which is where all agencies input all of their data and their cash flow information. I am not intimately familiar with that system, but that is where our budget officers monitor their agencies in a very detailed fashion. So the information we were retaining in the Treasurer’s accounts was not used for any useful decision making or monitoring purposes. What we are really doing is just removing a layer of administration for both the agencies having to provide that information and for Treasury to maintain accounts that it does not use for any other purpose. It was important before we devolved the accounting out to agencies, because it was actually the government accounting system through which we processed all payments, maintained all the detailed accounting that agencies then used for preparing their annual reports and for Treasury to prepare the Treasurer’s annual statements. Then back in 1997 we decommissioned that system. All agencies then purchased their own in-house accounting systems, or they might have shared accounting systems, and since that time that is where all the responsibility for managing and maintaining accounts has rested. I think I am right in saying that at that agency level is where the Auditor General’s focus is in auditing and managing the accounts of agencies.

**Mr Barnes:** Certainly as part of the budget process and budget monitoring throughout the whole year, we will continue to monitor agencies’ trust accounts and their cash balances. It is just that the year-end reporting of that will be done at the individual agency level; whereas previously it was done at the agency level and centrally by DTF.

**Hon KEN TRAVERS:** Will that be done by the Office of Shared Services or by individual agencies?

**Mr Barnes:** I do not think I can give you a definitive answer on that at this stage. The annual reports are still to be signed off by individual agencies. I am not sure of the process behind the production of the annual reports.

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**Hon KEN TRAVERS:** But the actual holding of the accounts and the figures will be done by Shared Services?

**Mr Pearson:** My understanding is that is where I would expect the operational bureau service to be provided, but the formal statutory accountability for it will rest with the director general or CFO of the agency. So it is very much a relationship -

**Hon KEN TRAVERS:** So will the chief financial officer be in Shared Services or in the agency?

**Mr Barnes:** The agency.

**Hon KEN TRAVERS:** Using staff in Shared Services?

**Mr Barnes:** Yes, and the CFO will still sign off on the accounts, which is the critical accountability.

**Hon KEN TRAVERS:** But it will all be done for them by someone not under their direct control?

**Mr Jolob:** We have that in some small way now; for example, DTF provides accounting services to two or three small agencies, and that sort of arrangement on a micro scale has already existed. It does not remove the obligation or the accountabilities that the accountable officer or authority still has under the FAAA or under the new FMB. It just means that someone provides the accounting service for you, but they still have to provide you with all your management reports, and you are ultimately accountable for managing your funds. There will be no devolution of responsibilities to Shared Services. Its role will be to provide an accounting service to all of their customers.

**Mr Barnes:** An important component of the Treasurer's accounts, or public ledger as it will now be called, is the Treasurer's advance account. The Financial Management Bill allows the Treasurer to automatically authorise the expenditure of supplementary funding of up to three per cent of the total appropriations for the previous year. Currently the Treasurer has to go to Parliament each year with a Treasurer's advance authorisation bill seeking a specific dollar limit for the Treasurer's advance for the forthcoming financial year. The FMB automates that, if you like, and imposes an annual limit of three per cent of the previous year's appropriations for the Treasurer's advance. That formula is the basis on which the recently approved Treasurer's advance for next financial year was calculated at \$365 million. Importantly, if that three per cent limit proves insufficient, the Treasurer will still have to go back to Parliament and seek Parliament's approval for an increase in the limit over and above three per cent.

**Hon KEN TRAVERS:** Is that three per cent per agency or three per cent in total across them?

**Mr Barnes:** In total.

**Hon KEN TRAVERS:** That whole three per cent could be applied to one agency.

**Mr Barnes:** It could be applied for any purpose.

**Hon KEN TRAVERS:** Therefore, as long as it stays under three per cent, the Treasurer's advance authorisation will not be required. Is it the Treasurer's advance authorisation act that carries over from year to year?

**Mr Barnes:** No.

**Hon KEN TRAVERS:** Which is the one that rolls over from one year to be used the following year?

**Mr Jolob:** The only ones I am aware of are loan acts, and they are very infrequent. They allow the -

**Hon KEN TRAVERS:** Borrowings?

**Mr Jolob:** Yes, the borrowings, and if we do not borrow within the amount authorised, it carries through until it is needed. I cannot think of any others.

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**Mr Barnes:** The Treasurer's advance is certainly an annual funding mechanism that ceases at 30 June and then the process starts again the next year.

The next slide in the presentation diagrammatically illustrates the process. At the top there is the public bank account. Underneath, the three shaded boxes there form the public ledger; which are currently called the Treasurer's accounts. They are the consolidated account, the Treasurer's advance account and the Treasurer's special-purpose accounts, or SPAs. Those special-purpose accounts for the Treasurer are things like suspense accounts for the twenty-seventh pay that comes around every 10 years or so, and the public bank account interest earned account. So those three shaded boxes form part of the public bank account. Off to the right-hand side there are agency special-purpose accounts, which comprise agencies' main operating accounts that I talked about before, any private trust account in which agencies hold money on trust for a third party, and any other account determined by the Treasurer to be an agency special-purpose account. So those agency special-purpose accounts still form part of the overall public bank account, as is currently the case. The only difference is that they no longer form part of the Treasurer's accounts, or the public ledger, which, as I said before, is only really an issue around the reporting of those accounts. The reporting will now be done at the agency level rather than centrally.

