Legislative Assembly for the ACT

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Review of Auditor-General's Report No 9 of 2003:

Annual Management Report for the Year Ended 30 June 2003

FEBRUARY 2004

REPORT 9

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Resolution of appointment

The Standing Committee on Public Accounts was appointed by the Legislative Assembly on 11 December 2001 to:

(i) examine:

  (A) the accounts of the receipts and expenditure of the Australian Capital Territory;

  (B) the financial affairs of authorities of the Australian Capital Territory; and

  (C) all reports of the Auditor-General which have been presented to the Assembly;

(ii) report to the Assembly, with such comments as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Assembly should be directed;

(iii) inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question; and

(iv) examine matters relating to economic and business development, small business, tourism, market and regulatory reform, public sector management, taxation and revenue and sustainability.

Terms of reference

Inquire into Auditor-General's Report No 9 of 2003: Annual Management Report for the Year Ended 30 June 2003 and report to the Legislative Assembly.

Conduct of the inquiry

The Committee held one public hearing on Friday, 21 November 2003 and heard from the following officers from the ACT Auditor-General's Office: Mr Bernie Sheville, Acting Auditor-General, Mr Rod Nicholas, Acting Director, Performance Audits and Administration, and Mr Malcolm Prentice, Financial Audit Manager.

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Summary of recommendations

Recommendation 1

The Auditor-General consult with the Standing Committee on Public Accounts in relation to the annual audit program at the commencement of each calendar year.

Recommendation 2

In the interest of best practice, amendment to sections 34 and 19 as proposed by the former Auditor-General be incorporated into the Government's amendments to the Auditor-General Act.

Ms MacDonald dissented from recommendation 2.

Recommendation 3

The Auditor-General incorporate subsection 12(2) of the *Auditor-General Act 1996* into performance audits, and where this is not done, outline within the Report, the reasons why.

Recommendation 4

The Auditor-General's Office Budget be increased to take into account the implications of recommendation 3, and that the potential for a dedicated environmental and social Auditor position be considered

1. Introduction

1.1. Auditor-General's Report No 9 of 2003: Annual Management Report for the Year Ended 30 June 2003, was presented to the Legislative Assembly on Thursday, 21 August 2003. The Auditor-General's Annual Management Report is effectively the annual report of the ACT Auditor-General's Office (AGO).

1.2. The Auditor-General is not subject to the *Annual Reports (Government Agencies) Act 1995* and as such is not required by legislation to produce an annual report. However, pursuant to section 21 of the *Auditor-General Act 1996*, the Auditor-General is subject to certain parts of the *Financial Management Act 1996* (FMA). Similarly to other ACT public sector agencies, the FMA requires the Auditor-General to produce financial statements and have these statements independently audited. These audited financial statements[1] are then presented to the Speaker of the Legislative Assembly.

1.3. The Auditor-General's Annual Management Report is produced as an accountability and transparency measure. The Annual Management Report is drafted in accordance with the Chief Minister's Annual Reports Directions even though there is no requirement for the Auditor-General to do so.

1.4. The Committee reviewed Auditor-General's Report No 9 of 2003: Annual Financial Management Report for the Year Ended 30 June 2003 with particular reference to the overall work and financial performance of the AGO, financial statement audits and performance audits. The Committee made comment about issues pertaining to the inclusion of reporting against environmental and social indicators in the context of both financial and performance audits. Other comments were centred on issues relating to how the Auditor-General determines which areas to inquire into.

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[1] The 2002-2003 audited financial statements relating to the operation of the ACT Auditor-General's Office and accompanying audit report appear in Appendix 1 of Auditor-General's Report No 9 of 2003: Annual Management Report for the Year Ended 30 June 2003.

2. Performance of the Auditor-General's Office in 2002-2003

Role of the Auditor-General

2.1. In addition to being responsible to ACT citizens through the Legislative Assembly for the 'audit of all public sector agencies in the Territory'[2], the Auditor-General is responsible for promoting public accountability in the Territory. This is undertaken by providing

> accurate and useful information about the management of public sector resources [not only through] undertaking audits of management performance and the financial statements of public sector agencies…[but also through] … the provision of independent advice and recommendations for improving the management of public sector resources.[3]

The work undertaken by the Auditor-General's Office in 2002-2003

2.2. In 2002-2003, the Auditor-General completed and presented to the Legislative Assembly 'nine performance audits and 81 financial statement audits'.[4] A list of the completed performance and financial audit reports appears at Appendix A. This is less than was produced in the 2001-2002 financial year with 10 performance audits and 85 financial statement audits completed.[5] The 2002-2003 outcome equates to 28 541 staff hours spent on performance and financial statement audits[6], which is 63% of 'total staff standard hours available' and below the Budget target[7] of 67%.[8] The 'overall audit costs per staff hour' expended was $85.02 compared to the Budget target of $71.72. In the previous financial year this amount was lower at $74.12, and was marginally less than the 2001-2002 Budget target of $75.85.[9]

