

TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Budget estimates 2019–20 (Victorian Auditor-General's Office)

Melbourne—Friday, 31 May 2019

MEMBERS

Mr Philip Dalidakis—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr Gary Maas

Mr Danny O'Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Ingrid Stitt

Ms Bridget Vallence

WITNESSES

Mr Andrew Greaves, Auditor-General, and

Ms Rachel Davis, Executive Officer, Victorian Auditor-General's Office.

The CHAIR: Thank you very much, ladies and gentlemen. I declare open this hearing of the Public Accounts and Estimates Committee. On behalf of the Parliament, the committee is conducting this inquiry into the 2019–2020 Budget Estimates. Its aim is to scrutinise the public administration and finance to improve outcomes for the Victorian community. The committee will now begin consideration of the Victorian Auditor-General's portfolio. I welcome the Auditor-General and his officer from the Victorian Auditor-General's Office, and I thank them for appearing before the committee today. All evidence given is protected by the Parliamentary Committees Act. This means it attracts parliamentary privilege and is protected from judicial review. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty. Any comments made outside of this hearing, including on social media, are not afforded such privilege.

I will afford you the opportunity, Mr Greaves, of presenting, given that you have taken the time to put something together, so over to you.

Visual presentation.

Mr GREAVES: Thank you very much, Chair. I welcome the opportunity to brief the committee on my budget estimates for 19–20. I will not take much time in terms of a quick overview, just to say that in 2019–20 we will be moving into the third year of the strategic plan that we have set for my organisation.

In terms of my strategic direction, the strategic direction for my organisation, we have had four focus areas. The first is modernising our audit methods using our full mandate and taking a long-term view. We have reviewed our performance audit methodology in year one of the plan, and in year two we have reviewed our financial audit methodology. Next year we will be investigating and investing in a new audit software toolset so that we can implement these methodologies using modern audit software, which is cloud-based.

In terms of the second area, building more productive relationships and leveraging our access to information, the key to that point is that we have very much these days a data-driven approach to our audits, both financial audit and performance audit. Given my role and my access to all public sector entities at both state and local government level, and therefore access to all their data and information, it is incumbent on me as the Auditor-General to make sure I make best use of that information when I am undertaking my audits, both to make sure that my audits are efficient but also to make sure that they are effective in terms of the insights that I can provide to the Parliament and to the public sector and to the public of Victoria about the performance of the Victorian public sector.

If I turn inwards, the third part of my strategic plan is about making sure that we lead by example, that we make sure that our business and the way we run our business is exemplary, given that we effectively operate in a glasshouse. We have spent a lot of time investing in technology so that our auditors and our staff basically are connected 24/7 in the cloud would be the way I would articulate what we are trying to do with our technology uplift.

But finally, and most importantly in my strategic plan, we have invested and we continue to invest in our people, and the investment includes both bringing in new people with new skills, particularly in data analytics, and training the people that I already have in those techniques and in the tools we need to roll out our data-driven audits.

This is simply one example to maybe make my data-driven comments more relevant to the committee. This is an example of a dashboard that has been published on my website in relation to the audit on local government performance reporting that I tabled recently. The idea here, as this demonstrates, is having access to this information we can now provide it so that the value of the information persists well beyond the audit report itself. Here is an example where anybody now can basically take local government service performance information and analyse it for every local government area in Victoria.

If I turn to my 2019–20 performance audit program, we are planning to table 24 performance audit reports, 20 of those from my 2019–20 annual plan and four that are carried over from this financial year but which will be substantially completed by 30 June this year and we expect to table in the first quarter of next financial year. I am also bound to produce an annual report on the state's annual financial report, and I also produce three reports at my discretion on the results of my financial audits in the local government and the education sectors. In the context of my financial audit program, we continue to provide audit opinions for both state and local government. We expect to produce around 530, which is consistent with the current year. We also provide opinions on performance statements on the annual financial report and on the estimated financial statements of the state.

The budget: just a quick overview. In my organisation \$28 million is the cost of our financial audit program and \$17.4 million is the cost of the parliamentary reports that I referred to on the previous slide. Just to provide some context, we are talking about 0.05 per cent of state and local government outlays is the cost of my office to the Parliament of Victoria.