The FMB seeks to broaden the investment powers for the public bank account. Currently public bank account moneys can be invested only in cash, bank deposits and bills and government-backed bonds. Those investment classes are specified in the FAAA. The FMB seeks to broaden the range of allowable investment classes to also include debt securities of listed corporations with a credit rating of A or better. By way of illustration only, an example of a company with a credit rating of A or better is Telstra; so we are looking at big, low-risk corporations.

[3.00 pm]

The overall objective there is to provide some additional flexibility in the long end of our investment portfolio while maintaining the low-risk profile of public bank account investments.

We are also seeking to extend the public bank account to a greater number of statutory authorities. Currently, some statutory authorities are in the public bank account and some are outside the public bank account. We are seeking to bring more of them inside the public bank account to enable a more centralised investment function. Our main issue is that in expertise and economies of scale it makes sense for Treasury and Finance and the Treasury Corporation to perform that centralised investment function rather than individual agencies such as the hospital boards performing it in their own right. This should help leave the agencies to focus more on their core business rather than on their investment.

Cash management is an area in which the FMB seeks to facilitate a more proactive approach than is currently the case in the public sector. The FMB will enable the Treasurer to transfer excess cash from agencies' operating accounts back to the consolidated account. This is being driven by the fact that in recent years there has been a significant increase in agencies' cash balances held in their operating accounts. In the past four years there has been a 30 per cent increase in their cash balances. Across the general government sector, the total cash balances in agencies' accounts stands at around \$1 billion. It is fair to say that to date there has been a very passive approach to cash management in the public sector. That cash has accumulated over time in agencies' operating accounts, and it poses a risk to the government's financial targets; therefore, we are seeking a more proactive approach to managing those accumulating cash balances.

**Hon KEN TRAVERS:** How does it impact on the government's financial targets?

**Mr Barnes:** Primarily on the government's expense and operating surplus targets. Agencies build up cash from unspent appropriations in previous years. They draw down on appropriations in one year and put the cash in their operating account but they do not spend it all in that particular financial year, so they have an excess amount of cash sitting in the operating account. If they spend

that cash in a subsequent year, that will result in the agency breaching its approved expense limit for that financial year. Expense growth is one of the government's financial targets, as is the operating surplus.

**Hon KEN TRAVERS:** Are we mainly talking about capital or recurrent expenditure?

**Mr Barnes:** Both. In one year's budget, Parliament will approve an appropriation of a certain amount to an agency. That approved appropriation is reflected in the expense estimates for that year.

**Hon KEN TRAVERS:** How do you make sure you do not end up with the old June spend up?

**Mr Barnes:** That is a challenge we need to look at. There is scope for us to learn from other jurisdictions, including the commonwealth, which takes a much more active approach to cash management, including nightly sweeping of agencies' bank accounts. We do not do any of that. We will need to develop a policy that makes this power operational. We are getting the power into the act to enable us to do this. We will need to work up a policy in consultation with the agencies to see how we make it operational and how we define excess cash. We will need to take into account behaviour such as that you mentioned when developing the policy.

**Hon KEN TRAVERS:** I can understand the policy in relation to capital works because an agency might have put it aside for three years, and then buy a new computer system and want it averaged over three years if it is building up to it. If an agency wants recurrent funds to employ three extra staff, it should not be allowed to draw down on it in the first place.

**Mr Barnes:** I agree. That is the catalyst for this provision.

**Hon KEN TRAVERS:** Surely you can stop them drawing it down now, can you not?

**Mr Barnes:** We can but they tell us that they need the cash and will spend it by 30 June. They draw it down but they do not spend it all by 30 June because they cannot employ the three people they said they would employ, or something else happens.

**Hon KEN TRAVERS:** They should not be allowed to draw it down until they see the contracts and they are starting to pay the staff, other than drawing down for the cost of hiring or running the advertisements.

**Mr Barnes:** That illustrates the need to be more proactive in this area. This provision gives us the ability to do that.

**Hon KEN TRAVERS:** I do not disagree with the department being proactive, but I would have thought it needed to be proactive even earlier with the drawdown.

**Mr Barnes:** Possibly, but we are reliant on what the agencies tell us.

**Hon KEN TRAVERS:** Are you telling us that they fib to you?

**Mr Barnes:** They might embellish the truth a little bit. Some agencies' estimates tend to be over optimistic, let us put it that way.

**Mr Jolob:** The other reason for bringing it in is that, in 1997, when we introduced agency operating accounts and I was the instructing officer at the time, we took a different approach to these balances and framed the amendments on the basis that, if agencies did build large cash holdings we would deal with them by cutting the appropriations. That is a very ineffective way of dealing with them because then all sorts of movements occur.

**Hon KEN TRAVERS:** That can be the case from a government point of view and then an opposition comes in and says that the previous government has cut the expenditure even though it will spend twice as much as the previous government did the year before, but on paper it looks as though spending has been cut. It is a problem with accrual accounting.

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**Mr Jolob:** This gives a cleaner mechanism for clawing back funds if we need to, using the budget processes is an untidy way of trying to do it.

**Mr Barnes:** The next major change is in relation to resource agreements. Each year at budget time agreements called resource agreements are signed by the relevant minister, the agency CEO and the Treasurer. These agreements set out agreed resource management targets and other accountabilities between the three parties. Currently they are an administrative requirement only. The FMB would make resource agreements a legislative requirement to enhance the status and importance of the resource agreements. In addition, it would require agencies to include in their annual report a comparison of their actual financial performance to the originally approved limits and targets contained in their resource agreement. Currently, there is no acquittal process for resource agreements, which is a bit of an accountability gap. We are proposing to close that gap by requiring agencies to report their actual outcomes against their resource agreements as part of their annual report. That is quite an important accountability improvement.

