

**STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS**

INQUIRY INTO THE GOVERNMENT'S LOCAL PROJECTS, LOCAL JOBS PROGRAM



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
FRIDAY, 2 AUGUST 2019**

**SESSION ONE
OFFICE OF THE AUDITOR GENERAL**

**Members
Hon Tjorn Sibma (Chair)
Hon Alanna Clohesy (Deputy Chair)
Hon Diane Evers
Hon Jacqui Boydell
Hon Colin Tincknell**

Hearing commenced at 10.11 am**Ms CAROLINE SPENCER****Auditor General, sworn and examined:****Mr PATRICK ARULSINGHAM****Acting Assistant Auditor General, Financial Audit, sworn and examined:**

The CHAIR: Welcome to the Local Projects, Local Jobs inquiry. For the purposes of this inquiry, I am the acting Chair. I have, effectively, swapped roles with Hon Alanna Clohesy, to my left. On behalf of the committee, I would like to welcome you to the hearing. Today's hearing will be broadcast. Before we go live, I would just like to remind all parties that if you have any private documents with you, to keep them flat on the desk to avoid cameras. Please begin the broadcast.

I now require you to take either the oath or affirmation.

[Witnesses took the affirmation.]

The CHAIR: You will have signed a document entitled "Information for Witnesses". Have you read and understood that document?

The WITNESSES: Yes.

The CHAIR: These proceedings are being recorded by Hansard. Please note that this broadcast will be available for viewing online after this hearing. Please advise the committee if you object to the broadcast being made available in this way.

Ms Spencer: No objections.

The CHAIR: A transcript of your evidence will be provided to you. To assist the committee and Hansard, please quote the full title of any document you refer to during the course of this hearing for the record. Please be aware of the microphones and try to talk into them; ensure that you do not cover them with papers or make noise near them. Please try to speak in turn—I do not think I need to tell you that, but this is what it tells me to tell you. I remind you that your transcript will be made public. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in private session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Until such a time as the transcript of your public evidence is finalised, it should not be made public. I advise you that publication or disclosure of the uncorrected transcript of evidence may constitute a contempt of Parliament and may mean that the material published or disclosed is not subject to parliamentary privilege.

Would you like to make an opening statement to the committee?

Ms Spencer: Only a brief statement of introduction, Chair. We are very pleased, obviously, to appear here in our role as auditor in the sector. I introduced Mr Patrick Arulsingham as acting assistant auditor general, financial audit, while our substantive Don Cunninghame is on well-earned leave. Obviously, the committee's terms of reference are broader than the role of our office, but we are very pleased to answer any questions both in today's hearing and in any further information as relevant to the role of the office, subsequently.

The CHAIR: Thank you very much. I might lead-off in questions, and we will attempt to share the joy among committee members. Auditor General, can I refer you to the submission that you helpfully

provided. I think either on page 2 or 3—I think I have the right reference—remarks are made to the Local Projects, Local Jobs scheme, to paraphrase, being a little different from standardised grants programs. Could I get a professional assessment from you, please, about how this program might differ from extant grants programs administered by the state government?

Ms Spencer: In the sense that the individual project proposals were identified during the election process as election commitments rather than outlining the particular program of grants and then having the specifics worked out afterwards upon taking government.

The CHAIR: I note that you have addressed most specifically three terms of reference for this inquiry: the first being, terms of reference 2(a) and 2(b), which deal with the project's development and evaluation selection, but more around the mechanics of how grants were administered and work their way through the system from a department to a recipient organisation, as well as there are some very helpful remarks made around a parliamentary budget office. My line of questioning is more around your response to term of reference 2(b), which is actually the acquittal process—the mechanics of this moving through the system. Thank you very much for providing that template grant agreement, which I think was sourced from the Department of the Premier and Cabinet. Did you view directly grant agreements across agencies; and, if so, how did they differ, or not, from the standardised template that DPC utilised?

Ms Spencer: The answer to that, Chair, is yes, we did. I will hand over to Mr Arulsingham who is a senior leader in the financial audit team and closely involved in the audit. He can answer any specific details, but talk specifically to grant templates across the departments that we audited.

Mr Arulsingham: Yes, if I may comment, Chair. We reviewed agreements for the five agencies that we tested as part of our sample of 40, as you see in our submission. The agreements were pretty consistent. Where they varied depended on the size of the project et cetera. You would have maybe on a larger value project an agreement similar to the document you see attached in our submission; for a smaller project, you may see more of an agreement in the form of a letter, but still outlining the requirements et cetera.

[10.20 am]

The CHAIR: Was there a monetary threshold at which you transitioned from, effectively, a letter of agreement towards a more detailed, albeit, proforma grant agreement?

Mr Arulsingham: I am not aware of a particular threshold.

The CHAIR: Not that particular threshold. But in terms of the projects that you evaluated, was there an average monetary value, for example, for the lower expense side? I am presuming they were around the \$5 000 mark but I do not want to make presumptions, I just want to understand where a grant application agreement might kick in and where just a letter would suffice.

Mr Arulsingham: If I may, for some of the education grants, there were some at \$11 000 et cetera where it was a letter but it contained, effectively, similar terms to what you would see in an agreement.

The CHAIR: I see. Thank you. With respect to either those letters, or a grant agreement, in the light of the template that have you provided, was it anywhere indicated who a responsible project officer would be in the department administering that grant and who could be contacted, I suppose, to flesh out or revise changes to the parameters?