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[2] Auditor-General's Report No 9 of 2003, p 1.
[3] ibid.
[4] ibid., p 6.
[5] Auditor-General's Report No 6 of 2002: Annual Management Report for the Year Ended 30 June 2002.
[6] The Budget target for 2002-2003 was 32 500 hours.
[7] The Budget target for 2000-2001 was 68%, Auditor-General's Report No 6 of 2002.
[8] Auditor-General's Report No 9 of 2003, p 6.
[9] Auditor-General's Report No 6 of 2002, p 6.

2.3. The reason given for the fall in staff hours spent on performance and financial statement audits and the rise in overall audit costs per staff hour is the high level of extended staff absences experienced by the AGO in 2002-2003.[10]

2.4. Under the Public Interest Disclosure Act, the Auditor-General also receives public interest disclosures from individuals. And pursuant to the Public Access to Government Contracts Act (repealed by the Government Procurement Act), the Auditor-General is required to

> maintain a register of contracts containing confidentiality clauses entered into by Territory agencies and to provide a list of contracts entered on the register to the Standing Committee on Public Accounts every six months.[11]

2.5. The AGO also undertook the following activities in 2002-2003:

- provided comments and suggestions on draft cabinet submissions in relation to governance arrangements for statutory authorities, proposed amendments to the Financial Management Act, Auditor-General Act and the Government Procurement Act;
- assisted the Commissioner for Public Administration with the review of the Public Sector Management Act by providing comments during the consultation phase of the review;
- provided comments on the 2003 Model Financial Statements prepared by the Department of Treasury to provide guidance to agencies on the preparation of their 2003 financial statements;
- provided comments and advice to the Department of Treasury on proposed Finance Memorandums and other matters where invited to do so; and
- provided comments to the ACT Government Procurement Board on proposed procurement policy and guidelines where invited to do so.[12]

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[10] Staff absences were due to motor vehicle accidents, maternity leave and long service leave.
[11] ibid., p 4.
[12] ibid., pp 8 & 9.

Financial performance in 2002-2003

2.6. Operation of the AGO is funded from two revenue sources. The AGO receives its funds from an appropriation of $0.943 million for performance audits and $2.076 million for financial statement audits from departments, authorities and other audited entities. Fees for financial statement audits are calculated based on the previous year with the addition of the consumer price index (CPI) increase for that year. 'Fees for financial statement audits undertaken principally by contractors are set on the basis of the audit fee payable to the contractors, plus an allowance for associated work by Office staff'.[13] The cost of performance audits is met entirely by the appropriation provided for that purpose.

2.7. The operating result of a $41 534 surplus is below the expected surplus of $116 000. The operating result is also less than last year's operating surplus of $126 494. The AGO has stated that the lower than expected surplus is as

> a result of revenue levels remaining relatively consistent with budget and prior year results while expenses slightly exceeded the budgeted and prior year's levels.[14]

2.8. In response to the difference in the actual surplus and the estimated surplus, the Auditor-General stated that

> Most of the costs are employee costs. At present we are operating in a buoyant market for qualified audit and accounting professionals. Essentially, the market is a seller's market. The attraction and retention of staff are probably the biggest cost issues facing the office at this time.[15]

2.9. Employee expenses were $1.915 million, which exceeded the expected $1.816 million and the previous year's amount of $1.821 million. The AGO has indicated that the increase in expenses was primarily due to pay increases and the 'increased use of temporary audit staff to complete financial statement and performance audits'.[16] Audit contractors cost slightly more than budgeted for at $0.561 million compared to $0.560 million, and less than in the previous year of $0.651 million. Supplies and services cost $0.475 million, which is less than was budgeted for of $0.490million, but higher than

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[13] ibid., p 25.
[14] ibid., p 27.
[15] Standing Committee on Public Accounts, Review of Auditor-General's Report No 9 of 2003: Annual Management Report for the Year Ended 30 June 2003, Transcript of evidence dated 21 November 2003, p 5.
[16] Auditor-General's Report No 9 of 2003, p 27.

the previous year of $0.414 million. The increase was mainly due to 'increased office accommodation lease expenses along with relocation and advertising expenses relating to the recruitment of graduates during the year'.[17] Overall, total expenses 'slightly exceeded the budget expectation of $2.891m by $0.097m (3.3%) and the prior year amount of $2.916m by $0.072m (2.4%) due to the increases in Employee expenses mentioned'.[18]