The next area involves government business enterprises such as the Water Corporation, Western Power (Networks), Port Authorities and so on. These enterprises are required to produce strategic development plans, which is a five-year operational plan, and statements of corporate intent, which set out the entities' annual performance targets. They need to produce those two documents annually. Currently, those two documents are out of alignment with the annual budget process. They are produced too late for incorporation as part of the budget process, so we propose consequential amendments to the relevant government business enterprise legislation to align their SDPs and SCIs more closely with the annual budget process.

The next major change is the proposed abolition of the capital-user charge. The capital-user charge was introduced as part the 2001-02 budget. It is levied at eight per cent of an agency's net assets. There is a round-robin funding arrangement for the capital-user charge, if you like, whereby we include in the agency's appropriation an amount for its capital-user charge and then the agency pays it back to DTF on a quarterly basis. The thinking behind the capital-user charge when it was introduced was that it was hoped that it would act as an incentive for agencies to review their asset holdings and more actively manage their asset holdings. Another objective was to explicitly reflect the cost of holding assets and the cost of the agency services and to facilitate bench marking against other jurisdictions. At that time most other jurisdictions had a capital user charge or something very similar. We are proposing to abolish the capital user charge because it has had no discernible impact on agencies' asset management behaviour. It has high administration costs for both agencies and DTF. It has been abolished by all other jurisdictions except, I think, Victoria. All jurisdictions have experienced similar difficulties to what we have with the capital-user charge. We have arrived at the position at which the administration costs of the capital-user charge outweigh any benefits.

**Hon KEN TRAVERS:** Does this mean that after the capital-user charge has been removed, we will not be able to make a direct comparison between the budgets of last year and next year - again?

**Mr Barnes:** We will attempt to back cast previous years so that the Parliament has a valid comparison from one year to the next.

**Hon KEN TRAVERS:** But only for the immediate previous year.

**Mr Barnes:** Yes.

**Hon KEN TRAVERS:** It seemed like a dumb idea at the time it was brought in. I am glad we accept that that is the case now.

**Mr Barnes:** I mentioned earlier the Financial Administration Legislation Amendment Act, which Parliament passed last year. In addition to the annual reporting time frames, one of the other major changes of that act was retitling the old principal accounting officer role to chief finance officer, and giving that position a much more strategic advisory role than was previously the case. That

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reflects two things: firstly, the fact that with shared corporate services a lot of the day-to-day routine functions - sort of processing, transactional stuff - of the old principal accounting officer position will be shifted to the shared service centre. The change also reflects a desire to elevate the status and the importance of the CFO within the agency and provide a much more strategic financial management and advisory role within the agency than previously might have been the case. In addition, we have beefed up Treasurer's Instruction 824 around the qualification requirements for CFOs. Revised Treasurer's Instruction 824 requires that all CFOs must be a member of a recognised professional accounting body such as CPA Australia or the Institute of Chartered Accountants in Australia. We have allowed an appropriate transitional period of three years for any existing CFOs who are not a member of one of those bodies, but after that transitional period has expired, all CFOs will need to be a member of a professional accounting body.

**Hon KEN TRAVERS:** What if someone has been doing that job in the agency for the past 10 years? Is there any recognition of prior learning?

**Mr Barnes:** No, not in the TI, but the agency CEO can seek an exemption from the TI. He can write to the Treasurer and seek an exemption.

**Hon KEN TRAVERS:** A chief financial officer who does not have those formal qualifications but came up through the old school of the public service, was internally trained and holds all the skills necessary to fulfil the job, will be nervous as all hell between now and that time about whether his CEO will apply for the exemption and whether the Treasury will grant it even if the CEO applies for it.

**Mr Barnes:** We are giving them three years to get qualified. The three years is based on someone working full-time and studying part-time. That three years would give the person the qualification.

**Hon KEN TRAVERS:** One assumes the person has the skills now if he has been doing it for the past 10 years.

**Mr Barnes:** I do not know whether that assumption can be made in every case.

**Hon KEN TRAVERS:** I do not know that the assumption can be made that just because someone holds a CPA membership he has the same skills as the person who has been there for 10 years.

**Mr Barnes:** Certainly not. This is part of an overall strategy to try to raise the level of financial management skills in the public sector. Qualifications is obviously only one element of that. We thought the three-year transition period was fair and reasonable. If the agency CEO can make a good business case for exemption, we will consider it.

**Hon KEN TRAVERS:** Who will then take on the responsibility for those routine duties that are transferred to the host agencies? You said the principal accounting officer previously had the responsibility for doing those routine duties. Will someone be designated to have responsibility for those duties?