Mr Arulsingham: I am aware that there is a responsible person at each particular entity that we sampled in our testing. Whether that is actually listed in the actual agreement, I will need to refer back to you.

The CHAIR: Okay, that is fine. Could I get a sense, please, about your professional assessment of the level of governance and transparency which applied to, not the selection of projects, but their administration through the system and how those levels of governance and transparency might equate to other standardised grant systems that the state government utilises, whether it be through the ex-Department of Sport and Recreation or the Department of Environment, for example?

Ms Spencer: I will ask Mr Arulsingham to start that and I will provide some further information on context.

Mr Arulsingham: In terms of the agreement itself, it is similar to what entities were using for their own grant processes, Chair, so similar documents. They were leveraging off some of the existing processes. The agreements that were being used were similar to what entities were using for their current grant acquittal—other grants processes et cetera. It was similar-type documentation. In terms of the process itself, it is reasonably similar. There were acquittals; there were agreements. In the acquittal documents there were requirements to provide evidence of acquittal, so that could be in the form of supporting documentation and sign-offs. In terms of exceptions from our testing, you will note that in our audit results report we have reported some exceptions from our testing.

The CHAIR: I think that might attract a line of questioning perhaps at another point in this hearing, but, Auditor General, I think you indicated a desire to add to that answer.

Ms Spencer: Certainly during the auditing and reporting process, the selection of documents that I examined and inquiries of the audit teams informed me that the financial management processes and grant acquittals for granting templates and acquittals were similar for this particular program as used by those entities for the other grant programs. Obviously the selection and assessment process you have identified was different for this program.

The DEPUTY CHAIR: In the audit results, you did comment specifically that the processes that you audited appeared to have a level of transparency and that was in your audit results and in your submission?

Ms Spencer: Yes. Certainly, Deputy Chair, in our role, we look at balances in financial statements and material transactions. We also look at disclosures. The budget process is obviously a matter of policy for the government of the day and for the Parliament to scrutinise in the appropriation bills, but where we are involved is in the financial management and reporting. An important aspect of that is the disclosures around that, not just the dollar amounts. In terms of a level of transparency, that comment related to there being information provided to the Parliament and the public on the program, and what we identified during our audit testing, during our audit work, there was nothing that was in discord with what was reported publicly on those aspects that we looked at.

The CHAIR: Can I ask, without wishing to dominate the hearing—I will open this up shortly—I have a document provided by the Office of the Auditor General in 2016 to deal with grant administration across government. I think it is report 16 of July 2016. On page 7 of that report, the Office of the Auditor General makes about six recommendations about what would represent best practice in grant administration across government. Can you give a professional view, please, of how this program may or may not have fulfilled those recommendations?

Ms Spencer: Certainly. This audit and another one we currently have underway that we would be happy to talk to the committee about, and what we have found since I have commenced the role, is that this is an assessment of sound grant administrative practice rather than reflective of assessment against an existing state government grants framework. These recommendations, in

terms of sound financial administration, including related to grants policies and procedures—for example, avoidance of conflicts of interest—are all sound grant administrative practices.

The CHAIR: Were they applied particularly around declarations of any real or perceived conflicts of interest? In the 40 projects that you had a close look at, was there any evidence of that being a consideration in the way that funds were ultimately dispersed?

Ms Spencer: I am not aware of conflicts of interest being declared as a result of the selection process being that it was based on election commitments. Did you, Mr Arulsingham, from the responsible offices in the entities for the program see any declarations of interest and management of that?

Mr Arulsingham: No; that was not within our scope. Our scope of the program was looking at completed and acquitted projects and looking at whether the relevant acquittal processes and the payments were in line with the purpose of the agreement. We did not look at the pre-process of the selection of the grants et cetera.

The CHAIR: Effectively, your office took a view that, basically, after projects were effectively picked and funded—the transparency you indicated refers to there being a budget process and answers provided in Parliament—you did not focus on the pre-grant application. Did you focus on the effectiveness of the projects themselves and whether or not they fulfilled or achieved the objectives which they were designed to achieve?

Ms Spencer: Whether outcomes were achieved?

The CHAIR: Yes.

Ms Spencer: No. One thing I did note in some of the templates—it may be in the template we provided to the committee—some of the templates had an articulation of how many local jobs were expected to be created as a result of the grant. As far as I am aware—it was outside the scope of our financial audit work—a number was identified at the beginning of the grant process. Certainly I am not aware of whether there has been any work around the evaluation of the outcomes of that.

The CHAIR: Sorry; I am unsure that there were some objectives in terms of, for example, job creation or the creation or fostering of local industry. That was identified in some of these grant agreements?

Ms Spencer: That is my recollection, and I will be corrected if I am wrong. I cannot see it here in the template that we provided to the committee, Chair. But I thought I recalled in some of the agreements that I reviewed that there was a section here of a payment schedule of reporting requirements that some of those projects or maybe a good number of those projects actually outlined the expected number of jobs created.

Mr Arulsingham: I could not see that in the samples.

Ms Spencer: Sorry, Chair, maybe this is one we could take on notice.

[10.30 am]

The CHAIR: I think it would. Just for clarity, of the 40 projects that you took a deeper dive into, could you provide an indication of how many of those grant agreements specified job creation targets and identify which grant agreements they were, and perhaps whether or not there was any indication of that objective being fulfilled as a consequence of the agreement? I will just ask one more question and then open it up; I do not mean to be greedy. It is true! Can I refer you, Auditor General, first to the audit report that you presented in November last year—the annual 2017–18 financial audits of state government entities, to which you refer again in your very informative submission? Could I refer you to the three projects of the 40 that you looked at that deviated from the grant purpose?