2.10. The AGO received an unqualified audit opinion from the independent auditor appointed by the Treasurer[19] to specifically audit the AGO's financial statements. Those items already mentioned in relation to overall expenses, higher audit costs excluding contract costs and audit costs per hour excluding contract costs were highlighted as exceeding what was budgeted for. In summary, it is stated in the Auditor-General's Report that

> the performance of the Auditor-General's Office was satisfactory when assessed against the various performance measures.[20] An operating surplus of $0.096 million is expected in 2003-2004.[21]

Strategic management priorities

2.11. In 2003, the Auditor-General released to its staff the 'Strategic Focus' document. The document 'outlines the operational philosophy of the Auditor-General's Office and focuses the attention of staff on key performance areas for the Office relating to financial statement and performance audits'.[22]

2.12. The document states that

> a main focus in 2003 is to ensure that the time spent on financial statement audits does not increase and that the number of audits performed by more expensive contractors is not increased' as well as ensuring that the 'annual Auditor-General's Report on financial statement audits is completed in a timely fashion' with minimal cost 'without sacrificing the quality of the report.[23]

2.13. In relation to performance audits undertaken, the Strategic Focus document aims to ensure that

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[17] ibid.
[18] ibid.
[19] From 2000 to 2003 inclusive the independent auditor appointed by the Government was Bentleys MRI Canberra.
[20] Auditor-General's Report No 9 of 2003, p 31.
[21] ibid.
[22] ibid., p 10.
[23] ibid.

> all audit work is of sound professional quality and undertaken in a manner that will achieve the best value for the Territory's expenditure on performance audit resources.[24] [In addition], a focus will be to achieve a reasonable coverage of performance audits across ministerial portfolios and significant government activities, mindful of other matters such as the potential audit impact, the risks to good management and materiality. [And] a further focus is to present to the Legislative Assembly a quantity of performance audit reports that properly reflects the reasonable expectations of the Assembly.[25]

2.14. In relation to the potential for audit impact and the risks to good management and materiality, the Auditor-General expanded by stating that

> We [the AGO] operate a very small formal sort of function. Only three to four people are involved so we have to target our audits in a way that achieves maximum possible coverage with the resources that we have. That means that in every audit we do we have to take into account what the risks might be.[26]

Amendment to the Auditor-General Act

2.15. The Annual Management Report also provides comment about the operational environment of the AGO. The Audit report states that

> the Government is currently considering possible amendments to the Auditor-General Act 1996 [as] proposed by the Auditor-General. The aims of the proposed amendments are to obtain greater clarification on access to information generally, thus strengthening the Act overall.[27]

2.16. In correspondence received from the Auditor-General suggested amendments to the *Auditor-General Act 1996* included changes to the following areas: the power to audit outsourced activities; changes to confidentiality requirements during audits; power to receive information on oath; power to require the creation of documents; power to obtain explanations; sensitive information; penalties for providing false information; penalties for failure to provide access to premises; penalties for obstructing audits; audits of activities common to more than one agency and audit fees.[28]

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[24] ibid.
[25] ibid.
[26] Transcript of evidence, pp 1 & 2.
[27] Auditor-General's Report No 9 of 2003, p 11.
[28] Correspondence received from the Auditor-General dated 14 January 2002.

2.17. Earlier in 2003, the Auditor-General[29] had the opportunity to comment on the Government's draft cabinet submission that proposed amendments to the *Auditor-General Act 1996*. While there are a number of amendments incorporated into the Government's proposed amendments to the Act, the Auditor-General expressed his disappointment at not gaining support for the amendment of section 34 and section 19 of the Act.[30] Amendment to sections 34 and 19 would provide for confidentiality by the Auditor-General's employees and contractors, and the reporting of sensitive information respectively. The Auditor-General had proposed that section 34 be amended to

> ensure that all persons who obtain or are provided with information, arising from an audit are subject to the same confidentiality requirements.[31]

2.18. The Government responded to the Auditor-General's proposed amendments to section 34 of the Auditor-General Act giving two reasons for not supporting the proposed amendment.

> The first is the existence of confidentiality provisions in the [Public Sector Management] Act (PSM Act). The second reason is that confidentiality provisions exist in some statutory authorities' establishing legislation.[32]

2.19. The Auditor-General responded to the Government's reasoning by stating

> It is true that the PSM Act applies to a high proportion of agency employees, however…there are many other persons not covered by the Act[33] who may be affected by audits by the Auditor-General. The PSM Act therefore only provides partial cover of persons who may be affected by audits. Relying on the PSM Act's confidentiality provisions as a reason for not supporting the proposed amendment is clearly unsustainable. In relation to the second reason the submission itself recognises that only **some** statutory authority

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[29] Refers to the former Auditor-General, Mr John A Parkinson who retired in July 2003.
[30] Letter from Mr John A Parkinson, the former ACT Auditor-General to Mr Robert Tonkin, former Chief Executive, Chief Minister's Department with subject heading 'Draft Cabinet Submission: Amendments to the Auditor-General Act 1996 reference M02/23, dated 12 May 2003.
[31] ibid., attachment, paragraph 3, p 1.
[32] ibid., paragraph 5, pp 1 & 2.
[33] For example, 'ex-public servants, consultants, Ministers, Ministers' staff, statutory authority board members, employees of some statutory, authorities, employees of Territory owned corporations, employees of joint ventures etc.' ibid, paragraph 6, p 2.