The last point there is my operating results. Because I do obtain my audit fees from financial audits from the public sector, through a section 29 appropriation, it is not always each year I will have a break-even result. When I got here three years ago we actually incurred a large operating deficit. In the last two years I have sought to restore that or recover that deficit, and I am now in a break-even position over that three years, and therefore we are budgeting next year to stay as break-even.

The CHAIR: Great. Thank you, Mr Greaves. I appreciate the presentation and you taking the effort to put one together. Can I say that obviously when you came into the role the office of the Auditor-General was sadly at that point shrouded under a cloud. Since you have taken it upon yourself to rebuild both the reputation of the Auditor-General's office and also confidence in the decisions that the Auditor-General takes across the community over the last period of time. That is of course not an easy task to undertake, so I thank you and your team for the work that you have done. Can I ask from the outset, how is it that you see your job and the role that you play in oversight across the executive and indeed of course across the Parliament itself?

Mr GREAVES: How do I see my job? Well, per the constitution and the Audit Act, I am the auditor of executive government, the departments and the public servants that provide support and advice to the executive. I have already articulated that that manifests itself in two ways through my financial audit program, where I undertake the audit of the financial statements of all state government public sector entities and all local government entities. In undertaking that, the service I provide to those entities is I provide them with an audit opinion, which they append to their financial statements, and that of course allows them to discharge their accountability obligations by putting their statements and my opinion in their annual reports. So that is simply to reiterate that I am a part of the accountability framework of the state of Victoria and for local government, and I am assisting entities to discharge their own accountability through my financial statement audit process.

But the financial statement audit process is more than simply providing an audit opinion. It would be a missed opportunity if that is all we thought it was about. When we undertake financial statements, audits, our concern is whether or not the financial controls and systems within those entities are reliable, so a large part of our financial audit process and that \$28 million or so that is spent each year is actually undertaking and evaluating the internal financial controls of entities. Where we find weaknesses or where we see improvements we communicate to those who are charged with the governance of those entities. So not only are we a part of the accountability mechanism, we are a part of trying to improve performance in financial management in Victoria.

The CHAIR: Thank you, Mr Greaves. Can I ask: under section 7D(1) of the Audit Act it states that the Auditor-General must confer with and have regard to any audit priorities determined by the committee, the committee in this case being the Public Accounts and Estimates Committee. Why do you think it is that you are required to consult with PAEC given the independent nature of your office?

Mr GREAVES: Why am I required to consult with PAEC? First and foremost, PAEC represents the Parliament and I am an independent officer of the Parliament. PAEC has been assigned the responsibility of oversight of my organisation. While I do not have a right—and neither should I have—to audit the Parliament because of the separation of powers, my relationship is one of serving the Parliament, so my interpretation of

that provision is it is the mechanism by which the Parliament inform me about their priorities as it relates to my audit.

The CHAIR: Do you agree with the statement that we are all accountable to somebody? Just as members of Parliament are accountable to the people at an election, other people, including independent officers, are accountable to, in this case, the Public Accounts and Estimates Committee. Would you agree with that statement—that we are all accountable to someone?

Mr GREAVES: Yes.

The CHAIR: So can I ask you then: given we have had a number of exchanges by correspondence, can you confirm that you have received the most recent correspondence from the Public Accounts and Estimates Committee?

Mr GREAVES: Yes, I received that correspondence at 2.02 p.m. this afternoon.

The CHAIR: Have you had time to consider that?

Mr GREAVES: Well, I have had a very little amount of time to consider it. I have read the correspondence, but I have not really had much time to then consider or reflect on that correspondence.

The CHAIR: Well, we are here until 5 o'clock until we need to call the Presiding Officers. Would you like to take some time to further consider the correspondence?

Mr GREAVES: No. I really would need to understand what your next question may be to determine whether or not I need to consider that correspondence further.

The CHAIR: At this point there is no need to predetermine what I am about to ask. It is just simply a question of, given that you felt that you may not have had more time or enough time to consider the correspondence from this committee, I am wondering whether you would like to take some additional time right now to do so.

Mr GREAVES: No, thank you, Chair. And if I can talk about the correspondence—

The CHAIR: Certainly, I am happy for you to talk about it.