[3.15 pm]

**Mr Jolob:** Not specifically. What we are talking about here is a designated position, where someone has defined responsibilities. One of the requirements of the chief financial officer will still be to advise management on the adequacy of either the accounting services that the agency is receiving from the shared service environment, or the accounting systems that it may have internally. Not all agencies will be going to the shared service arrangements. There will be a small, or residual - to use that term - group of agencies that will not be in a shared service arrangement. The CFO will still have responsibility for advising management on the adequacy of the systems under their control. It is just not legislated that that is part of their duties. One would expect as a matter of course that if the accounting system was still under the agency's own control, the CFO would ensure either that he or she had control of the system, or that through the normal management processes within the agency someone would have that responsibility, otherwise the

CFO would have some difficulties in being able to certify and complete those other requirements in terms of annual reporting and meeting the certifications and the like that will still be a responsibility of the CFO. So while we might not say the agency needs to have a position designated as PAO, as we now have with these responsibilities, the fact that that is not legislated will not remove the requirement and the responsibility for that position to be present somewhere within the organisation. We would expect that the CFO will still, in that situation, have that responsibility. What we have tried to do is move from that operationalised focus to lifting the profile of the CFO so that the CFO is focusing on the high level strategic management. Advising management on the adequacy of the systems is one way of still achieving that same end.

**Hon KEN TRAVERS:** How will the decision be made about which agencies are in and which agencies are out of the shared service arrangements?

**Mr Jolob:** My understanding is that a high-level committee has been looking at this. I have not been privy to that process, but nearly every agency is in there. My understanding is also - the Auditor General may be able to comment on this; if I am wrong, please correct me - that the Office of the Auditor General will not be in a shared service arrangement. One of the reasons for that is that some of the agencies require a level of independence, so they will maintain their own accounts.

**Hon KEN TRAVERS:** That makes sense; otherwise the Auditor General would be auditing himself, whereas currently he gets an outside auditor to audit his organisation.

**Mr Pearson:** That is right; otherwise there would be a conflict of interest.

**Mr Jolob:** Yes, and some agencies will be regionalised, which means the shared service arrangement may not suit them. However, my understanding is that it will be more the exception rather than the rule.

**Hon KEN TRAVERS:** To get back to your earlier point, you are saying that the chief financial officer will be basically required to put in place what is currently in the legislation by way of a strategic framework for each agency.

**Mr Pearson:** If I can make an observation, I see the reforms as moving towards a principle-based approach rather than a detailed and prescribed one-size-fits-all approach. That is basically putting the onus on the chief financial officer, not to jump through prescribed hoops, but to provide an assurance that everything is in order and appropriate to that entity, which is a more responsible and mature approach going forward.

**Hon KEN TRAVERS:** It is, but also, if you do not have a minimum standard, there is always a danger that you will - I see this regularly - lose that internal corporate knowledge. People just do not understand why they did it in that way, so they get rid of it, but 10 years later there is a problem, and everyone then realises that is why they had those basic accountability provisions in the act in the first place.

**Mr Pearson:** Yes. Regrettably, some lessons are quite often hard learnt!

**Mr Jolob:** One of the reasons that we prescribed the duties of PAOs in detail when the FAAA was first enacted was that, at that time, internal audit tended to be a straight ticking and checking function as well. We mandated internal audit, or the requirement for the accountable officers or authorities to have an effective internal audit. When you look at the shift from 1985 to now, one of the other areas in which you have checks and balances is that agencies are required to have an effective internal audit. You would expect that the basic internal controls and service delivery of accounting systems would be an area that would be covered by not only the Auditor General in carrying out his attest audit, but also the internal audit function within the agency. That was another reason for moving away from that high level of prescription. We would expect that those things -

**Hon KEN TRAVERS:** Are you saying you will not have a prescription for the internal audit?

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**Mr Jolob:** No. I am saying that, because we have now had a mandated requirement for internal audit since 1985, part of the reason for not having to prescribe the detailed obligations for the PAO is that we now have effective internal audits everywhere, whereas in 1985 it is very questionable as to how many effective internal audits there were across the sector. I know from a couple of the agencies that I worked in that whenever we were short of staff in an operational area, the first thing we did was pull the people out of internal audit, because that did not matter; so in that case we would have to talk about an ineffective internal audit. It was very basic internal checking rather than being system-focused and the like. That is another reason that we now have confidence in moving in the direction in which we have moved.

**Mr Barnes:** I should also note that clause 57 of the FMB explicitly sets out the accountabilities of the CFO position. We are confident that the accountabilities are very clear. They are clearly set out in the bill. We have tried to elevate the nature of those accountabilities from the detailed operational day-to-day stuff to the more -

**Hon KEN TRAVERS:** What will happen if you have a CFO who does not believe that shared services is providing the necessary level of accountability that the agency requires for its strategic approach?

**Mr Barnes:** I am not really a shared services expert, so I am not sure I can answer that question.

**Mr Pearson:** I would offer the opinion that the normal accountability arrangements should prevail. If the CFO feels it is inadequate, the first level is to take it up with shared services and get their agreement that it is inadequate, and to address it. If the agency cannot get that obligation, the obligation is then on the CFO to escalate it to the accountable officer, who should then deal with the board of management of shared services. To me that is exception management, in a normal manner. That is the ruler I would be running over it, because no matter how good it is, it is never going to be perfect; however, people need to be factual and businesslike about it. Equally, I would take the view that even though a CFO may have a personal view against a shared service arrangement, in accepting a job in the Western Australian public sector, which is operating under a shared service arrangement, he needs to recognise that that is the environment in which he is working and be prepared to work within that environment. A CFO cannot just object on principle. It has to be a factual defect.

**Hon KEN TRAVERS:** It cannot be just because they do not like it and want to control the empire under them.

**Mr Pearson:** That is right.

**Mr Jolob:** My understanding is that the shared services facility will have a representative management committee of CEOs that will oversee that service delivery and will have a role, I imagine, in ensuring that there is fair and equitable use of the services and the like. They will have primary carriage. I imagine that if CEOs have any issue about the quality of the services they are receiving, that will be the channel and the mechanism through which they will direct their concerns.