> legislation has confidentiality provisions. The reason is therefore unsustainable because it provides only partial coverage.[34]

2.20. Problems associated with partial legislative coverage become evident as shown by the Auditor-General's example relating to the leaking to the Canberra Times of Auditor-General's Report No 5 of 2002: V8 Car Races in Canberra – Costs and Benefits.

> The report's findings were published in the Sunday Times before the report was legally released. Under the current legislation, if the report had been leaked by a person covered by the PSM Act (e.g. CTEC's Chief Executive) or the Auditor-General Act (i.e. an employee or contractor of the Auditor-General), the leaker would have committed an offence and would be liable to penalty if identified. However, if the leaker was a person not covered by one of the two acts (e.g. a CTEC Board Member), no offence has been committed.[35] [The Auditor-General poses the question] Is this logical?[36].

2.21. Proposed amendment to section 19 of the Auditor-General Act would

> provide the Auditor-General with discretion to include sensitive information[37] in a report presented to the Assembly if, and only if, the Auditor-General considered that the public interest would be best served by the information generally available.[38]

2.22. The Auditor-General reported that the Government did not provide reasons for not supporting amendment to section 19 of the Auditor-General Act,

> other than…other jurisdictions audit legislation does not have similar provisions.[39]

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[34] ibid., paragraphs 7 & 8, p 2.
[35] ibid., paragraph 14, p 3.
[36] ibid.
[37] 'The Auditor-General has no discretion over whether or not to include the sensitive information in a report presented to the Assembly. When a report contains sensitive information the Auditor-General's only avenue of reporting is to the Public Accounts Committee', ibid., paragraph 15, p 4.
[38] ibid., paragraph 16, p 4.
[39] ibid., p 18.

2.23. The Auditor-General disputes this by stating

> audit legislation in most jurisdictions does not have the equivalent of the ACT's Section 19. In most other jurisdictions the Auditor-General must present all reports to the Parliament, whether containing sensitive information or not. There are no provisions in these jurisdictions for the Auditor-General to report sensitive information to a Public Accounts Committee, or to a similar committee, rather than to the Parliament. In these jurisdictions there is no restriction on what the Auditor-General can report publicly to the Parliament so long as what is reported is produced through the exercise of a legal function of the Auditor-General. In sharp contrast the ACT Auditor-General is forbidden from reporting to Parliament information of the types specified in Section 19. Reliance on consistency with other jurisdictions' legislation as a reason for not supporting the proposed amendment is illogical and unsound. For consistency with the majority of other jurisdictions' audit legislation the whole of Section 19 would need to be repealed.[40]

2.24. Further

> it should be noted that other ACT public officials have the discretion which the proposed amendment is seeking for the Auditor-General. It is significant that the Auditor-General does not have a discretion of this nature even though agencies and officials already have the discretion and are required to exercise it.[41]

Committee comment

2.25. The Committee supports the amendments proposed to sections 34 and 19 of the Auditor-General Act for the same reasons as expressed by the Auditor-General and views these amendments as reflecting best practice. From the evidence presented, the Committee recommends that the amendments to sections 34 and 19 as proposed by the former Auditor-General be incorporated into the Government's amendments to the Auditor-General Act.

2.26. Ms MacDonald supports the Government's argument in relation to this issue.

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[40] ibid., paragraph 19, pp 4 & 5.
[41] ibid., paragraphs 20 & 24, p 5.

2.27. The Committee applauds the AGO for creating a forward thinking document such as the 'Strategic Focus' document. The Committee is especially interested in the area of the Strategic Focus document, which relates to performance audit planning. In meeting the AGO's aim of focusing on achieving 'a reasonable coverage of performance audits across ministerial portfolios and significant government activities' and 'to present to the Legislative Assembly a quantity of performance audit reports that properly reflects the expectation of the Assembly', the Committee is interested in being included more formally in the consideration of the Auditor-General's performance audit planning process.

2.28. The practice in relation to performance audit planning in some jurisdictions[42] is to present a proposed performance audit plan to the Public Accounts Committee or relevant committee for comment. The Committee understands that the Auditor-General currently conducts a Members' and Chief Executives' survey in which individuals can comment on particular issues for audit.