Ms Spencer: How about I let Mr Arulsingham talk to those, specifically around the findings on the Department of Education?

Mr Arulsingham: Chair, if I may, on page 26 of the report it refers to three instances at the Department of Education where schools used the funds for a purpose that differed from the agreement. For one of these, there was no documented approval of the change. For the other two instances, the change in scope was approved by the local member of Parliament for the area in which the schools were located. However, for one of these there was no documented evidence of endorsement of the change by the relevant minister or authorised delegate within the entity.

The CHAIR: Can I ask more specifically which are the three projects you are referring to?

Ms Spencer: Certainly. We brought this information to the hearing. If I may, Chair, I would be very happy to inform the committee of the grant amount, the original project description, and the change of scope. I am happy to provide further information, if required, in a private hearing. My view is that naming the particular recipient of the grant may attract attention that infers that the recipient did something wrong, where it was an administrative error. I am happy to provide that in a closed or private hearing—the recipient.

The CHAIR: I think in the first instance, Auditor General, if you want to provide what information you are prepared to divulge with respect to those three projects, but the one I am interested in is what I would consider to be quite an unsound practice—a member of Parliament without authority, presumably, changing a project scope. I suppose, in the first instance, I would be happy to accept what information you are prepared to provide and we can possibly seek determination as to—I think it is in the committee's interest to seek greater clarity. We might do so in a way that is confidential, but that would be a further determination of the inquiry.

Ms Spencer: That particular one where there was a grant amount of \$11 000. The initial project description was for a nature playground for a school. It was changed in scope to become Lego robotics for the school. My understanding is that that was at the request of the school, and the local member of Parliament consulted with the minister for education's office, but it was the local member's signature that authorised the change of scope.

Mr Arulsingham: The request came from the relevant school.

The CHAIR: The relevant school originally listed—initially, just so I understand it, there was an \$11 000 pledge for nature play equipment at a particular school. The school looked at it and said, presumably, "We've got another idea for how this funding might be utilised for the benefit of our school community" and they sought the local member's support. This is where I find it interesting, though, because the process for changes in scope or revision of projects would, I think, be a customary inclusion or a point of reference for a standardised grant agreement framework. Was there a governing mechanism here which would guide people as to how deviations or changes in scope might be given effect, and who had authorisation to make those changes?

Ms Spencer: In response to those two points, firstly, a change in scope that is related to the intent and purpose of a grant program is not desirable, but it is not uncommon, and it does not raise alarm bells specifically if it still relates to the intended purpose and the outcome. For example, we did not see playgrounds being turned into tea rooms for staff. It was for the benefit of the children. It would be turned into shade sails instead, or something—in this case other educational materials for the students. The point around authorisation was our concern—that is, around proper authorisation of expenditure of public money and acquittal to see that the public money was expended for its intended purpose. Those were our two areas of focus. In these three cases it was really that the change itself—it did not deviate within the overall stated objectives of the program; that was not

the concern. It was the authorisation not by an approved delegate or official within the Department of Education.

The CHAIR: That is an important thing. I just want to get the understanding of the mechanics of that. In this particular case, where there was a change in scope, who, effectively, authorised that change? Was that made at the departmental level?

Ms Spencer: My understanding is that at the departmental level and the overarching advice from the Department of the Premier and Cabinet was that where there was a request from the recipient entity—the community group or school—to a change in the nature of the goods or services that were purchased as result of the ground, that it went back to the administering entity, the department, but in consultation with the local member who had made the commitment. Is there anything else to add to that?

Mr Arulsingham: That is correct.

The CHAIR: The last paragraph you have on page 3 of your submission, which goes on to page 4, deals with these issues. I think we can all understand that there are occasions where a change in scope is going to be sought with a degree of legitimacy, but what is important is that there is a clearly understood mechanism which drives that change. I am curious as to your remark here that you found some level of confusion regarding the instructions—presumably the instructions around this particular process—and the timing of the instructions given by the Department of Education and the Department of the Premier and Cabinet regarding the approval needed to amend the purpose of grants. Can I get a sense from you, please, whether or not both departments issued guidance as to how a change in project scope might be authorised? From whence does the confusion emerge?

Ms Spencer: Certainly. From my perspective, and this relates to an earlier question, Chair, around some observations around level of governance, there were no clear grant guidelines for this program that we would ideally see. In our submission, we referred you to the commonwealth grant guidelines and rules, which are a higher level of obligation on entities around articulating up-front in the planning how they are going to administer the program. Authorising selection but also authorising changes typically, in good practice, would be outlined in such grant guidelines. It is clear then to the administering entity, but also to grant recipients. Having that up-front would help avoid that confusion. I will let Mr Arulsingham talk about the email trail and the guidance that was provided from DPC to education. He may be able to elaborate a little further on that confusion.

[10.40 am]

Mr Arulsingham: I guess, referring to our report again, we referred to some confusion around the liaison, but subsequently DPC—and further down in our page 26—modified the change of scope approval process. That was done subsequently.

The CHAIR: Was that promulgated across departments? What I infer from reading this observation, which I think is an important one, is there seems to be an absence of a framework guiding how these changes might be made in respect of this program, that essentially changes in scope were made on a case-by-case basis, that there was liaison which would include, in this particular instance, the Departments of Education and the Premier and Cabinet. My question is: Did those departments provide inconsistent advice at any stage? Where was the confusion about how to do it or whether there was an organisation, or about who would approve a variation of this kind?