**Mr Barnes:** I now take you to slide 17 of the presentation. Clause 81 of the FMB prohibits a minister and the accountable authority of the agency from taking actions or entering into contracts that would preclude the minister from providing information to the Parliament. Clause 82 of the FMB goes on to say that the minister can still exercise discretion and elect not to make that information available if he or she considers it reasonable and appropriate to do so, but if the minister chooses to withhold information from the Parliament, he or she must inform Parliament and the Auditor General within 14 days of that decision. Under the Auditor General Bill, the Auditor General is to report to Parliament on the reasonableness of the minister's action. Finally, there are several other more minor changes. I mentioned in my opening remarks that a lot of the prescriptive detail will be moved from the act to the Treasurer's instructions. The current requirement for accounting manuals is an example of that. We are proposing to increase the write-

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off thresholds in regulations. Currently, accountable authorities - which for a department is the CEO - can write off irrecoverable debts or assets that are stolen or lost up to a limit of \$5 000 for departments and up to a limit of \$50 000 for statutory authorities. We are proposing to increase that to \$100 000. Ministers can currently do that up to \$50 000 for departments. We are proposing to increase that threshold to \$250 000 for ministers. Write-offs of above \$250 000 will require the approval of the Governor. There will also be some wording changes throughout the legislation to modernise the terminology and simplify it wherever we can. Finally, the Government Financial Responsibility Act currently requires the Treasurer to release what is called the *Pre-election Financial Projection Statement* within 10 days of an election being called. That statement provides a bit of a financial snapshot as at that point in time. That document should not be a political document. In practice only two of these documents have been released in the past two elections. Both those documents have been released by the Under Treasurer rather than the Treasurer. To formalise that, we are proposing a consequential amendment to the Government Financial Responsibility Act that the Under Treasurer rather than the Treasurer will release this document going forward.

**Hon KEN TRAVERS:** To come back to the secrecy provisions, are you saying ministers and agencies will not be able to sign a contract that guarantees to keep information secret?

**Mr Jolob:** Our understanding is that that is what the FAAA currently says. However, the Commission on Government has interpreted that differently. This amendment will reinstate what had always been the intention under the FAAA; that is, no government agency should be able to enter into a contract that would allow it to hide behind the veil of that contract and say to the minister, "Sorry, we cannot give you that information because it is commercial-in-confidence", and nor should a minister be able to say to the Parliament, "Sorry, I cannot give you that information because it is commercial-in-confidence."

**Hon KEN TRAVERS:** That would not prevent the Parliament from subpoenaing that information if it so chooses.

**Mr Jolob:** I am not aware of your powers in that regard. I have lost my train of thought now!

**Hon KEN TRAVERS:** Sorry!

**Mr Jolob:** That is okay. That is what the intention always was, and that is where the confusion came in. We had the State Solicitor, and I think also the Solicitor General, saying the FAAA did what we thought it did, and the Commission on Government had a different point of view. That confusion arose out of the wording in the FAAA that tried to make it clear that notwithstanding that there is no contractual impediment to the minister's providing information to the Parliament, this piece of legislation in no way would limit the minister's discretion to exercise his prerogative to say he is not willing to give the Parliament that information. What we have done with this legislation is go a step further and provide that check and balance, so that if a minister chooses to say he will not provide that information, he will need to formally advise the Parliament, and then provide that to the Auditor General. We always assumed that this clause would apply to parliamentary questions, and that in any event, the minister would stand up in Parliament in response to a parliamentary question and refuse to provide the information.

[3:30 pm]

**Hon KEN TRAVERS:** We have often been told in the past - regardless of which government is in power, because it normally comes from the agency rather than the ministers - that the private sector will not enter into a contract without some form of confidentiality clause included to protect their intellectual property. How do we get around that problem?

**Mr Jolob:** We need to bear in mind that the Financial Administration and Audit Act does not apply to corporatised entities. Perhaps, in part, the large proportion of contracts that may involve commercial-in-confidence might be between agencies like Western Power, the ports, or the

Western Australian Land Authority, and this provision does not apply. That is an issue that was picked up by the Public Accounts Committee, and one of its recommendations was that we ought to be extending this equivalent provision into the legislation.

**Mr Barnes:** Even if the situation applies to an agency that is caught by this legislation, clause 82 of the Financial Management Bill puts the onus on the minister to make a good case for why he or she is not able to provide that information to Parliament. If there is valid commercial-in-confidence, and the minister can convince the Auditor General of that, that is fine; he does not have to disclose that information.

**Hon KEN TRAVERS:** That is after the event. What we have been told in the past - it is from both sides, and as I say, it tends to be from the agencies - that the clause was inserted at the request of the other party seeking the contract, and not at the request of the government. There is always a debate about whether that is the case or not. I am concerned about whether we have done an analysis of the contracts that have confidentiality clauses, and about what impact it will have on the government if the next time they come up we say, "No, we cannot insert a confidentiality clause; the minister may give you some comfort by way of a side letter or whatever it is their intention to do this," and that they then have to convince Des's replacement.

**Mr Barnes:** I will make one quick point and then hand it over. As part of the consultation process on this bill, we provided the bill to the top 40 or 50 agencies across the general government sector. To the best of my knowledge, nobody expressed any concern with this provision. It did not appear on our radar that this would be an issue for agencies.