2.29. The Committee would welcome the opportunity to view the Auditor-General's proposed annual audit program at the commencement of a calendar year with a view to making any reasonable suggestions or recommendations to the Auditor-General. The Committee is of the view that such a practice would not impede the Auditor-General's independence as the Auditor-General would not be subject to direction, and would still be able to decide on areas in which to conduct audits.

2.30. The Committee recommends that:

Recommendation 1

The Auditor-General consult with the Standing Committee on Public Accounts in relation to the annual audit program at the commencement of each calendar year.

Recommendation 2

In the interest of best practice, amendment to sections 34 and 19 as proposed by the former Auditor-General be incorporated into the Government's amendments to the Auditor-General Act.

2.31. Ms MacDonald dissented from recommendation 2.

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[42] David G. McGee, 'The Overseers: Public Accounts Committees and Public Spending', Commonwealth Parliamentary Association, London, 2002, p 41.

3. Financial statement audits

3.1. There were 81 financial statement audits completed in 2002-2003 and most were required to be undertaken by the Financial Management Act.[43] Contract audit costs were $0.551 million, which exceeded the budgeted $0.500 million. This was due to increases in fees charged by contractors in relation to financial statement auditing.[44] Less time was spent on financial statement auditing of 16 434 hours than budgeted for of 19 000 hours and 1214 hours less than the previous year. The main contributor to the fall in hours spent on financial statement auditing was staff leave due to unforeseen circumstances already mentioned.[45] In relation to financial statement audits, the AGO met its 100% timeliness target. There is no legislated timeframe for the completion of financial statement audits, but in consultation with agencies a timeframe is established and followed by the AGO.[46] As in previous years discussion about the Territory's financial results and other issues is contained in Auditor-General's Report No 7 of 2002: Financial Audits with Years Ending to 30 June 2002.[47]

Committee comment

3.2. The Committee does not have specific comments in relation to the financial audits undertaken by the AGO and has focused primarily on issues associated with performance auditing.

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[43] Auditor-General's Report No 9 of 2003, p 19.
[44] ibid., p 20.
[45] ibid., p 21.
[46] ibid., p 23.
[47] The Standing Committee on Public Accounts presented its report no 6 on the Review of Auditor-General's Report No 7 of 2002: Financial Audits with Years Ending to 30 June 2002 on 25 September 2003. The Government responded to the Committee's report on 23 December 2003.

4. Performance audits

4.1. The AGO completed nine performance audits in 2002-2003. Performance audits cost $1.106 million, or $112 000 more than the $994 000[48] that was budgeted for. As in previous years, the AGO drew on its cash reserves to meet the deficit.[49]

4.2. The AGO has identified that it has under performed in the area of timeliness of performance audit reports. The rate used by the AGO shows the proportion of audits reported in 2002-2003 completed within nine months. In 2002-2003, this rate was 44%, far below the budgeted 100%, but higher than that in 2001-2002 of 30% and 2000-2001 of 7%. A number of reasons were given for the under performance. These were

> the size and complexity of some of these audits, the involvement of multiple agencies, the consultative process in drafting the report, the availability of staff to adequately progress the audits due to competing priorities for resources and the abnormally high amounts of leave.[50]

4.3. There are currently three performance audits still in progress. The Auditor-General expects these reports to be completed in 2003-2004. A list of these reports appears below.

- Review of Budget Preparation – Revenue Estimates in 2002-2003 (Department of Treasury)
- No Waste Strategy 2010 – Data Quality (Department of Urban Services); and
- Provision of Policing Services to the ACT (Department of Justice and Community Safety).

Legislative Assembly Members' satisfaction survey

4.4. To assess the quality and effectiveness of performance audits, the AGO conducts a Legislative Assembly Members' satisfaction survey. In 2002-2003, the Auditor-General 'agreed with the Public Accounts Committee to conduct

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[48] Auditor-General's Report No 9 of 2003, p 13.
[49] ibid., p 14.
[50] ibid., p 17.

triennial surveys of all Legislative Assembly Members and to seek feedback annually from the Public Accounts Committee.[51]

4.5. As stated by the Auditor-General

> The Committee rated the Office's performance as *good* on all matters raised (i.e. the usefulness, relevance, and quality of the reports). Several Members of the Legislative Assembly also provided feedback. All respondents were satisfied with the Office's performance.[52]

4.6. On 4 July 2003, the Auditor-General wrote to the Chief Minister seeking feedback on recent audit reports with the suggestion of providing this feedback through the Standing Committee on Public Accounts. The Government responded by stating

> Government submissions in relation to each Auditor-General's Report are provided to the Public Accounts Committee, and for the purpose of the Auditor-General's request, I suggest that these submissions should be considered as providing appropriate feedback.[53]

4.7. The Committee wrote to the Auditor-General seeking further information in relation to what Members did not find useful, relevant or were dissatisfied with in Auditor-General's performance reports. The Auditor-General responded by listing specific comments given by unidentified Members. Members' responses included a number of suggestions for possible performance audits and other comments were related to the timeliness of reports in relation to specific community issues.[54]

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[51] ibid., p 16.