Ms Spencer: My understanding is it was both and then it was, as a response to the matters that arose during the course of the granting process around request for changes in scope, that something

else would be more suitable, that that advice was provided—that that was changed during the process?

Mr Arulsingham: Yes, that is right. If I may add, we could not see—it was happening obviously as the change was requested et cetera. There was an email trail of requesting approval for the change, so it was flowing through, you know, various departments and then obviously in the two instances that we identified, as referred to.

The CHAIR: Was guidance provided in written or verbal form initially from these departments? Because effectively, as you identified earlier, in most of these programs you have got a desk officer in the department whose job it is to effectively get that grant application out and monitor compliance to some degree. That individual was likely to be someone at a presumably a middle or perhaps a lower level of seniority. So, to whom did they seek advice? You note some confusion; what I am trying to get a sense of is: was conflicting advice provided to those individual desk officers at any stage? Did you see evidence of that, or was there just a lack of clarity about the process?

Ms Spencer: There was confusion initially as to whether it could be authorised within the department, as to whether within the department a delegated officer could approve those changes and if they appeared reasonable within the intended outcome or scope of works, whether that was a reasonable request, and then the department deferred or referred to DPC as the coordinating entity across government. My understanding is over time some of those processes tightened as, you know, officers —

The CHAIR: It emerged organically as some of these —

Ms Spencer: As these things sometimes do.

The CHAIR: Was there an example of DPC attempting to clarify these particular administrative arrangements then for the benefit of the program and for I suppose individual decision-makers at a departmental level? How was that information provided?

Ms Spencer: I think there was, but I will let Mr Arulsingham talk in detail from the documents.

Mr Arulsingham: Yes; it was done by email and obviously some subsequent, I guess, follow-up in terms of what is required. But that is all we have seen to date.

The CHAIR: Could you recall when that email communication may have taken place?

Mr Arulsingham: It would be subsequent to the request coming in for the —

The CHAIR: But you did observe an email from the Department of the Premier and Cabinet giving clarity to these arguments?

Mr Arulsingham: I am not sure; I will have to refer back to the exact correspondences.

The CHAIR: If you could take that question on notice.

Ms Spencer: My understanding is that there was advice provided by DPC that the local member should be consulted—I think that is in our report—around changes. That was DPC's coordinating roles.

The CHAIR: I suppose then was there any further probably more process driven or information rich advice from that department—aside from consulting with the individual local member on a request that has emerged from the community then—how officially that change would manifest itself? The assumption here is it requires a signature of a minister, and in certain cases that did not happen. I want to make sure that everybody understood that that would be required. That is what I infer from this observation that DPC over time attempted to tighten the process.

Ms Spencer: We will have a look at that in our sample, Chair.

Hon JACQUI BOYDELL: I just wanted to go back to page 3 of your submission where we were previously talking—the Chair indicated in the last paragraph there—about some of the confusion with the grants and the application process. I note that you have particularly said in your submission that the confusion would appear to be in part due to the haste in which the project was delivered. Can you give me an indication of where that haste came from or why you made the assumption that it was potentially due to haste and how was that being driven? Was it from the department? Was it from the local member or was it from the Department of the Premier and Cabinet as the overarching, I guess, department in administering the process? You make the specific statement that it was due to the haste of the delivery of the program. Why was that?

Ms Spencer: I guess that is observation, member, but certainly in saying where there is a change of government, there is often an impatience for the bureaucracy to implement commitments and new policies as quickly as possible, so that is an observation across my work with various jurisdictions seeing changes of government. I will have to defer to Mr Arulsingham around the particular nature of documentation, but my observation during the reporting process for this, when I was in the Chair, was that the fact it was emails rather than established grant guidelines supported that observation that this was trying to identify a reasonable path to implement that particular grant program rather than having an extensive planning phase up front, which we have touched on. Is there any other examples or specifics there?

Mr Arulsingham: No. I will just reiterate the point that it was done via emails, so I think that that was the sort of email trail in terms of seeking the relevant process by which the scope change could be approved. The fact that there was just only an email trail and eventually getting to the outcome, I think that created a —

Hon JACQUI BOYDELL: The fact that it was an email trail rather than a set out process of practice, I would assume actually made it very difficult to audit, with some confusion as well?

Mr Arulsingham: We did see an acquittal report at the end of the project, so we could see an acquittal report signed. We only looked at projects that were completed and acquitted, hence we could, for the sample of 40, see from the acquittals what was actually done in terms of the purpose of which the grant moneys was spent for. From there we could compare it with the original grant letter and ascertain all agreement and ascertain the supporting documentation provided with acquittal to ascertain whether it was done for the purpose, except for the exceptions that we have noted here—the others were.

[10.50 am]

Ms Spencer: Certainly, if I may add, what we can often see and see as auditors is that it is nice to see nicely laid out memos or briefing notes to the executive or to ministers and that go up and down the formal channels as required, and often emails are a symptom of people acting more quickly.

We have not looked at whether things are being done after hours in terms of people working extra hours to get things out in time and doing overtime, but certainly the email nature of approvals and authorisations means that there is a little bit less effort going into documentation. Emails are official records for the archives act.

The DEPUTY CHAIR: Welcome to the modern world!

