

**STANDING COMMITTEE ON PUBLIC ADMINISTRATION
AND FINANCE**

**FINANCIAL ADMINISTRATION LEGISLATION
AMENDMENT BILL 2005**

**TRANSCRIPT OF EVIDENCE TAKEN
AT PERTH
THURSDAY, 9 JUNE 2005**

SESSION 2

Members

Hon Barry House (Chairman)

Hon Shelley Archer

Hon Vincent Catania

Hon Ed Dermer

Hon Anthony Fels

Hon Graham Giffard

Hon Helen Morton

Participating Member

Hon George Cash

Hearing commenced at 12 noon

JOST, MR PAUL
Acting Executive Director, Standards and Quality,
Office of the Auditor General,
2 Havelock Street,
West Perth 6005, examined:

ROWE, MR BARRY
Director, Standards,
Office of the Auditor General,
2 Havelock Street,
West Perth 6005, examined:

The CHAIRMAN: I indicate for the record that the Auditor General, Des Pearson, phoned me and apologised for the fact that he would not be able to be here today because of an important commitment in Melbourne. He assured me that the officers most capable of answering our questions would be present today. On that basis, I was happy to agree.

You would have signed a document entitled "Information for Witnesses". Have you read and understood that document?

The Witnesses: Yes.

The CHAIRMAN: These proceedings are being recorded by Hansard. 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 speak into the microphones. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in a closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that until such time as the transcript of your public evidence is finalised, it should not be made public. I advise you that premature publication or disclosure of public 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?

Mr Jost: Not particularly, Mr Chairman. As I understand it, we are here to address and answer any questions that the committee has from an audit and accountability perspective. We are in the committee's hands.

The CHAIRMAN: I have a couple of general questions that may open up discussion. Does the bill have your support? Were you fully consulted about it?

[12.10 pm]

Mr Jost: Yes the bill has our support. The Auditor General was consulted on aspects of the legislation. Although we might have made various suggestions, it is up to the Treasurer to progress the bill. We support the proposed changes.

The CHAIRMAN: What is so deficient about the present system of reporting that it needs amending?

Mr Jost: In 1985 when the Financial Administration and Audit Act was first enacted, statutory authorities were required to prepare reports through their enabling legislation. However, in most cases there was no time limit. I think in one case SECWA tabled its report about a year after the balance date. Lapses such as that were not reported. Departments did not prepare financial statements. Indeed, we used to laboriously produce a substantial report that summarised the activities of the departments. Clearly, that was a departmental function. When the Financial Administration and Audit Act was enacted, I suppose it imposed what were perceived to be tighter deadlines on a public sector that was not used to them. To get agencies to submit accounts, I understood it was appropriate to set the deadlines so that the agencies would have to prepare by the due date. I am not sure why departments were given a longer time frame than statutory authorities, because departments worked on a cash basis and statutory authorities worked on an accrual basis. Statutory authorities have been producing accounts, but one might have thought it should be the other way around. However, that is the way it was done. That gave the Auditor General time in which to complete the audit. That implemented a regime in which, from an audit perspective, we could say that we had received all the agency reports by a certain date. I think Treasury made it quite clear that the quality of the information was very substandard in some cases. It meant that agencies used that six weeks or two months to prepare for the audit but sometimes they were not ready. In my view auditing should be continuous.

We have now moved beyond that. The Australian Stock Exchange used to require 90 days. I think it has reduced that to 60 days this year. Other jurisdictions have moved to 90 days. In 1995, when Western Power and Alinta were corporatised, the 90-day requirement was included in the legislation, and it was replicated in the Water Corporation legislation and in the Port Authorities Act. No requirement had been provided for entities to submit accounts to the Auditor General; it was simply a case of the agency having to use its best endeavours to get the Auditor General to complete the audit within 90 days and then the minister could table the report. That is a far more mature way of going about things.

The two-month requirement relating to statutory authorities and board members, especially board members with a commercial background, has been an issue. It has also been an opportunity for us to use that as a lever to require more timely reporting so that some very significant agencies such as the State Housing Commission, which used to report to Parliament about 30 November, now have their audits completed by 31 August. The Auditor General has been very keen on more timely reporting. He sees those steps requiring reports to be sent to the Auditor General, and the Auditor General having a set number of days, as perhaps bureaucratic but necessary in those days. As we have moved forward, the opportunity has arisen for greater accountability.