Mr GREAVES: If that is the point you are raising. You have raised two points in your correspondence to me most recently this afternoon and, as you indicated, this is following on from a meeting that we had with the committee where it met with me and discussed my budget and my annual plan. You make two points, from my recollection of the correspondence. One, the committee requested that I reinstate an audit on sharing information on family violence. In your correspondence—I am not sure if I have it here—the committee expresses some disappointment that at this stage I have not reinstated that audit, understanding, of course, that this is a draft annual plan. I have not finalised the annual plan, and I am not able to finalise the annual plan until the budget is passed, but I must table the annual plan by 30 June this year, so I have about a month to further consider the committee's request that I reinstate that audit.

I did write to the committee on the 21st, and it may be beneficial to refer to that letter. What I advised the committee then was that I remain open to the reinstatement of that audit, but that the reason that I am not planning to do that audit in 2019–20 is that, as the committee is aware and as I have advised the committee both verbally and in writing, there is a review that has been legislatively mandated, so this legislature has mandated this review, and this legislature has asked for the review report to be tabled in this Parliament in April 2020. In and of itself that is not a reason for me not to do the audit, because this review is being done, and commissioned by the executive, by a university. What I did say to the committee at the time, and what I reiterated to the committee in my correspondence with it, is that the area that is subject to review is a fairly small area, and in fact these people have a very important job to do. Having one review that is already being undertaken and having an audit overlaid on top of that review would only serve to distract these people from their work.

The CHAIR: Mr Greaves, in answer to one of my earlier questions you said that you believed your role is to provide an audit of the executive through an accountability framework. So can I ask you: is it still your judgement that a review into the executive paid for by the executive with the executive as the client is appropriate as an audit of the executive in and of itself? Because that is what you have just described as the reason for deferring the framework review into family violence—as a result of Monash University being asked by the Department of Premier and Cabinet to undertake an audit of a role and a policy that the executive is implementing, paid for by the executive.

Mr GREAVES: Chair, your characterisation that I am not doing my audit because another audit is being undertaken is actually inaccurate. I did not say that. I said a review. I do not characterise what is being undertaken as an audit, and I said I do not see it as a reason why I would substitute my audit. I have advised the committee that we have already obtained the terms of reference for the review, we have already obtained the interim report of the review, we have compared the terms of reference of the review to our own terms of reference that we would have undertaken for this audit, and they are almost identical. We have then further advised the committee that we have an audit of the support and safety hubs, which are also very important in this space. We plan to undertake that audit into the support and safety hubs in 19–20. I further advised the committee that during that audit we will be asking about the information sharing, so in fact we will be touching on and cutting across the topic of information sharing on family violence. I further advised the committee that if I then found that the information sharing as experienced in the support and safety hubs audit was not appropriate, that I would reactivate the audit.

The CHAIR: I remind you, Mr Greaves, that testifying before us means that if you provide misleading evidence, that is a contempt of Parliament, because that is in fact not what you said in your conversations with us when you came and met with us directly. You said at the time that you did not believe that there was a reason for you to proceed with the review into the information sharing of family violence on the basis that Monash University were doing something similar and that you wanted to wait until you saw that finished before you decided to proceed further.

Mr GREAVES: Chair, I cannot recall the exact conversation that we may have had at that meeting, but I can certainly refer to the response that I gave you in writing on 21 May, and what I have just referred to is that response that I gave to you in writing on 21 May.

The CHAIR: I appreciate that. You also said that there were two points that I raised in the letter. The second point in the letter was that we suggested to you that if it was an issue of resourcing, that indeed the inquiry into council libraries—and for the record I do wish to stress that the committee is of the view that libraries are indeed a very important public asset, but nevertheless, your review into public libraries was able to be deferred so that you could allocate appropriate resources in order to undertake the review into family violence information sharing. Is it your view, is it your judgement, that a review into council libraries should take place in advance, in anticipation of, a report by Monash University asked for by the executive, paid for by the executive and delivered to the executive? Is it still your judgement that a council libraries audit is more important than the audit into the family violence sharing of information?

Mr GREAVES: Again, Chair, the premise of your question is not correct. It was not ever a question of a substitution of one audit for another. It is not the case that I did not do the family violence information sharing audit but chose to do the libraries audit. You know that I have a program of over 20 audits, and it would not preclude me from doing both of those audits. The reason I have given to the committee about not doing the audit is not about not having enough resources, it is about the impact first and foremost on those people who are employed in the unit that is subject to review. As I have said, we are monitoring that review closely. We have already been in contact with the people who have auspiced the review, Family Safety, and we have seen the interim report. So we are tracking this very closely. I say again, and I reiterate, we remain open to reinstating this audit. As I said, I have got a draft annual plan, and I need to finalise this annual plan by 30 June. So we have just received the committee's further submission, and when I said I needed further time to consider that, what I now need to do is consider that in much greater depth to then make a determination about whether or not I will reinstate this audit.