Ms Spencer: Yes, exactly.

Hon JACQUI BOYDELL: Could I also just go back to try to understand a little bit of the process? The executive of government obviously approved the Local Projects, Local Jobs expenditure overarching.

Ms Spencer: That is my understanding.

Hon JACQUI BOYDELL: Where there were acquittals done and particularly where the changes were made in the scope of those projects, was there a requirement to report back to executive—did you note any?—so that the cabinet was aware of changes that they had previously approved?

Ms Spencer: That was outside the scope of our particular financial audit examination so I am not aware of that as a process, so I could not speak to that specifically. Did you see any aggregated reporting in the audit, incidentally?

Mr Arulsingham: No. I reiterate the point that was outside our scope. We saw the acquittals of the projects once they were completed, but not any aggregated reporting. We were not looking at that.

The CHAIR: There is an interest among committee members about the process you adopted to select individual projects for closer scrutiny, and you do go into this in your submission but perhaps it is a good opportunity just to elaborate a bit more on that process, because you have provided us with a list, I think, of the 80 or 81 that sort of hits a threshold of interest on your behalf and then there was a decision to inquire more deeply into 40 of those 81. Can you indicate which 40 you actually did? It is in your submission. It is attachment 3.

Ms Spencer: Yes. The audit team requested in the 2018 interim audit a list of completed projects as at 31 December and that is where the list of projects came from and then were selected for auditing the 40 in detail during the March–April period of 2018. Certainly, 40 out of a sample of that size is—we did it in a haphazard sampling technique, which is actually a valid audit sampling technique statistically. We did not stratify the population that we had, but it was intended to give a representative view across the population of different types of projects. Certainly, in terms of detailed selection, that happened before I started.

Mr Arulsingham: As the AG mentioned, we asked for a list of completed and acquitted projects and we were provided a list by the Department of the Premier and Cabinet. At that point in time, when we asked for it, the latest information that could be provided to us was a list of completed and acquitted projects as of 31 December 2017. From that list, there were 81 projects that you will see attached in our submission. The entities that we have selected are those entities that had completed and acquitted a project.

The CHAIR: So there was a measure of—you wanted to look at a project that had actually gone from concept to execution. I do note your remark the process by which you were dealing with the program, which was still being just—it was live. Nevertheless, a sample of 40 out of a broader program—your professional view is, irrespective of the process, you have determined that is a statistically significant result. Is it possible to identify the 40 from that list of 81 identified in attachment 3 where you actually did? That is unclear to me, which ones you took through that whole process. One of the rationales being, rather than just idle curiosity is that this committee is going to look at, potentially, projects with some degree of scrutiny, so it would be informative for the committee's deliberative purposes to know which have had a very thorough look at.

Ms Spencer: So as not to duplicate it. I understand, Chair. We can provide that to the committee. Further to that—but it is in the submission—we did want to look at least one acquitted grant under the program in each of the entities that had completed and acquitted grants, so that was also a factor in our selection of projects.

The CHAIR: In terms of that process of acquittal, was there agreement under either these letters that were provided to recipients or a larger grant agreement—were there stipulations as to when these funds needed to be acquitted and how was that monitored by the individual departments themselves?

Ms Spencer: Depending on the scale of the project, there was either one, two and even three payments for some of the projects in the sample in the payment schedule. I do not know that there was an acquittal. Was there an acquittal time frame requirement, a number of days or weeks, after which the payment was made the recipient had to acquit the grants? Was there a standard provision in the grants agreements?

Mr Arulsingham: The agreements varied in terms of acquittal; there was an acquittal requirement. I am not aware whether it was a specific date by which acquittal had to be provided after, but for the 40 that we tested there were acquittal supports.

The CHAIR: Okay.

Hon DIANE EVERS: Both mine are following on from others that we have mentioned. Noting that the sample was just from those projects that had been completed, in looking through the total list of them, I noticed the highest value there is only \$80 000 and yet there is a couple in the entire list of \$400 000 and many over \$100 000, \$50 000 or more. Would you have any concerns about the ones that were not in the initial sample of completed ones and the ones that are still being carried out, or may have been completed by now or may not yet be completed?

Ms Spencer: At the time of audit, not concern as such; otherwise, we would have raised it in the report to Parliament as a significant finding. Logically, to us it flowed that the larger grants would be for more substantial works and may have a longer time frame for delivery. Certainly, and maybe this is a point to move to, the office is conducting a focus audit on grant administration at the moment, similar to what we did in 2016; we are picking up a range of grants across a range of entities and that is in its early days. We are looking at seven departments and we are not specifically looking at projects from this grant program who in the sample of payments of grants across those entities, some of these projects may be picked up.

Hon DIANE EVERS: That leads then back to the other question I have, which is: understanding that your audit was just concerned with, “Here’s a project; it’s got funding; has it been carried through?”, would you know just from previous experience in jurisdictions—first, from previous experience, would some of those grants that have gone through have not had a grant applicable to them? Were grant ideas created for some of these projects? Would you have any idea of that or did most of the projects that you looked at actually have a normal grant system already opened up? Does that make sense?

Ms Spencer: I guess it is probably not for me to say around the nature of a grant project. Governments are able to make policies and implement programs to achieve their policy objectives. In my observation, all levels of government frequently provide grants to community organisations, such as educational organisations and community organisations. So, it does not stand out as something in that regard that would not be a function of government in the ordinary services and activities of government.