The CHAIRMAN: In the previous evidence from the Treasury officials, it was implied that the Office of the Auditor General would have difficulty dealing with the information in three months rather than the current five months. Can you comment on that?

Mr Jost: That is a resourcing issue and an audit-approach issue. Although I cannot speak for him, the Auditor General's strong view, which he has made very clear to us and which we communicated to Treasury, was that the 90 days would have been appropriate to implement from day one, and simply report agencies that did not meet the deadline, and do away with interim reporting. Although I did not convey that directly to Mr Murphy, it was communicated that that was our preference. However, the proposal to tighten those deadlines was going to achieve what we believed the Parliament deserved to get.

Last year, approximately 90 per cent of the state's assets by dollar value were accounted for, and close to 60 per cent - I think the exact percentage was around 56 per cent - were audited and completed by the end of September, which is within 90 days of the year's end. In the report on the tertiary portfolio that the Auditor General tabled a week or two ago, all universities and all college audits were completed within 90 days of 31 December. Regardless of whether the legislation or the

regulation moves to that, our office is encouraging agencies to complete their books so that we can complete our audits in a more timely way.

The CHAIRMAN: Is there definitely no problem in the Auditor General's office in dealing with those things within three months?

Mr Jost: There will be resourcing issues, and the need to look at how we approach our audits when we do the work. We will need to negotiate with agencies about when we can do the audits. Some agencies are saying we cannot audit until they have completed a full set of drafts. In the past, I have been responsible for a number of the very large government entities. Western Power's audits were routinely completed within three or four weeks of the end of July. That meant a cooperative approach and agreement on time lines and schedules. I think statutory authorities and commercial entities can comply. I think departments may struggle. Yes, there will be challenges such as resourcing, when and how we do the audits and, in the current climate, recruiting the appropriately qualified people. That is a challenge for the whole profession at present.

Hon ED DERMER: I was interested in your reference to replacing the current staged process in report preparation. You referred to replacing the process of preparation by the agency, its response to your response and then the Auditor General's final report by a process in which your office and the particular agency are able to work together through the entire reporting preparation. I take it from your earlier comment that the Auditor General's office sees that as a step in the right direction.

Mr Jost: Definitely.

Hon ED DERMER: Can you provide me with a little more information on how eliminating the staged process will accelerate the preparation of the final report?

[12.20 pm]

Mr Jost: As I have indicated before, the staged approach of the six weeks/eight weeks gave an agency an opportunity to sit back and be prepared, and to say that it is not ready for an audit, which then compressed the audit time. We had three months under the current legislation from either date of receipt of the accounts or from the end of the six and the two months.

If you sit back and wait until those accounts come in, and those accounts are clearly deficient, you return them. In the earlier days we attempted to return them and say that our clock has not started, but the State Solicitor indicated that even if you receive a bit of paper with a couple of signatures on it, that purported to be the accounts and your time ran. However, as I said, in the ministerial portfolio report tabled in November last year, we listed a number of what we considered to be exemplar agencies - agencies that do, routinely, not simply meet 90 days; they actually meet 60 days. They are the likes of the insurance commissions, housing, and water corporations. I think that part of the audit approach is that we issue planning summaries to agencies and we endeavour to get agreement on when certain documentation will be ready, such as the debtors' schedule so that we can do our debtors work. I see that being able to get in there earlier will enable us to identify problems. However, the real audit approach in identifying problems and the one that I have always applied when doing entities is that you discuss with entities prior to year's end and find out what the issues are and negotiate - if that is the right word; perhaps they do not negotiate, but just give an opinion. In discussions with agencies, you resolve those issues and you either agree or agree to disagree. Primarily, it should be done before the end of June. When you are in there, you are just verifying financial statements.

Hon ED DERMER: If I understand this correctly, removing the staged structure of the report preparation would enable your office to constructively intervene at an earlier time, would it?

