



# ***PUBLIC ACCOUNTS COMMITTEE***

## **REVISED FOLLOW-UP PROCESS TO AUDITOR GENERAL REPORTS**

**Report No. 12  
in the 38<sup>th</sup> Parliament**

**2011**

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Public Accounts Committee

Revised Follow-up Process to Auditor General Reports

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## **REVISED FOLLOW-UP PROCESS TO AUDITOR GENERAL REPORTS**

### **Report No. 12**

Presented by:

**Hon J.C. Kobelke, MLA**

Laid on the Table of the Legislative Assembly  
on 26 May 2011



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## COMMITTEE'S FUNCTIONS AND POWERS

The Public Accounts Committee inquires into and reports to the Legislative Assembly on any proposal, matter or thing it considers necessary, connected with the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation bills and Loan Fund. Standing Order 286 of the Legislative Assembly states that:

The Committee may -

- 1 Examine the financial affairs and accounts of government agencies of the State which includes any statutory board, commission, authority, committee, or trust established or appointed pursuant to any rule, regulation, by-law, order, order in Council, proclamation, ministerial direction or any other like means.
- 2 Inquire into and report to the Assembly on any question which -
  - (a) it deems necessary to investigate;
  - (b) (Deleted V. & P. p. 225, 18 June 2008);
  - (c) is referred to it by a Minister; or
  - (d) is referred to it by the Auditor General.
- 3 Consider any papers on public expenditure presented to the Assembly and such of the expenditure as it sees fit to examine.
- 4 Consider whether the objectives of public expenditure are being achieved, or may be achieved more economically.
- 5 The Committee will investigate any matter which is referred to it by resolution of the Legislative Assembly.



## **TERM OF REFERENCE**

On 13 April 2011 the Public Accounts Committee resolved to amend the process by which it conducts the follow-up of agency implementation of recommendations made by the Auditor General in his Audit Reports.

The Committee also resolved to table a report in the Legislative Assembly on 26 May 2011 outlining the revised follow-up process.



## CHAIRMAN'S FOREWORD

When the Auditor General (AG) reports to the Parliament with advice for an agency or agencies that is intended to help improve their performance, it is not the Auditor General's role to enforce or follow-up on the agencies' compliance or implementation of his recommendations.

The Public Accounts Committee (PAC) has for some years taken on the role of following up with agencies to see how they have responded to the AG's recommendations. Generally agencies accept the relevant recommendations from the AG's report and are diligent in making the suggested improvements.

In some cases, however, the agency's response does not clearly show that the recommendations have been adequately addressed. This may be due to PAC not having the resources and expertise to fully understand the issues within an agency and the import of the actions it has taken. PAC seeks advice from the Office of the Auditor General (OAG) to penetrate into the workings of the agency and to judge the adequacy of the response.

The work-load of correspondence from the follow-up of a particular AG report may continue for several years with a paper chase developing between PAC, a particular agency and the OAG. The responses from some agencies obscured the issues rather than giving confidence that the recommendations have been taken on board and led to improved performance.

After attempting to improve the efficiency of our processes, PAC still questioned the effectiveness of the existing follow-up process and decided to change it. This report outlines the new follow-up procedures to be used by PAC.

It is intended that PAC will be less caught up in a bureaucratic paper chase and will hopefully more easily establish the extent of the benefits agencies have derived from the AG reports.

This will place a greater up-front load on PAC to establish which issues contained in AG Reports are most worthy of detailed follow-up. This more detailed follow-up will then be reported to the Parliament with a request for the responsible Minister to advise as to his or her satisfaction with the progress made by the agency. If PAC decides to give greater attention to a particular agency and its response to AG Report recommendations it is likely to involve a more focused and intensive inquiry.

As with any new approach, PAC will monitor the operation of the revised process and make adjustments where it sees the need to do so.

I must express my appreciation to the Members of the PAC and particularly the staff for their support and input to the development of this new approach to enhancing the work of the Auditor General.

HON J.C. KOBELKE, MLA  
CHAIRMAN



## **ABBREVIATIONS AND ACRONYMS**

AG	Auditor General
OAG	Office of the Auditor General
PAC	Public Accounts Committee





## CHAPTER 1 INTRODUCTION

### 1.1 Public Accounts Committee's Remit

The Public Accounts Committee's (PAC's) remit is to inquire into and report on 'the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation bills and Loan Fund'.<sup>1</sup> To this end, the Committee is empowered to examine the financial affairs and accounts of state government agencies, including any statutory board, commission, authority, committee or trust.<sup>2</sup> PAC can be directed by the House to conduct an investigation; it can also self-initiate inquiries and *may* consider references from a minister or from the Auditor General (AG). PAC is charged with considering whether the expenditure of public money is effective (i.e. achieving objectives) and economical.