<006> L/N [10:59:22 AM](#)

[11.00 am]

Hon DIANE EVERS: So just on a broader space for that same idea, would you have an idea from other states or jurisdictions how they implement these election promises; or, does this sort of system seem to be the way that it usually goes?

Ms Spencer: This is beyond the mandate of my office, as such. I am sure members would have a far closer appreciation of the nature of election commitments and the consequences of delivering or not delivering on those. But my concern within my mandate is making sure that funds that are expended by government are done so legally and within an existing legislative, regulatory and policy

framework, in that cascading order. That is where the role of my office comes in. I note we have already talked about the selection and assessment of grants, it is possible that grant programs are not competitive, and the guidance on that, which I believe is the most comprehensive, is the commonwealth guidance—the grant rules and guidelines. That touches on that and it also touches—if it is not that document it is a related document—on election commitments. It is not clear, but grant programs are established to achieve government policy objectives. So as long as they are, from a financial and probity perspective, they are within a legal framework, and that is what the focus of our office is.

The DEPUTY CHAIR: In your submission and in your report of your inquiry you note that there is no formal arrangement on how election commitments should be administered. You refer to the “Commonwealth Grants Rules and Guidelines” and resource management guides in your submission as one example of the administration of grants. Does that cover the administration of election commitments?

Ms Spencer: It is broader than that, but it does provide a framework for implementing election commitments that would fit within a granting mechanism, which is to achieve —

The DEPUTY CHAIR: So it is a mechanism once the commitment has been made on the administration of that?

Ms Spencer: Yes; obviously recognising that election commitments are broader than payments for projects to community groups, whether it be around infrastructure or other things.

The DEPUTY CHAIR: Or a single program.

Ms Spencer: Exactly. Certainly, as I have said in the submission and as I have said in the report to Parliament, there are no established grant rules or guidelines here in Western Australia, and there may be opportunities to tighten it. Having said that, the office, having audited grant administration previously, looking at it again, there is some familiarity in established processes, protocols and probity around these things within the state; but, certainly, having an overarching framework developed, supported and overseen by a central agency is something that other jurisdictions do and may provide guidance in situations like this.

The DEPUTY CHAIR: But not for a broad range of election commitments per se? It is kind of a single program or a single agency usually?

Ms Spencer: At the moment, that is the current situation in Western Australia.

The DEPUTY CHAIR: Are you aware of any other jurisdiction that has a mechanism and a formal process for management of the implementation of election commitments? Apart from the guidelines, which seem very interesting, are there any other jurisdictions that have guidelines or some form of mechanism for the administration of election commitments?

Ms Spencer: My understanding is that the commonwealth is most developed in this, but it has been developing over recent years. I have observed it closely. There was a shift in 2007 at the commonwealth level, but these latest 2017 guidelines are a step further again. There are a number of mechanisms. As I have said, if it is for a granting program, they would fit into guidelines like this, but for infrastructure, for example, going through an infrastructure body, and for other particular election commitments, they are making sure that there is some sort of robust assessment as to the feasibility. But, as I say, I am sure members have a greater appreciation of the consequences of implementing or not implementing election commitments than is my role.

The DEPUTY CHAIR: So there has never been any process that you are aware of established in WA or any other state jurisdiction so far?

Ms Spencer: Not beyond what we have discussed.

The DEPUTY CHAIR: Just coming back to the “Commonwealth Grants Rules and Guidelines”, are you aware of the genesis of those guidelines? You mentioned 2007. They are just of interest.

Ms Spencer: My recollection is that there was a project called Operation Sunlight that led to looking at how particular election commitments, but also the transparency around, in particular, ministers approving grants in their own electorates would be handled. So that was a particular evolution in probity and transparency, where there would be a letter, correspondence or transparency with the Minister for Finance or publicly reported. How that has developed and been codified at the central agency framework level has evolved with the change in the financial management framework at the commonwealth level.

The DEPUTY CHAIR: One of the steps in your inquiry was to work out when the so-called Local Projects, Local Jobs program was established. Were you able to identify a time line for the establishment of that as a program per se; and, if you did, what were the kind of milestones? You refer to them, I think, in your report as election commitments.

Ms Spencer: This is before my time, but certainly when the office did inquiries into the nature of the program, it relied on discussions with the Department of the Premier and Cabinet as well as what was publicly available and to look at that. We have certainly never published anything around a time frame. I am aware that the Department of the Premier and Cabinet has provided a submission to this committee, and in my understanding, based on what the office has looked at in our audit work, there is nothing that stood out to me as misrepresenting key events in there.

The DEPUTY CHAIR: Staying with methodology for a second, did you compare the administration of the election commitments to any other similar programs that may have happened in the state prior to this series of election commitments? For example, did you compare it to the community grants program that the previous government had announced?

Ms Spencer: Not that I am aware; I am not aware that the office did that as such. As we said earlier, the program drew on existing granting processes within the administering agencies. I know that some of the grant templates had been developed for royalties for regions grant programs and were used for that, but they are around standard granting terms and conditions.

The DEPUTY CHAIR: So there was not anything related to the community grants program from the previous government?

Ms Spencer: Not as far as I am aware that that was looked at in detail.

The DEPUTY CHAIR: In your inquiry report you noted that—this comes back to establishing the time line—it was not a grants program run by a specific agency; it was a series of election commitments. So in establishing what it was, you recognised that it was a series of election commitments that were administered by individual agencies; is that correct?