[52] ibid.

[53] Letter from Mr Jon Stanhope, MLA, Chief Minister to Mr Brendan Smyth, MLA, Chair, Standing Committee on Public Accounts, dated 29 July 2003.

[54] Responses to PAC questions on survey results received from the Auditor-General in relation to the Legislative Assembly Members' Satisfaction Survey, dated 24 April 2003.

4.8. In addition to the Members' satisfaction survey, the Auditor-General conducted a similar survey of Territory Agencies' Chief Executives.

> Eight of the nine responses[55] rated the Office's performance as *good* or *very good* with one rating the Office's performance as *satisfactory*. The Auditor-General has also stated that - Any comments provided by Chief Executives will be taken into account when conducting future audits.[56]

Incorporating environmental and social considerations in performance audits

4.9. In accordance with section 22 of the *Auditor-General Act 1996*, the Committee is able to advise the Treasurer in relation to the appropriateness of the Auditor-General's proposed Budget for the coming year. In relation to the proposed Auditor-General's Office Budget for 2003-2004, the Committee was interested to know how subsection 12(2) of the Auditor-General Act applies to performance audits and whether the Auditor-General was incorporating the provisions of subsection 12(2) within performance audits undertaken in the previous year.

4.10. Subsection 12(2) of the *Auditor-General Act 1996* provides that

> in the conduct of a performance audit, the auditor-general shall, where appropriate, take into account environmental issues relative to the operations being reviewed or examined, having regard to the principles of ecologically sustainable development.[57]

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[55] Fifteen surveys were distributed to 'relevant Chief Executives', Auditor-General's Report No 9 of 2003, p 16.
[56] ibid., p 17.
[57] Ecologically sustainable development as defined by the Auditor-General Act 1996, <http://www.legislation.act.gov.au/a/1996-23/default.asp>

4.11. The Committee corresponded with the AGO in relation to incorporating additional funding for training for triple bottom line reporting (TBLR)[58] to aid in the better incorporation of subsection 12(2) of the Auditor-General Act. Consequently, the Committee held a round table discussion[59] on the issue of training for triple bottom line reporting. Participants included representatives from the Auditor-General's Office, ACT Office of the Commissioner for the Environment, the Office of Sustainability, Chief Minister's Department and the Department of Treasury.

4.12. In relation to the Annual Management Report for the Year Ended 30 June 2003, and issues concerning the incorporation of environmental matters in performance audits, the AGO stated

> Certainly environmental matters are one of the considerations. I would be quite happy to reconsider the way in which we have presented them in our report. It is fair to say that we have not had an enormous focus on environmental issues for a number of reasons, in particular, the skill set, the size of the organisation and our capacity to undertake audits that have a strong environmental focus. The ecologically sustainable development provisions in the legislation refer more to environmental issues rather than to the social impact. Perhaps there are other avenues available to the government and the community to pursue all those social aspects. We are not excluding environmental issues by any means; they are still part of the activities that are conducted now by a team of five people. We have a wide range of activities to examine. Environmental issues pop up from time to time and we deal with them when we are best able to do that.[60]

4.13. When asked about training undertaken for the incorporation of environmental matters into performance audits it was stated that

> A couple of staff members attended a program this financial year that was hosted by the Australasian Council of Auditors-General.[61] The Auditor-General further stated that eighty per cent of that $40 000 [for training] is spent on basic training on the methodology

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[58] A term coined by John Elkington in his book 'Cannibals with Forks: The Triple Bottom Line of 21st Century Business', 1998. Triple Bottom Line Reporting (TBLR) captures the spectrum of economic, environmental and social factors that organisations may place value on, to minimise harm from their activities. In accounting terms, TBLR translates into the inclusion of environmental and social performance in addition to financial performance.

[59] The round table discussion on training for triple bottom line reporting was held on 14 May 2003.

[60] Transcript of evidence, Friday, 21 November 2003, p 3.

[61] ibid.