### 1.2 Follow-up of Auditor General Reports

In Australian and New Zealand jurisdictions, there is a functional relationship between their Public Accounts Committees and their Auditors General, with the Committee considering AG reports.<sup>3</sup> This particularly involves cooperation between the Committee and AG in following up agency responses to recommendations made in AG performance reports.

#### (a) Current Follow-up Process

The process that the Western Australian PAC uses to follow-up the AG's performance reports was established in the 37<sup>th</sup> Parliament (See Section 1.5).

Initially, the Committee requests a response from the agency within 12 months of the date of tabling. This response outlines information on the agency's progress in implementing the AG's recommendations. Agency responses are then forwarded to the AG for comment. On receipt of the AG's comment, the Committee advises the agency of whether the follow-up is concluded or further information is required. If further information is required, on receipt of this from the agency the Committee forwards it to the AG for further comment. This process continues until the follow-up is closed. To assist its consideration of agency responses, the Committee may convene a hearing of 'relevant senior agency officers and/or the Auditor General' to expand upon the

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<sup>1</sup> SO 285, *Standing Orders*, Legislative Assembly, Parliament of Western Australia, 18 June 2008.

<sup>2</sup> SO 286 (1), *Standing Orders*, Legislative Assembly, Parliament of Western Australia, 18 June 2008. This includes any document on public expenditure tabled in the House (SO 286 (3)).

<sup>3</sup> Robertson, Gordon, 'Independence of Auditors General. A Survey of Australian and New Zealand Legislation', Auditor General's Office, Victoria, July 2009, p.8. This relationship is either set in legislation or in Standing Orders.

information provided.<sup>4</sup> A report of the Committee's activities in relation to its follow-up of the AG's performance reports is tabled in the Legislative Assembly each year.

As the Committee's follow-up process has matured, and agency follow-up is rolled from one year into the next, the associated workload has increased substantially. During the three-and-a-half year period of the 37th Parliament, the Committee recorded a total of 659 AG-related items of correspondence. The total number for the first two-years of the 38th Parliament was over 930.

For PAC, the current process is resource intensive and its level of effectiveness is unclear. Committee discussions with the AG showed that the OAG also found the process resource intensive. Furthermore, agency responses were sometimes overly bureaucratic, voluminous and not particularly meaningful. The Committee developed a set of guidelines to assist agencies prepare their response. However, this did not result in a marked improvement in the quality of responses.

Given this, the Committee determined to develop an alternative procedure. This involved examining AG report follow-up procedures used in other jurisdictions to devise a best-practice model. It also involved consultation with the AG.

### **1.3 Revised Follow-up Procedure**

The revised procedure aims to increase agency accountability and thus improve the effectiveness of AG reports while, at the same time, allowing PAC to follow-up on selected reports in more detail, making for more efficient and effective use of Committee resources.

While the Committee will implement this procedure immediately, it will monitor the new procedure and refine it in the light of its experience.

#### **(a) Steps Involved**

- The AG tables an audit report in the Legislative Assembly and briefs members of parliament.
- PAC writes to all agencies requesting information in relation to their implementation of the AG's recommendations, and progress made to date.
- PAC reviews the report and considers the information provided by the agency.
- PAC may request a briefing from the AG at this stage to assist its considerations.
- To determine which, if any, AG reports it will follow-up in detail, PAC will prioritise them using a number of criteria developed to aid the selection process. This will generally be done six months from the tabling of the AG report.
- On completion of this follow-up process, PAC will table a report in the Legislative Assembly.

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<sup>4</sup> Public Accounts Committee, *Review of the Reports of the Auditor General 2005-2006*, Legislative Assembly, Western Australia, Report No. 6, 30 November 2006, p.2.

- The relevant minister(s) will be required to respond to the Legislative Assembly in relation to recommendations, if any, made in the Committee's report.

### **(b) Procedure in Detail**

Following the tabling of an audit report in the Legislative Assembly, the AG provides a briefing for all members of parliament. This briefing will also be attended by the PAC secretariat. The briefing provides an opportunity for the AG to explain the audit process, the report's findings and the AG's recommendations to agencies. It also provides an opportunity for members to ask questions in relation to the audit process and issues raised in the report.