The CHAIR: I am pleasantly surprised, and I welcome your decision to give greater consideration to the correspondence and the request which the Public Accounts and Estimates Committee wrote to you about. May

I point out that the information that was contained in that correspondence was agreed to unanimously by our committee, so to hear you say that you are prepared to go back and give greater consideration to that, given that that was the second time that we had written to you, gives me a great deal of encouragement. As I wrote to you in the letter, it is the desire of the Public Accounts and Estimates Committee to have a strong and positive working relationship with you and your team. It gives me no pleasure to have aired these views publicly with you today, but I do so on the basis that the correspondence that you sent to us after our initial meeting together was of such significance that the committee determined that you were not of the view that you were prepared to consider the feedback that we provided.

At this point I want to make it very clear there is a very big difference between considering what we say or feeling as if we are directing you. We acknowledge very importantly the distinction of you as an independent officer of this Parliament. We not only acknowledge it but we would absolutely insist that you continue to honour the office in that role. However, the reason that I have taken umbrage with that correspondence is because the correspondence you sent back to us was correspondence that you did not consider the advice we sent to you. It was that you did not consider the information that was of concern to us as a committee. That is why we have decided to take the decision to ask you to come and appear before us. So the fact that you are prepared to now go away and give greater consideration to that correspondence, as I said, gives me great encouragement about the opportunity for us to get our relationship back on track in the interest of all Victorians. Because ultimately that is why we do what we do, and no doubt that is why you do what you do—in the interest of making sure that Victorians get the best public policy outcomes.

Mr GREAVES: Thank you, Chair. What I will say in terms of further consideration and what I would request is that we sit down and actually talk through this, because from what I have seen in your most recent correspondence I am not sure there has been acknowledgement of the reasons why I determined not to do the audit at this time. So when I talk about further consideration, I think it will work both in the committee's interests and mine that we actually sit down and talk through what it is we are saying. To have you characterise the review or say that I characterised the Monash review as an audit is incorrect, so I want to understand the reason why the committee maybe has not given consideration to my submissions to the committee as equally as the committee is now asserting I have not given consideration or due consideration to its submissions.

The CHAIR: I am prepared to accept everything that you have said, with the exception of one thing. The document you presented to the committee was a substantial piece of work that you and your office put together, was it not?

Mr GREAVES: Yes. This was the first document at our first meeting?

The CHAIR: Yes, the draft annual plan that you provided to us.

Mr GREAVES: That is correct.

The CHAIR: It was a significant document, and it was well put together, and of that document I think you will find, if you go back and have a look at our first piece of correspondence and subsequently at our second piece of correspondence, we have not made any significant suggestions beyond three that I can recall: one where we asked for additional information, and two in relation to the replacement of the audit into council libraries with the family violence. They were the three areas, and given it was a substantial piece of work, a substantial document in its own right, I do not believe that it is fair for you to suggest that we have somehow given lesser consideration to that piece of work that your office put together and that you authored, as distinct from the areas of concern that we have brought to your attention on two separate occasions and found wanting.

Mr GREAVES: Well, Chair, if I could respond, the first document you referred to, the substantial piece of work, did not have a rationale in it for why we were not doing the family violence information sharing audit, so while—

The CHAIR: But you articulated that when we met.

Mr GREAVES: We were asked that question without notice and we gave you a verbal response, and then after that we went back and gave you a written response, and in the written response we suggested or clarified the reasons why we thought it was not appropriate at this time to do that audit. So now the committee has

written again, as you say today, and expressed some disappointment that we did not reinstate that audit, and all I am simply saying is that I outlined my reasons for why we are not doing the audit in the later correspondence—I clearly outlined them—and what I am asking is that the committee may then further consider, while I further consider the committee's response: could we do this together so that we come to an agreed position?

The CHAIR: I think that is a fair request that you make.

Mr RIORDAN: Auditor-General, I make the comment that we look forward to having that conversation with you in the future to clarify those issues.

Mr GREAVES: Thank you.