Mr Jost: I am not sure whether it will or will not. I mean, an agency can still say that it is not ready. We could have agencies that say that they will not be ready until the end of August and that would leave the audit office with only one month to complete the work.

Hon ED DERMER: Therefore, it may enable you to intervene earlier, but not necessarily -

Mr Jost: The Auditor General has the power to go in and audit when he sees fit. An agency, under the act, would have to accept that. However, routinely, that is not the way you would approach an audit. Obviously, we would have to look at our work, prioritise those entities that we see as being key - that is, the large entities; the ones with significant importance - and agree on time lines with the agencies and then we would have to follow those and expect them to follow. It would be an administrative process within our office. Basically, one approach could be that if an agency's agreed time line is not delivered on, we move onto an agency that is ready and come back to that agency. The consequence of that for that agency is that we will not complete the audit and the consequence of that is that it has to explain that to its minister.

Hon ED DERMER: And the minister will be on his toes in the Parliament explaining it to the Parliament.

Mr Jost: And the Auditor General's comment might be that the agency was not ready and it did not produce. Routinely, a considerable amount of our audit fieldwork is outsourced to the private sector, and the Auditor General still issues the opinion; however, routinely, the contracted firm will come back for extra funds because the agency was not ready or it had to go in again for start-up, set-up time. That is a cost that we recoup from the agency, and we are at pains to point out to it that that is the reason for the increase in fee.

Mr Rowe: I want to add to what Paul has already said about the time lines. It will also give greater flexibility to both the agencies and ourselves, whereby, as Paul said, at the planning stage of an audit we can tee up the agreed time lines for them to provide us with the financial statements and performance indicators and we can agree the date to issue the opinion. It also helps our office in planning overall so that we can meet the 30 September deadline for all our audits; whereas if we had these staged deadlines in between, there would be a risk that agencies, as has been mentioned, will sit back and say that they still have until 15 August because they know that the Auditor General still has until 15 September to get the report to the minister. That will compress our time. Without the dates, we could have an arrangement whereby we provide for the time that we believe we need and will give them the time they believe they need. We can negotiate and agree on time lines separately from those which are prescribed at the moment.

Hon ED DERMER: Currently you might have a scenario whereby on 15 August you are all expected to do everything once, and you believe you can stretch it out more efficiently?

Mr Jost: Yes, but in essence what we have done is we have identified those departments - the 15 August date is for departments that are exemplar departments. Maybe I should not mention departments, but there are some departments with very good reporting and they do come through very early. There are some departments that absolutely struggle.

Hon ED DERMER: It does not all hit your desk on 15 August. Will the new structure give you more chance to organise your own resources?

Mr Jost: I think that the six weeks was a statutory date to get something to the Auditor General. The 31 August was a statutory date, simply to force agencies to initiate and do something. That was the whole thrust of it. If it was not in by 15 August or 31 August, the Auditor General simply listed in his reports to Parliament those agencies that were late. He still does that, although there are not very many of them nowadays. We have had these reporting dates since 1987 - I think that was the first year that the act applied. Now that we have moved on, it is appropriate that the time line be adhered to, and the agencies now know that they have to get the reports in by 30 September. If they cannot, they have to state why, and if they say that it is because the auditor did not complete it, I would suspect there may be, in some cases if it is their fault, a rejoinder.

The CHAIRMAN: It is called finding somebody else to blame, I think.

Hon GEORGE CASH: I thank Mr Jost for those comments on the stepped approach versus the 90-day approach because they are very useful. I can understand why the abolition of the stepped approach would allow you to work closer with the department. There would not be a 15 August deadline for all of them to have to clamour for - already some are better than others and that is what life is all about, I guess. However, I am still concerned that if the 2005-06 reporting period is 120 days - this is the proposal - and then it is 105 and then 90 days, we are increasing the ability for the recalcitrant ones to continue along that line. I should also say that we agree with the 90-day period. We think the sooner we can get to that the better and if the 90-day period is reached relatively sooner than is proposed, then perhaps the stepped approach is not necessary and it will allow you a little more flexibility with the various departments. Therefore, your comments in that regard have been helpful. It is up to us to work out whether it is 120 or 105 days to start with. I should also say that I agree entirely with your general proposition that you have to work with departments rather than sit back and wait for them to make a mistake. In fact, I have often said to the Auditor General that it is important to point out to departments on the way to the crash what they are doing wrong, so to speak, to try to avoid the crash rather than waiting for it to happen. It is good to know that that is the way you are operating.