> used for financial audits. So close to $30 000 or $35 000 of that $40 000 is spent on that training. The funds available in the present budget for significant training in other areas is fairly limited. I do not think there is a serious prospect of putting in massive amounts of resources. Sixty per cent to seventy per cent of the work that the Audit Office does involves issuing audited opinions on financial statements.[62]

4.14. Concerning future action in relation to incorporating environmental issues into performance audits, the AGO stated

> We have spent some time examining the way in which we can address ESD [environmentally sustainable development] issues and provisions in the legislation a little more than we did in the past. We have started some work on developing an environmental audit strategy, which is probably not quite the right term. We are examining what our responsibilities are, what our capacity is to meet those responsibilities, and we are thinking outside the box, for example, what we can do to liase more with the Commissioner for the Environment, the Office of Sustainability and that sort of thing.[63]

4.15. The Auditor-General further stated in relation to the incorporation of environmental and social factors that

> in relation to the topics that we are auditing now, I have requested the use of section 12 to specifically identify why we are looking at a topic or why we are not. When it is obvious in the report that we have not looked at a topic, we should reflect that fact in the report so that you can see the rationale behind a decision that was made either to include a topic or exclude it.[64]

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[62] ibid.
[63] ibid., p 4.
[64] ibid., p 7.

Committee comment

4.16. Over the course of the last year, the Committee has taken great interest in the complementary roles of the Auditor-General and a Public Accounts Committee (PAC) in relation to ensuring accountability in regard to the use of public sector resources. The Committee has met with various visiting public accounts committees (PAC)s[65] and other Australian State's Auditors-General[66] and discussed issues arising from the type of work undertaken by PACs and the types of audits conducted by Auditors-General. The Committee was particularly interested in the structure of the Canadian Auditor-General's Office, which incorporates the Commissioner of the Environment and Sustainable Development. The role of Canada's Commissioner of the Environment and Sustainable Development is 'to focus on environmental and sustainable development issues and is devoted entirely to providing environmental audits of the government's activities'.[67] While the ACT has a Commissioner for the Environment, there is no legal obligation for consultation on environmental matters between it and the Auditor-General's Office and other Territory departments and agencies to the same extent as Canada's Commissioner of the Environment and Sustainable Development.

4.17. The Committee has found evidence of various levels of Government across different jurisdictions moving towards and or using TBLR.[68] The Committee acknowledges the importance of accounting for social and environmental factors in addition to economic factors. The Committee acknowledges the view that TBLR more accurately accounts for a wide spectrum of costs associated with social and environmental factors and so

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[65] The Committee heard from Dr Ken Coghill, Sabbatical Fellow at the Australian National University in relation to his paper with provisional title, 'Who is accounting to whom, how and WHY?' on 18 December 2002. The Committee met with the: Northern Cape Provincial Legislature Public Accounts Committee (South Africa) on 2 July 2003; NSW Public Accounts Committee on 21 August 2003; Western Cape Provincial Legislature Standing Committee on Public Accounts and the Western Cape Provincial Legislature Standing Committee on Finance and Economic Development (South Africa) on 28 November 2003.

[66] The Committee met with the Auditor-General of NSW on 12 June 2003 and spoke with the Auditor-General of Victoria via telephone conference on 3 December 2003.

[67] Office of the Auditor-General of Canada and Commissioner of the Environment and Sustainable Development, Canada, 2004, http://www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu1_e.html.

[68]Maroochy Shire Council; http://www.maroochy.qld.gov.au/tbl_reporting.cfm; Environment Australia, 'Are We Sustaining Australia? Report Against Headline Sustainability Indicators, 2002, http://www.ea.gov.au/esd/national/indicators/report/summary.html; Sydney Water, http://www.sydneywater.com.au/html/AER2000/case_reporting.htm; State Forests (NSW), www.forest.nsw.gov.au; City of Melbourne (Local Government Council), www.melbourne.vic.gov.au; Coffs Harbour City Council.

gives the user greater potential to deliver improved outcomes in these areas. The Committee would welcome the Government taking steps in identifying social and environmental indicators with the objective of moving towards TBLR for ACT public sector agencies.

4.18. There has been much discussion between the AGO and the Committee about the incorporation of environmental and social factors within performance audits. The Committee is highly supportive of any suggestions the AGO would have to provide more extensive training for its staff in TBLR and the incorporation of environmental and social factors within performance audits.

4.19. The Committee believes that the amendments to the Auditor-General Act, which incorporated environmental factors within performance audits, have now been in place for a significant amount of time and should be adhered to where appropriate. The Committee is not suggesting that the Auditor-General move away from the fundamental function of conducting financial audits, but that the role of the Auditor-General is wider than purely conducting financial audits.

4.20. Implicit in these comments is the view of the Committee that there are increasingly strong grounds for the AGO to have an increase in staffing, particularly to undertake performance audits.

4.21. The Committee recommends that:

Recommendation 3

The Auditor-General incorporate subsection 12(2) of the *Auditor-General Act 1996* into performance audits, and where this is not done, outline within the Report, the reasons why.