The next step involves PAC sending a letter to all agencies reported on by the AG. The letter will ask agencies about their:

- acceptance in full, or otherwise, of each of the AG's recommendations;
- programme for implementation of the recommendations;
- timeframe for full implementation of all the accepted Auditor General's recommendations; and
- progress to date in the implementation.

The letter will make clear that the Committee may select their agency for a more detailed inquiry and call them to a hearing to elaborate on their response to the Committee's initial letter.

Agency responses will be sent to the AG for his information only, and comment will not be sought.

While the precise timing of the next step will depend on the tabling dates of the AG's reports and the sitting dates of the Legislative Assembly, every six months PAC will review the AG reports and consider the response provided by the agencies. At this time the Committee may request a briefing from the AG to clarify particular points raised.

Having reviewed the reports tabled in the previous six months, the Committee will determine which agencies, if any, it will follow up in greater depth. This determination will be through a process of prioritisation using criteria including, but not limited to, the seriousness of the implications of the findings, risks, social impact, public interest, materiality and potential to increase accountability. This process will result in three possible categories of action for the Committee:

- no further follow-up
- follow-up in further detail
- initiate a formal inquiry

For those agencies for which the follow-up process is concluded, the Committee will provide advice of its decision. At approximately six-monthly intervals the Committee will prepare a report

on these concluded follow-ups. This report, which will be tabled in the Legislative Assembly, may contain further recommendations to the agencies. In this case, the responsible minister will be requested to respond to the House as to action taken in relation to these recommendations.

For those agencies the Committee decides to follow-up in further detail, the Committee will request either a briefing from or hearing with the AG. The Committee may invite a further submission from the agencies. It may also invite each agency to attend a hearing. Following consideration of the evidence gathered during this process, the Committee will table a report in the Legislative Assembly. The report may include recommendations from the Committee and in these cases, the relevant minister will be requested to report to the Legislative Assembly on any actions taken in relation to those recommendations.

If the evidence gathered in the follow-up process indicates a high degree of seriousness and risk, the Committee may initiate a discrete inquiry into the matter. In such cases, the Committee will proceed as it does for any other Committee Inquiry, ultimately tabling a report in the Legislative Assembly.

#### **1.4 Issues Considered in Developing the Revised Process**

The following lists the issues considered by the Committee in developing its revised follow-up process:

- It is unclear precisely what is achieved by PAC's current practice.
- What is the key purpose of the follow-up? Is it intended to:
  - ❖ help measure the effectiveness of the AG's work?
  - ❖ monitor agency progress with implementing recommendations?
  - ❖ both of the above?
- If part of PAC's function is to measure the effectiveness of the AG's work, how might that be accomplished?
- How does this current follow-up process improve agency accountability?
- How effective is PAC's follow-up of OAG reports?
- PAC does not always have the expertise to determine the appropriateness of the agency responses. Therefore, the Committee must rely on the OAG to advise and guide PAC responses to agencies.
- The process takes considerable secretariat time and resources (as indicated above).
- Agencies are required to comply with Treasurers Instructions in relation to internal audit, with some agencies compiling an audit log that registers the results of AG compliance and finance

audits and provides a mechanism for monitoring by their internal audit process. At this time it is not clear whether all agencies have this system in place. PAC may be able to make better use of agency's documentation by gaining access to these records.

## 1.5 Background to the Current Follow-up Process

The following is provided as background information to the AG follow-up process that PAC has been using to date.

In May 2003 the PAC of the 36<sup>th</sup> Parliament tabled a report titled, *The 2001-2002 Annual Report of the Office of the Auditor General: A Performance Review*. In relation to the follow-up of the AG's performance examinations, the Committee was 'particularly concerned to ensure that recommendations of the Office of the Auditor General are actually implemented', and made the following observations:

- Conducting and compiling agency performance examination reports, which include recommendations on improving agency operations, requires the input of significant resources by the AG.
- There was no formal method employed by either the AG or the PAC to monitor agency process in implementing AG recommendations.
- The absence of regular checks on agency implementation of recommendations could reduce the potential benefits of the AG's work.
- While the AG conducted selective follow-up examinations, there was no direct check of the implementation of recommendations from the original performance examination report.
- Direct monitoring of the implementation of individual recommendations would help to measure the effectiveness of the AG's work and provide insight into the impact of that work on the public sector.
- It is important to preserve and protect the independence of the AG; therefore the AG's role in direct monitoring should be limited.<sup>5</sup>

The PAC in the 36<sup>th</sup> Parliament recommended that:

*the Auditor General should liaise with the Public Accounts Committee regarding instances in which agencies are considered to be significantly deficient in responding to Auditor General Reports, including the failure to implement recommendations.*<sup>6</sup>

The PAC also announced that it would require any agency subject to an AG's performance examination:

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<sup>5</sup> Public Accounts Committee, *The 2001-2002 Annual Report of the Office of the Auditor General: A Performance Review*, Legislative Assembly, Western Australia, 15 May 2003, p.xiii and pp.6-7.