[12.30 pm]

Mr Jost: It is up to the department or the statutory authority to be mature enough to recognise that it has a problem that may have an audit implication. It does not necessarily resolve the problem, but it does lead to a speedier resolution.

Hon GEORGE CASH: Earlier you said that the Auditor General had had an opportunity to discuss the bill with Treasury and that your department would have made recommendations, some of which would have been accepted and some would not. Do you have any suggestions of steps that should be taken now to improve the bill?

Mr Jost: The only real one is the phased approach with the days. You are very astute in pointing out that departments get an extra 15 days. The stepped approach is going backwards rather than forwards. It is up to Treasury to determine those reporting dates, but our view is that the Parliament deserves and should get more timely reporting.

A lot of the other changes are administrative, such as removing the departments and statutory authorities and the roles and responsibilities of the two. I think it was done in a day when we were moving with one group that was used to reporting and another group was not and amalgamating those and some of the other machinery bits, such as with the three entities. I am aware of those three entities being incorporated bodies, but I do not think we would have commented on the need for those; they are purely administrative.

Hon GEORGE CASH: Are you referring to the three parliamentary departments that are now called the Parliamentary Services Department?

Mr Jost: No; the ScreenWest foundation -

Hon GEORGE CASH: Yes.

Mr Jost: I have been on the receiving end of Mr Marquet about the name. Having done the audit of the three departments of Parliament and the name change and saying, "Here is your audit opinion", that is not what we are.

Hon GEORGE CASH: Yes. However, do you have any problem with the name being changed to the Parliamentary Services Department?

Mr Jost: No. I wrote letters some years ago to the Treasurer when we completed it advising that the names were out of sync.

Hon GRAHAM GIFFARD: I want to be very clear with you. We received explanations about what getting rid of the stepped approach will do for your relationship with departments and getting

reports in a more timely manner. One of the explanations is that departments will comply with the 15 August date by providing you with a report of variable quality. Is it a common problem that departments provide you with poor quality reports by 15 August, which then creates a lot of work for you, which could have been avoided if they had had an extra week? I understand that this is a theoretical example, but is it your experience that that occurs?

Mr Jost: There was an agency that went for interim reports. The quality of some of the information was, in our view, substandard. Maybe our expectation is higher, but it was substandard. If some agencies are given three months, the quality will be the same as that we would get after six weeks; in other words, their view is that it is up to the auditor to get it right. The other reason I did not mention is that when the six-week and two-month deadlines were put in the FAAA, the board or the accountable officers were required to sign off. It was really saying that if they managed their entity correctly and were up to speed with it and exercised their due diligence, they should not have to wait for the auditor to tell them that the accounts were right. What would anecdotally happen on 15 August is that the accounts would go to the accountable officer at 3.30, they would be signed, rushed up to our office and recorded in. We are trying to say that if the officers put their signatures on the accounts, they are saying that the accounts fairly present the situation.

Mr Rowe: In actual fact, they are required to certify and sign off on those financial statements to indicate that they do fairly present the situation. They have the responsibility to ensure that they have been done in accordance with accounting standards.

Mr Jost: That is why those other statutory authorities with commercial members force their accounting officers and CEOs to prepare their statements and have them audited before 31 August, so that what they submit to their minister by 31 August is an audited set of accounts.

The CHAIRMAN: Are you able or willing to name any of those agencies, which you referred to in general, that are habitually tardy or recalcitrant?

Mr Jost: I would prefer not to, other than to say that the exemplars, as well as the agencies that we have had issues with or made findings against, would also be in the ministerial portfolio report.

Hon ED DERMER: Has it been your experience that each time you go through the reporting process with an agency, particularly if there are similar personnel in the agency over a period of years, they get better at the process and they get a component of training or education from your office that improves their standard of reporting?