**Mr Jolob:** The point to bear in mind is that the provision is already in the FAAA. If there were an issue with it, it would have surfaced before today.

**Hon KEN TRAVERS:** Except that they have been signing confidentiality clauses under the reinterpretation, I think.

**Mr Jolob:** The difference in interpretation is that we understood the FAAA to say that under no circumstance will a contract be entered into that will allow the minister to stand behind the veil of a secrecy provision; the second part being that the minister can exercise his discretion if he chooses to, and say to Parliament, "No, I will not provide that information". The way it was interpreted by the 1995 Commission on Government was that those two exclusive provisions were rolled into one, and the commission understood it to mean that a contract with a secrecy provision cannot be entered into unless the minister decides that it is okay to do so. All the commission is doing is saying that the minister does not have the discretionary power to authorise the entering into of a contract with a confidentiality provision in it. That is all this provision is doing; it is merely clarifying what the Commission on Government had recommended, and what we thought we had in the first place with the FAAA. We are not actually changing the intent.

**Hon KEN TRAVERS:** You are changing the practical application of that. The question I ask is do we know which agencies have confidentiality clauses, and what is the likely impact on their ability to be able to renegotiate those contracts or enter into new contracts of a similar style in the future, if they cannot include those clauses? I am not a supporter of confidentiality clauses, but it has always been put to me, every time this issue arises, that there is good reason for them and that it is about companies protecting their intellectual property.

**Mr Pearson:** I make the observation that in the aftermath of the Commission on Government, when I was involved in some discussions, the feeling at that stage was that the desire for commercial-in-confidence was more in the eyes of agencies than in the contract partners. Since that time, effectively all contracts have had an express provision included in them that gave right of access to the Auditor General under the terms of the contract. I cannot recall one occasion where we have had any problem accessing the confidential aspects of the contract and satisfactorily reporting to Parliament on the outcome of our review. So, in a sense, I am reading that provision as

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a belt and braces, because there is a risk that if someone - a minister, for instance - can decide to allow confidentiality, if nobody else knows about it, it is hard to find it. That is where I see the belt and braces in the provision, that says that on an exception basis, a minister can exercise that prerogative, but in so doing, it must be drawn to the attention of the Auditor General. There is then an independent authority reviewing the decision and either agreeing with the case or the contrary - debating with the minister that the case is not there, and the resolution would then have to be with the Parliament or a parliamentary committee.

**Hon KEN TRAVERS:** My other question is how does this bill relate to local government?

**Mr Jolob:** It does not.

**Hon KEN TRAVERS:** Even though they are agencies, or sub-agencies, of government?

**Mr Jolob:** They are created under state statute, but they do not fall within the ambit of the FAAA, because the FAAA applies only to departments and statutory authorities. It has certain powers for the Treasurer and ministers under delegation, but it is limited only to departments and statutory authorities of those agencies that are listed in schedule 1 of the FAAA.

**Mr Barnes:** That concludes my presentation on the Financial Management Bill. I will now hand it over to the Auditor General.

**Mr Pearson:** We have a briefing to provide. With the committee's concurrence, I propose to stay with the overview and dwell on the key features of the Auditor General Bill. Essentially, I see the Auditor General Bill as modernising or updating the provisions of that part of the current FAAA that relates to the audit, and bringing it into line with current practice. I see it as having three thrusts. It is enhancing and protecting the independence of the Auditor General; it is strengthening the relationship with the Parliament; and it is shoring up or confirming powers and practices that are currently being exercised. I will back away from those three headings and come to the key features of the Auditor General Bill at the foot of the front page of the briefing. The first key element is the separation of the Auditor General and financial management legislation. At the level of the ordinary person in the street, as the auditor I welcome that, because too often people say to us that these are our requirements. The reality is that they are not audit requirements. The Auditor General's role is to review what is happening against the requirements of the financial administration part of the act. To me, that is a big step forward in separating the Financial Management Bill from the Auditor General Bill. The Auditor General Bill focuses on the Auditor General's powers. Clear delineation is, to me, important.

The next element is the enhanced independence of the Auditor General. I suppose, as an auditor, that is always dear to our heart. Developments in broader society have been a focus in ensuring the utmost independence from the influence of executive government in the case of the public sector, or from management in the private sector. This is achieved through the enhancement of independence by explicitly making the Auditor General an officer of the Parliament. Exemptions for the Auditor General from the Public Sector Management Act remove that conflict, and recognise the audit function. There are also protections for the resourcing and structure of the Office of the Auditor General. The bill provides for the involvement of parliamentary committees, in a consultative role, in the OAG annual budget and the structure of the office to complement the requirements of the Public Sector Management Act. For instance, where State Executive Services structures have to be approved by the public sector management division of executive government, the bill provides for parliamentary committees to be consulted in that process so it does not subject the auditor to the discretion of an auditee.

The next important element, from my perspective, is strengthening the relationship with the Parliament. There is a provision for consultation with Parliament in determining audit priorities and requests. There is an explicit provision at clause 20 that the Auditor General may carry out any audit that the Public Accounts Committee or the Estimates and Financial Operations Committee

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request the Auditor General to carry out. The underlying point is reaffirming the importance of the Parliament having a contribution in influencing audit priorities. At the end of the day, it is at the Auditor General's discretion, but nevertheless, it is an informed discretion so that the Auditor General is aware of the Parliament's concerns.