[11.10 am]

Ms Spencer: That information in the report is providing clarity that this was not a policy announcement post-forming government whereby agencies would sit down and develop granting guidelines in a comprehensive way, assessing in a competitive assessment and selection process, in the way that some other grant programs are. It is really saying that the selection process for these projects was at the election commitment phase.

The DEPUTY CHAIR: Where the program is already established within an agency or something.

Ms Spencer: Yes; unlike an ongoing program that might have rounds, and recently looking at one of the development commission's websites and seeing that there was a call for current funding community economic development round —

The DEPUTY CHAIR: That was different.

Ms Spencer: Yes, exactly. It did have those different features, and that is really what that comment in the report is advising.

Hon JACQUI BOYDELL: Can I clarify, Auditor General, that that is different because there is an application process that is run; whereas, in this case, there was not?

Ms Spencer: Absolutely. That is my point; that it is different.

The DEPUTY CHAIR: It was an established program already announced by government, as distinct from pre-government, if you like.

Ms Spencer: That is one of the things that the commonwealth guidelines states—that when election commitments are made, they are to consider whether there is an existing program that those commitments can be fed into or whether it is a new program and ad hoc, and whether, indeed, it will be competitive. I guess to reiterate to the committee, my view is that having grant guidelines at whatever point the program was established would have been helpful in this case for things around scope changes, authorisation and those sorts of things. Recognising that and so having that discipline, if you like, at a central agency promulgating that, but at a state level, would have been helpful I believe in this case, based on seeing some of the toing and froing in communication and that confusion we talked of earlier.

The CHAIR: Sure.

The DEPUTY CHAIR: And some of that was as a result of the haste of it.

Ms Spencer: I expect so, yes.

The CHAIR: I am mindful of your time and your patience, so I will not seek to detain you for much longer.

Ms Spencer: I am at your service.

The CHAIR: Thank you; you are very kind. I wish to clarify something that we dealt with at an earlier part of this session. It was concerning those three projects funded out of the Department of Education for which there was some deviation, and, in particular, the one in which there was a change in scope from, I think, nature-play equipment or something to, I think you said, Lego robotics, which sounds pretty flash I must say. Can I just confirm that that was an \$11 000 project?

Ms Spencer: Would you like us to run through the three initial projects, what their scope was changed to and the value?

The CHAIR: That would be useful.

Ms Spencer: I will let Mr Arulsingham go through those to make sure that I have not misinterpreted the information he has provided for me here.

Mr Arulsingham: In our report, from page 26, we mention the three instances where schools used the funds for a purpose that was different from the agreement. For one of those instances, there was no documented approval of the change. That was for a grant of \$40 000. The project description was to purchase new smartboards and 3D printers, and establish two nature-play areas. The change in scope, it seemed to be from the evidence that we could cite from the invoices, was that there were smartboards purchased, but in addition that there were digital technology kits for the class, and classroom furniture.

The CHAIR: So that was one project.

Ms Spencer: The concern there is that there was no documented approval for the change in particular.

The CHAIR: Okay.

Mr Arulsingham: For the other two instances, the first one there was a grant amount of \$50 000. The project description was for a hardcover for the junior play area to provide protection from all weather conditions. That was done. The remaining \$23 000—that was the change in scope—was used for a nature playground for primary students at the school.

The CHAIR: Okay. Around half the funds were left over and it was dedicated to another purpose. What was the shortcoming in process there?

Mr Arulsingham: That change in scope was approved by a member of Parliament.

Ms Spencer: By the local member rather than an authorised delegate within the department or the accountable minister.

The CHAIR: Okay.

The DEPUTY CHAIR: Though with that one, was there some engagement with the minister's office? I cannot remember; I remember reading it in the report.

Ms Spencer: It was the next one that had the engagement with the minister's office—the \$11 000 grant.

The DEPUTY CHAIR: I remember reading it in your report.

Mr Arulsingham: The third example that we have talked about previously was a grant amount of \$11 000, where the project description was for a nature playground, but the change in scope was for Lego robotics, was purchased for the school. That approval was sought through the local member. The local member provided, in the correspondence I could see, consulted with the Minister for Education's office.

The CHAIR: Did the minister approve that?

Mr Arulsingham: That was the indication in the correspondence.

The CHAIR: The imputation is that there was consultation there and the minister said, yes, effectively. The one where there was a local member only, was that second project of \$50 000 value.

Mr Arulsingham: Correct.

The CHAIR: Thank you. I presume that all these projects to which you refer, exist somewhere on that master list provided at appendix 3.

Ms Spencer: Yes. I will provide a list to you.

The CHAIR: There is no need to name names; I think we can presumably work it out.

Ms Spencer: I am just concerned that the inference is that the recipient entity, in this case schools, did something wrong.

The CHAIR: No, that is certainly not the implication; it is just getting a sense of where they were.

Can I end on another topic? It concerns another element of this inquiry, which is the potential establishment of a parliamentary budget office. I note your contribution here, and it is a pretty sound one I must say, but can I get a sense of whether you believe that the establishment of a parliamentary budget office in the Western Australian jurisdiction, irrespective of the model that might be applied, would be a help or hindrance to the OAG's operations?

Ms Spencer: I certainly do not see how it would be a hindrance. Certainly, as an integrity officer concerned with public sector accountability and transparency, and efficient and effective use of public money, I can see that a parliamentary budget office, which although is not my area of expertise, has helped with costings both during elections but also during terms of government across all areas of the Parliament—all parties. In the absence of also a very active research support in terms of what the commonwealth has in a parliamentary library, that is also anything that informs members to be able to understand both cost implications, but also some of the complexities around and interdependencies of particular policy proposals. I see that as something that would be useful. It would certainly not be unhelpful and I cannot see how it would hinder the role of the OAG.