Mr Jost: Most do, but some do not.

Hon ED DERMER: Most would improve at some date.

Mr Jost: I would like to think that most have improved significantly. There are some that do not, in our view.

Hon ED DERMER: I have gathered the impression from you today and also from Mr Pearson on other occasions that you are endeavouring to identify weaknesses and are encouraging those departments to address the weaknesses. You would hope that, in the normal pattern of learning over a period, their standard of reporting and the process that leads to the final report would become more efficient. Would it not be reasonable to expect that if there is to be a major change in the process, as is entailed in this bill, which will consolidate three reports into one, in the first year there would be a need for more time to enable the responsible officers to get used to the new system? Is that a reasonable expectation? If the system is to be changed from requiring three reports to one report, as is entailed in the bill, I would have thought that people who were used to the routine in previous years would require more time in the first year of the new system.

Mr Jost: There is no system change. The Treasurer's annual statements are prepared purely within Treasury out of the Treasurer's ledgers. At the same time, Treasury produces the financial

statements for the Department of Treasury and Finance, which includes state revenue and various other operations as a result of the machinery of government review. At the same time as agencies are preparing their statements, they feed through the Treasury information management system, which information is used to produce the whole-of-government financial statements, which we audit. They do the eliminations and adjustments, and we verify those with our auditor in the field. We do not do the government responsibility financial reporting one.

Hon ED DERMER: It is the one that is not audited, so that makes sense.

Mr Jost: No; that is correct. I am not familiar with the processes that Treasury uses to produce that GFAR, but I understand it would have to come out of the TIM system as well.

Hon ED DERMER: In a nutshell, to be more clear, can you foresee any implications in the bill that would slow down the process of departmental or agency reporting in the first year or two?

Mr Jost: No, I cannot see it in individual agencies. However, there could always be the odd agency that does not come to the party and provide the reports that are required. You are talking about 90 days for an individual agency.

[12.40 pm]

Hon ED DERMER: I was just wondering whether the change in the system is going to mean that the people involved will need to get used to changes that will make, in the initial years, their process of reporting slower or require further work.

Mr Jost: I do not see that there is any change in the system for departments preparing their accounts, because they would prepare those from their financial systems, and they would prepare the statements in accordance with the Treasurer's Instructions and, as all of them do, follow the models that Treasury has put out. They will prepare those, and I do not see any change in the system there. Potentially, if you were to say by 90 days, there would be agencies that probably would not be completed by that date, but I do not see that that would impact on the preparation of the GFR, TAS, or the ARSF.

Hon ED DERMER: Thank you.

The CHAIRMAN: I have a couple of other questions. We have already covered some of them, I am sure, but they just refer to specific clauses, so if there is anything outstanding, you might be able to fill us in. Regarding clause 12, are you concerned about the abolition of your reporting time frames under current section 93(1a)?

Mr Jost: That is the requirement to report within two months on departments and three months on statutory authorities. I think I have covered that and said that our target this year is to achieve at least 60 per cent by number and 90 per cent, or thereabouts, by assets. If you did not do the phased approach, of the number of days, there may, in this year, be entities that fall outside that.

The CHAIRMAN: Regarding clause 24 of the bill, do you see as problematic the proposal to abolish interim reports on the Treasurer's annual statements, and a department or statutory authority's financial statements? Do you use that provision frequently or only occasionally?

Mr Jost: I cannot recall our office having issued an interim audit report in recent times. I am pretty sure I have not. I am aware of agencies that have sought an extension of time from their ministers.

Mr Rowe: It is certainly something the Auditor General has been pushing for some time. He does not like having to be in a position to issue interim reports so, as Paul mentioned, in recent times, I cannot recall an occasion when an interim report has been issued, so I certainly do not foresee that we would have any concerns in that amendment going through.

Mr Jost: The rare circumstances where the audit could not be completed for whatever reason - I am talking about when agencies are into that mode - would be so exceptional that the interim report

would actually convey what the issue is. An analogy was, although it was still within the statutory period, the Superannuation Board, when the US stock market moved significantly a couple of years ago, which called into question the valuations as at 30 June, such that we insisted that a note be included to reflect that there had been a significant decline in the valuations. That did not hold it up, but you could end up with an issue like that. For instance, Central Park could suddenly be sold at the time you were about to sign. It would be so exceptional, one would think.