We now move to the shoring up of practices. The independence and the strengthening of the relationship are principled and provided for. There are a range of practices that are happening, that have developed over time and that in days gone by there was not so much of a focus on checking that the authority existed for them to take place. I will touch on those. Widened audit powers effectively take into account changing methods in delivering public services. When the FAAA was passed in 1985, people had not heard of outsourcing or public-private partnerships. The extent of contracting with the private sector, under clause 22 of the bill, widens the Auditor General's jurisdiction to allow for audit as seen fit of the accounts and financial statements of any commercial activities of agencies, including partnerships, joint ventures and trusts, where entities are carrying out the functions of an agency either wholly or partly. That is a broadening, in essence letting the Auditor General follow the public dollar. There is an issue that fortunately has never arisen formally, but the FAAA currently provides that the Auditor General may have full and free access to any information at any point in time. For instance, there is an argument that because the FAAA is focused on the public sector, any person referred to might be limited to being a public servant. This bill is broadening it to put that beyond doubt. The other part of it is keeping the Auditor General and the OAG honest; that falls under the feature of accountability of the Auditor General. We have, in practice, pursued a natural justice process of procedural fairness. When we audit and reach conclusions, we, out of practice, share a draft summary of findings with stakeholders and seek their confirmation that we have the context right and that there are no errors of fact. The bill formally provides for that to be done. I cannot see it happening, but it is important to guard against me or a future occupant deciding to dispense with that natural justice process. It would not be allowed.

The other thing is to address the term or tenure of the Auditor General. The FAAA has a traditional career appointment. In line with developments in most other jurisdictions, the bill provides for a 10-year, non-renewable term. It provides for a strengthened structure within the OAG and explicitly provides for a statutory deputy, and for continuity within the office. It provides the safeguard for the appointment of an acting Auditor General, so in short-term vacancies, the deputy steps in, but should there be a long-term vacancy, there is a reserve provision for an acting Auditor General to be appointed over the incumbent deputy. However, that would be a transparent process.

Moving on to the seventh feature point of the bill: it aligns terminology with the Financial Management Bill. It picks up the terminology of the public ledger and appoints the Auditor General as the Auditor of the Public Ledger, and provides for an audit opinion on the new annual report on state finances. Again, that is procedural alignment. The final point is again in the area of tidying up practice. It aligns audit with our contemporary audit practice, and it provides for the power to waive audits. For instance, at the moment, there are a number of dormant subsidiaries of agencies. The OAG has adopted commercial practice, and if it is dormant, an opinion is not issued on it. There is a school of thought that, under the FAAA, maybe we should be doing an audit of the dormant company and issuing an opinion. It does not make sense, but it puts it beyond doubt.

[3.45 pm]

In clearer terminology, the Financial Administration and Audit Act, in effect, provides for adherence to accounting and auditing standards. There has been some debate about the degree of discretion. The bill provides for the audit to be undertaken having regard to auditing standards. That preserves the Western Australian jurisdiction. From my reading of it and our drafting instructions, there is an expectation that the standards would be adhered to but if there was a quirk that caused problems in Western Australia, there would be transparency about how that is



addressed, rather than blind adherence. There is no provision in the FAAA to delegate legislative status for current operational practices. For instance, some certifications are signed off down the line. We do a number of practices, such as sitting on audit committees and steering committees. There is an element of doubt as to whether we are authorised to do that. The bill provides authority for those constructive contributions to be continued but without impairing the independence of the audit function.

In overview, they are the key elements. Summarising that, the three key objectives of the bill are an enhancement of the protection of the independence of the Auditor General; the strengthening of the relationship with Parliament; and shoring up powers and practices that are largely in play that have developed in the interim since the enactment of the FAAA and in contemplation of obvious things into the future. I have tried to cover the eight key features of the bill.

**The CHAIRPERSON:** I am interested in following up on the enhanced independence. Could you go into that in a little more detail?

**Mr Pearson:** The enhanced independence builds on the Commission on Government report. It probably comes down to the clearer provisions for independence. Clause 7 of the Auditor General Bill recognises the status and independence of the Auditor General. It describes the Auditor General as an independent officer of the Parliament. His powers are set out in this bill and other legislation. Clause 7(5) states -

The Auditor General is authorised and required to act independently in relation to the performance of the functions of the Auditor General and, subject to this Act and under written laws . . .

The explicit provision of the Auditor General is not subject to direction from anyone in relation to when a particular audit is to be conducted, the way in which a particular audit is to be conducted, whether or not a particular report is to be made, what is to be included in a particular report or the priority to be given to any particular matter. It reaffirms that independence and autonomy of the auditor to audit without fear or favour.

**The CHAIRPERSON:** Excuse me for my ignorance of these processes, but do you produce a draft report which is then provided to the body that is being investigated?

**Mr Pearson:** Yes.

**The CHAIRPERSON:** So that process will continue?

**Mr Pearson:** That will continue and that is shored up to protect those agencies from any change. Although we have done that out of good practice, there has been no requirement for us to do it. We have adopted it as current practice and natural justice in today's world. That was in the third category I mentioned of shoring up or confirming existing practices. Clause 25 explicitly requires that in the future.

**Mr Rowe:** It goes a little further to say that the Auditor General must publish a fair summary of the comments or submissions that are provided by the agencies or bodies subject to those examinations. As well as the agency being given the opportunity to respond to the findings, I understand the bill now provides for the Auditor General to actually publish those submissions, or a fair summary of them, in his report to Parliament. It gives a greater balance and, I guess, makes the agencies accountable to actually respond to those findings that have been reported.