The CHAIR: Auditor General, you refer very briefly on page 21 of your submission to issues concerning a potential mandate of a parliamentary budget office should it be established. One of the considerations would be the access to information that such an office would have. Would you kindly elaborate on what might be required to make such an entity effective and, I suppose, worthy of the name?

Ms Spencer: Certainly. I can observe that information sharing is an issue under consideration here in Western Australia and how existing entities of government share information without breaching a member of the public's confidentiality and things like that.

Underlying economic and costing assumptions, budgetary costings, is data around a whole range of things, so being able to access that data—and I am not sure how it is managed effectively in other jurisdictions—obviously in some jurisdictions, there has been a challenge in this, but good statutory clarity but also good working relationships I imagine between in particular the Treasury here to access data that goes into the budgetary process would be essential for the office, but also other portfolio agencies. If it was an education-related costing that the member or a party was seeking assistance with, being able to understand the number of students or the growth patterns in certain types of service delivery, that would be important. So it would be around data and information underlying assumptions of that data.

The DEPUTY CHAIR: Which is currently estimates used by some members.

The CHAIR: Indeed.

Hon JACQUI BOYDELL: Chair, I just have two more questions, I am sorry. I am sure they will be quick.

Ms Spencer: We are very happy for as long as the committee would like us to be here.

Hon JACQUI BOYDELL: Just going back to the actual grant agreement, where under point 3.1, determining the use of the grant, and 3.2 where no changes could be made to the grant, in the cases that you identified that you audited, those three cases we just actually talked about, can you just confirm that there had been a grant agreement signed?

Ms Spencer: My understanding is that the changes were made from the point of election commitment, the commitment by the candidate to the grant recipient, and then the change in scope occurred before the agreement was signed. That is correct, is it not? Those changes in scope we talked about in our sample were the revised scope of project that was funded under the grant agreement?

Mr Arulsingham: Yes, for those three projects, as I mentioned earlier, there was a letter informing the relevant school of the actual grant and the purpose of the grant. That letter contained relevant information about the grant and the purpose that it had been approved for et cetera, and the methods by which the funds were disbursed. That letter is different from the agreement you are referring to.

Hon JACQUI BOYDELL: So in the three cases that you identified, there was no grant agreement; they had purely letters sent—is that correct?

Mr Arulsingham: In the three instances it was a letter from the Department of Education, informing the relevant school principal of the actual grant and the amount, and referring to the processes et cetera for the grant and how the grant would work and the purpose. So it was a letter provided by the director general of the Department of Education.

Hon JACQUI BOYDELL: Chair, can I ask that we see a copy of those?

Ms Spencer: A copy of the example of the letter. Just for clarity, the change in scope, the revised scope was included in those letters. The change in scope discussion occurred as a result of the grant documentation process. Was that the case? Sorry, so it looks like following the identification of individual commitments that were to be administered by departments of the scope of those projects, that draft agreements or letters that contained contractual terms, so the equivalent of a letter of agreement contained the scope. But then the entity—for example, the one that had the additional \$23 000 was for a nature program that happened after the signed grant agreement or letter of agreement.

Hon JACQUI BOYDELL: That was really my question, so whether it was the grant agreement or the letter had been sent, agreed upon, signed and then the change of scope occurred after that. Okay. Although both entities had already signed an agreement or a letter.

Ms Spencer: Yes, logically that is why it would have fitted within the scope of our audit when we were looking at financial payment and acquittal, so I apologise, member, for that lack of clarity.

Hon JACQUI BOYDELL: That is fine. I note that in your report you said that the Department of Communities and in particular the acquittal process did not require visual evidence of the completed project. Can you just explain what evidence they did provide of the completed project? I am assuming that where they meant it was not practical to get photographic or any sort of visual evidence that photographic evidence would suffice, are we talking about regional projects in particular? I would assume that that is what that means.

Ms Spencer: I will just say as an overarching comment that we often see different ways that agencies administer, whether it be grant programs or regulatory functions, and they make different assessments about what level of verification is required to support their decision-making, whether it be around release of funds or regulatory action. Our view in raising that in the report was to provide information to the Parliament around the different types of levels of evidence that were required by departments, but it was within the normal scope, if you like, of how we see agencies administer their functions. I will hand over to Mr Arulsingham around the actual nature of those communities' evidence.

Mr Arulsingham: I think we will have to —

Ms Spencer: We will have to take that on notice, member, but we are happy to do that—the sorts of evidence that are provided from communities.

The CHAIR: I think that might be it. Thank you very much. Thank you both for attending today. As part of this closing statement, I have been given a prompt to advise AV to please end the broadcast. To the witnesses: a transcript of this hearing will be forwarded to you for correction. If you believe that any corrections should be made because of typographical or transcription errors, please indicate these corrections on the transcript. Errors of fact or substance must be corrected in a formal letter to the committee. When you receive your transcript of evidence, the committee will also advise you when to provide your answers to questions taken on notice. If you want to provide additional information or elaborate on particular points, you may provide supplementary evidence

for the committee's consideration when you return your corrected transcript of evidence. With that, I say thank you on behalf of the inquiry.

Hearing concluded at 11.27 am