The CHAIRMAN: Are there any general questions?

Hon ANTHONY FELS: I have a question on the reporting dates. How many government agencies report to you, and how many of those have a 30 June financial year?

Mr Jost: We have approximately 211. It moves up and down, with the machinery of government. Agencies are created, abolished and amalgamated. It is around 211 at the present time. There are 10 colleges with a 31 December balance date, 4 universities with a 31 December balance date, and probably around 12 to 15 subsidiaries. These are companies that predominantly hang off the universities.

Hon GRAHAM GIFFARD: Research institutes and the like?

Mr Jost: Yes, there is one out at Edith Cowan University, called ECURL, or Edith Cowan University Resources in Learning. It markets reading books or something. The University of Western Australia has a couple of research bodies. Murdoch University has retirement villages, and something else.

Mr Rowe: There are also a few agencies that have 31 July reporting dates, like the Totalisator Agency Board and other bodies in the racing industry.

Hon GRAHAM GIFFARD: There are only a handful, then?

Mr Jost: Yes; five in the racing industry, including the Penalties and Appeals Tribunal, the Racecourse Development Trust, and RWWA.

The CHAIRMAN: That is to fit in with the horses' birthday?

Mr Jost: Yes.

Hon ANTHONY FELS: Does that affect consolidated accounting, when you have some of those agencies not closing off at the same time as the rest of the government?

Mr Jost: Yes; Treasury has to adjust. One of the most significant entities that used to be within the government sphere was the Grain Pool of Western Australia, which had a 30 September balance date, and as you can realise, some very significant dollars went through that agency, so there was quite a bit of adjustment that had to be made.

The CHAIRMAN: Any other general questions?

Hon ANTHONY FELS: What is the Auditor General's office view on Treasury's ability to draw on the suspense account to pay this twenty-seventh pay, if you are auditing those accounts?

Mr Jost: We have not sought legal advice on it. The act does not appear to give Treasury the power to draw that money across to the operating account, but, as I said, we have not sought advice. Treasury has discussed a couple of accounting issues with us. Our view is that, for transparency, agencies in their financial statements have been appropriated these amounts over the years. They have brought that in as restricted cash in their balance sheets; and, in this year, in a pure accounting sense and for transparency, you would expect the agency to charge the salaries and expenses in their operating or profit and loss account and to take the other side of the entry against the bank account. To use a TAA as a mechanism to get around the accounting will create a liability in the department's accounts. So they will be showing that they have a Treasurer's advance, and in their balance sheet under liabilities they will be showing a liability to the Treasurer.

Mr Rowe: Certainly, our preference would be for this amendment to go through, because it would be the most transparent way of dealing with it. Any other approaches or methods may be less transparent, so the Auditor General would fully support this amendment going through if at all possible before 30 June.

The CHAIRMAN: Will it resolve the issue forever and a day, or will there be another parliamentary inquiry in 11 years having a look at this situation again?

Mr Jost: It is complicated fund accounting, with the consolidated fund and the suspense account tied back with the Constitution Act etc, which really does not mirror the modern accrual accounting sphere, which the ARSF is trying to get to, to say that here is a set of accrual accounts. If they continue putting this money aside, in essence the money is appropriated to agencies and goes into the fund, but the cash is just tied up in the overall assets of the state. It is the old fund accounting that used to occur many years ago. Some would even call it reserve accounting, where reserves were actually backed by cash.

Hon ANTHONY FELS: What internal auditing functions and resources does your department have for all of your agencies all the way through the year, rather than the final audit? Do you participate at all in internal audits?