Mr RIORDAN: I have just one quick question in the time left allotted. You made much of the fact that you have modernised and taken the Auditor-General's office into new spaces. Looking at comparable jurisdictions around the world or in like political situations, how do we sit with the amount that this state allocates funding-wise? I think you used the figure of 0.05 per cent of budget. How does that compare to other Auditor-Generals' offices?

Mr GREAVES: If I start with the Australian jurisdiction, because we benchmark our audit costs against state outlays and local government outlays, historically those benchmarks had the cost of around about one-tenth of 1 per cent. But the reason that my costs now have effectively fallen to half of that—0.05—is a reflection that government outlays have increased but my costs do not increase in proportion to government outlays. So I would generally say that as a proportion of state outlays and local government outlays, my office is probably at the lower end of the ratios of the other jurisdictions but still reasonable. So I think we are pretty well served with the budget that we have in terms of our financial audit fees that we charge our clients, which we also benchmark. The average audit fee that I charge the 530 or so clients averages out to around about \$50 000 per client or per entity, which we also compare against private sector comparators.

It is really the \$17 million that the Parliament sets aside for the performance audit program and for my reporting program to Parliament. And in that context, if I set aside the Australian National Audit Office, which is a significantly different scale, Victoria is extremely well-placed compared to the other state jurisdictions in the amount of funding that is provided for the performance audit program.

Mr D O'BRIEN: Can I just endorse, Auditor-General, the comments of my colleague and thank you for your assurance that you will consider the committee's feedback. I acknowledge too your independence in making those decisions as well.

Just a very quick question: the parliamentary appropriations bill had the \$17 million for appropriations for VAGO, but last year there was 21 of which about four was assets.

Mr GREAVES: That is right.

Mr D O'BRIEN: What were the assets?

Mr GREAVES: That was the lease fit-out in the new premises. So we moved floors when I got here, so that was in addition to net asset base. We were only able to fund a small amount of that through our depreciation SAU—depreciation funding—so we had to request, basically, an addition to net asset base. That did not cost the state anything; it was actually a landlord incentive, so that money from the landlord for the cost of the fit-out went straight into consolidated revenue.

Mr HIBBINS: Can I just ask about the extent of the use of consultants for audits and any historical trends there—whether it is staying steady, going up, going down.

Mr GREAVES: Well, there are two parts of my program, as you are aware—financial audit and performance audit. So it depends how you characterise consultants first and foremost. In my financial audit program I outsource around about 50 per cent by fee value to a series of what we call audit service providers. So they undertake financial statement audits for and on my behalf. On top of that, within the financial audit

space we will also use subject matter experts where we are required to. That really has not changed. We engage consultants or experts in taxation, in valuation and in Treasury products where we encounter those within a financial audit, and of course I am obligated to obtain subject matter experts by my auditing standards. I cannot do an audit if I do not have the expert that I need for that audit. So with the financial audit program we have had—

Mr HIBBINS: I am probably more asking in relation to performance audits.

Mr GREAVES: Performance audit, yes. So with performance audit, within that \$17 million—

When I came to Victoria we were not spending much on consultants, but again, having regard to the auditing standards and having regard to the topics that we were undertaking, I am obligated through the auditing standards to make sure that I have the subject matter expert, and so it has become my practice that whenever we look at a topic, when we are doing the early planning on a topic, we ask ourselves, 'Do we need experts here?'. The most recent practical example I can give you is the reports I tabled the other day on security. We have looked at information security and physical security in the water sector, in the health sector and at government departments. Within that audit we obtained experts who are experts in, basically, cracking computer systems, because I do not retain that type of expertise in my organisation. I might only do one security audit once every five years. So where I do not have that expertise, I bring it in.

We have had some growth in the performance audit space. I am looking at spending about \$850 000 on consultants that are used in performance audits this year, and next year we are looking at around about \$1.4 million, and this is predicated on what we currently have in our draft annual plan, and it is the first, kind of, cut assessment as to the type of expertise we may need. We do not need consultants or experts on every audit, and it would depend year on year on what audits we are doing and the nature of those audits. So it is hard to give a very precise answer, but I would suggest to you that under my tenure we are increasing the use of subject matter experts, because the types of topics we are doing demand subject matter experts.

The CHAIR: Thank you very much for appearing before the committee today. The committee will follow up if there are any questions that we need to; we will give you them in writing with responses required within 10 working days of the committee's request.

Witnesses withdrew.