<sup>6</sup> *ibid.*, Recommendation 3, p.xv.

*to report to the Public Accounts Committee within 12 months of the Auditor General's Report being tabled in Parliament as to what action it has taken to implement the Auditor General's recommendations.*<sup>7</sup>

The Committee further recommended that:

*the Auditor General should take further action in the event that the Public Accounts Committee refers a matter back to the Auditor General regarding the agency's response.*<sup>8</sup>

The intent here seems to be 'a more coordinated approach to monitoring the impact of the Auditor General's work'.<sup>9</sup>

In response to this report, the then AG raised a number of points, including:

- 'for independence reasons the Auditor General neither directs nor assists agencies to implement its recommendations'.<sup>10</sup>
- 'the important thing to remember is that while my Office can be a catalyst for positive change, I am not, and should not be seen as an implementer of such change. That primarily remains the responsibility of the Executive, Parliament, and the agency concerned'.<sup>11</sup>
- on becoming aware of significant deficiencies in an agency's response to an AG's report, the policy was to 'inform Parliament through either a Follow-up or Follow-on report'.
- the response is limited to this as the AG is an 'external auditor', and as such is 'Parliament's 'watchdog', not their 'bloodhound'.
- the AG was 'willing to identify reports which have raised accountability issues that, in my [the AG's] opinion, would benefit from the additional specific, scrutiny of the Committee'.<sup>12</sup>

The AG concluded that the Committee's intention to follow up on agency implementation of performance examination recommendations 'can only improve the effectiveness of these reports'.<sup>13</sup>

<sup>7</sup> Public Accounts Committee, *The 2001-2002 Annual Report of the Office of the Auditor General: A Performance Review*, Legislative Assembly, Western Australia, 15 May 2003, Recommendation 5, p.xvi.

<sup>8</sup> *ibid.*

<sup>9</sup> *ibid.*, p.6.

<sup>10</sup> *Auditor General's Response to Public Accounts Committee Report Number 3 The 2001-2002 Annual Report of the Office of the Auditor General: A Performance Review*, nd, p.5.

<sup>11</sup> *ibid.*, p.7.

<sup>12</sup> *ibid.*, p.5.

<sup>13</sup> *ibid.*, p.2.

Government ministers and directors general at the time also responded favourably to advice of the new requirement.<sup>14</sup>

While the PAC of the 36<sup>th</sup> Parliament did not implement its follow-up process due to the prorogation of Parliament, the PAC of the 37<sup>th</sup> Parliament resolved to enhance public sector accountability by ‘continu[ing] the practice of following up on the reports of the Auditor General’.<sup>15</sup>

The PAC of the 37<sup>th</sup> Parliament developed the following process:

1. *The Auditor General tables a Performance Examination report relating to a particular agency;*
2. *Approximately one month after the report is tabled, the Committee requests a report from the agency within 12 months of the date of tabling as to progress in the implementation the Auditor General’s recommendations; and*
3. *The Committee considers the agency’s response and may request additional information.*<sup>16</sup>

Subsequently, and following consideration of a briefing from the AG, the PAC of the 38<sup>th</sup> Parliament resolved to ‘follow-up agencies in relation to their progress in implementing recommendations of Performance and Compliance Examinations conducted by the Auditor General’.<sup>17</sup> The follow-up process implemented by the PAC of the 37<sup>th</sup> Parliament was also adopted.

**Hon John Kobelke, MLA**

**CHAIRMAN**

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<sup>14</sup> Public Accounts Committee, *Annual Report 2003–2004*, Legislative Assembly, Western Australia, 30 November 2006, p.14.

<sup>15</sup> Public Accounts Committee, *Review of the Reports of the Auditor General 2005-2006*, Legislative Assembly, Western Australia, Report No. 6, 30 November 2006, p. vii and p.1.

<sup>16</sup> *ibid.*, pp.1-2.

<sup>17</sup> Public Accounts Committee, Minutes of Meeting No. 3, 10 December 2008.