Mr Jost: We are the external auditor. Agencies, unless the Treasurer exempts them, are required to have an internal audit function. We attend as an observer, by invitation, a considerable number - it could be 50 or 60, or somewhere around that number. We did a statistical report on internal audits some time back. It might be 40 or 50 entities that have formal committees that we attend, but some entities that are very small probably would not have a committee. They would just have someone designated in the office agency as independent, and they would get in a contractor. Indeed, our office gets in a small chartered firm to do an internal audit review, but we do not have a committee as such. It is a \$12 million operation; with \$7.5 million to \$8 million in salaries and \$2 million-plus in contractors. Are you talking about whether we rely on an internal audit?

[12.50 pm]

Hon ANTHONY FELS: I just wonder what you do for the rest of the year when you are not doing the August-September audit. I am sure that you do not sit around doing nothing.

Mr Jost: In the audit process of large entities we do what we call interim audits. We will go in there in February or March, or even in December for a June balance. We will be planning the audit approach; preparing the planning approach, which we send out to the agency; and having what we call our entrance meetings at which we discuss what we perceive as the key issues in the agency and the audit, asking them what they have done. We then commence the interim work. With the large entities we take what we call a controls approach; we go in and rotate certain business cycles, like revenue and expenditure. We do not do them all every year, but we rotate them, and then we go into them in depth and do that work. We attempt to do as much work as possible prior to 30 June so that after 30 June - this is simplifying it - we get the statements from the agency and the trial balance, and then we go tick, tick, tick, review the disclosures and sign off. That is a real oversimplification, but that is what we endeavour to do. We are busy all the year. There is also the other area of public sector performance. Some staff move within that area; they are out looking at controls compliance areas. A report was tabled recently. We might go in depth in some areas that we do not need to go into when we are doing the audit of the statements and so on at the agencies.

Hon ANTHONY FELS: Do you spend any additional time with the rogue agencies that are consistently problematic, trying to help them work through a better system?

Mr Jost: I think the point that I need to make is that the Auditor General is the external auditor for Parliament. The agency's responsibility is to put in place appropriate systems and ensure that they work. They can use an internal audit for that. The Auditor General comes along as the external auditor and makes a judgment. If we see improvement issues, we will write a management letter to

the agencies or the boards, of which the minister gets a copy. We routinely recommend changes to systems or point out that there are control weaknesses. In the past we have placed heavy emphasis on Internet security, such as firewalls, passwords and disaster recovery - not just having a disaster recovery plan but actually testing it. We see that value adding as important, and we are not actually involved in the selection and implementation of major systems. Agencies will consult us on specific issues. If there are choices in software for how they can switch things on, they will consult us. It is a fine line. It is a judgment call for the auditor to make sure that we do not step over the line of being independent, because we cannot audit that which we are intimately involved in.

The CHAIRMAN: Will the thrust of this legislation to reduce time lines and amalgamate reports and different processes be aligned with what is acceptable world's best practice? I ask the question in the sense that we are given a three-year phase-in period. I have been a member of this place for a fair while now. The reporting documents and procedures have been continually changing, so that it has been just about impossible to compare like with like from one year to the next over a long period. Can we be guaranteed that in three years, after this is bedded down, there will not be another world's best practice system coming in and changing the whole lot again?

Mr Jost: It is really what the Parliament believes it needs in discharging its obligations. There is world's best practice, but world's best practice may cost significant amounts of money. That may not be what is required. It is really a matter of what the client requires. I suppose eventually that world's best practice is that we will not get a financial report issued on 1 July one minute after midnight on 30 June; what we will get is what some people call continuous auditing, whereby at any time we will be able to drill into an agency and produce our own set of financial reports and all the rest of it. All we will see on the screen is a signature from the auditor with the comment that the last time he reviewed the controls and reviewed management's ability to come up with estimates, he came up with X. That is world's best practice, which is maybe not that far off - perhaps three years, but I could not guarantee it.

Hon ANTHONY FELS: Ideally the act would be tidied up so that you could effect the twenty-seventh pay. Would it be acceptable to your department, although not as transparent as if it were provided in the act, if the Treasury used Treasurer's Advance Account funds in the event there was no other way to make that payment on 30 June of this year?