**Hon KEN TRAVERS:** Some agencies could say that is why you are leaving, Des - you have to give them a fair go now.

**Mr Pearson:** They can say that. That would help us because they have to do it within 14 days. That would help us a lot.

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**Hon KEN TRAVERS:** Can they get an extension on that? I can see why 14 days could be a bit short for some agencies to provide a response. Some of the matters are fairly complex.

**Mr Pearson:** Again, it has to be looked at in the context that we operate on no surprises. Invariably, they have known about the issue for months. We give them our findings progressively. We tend to find that we get no response when we tell them about it, but they focus their attention on it when we give them the draft summary of findings. It comes down to reasonableness. My approach would be, yes, if it was reasonable, we would extend, as we do now. We give them deadlines.

**Hon KEN TRAVERS:** The way this is written, you will not have the option of extending beyond 14 days.

**Mr Pearson:** It does say that but, by the same token, before we go out for the 14-day clock, it is in our interest to make sure that we have presented well and briefed them well.

**The CHAIRPERSON:** If a draft report is provided to a department or agency and they respond, does the draft report get amended? Does the final report differ from the draft report or does it just include feedback from the agency?

**Mr Pearson:** At the moment, it tends to be amended. It is a personal approach but I would prefer it to be continued pretty much the way it is now, where we say what we think. In light of what they raise, we might negotiate a different wording because the preferable outcome is for the auditor to say, "This is what I think," and for the agency to say, "We generally accept." It is far more helpful to the Parliament to know what is going on than to have the auditor say, "This is what I think" and the agency say, "This is what I think." The audit is not finished if we are in that position.

**Hon KEN TRAVERS:** There is room for mischief there. If an agency has convinced you of the need to change and it is not formally changed in the report that is handed down, I can see a huge room for mischief by people to misinterpret something you have actually accepted based on further advice from the agency that you now accept their argument or part of their argument.

**Mr Pearson:** It is an element of performance management with my staff. We are all human and we do not always read minds and get it 100 per cent right. My better staff are better at distilling the situation and writing a report in such a way that the agency says is a fair representation. It does not worry us too much if we have to dot an "i" or cross a "t" but if a staff member consistently has real problems getting agency concurrence to a finding, we have a communication problem at a minimum.

I will just come back to shoring up the independence of the Auditor General. There are two more elements to it. One is the clearer provision or explicit statement of the independence in the legislation. The second is exemption from some of the sections of the Public Sector Management Act. There has been a bit of a crossover with the FAAA being a 1985 act and the Public Sector Management Act being a 1994 act. In practice, some of those things have compromised the independence so they are being addressed. The third level relates to the resourcing and structure and bringing Parliament into the budgetary process. To me they are the three key elements of shoring up the independence of the Auditor General. At the end of the day, executive government holds the Treasury benches and it has to appropriate the money but it is a more transparent process.

**Hon KEN TRAVERS:** I wanted to make one comment on clause 20 and your reference to the Standing Committee on Estimates and Financial Operations, to which I assume you are referring to this standing committee.

**Mr Pearson:** Yes.

**Hon KEN TRAVERS:** In terms of drafting, before you introduce the bill, my advice would be to make it a more generic term as the committee is established by the Parliament for the purposes of either examining the financial operations of government or whatever. We have a specific term of

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reference. I suspect it is more likely that there will always be a committee that has a specific term of reference for ongoing liaison with the Auditor General. We do not want to get caught with a committee ceasing to exist and a new one having a slightly different name.

**Mr Pearson:** We will certainly take that on board but it is an area in which we have relied on the parliamentary draftsman.

**Hon KEN TRAVERS:** They have said that this is a committee, but that is a schedule of our standing orders.

**Mr Pearson:** They can change.

**Hon KEN TRAVERS:** And they have for the last three Parliaments in terms of the way in which Parliament handles financial operations. I note all the way through the bill that there are lots of references to the Public Accounts Committee in terms of its role but none to an upper house committee. Is there a reason for that?

**Mr Pearson:** It is more the nature of the standing orders and the permanency of the committee. The PAC of the Assembly has had a more explicit reference to overseeing the work of the Auditor General. There has been a longer tradition of the PAC in the Assembly working with the Auditor General.

**Hon KEN TRAVERS:** Should Parliament be looking at a joint standing committee?

**Mr Pearson:** That is a precedent in a number of other jurisdictions - commonwealth, Victoria and, I think, South Australia.

**Hon KEN TRAVERS:** We could ultimately have two separate committees but they can come together to form a joint standing committee for the purposes of this act, so we could bring the two committees together when dealing with matters concerning the Auditor General.

**Mr Pearson:** That would be a positive development.

**Hon KEN TRAVERS:** We can have separate committees and those committees can form. I think the Public Accounts Committee is a five-person committee, as is this committee. We would end up with 10. That is not too bad.

**Mr Pearson:** Under the bill and the present legislation, the Auditor General reports to both houses of Parliament, so it is logical to have a joint committee to respond.

**Hon SHELLEY ARCHER:** Fortunately I already read the Public Accounts Committee report and any concerns I had have already been addressed in that.

**The CHAIRPERSON:** I think we are done, if that is okay with you, gentlemen. Thank you for your time this afternoon.

**Hearing concluded at 3.58 pm**

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