Recommendation 4

The Auditor-General's Office Budget be increased to take into account the implications of recommendation 3, and that the potential for a dedicated environmental and social Auditor position be considered.

5. Conclusion

5.1. The Committee has reviewed Auditor-General's Report No 9 of 2003: Annual Management Report for the Year Ended 30 June 2003 and made 4 recommendations in relation to: the Auditor-General's annual audit program; further amendments to the Auditor-General Act; the incorporation of environmental and social factors in performance audits; further training in this area for AGO staff; and the possibility of a specialist position. The Committee envisages that the issues raised will continue to stimulate discussion beyond this report.

5.2. The Committee would like to extend its sincere thanks to past and current ACT Auditors-General and staff for their advice and work during the course of the last financial year to the present.

Brendan Smyth, MLA
Chair

25 February 2004

Appendix A – Performance[69] and Financial Statement Audits completed in 2002-2003

Performance audits

Report No 5 of 2002: V8 Car Races in Canberra – Costs and Benefits

Report No 1 of 2003: Effectiveness of Annual Reporting

Report No 2 of 2003: Belconnen Indoor Aquatic Leisure Centre

Report No 3 of 2003: Emergency Services

Report No 4 of 2003: Management of Fraud and Corruption Prevention in the ACT Public Sector

Report No 5 of 2003: Lease of FAI House

Report No 6 of 2003: Allegations of Financial Mismanagement - University of Canberra Union

Report No 7 of 2003: Compliance Performance Audit – Recruitment Processes

Report No 8 of 2003: Financial Incentive Package Processes for Fujitsu Australia Limited

Financial statement audits[70]

Territory Financial Statements

Report No 7 of 2002: Financial Audits with Years Ending to 30 June 2002

Departmental Financial Statement Audits

ACT Executive

ACT Forests

ACT Housing

ACT Superannuation Unit

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[69] Not including Auditor-General's Report No 6 of 2002: Annual Management Report for the Year Ended 30 June 2002.
[70] This information is taken from Appendix 3 of Auditor-General's Report No 9 of 2003.

ACT Workcover

ACTION

Central Financing Unit, Department of Treasury

Chief Minister's Department

Department of Education and Community Services

Department of Health and Community Care

Department of Justice and Community Safety

Department of Treasury

Department of Urban Services

InTACT Group

Land and Property

Legislative Assembly Secretariat

Statutory Authorities

ACT Community Care

ACT Gambling and Racing Commission

ACT Health and Community Care Service

ACT Insurance Authority

Agents Board of the ACT

Australian International Hotel School

Building and Construction Industry Training Fund Board

Canberra Institute of Technology

Canberra Public Cemeteries Trust

Canberra Tourism and Events Corporation

Cleaning Industry Long Service Leave Board

Construction Industry Long Service Leave Board

Cultural Facilities Corporation

Gungahlin Development Authority

Healthpact

Independent Competition and Regulatory Commission

Kingston Foreshore Development Authority

Legal Aid Commission

National Exhibition Centre Trust

Public Trustee for the ACT (office account and trust account)

Stadiums Authority

The Canberra Hospital

University of Canberra

Territory Owned Corporations and Other Companies

ACTEW China Pty Ltd.

ACTEW Corporation Ltd.

ACTEW Retail Ltd.

ACTION Authority

ACTTAB Ltd.

Bruce Operations Pty Ltd.

CIT Solutions Pty Ltd.

ECOWISE Environmental Pty Ltd

Gold Creek Country Club Pty Ltd

Totalcare Industries Ltd.

University of Canberra College Pty Ltd.

Land Development Joint Ventures

Amaroo 3

Dunlop 1 – Jarramlee Park

Dunlop 3 – The Village

Gordon 1 and Gordon 9 Southside Estates

Harcourt Hill Estate

Palmerston 4

Other Audits

ACTEWAGL Joint Venture

ACTEWAGL Distribution Partnership

ACTEWAGL Retail Partnership

ACT Expenditure under the Interstate Road Transport Act 1985

Australian Land Transport Development Trust Fund

Australian National Training Authority Acquittal

Canberra Business Development Fund

City Edge Joint Venture

Commonwealth/State House Agreement Specific Purpose Report

Community Housing Canberra Ltd

Kingston Stage 1A Joint Venture

Payments to the Commonwealth under the Interstate Road Transport Act 1985

Nicholls Primary Joint Facilities

Nominal Insurer

Receipts and Expenditure under the Roads to Recovery Act 2000

University of Canberra DEST Research Grant Acquittal

Williamsdale Operations Pty Ltd

Williamsdale Quarry Joint Venture

Williamsdale Quarry Pty Ltd

Workers' Compensation Supplementation Fund