Mr Jost: I think the Auditor General would reserve his right to seek advice. We have looked at the Treasurer's Advance Authorisation Act to see what it can be used for. I think the Auditor General does reserve the right to seek advice on whether it is legally appropriate. The second issue that I believe the Auditor General would look at is whether, from an accounting and an accountability perspective, it was the most appropriate action and, taking a wider view, whether the statement is fairly presented. That would be his opinion. We have not been asked what our view is on using that. We were asked about one approach, and we clearly made the comment that it would not be the way to go. We have not adopted a position on it.

Hon ANTHONY FELS: Would you be able to obtain that advice and present it to this committee in time for our next meeting?

Mr Jost: I would need to talk to the Auditor General, but I think it is up to Treasury to determine its approach and it is up to the Auditor General and the Treasurer to take legal advice on their approach, so that the Auditor General, when presented with it, can say whether he agrees or disagrees with that approach. That is again the issue of independence.

Hon ANTHONY FELS: I was just asking if you could ask the Auditor General if he could seek that legal advice, and whether, under the accounting standards, you would sign off that it was approved or that you were simply qualifying your audit report

The CHAIRMAN: Perhaps a better way of doing it would be if you could consult with Mr Pearson over the next few days and, if his view is different from the one you have just expressed, you could let the committee know.

[1.00 pm]

Mr Jost: Yes, I will. I must point out that the Auditor General does not have a view at this point. I do not think that I have expressed a view on whether it is legal.

Hon ANTHONY FELS: That will probably be done by the time you get to see it and form your view.

Hon HELEN MORTON: Are there any trust accounts of any reporting entities that you are unable to audit?

Mr Jost: I am not aware of any. If they are in the Treasurer's accounts, they are subject to audit. They are all subject to audit, assuming that we know about them all.

The CHAIRMAN: Is that even those that do not appear in the reports because money has gone in and out of them and none is left?

Mr Jost: It appears in the Treasurer's annual statements. That information would appear in the previous year's accounts of an agency, and a diligent auditor would check that forward; it would come down to a zero balance. A trust account could be created and the agency could omit to include it. That would be human error, and would be rare.

Mr Rowe: Agencies are required to provide in the notes to their financial statements information on each trust account for which they are responsible. That information includes the title of the trust account, the purpose for which it was set up, the opening balance at the start of the financial year, the receipts for the financial year, the payments made out of the trust account for that financial year and the closing balance at the end of the financial year. That detail is provided in the financial statements of individual agencies, whereas the Treasurer's annual statements shows the closing balance at the end of the financial year. The auditors must form an opinion on an agency's financial statement, which contains the details on the trust accounts for which they are responsible for administering.

Hon ED DERMER: The closing balance from one financial year to the next might provide very little information about what occurred during the course of the financial year.

Mr Rowe: That is right.

Mr Jost: In the Treasurer's annual statements, yes, but agencies' financial statements provide the details of those movements.

Hon ED DERMER: Yes, in the way that your colleague has explained.

Mr Jost: Part of our control processes with the audit of agencies that report against the consolidated fund, trust account and others is that all the Treasury balances are extracted by the Treasury auditor, who then provides them to the field auditors of the departments and agencies to check off the balances to make sure that they are in sync. There are a number of procedures.

Mr Rowe: In fact, one of the Treasurer's Instructions is that departments are required to provide that level of detail in their financial statements. Obviously, the auditors must audit those transactions and satisfy themselves that they are fairly presented.

The CHAIRMAN: I think we have covered the matters that are pertinent to our inquiry.

Hon GRAHAM GIFFARD: I know that I am being repetitive, but I refer again to the question to which the gentlemen were asked to respond. We were told that the Auditor General might wish to express a different view on the question of the legality of using the Treasurer's Advance

authorisation for the twenty-seventh pay period, and that the Auditor General wished to reserve his judgment on that.

Mr Jost: What I am saying is that the Auditor General has not considered that issue.

Hon GRAHAM GIFFARD: If the Auditor General wishes to respond to us in different terms, will you advise us of that?

Mr Jost: Yes.

The CHAIRMAN: Do you have any closing remarks to make?

Mr Jost: No, other than to thank you for the opportunity to appear before you and answer your questions. It has been enlightening and interesting.

The CHAIRMAN: Thank you very much for your time.

Hearing concluded at 1.04 pm