

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into Victoria's Audit Act 1994

Melbourne — 7 April 2010

Members

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Witnesses

Mr J. Betts, Secretary,

Mr J. Lavery, Executive Director-Legal, and

Dr L. Gainsford, Director, Audit and Assurance, Department of Transport.

The CHAIR — I declare open this Public Accounts and Estimates Committee hearing on the inquiry into Victoria's Audit Act 1994 and on behalf of the committee I welcome from the Department of Transport: Mr Jim Betts, secretary; Mr James Lavery, executive director-legal; and Dr Len Gainsford, director, audit and assurance. Members of the public and the media are also welcome.

In accordance with the guidelines for public hearings, I remind members of the public that they cannot participate in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the secretary, can approach the table during the hearing. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council Committee Room.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. There is no need for evidence to be sworn. All evidence given today is being recorded. Due to delays that will be experienced in the transcription of hearings by Hansard, witnesses will be provided with a proof version of the transcript by the end of this month. It may come earlier but there is a bit of a bank-up. This should be verified and then returned within three working days of receipt. In accordance with past practice, the transcripts and any presentations may then be placed on the committee's website.

I now pass to the secretary for any opening comments. Committee members will ask questions related to the department's submission to the committee. Generally the procedure followed will be that relating to questions in the Legislative Assembly. I ask that all mobile telephones be turned off.

Mr BETTS — Just very briefly by way of introduction, there are two points I would like to make. The first is that obviously we are interested in hearing from this committee its views on the review of the Audit Act, not least in response to the submission that the Auditor-General has put in. At this stage, as I understand it, the government is considering making a submission to the committee in due course. My discussion today is not guided by any predetermined outcome within government, if you like, so I am happy to explore the issues with you.

The second thing is that I want to put on record that I am very pleased and proud of the relationship that my department has with the Auditor-General. I think he and his staff do an excellent job, and certainly if you look at the way in which the two organisations have worked together in the last couple of years in particular, you would not say on the basis of that relationship that there was a need for great legislative reform, because the relationship has worked well and we feel we are properly and professionally held to account by the Auditor-General. I think that is a great tribute to Des Pearson personally but also to his staff.

The CHAIR — Thanks very much for that. We were advised just before lunch that the Department of Treasury and Finance and the Department of Premier and Cabinet are not intending to put a submission to us, but we welcome and appreciate your submission and particularly think that this review is very important. We think the Auditor-General is very important, but naturally we are completely biased as the Public Accounts and Estimates Committee.

The Auditor-General is very important for the functioning of our government in terms of the Westminster system that we have, and in terms of accountability. As you would have noticed right at the end of our discussion paper, we are not particularly interested in having an Auditor-General who just goes around shooting the wounded. We are interested in creating positive relationships and the culture of strong performance and outcomes achievement within the Victorian public sector because that is what is going to best serve the people of Victoria.

You have raised a number of issues in your submission. One of the things raised which we are interested in is that when the Auditor-General tables a report the act requires him to include the views of departments and heads of agencies such as yours. We have a very robust view from the Auditor-General, saying that this detracts from the independence of the Auditor-General. He feels that he is required to meet certain standards, yet the heads of agencies can say what they like and there are no standards they have to comply with or evidentiary based requirements on them when making their statements in response to the Auditor-General. Do you have a view on what his views are?

Mr BETTS — I have not discussed that directly with the Auditor-General. I think generally speaking it would be helpful for the community and for Parliament to see both sides of a dialogue that is taking place, so generally speaking giving, departmental heads the opportunity to qualify or comment around recommendations made by the Auditor-General in no way dilutes or compromises those recommendations; they stand as they are.

My view would be that enabling us to provide commentary is generally helpful. I would expect the highest standards from agency chiefs in terms of the comments that are made and we would generally comply with the highest standards possible. I am not aware of any difficulty in my portfolio arising from comments we have made in response to the Auditor-General's reports. I am sure he would raise them with me if there were any such difficulties. So, generally speaking I do not have a strong view other than to say that I think it is helpful for the department to put its position in response and to be accountable for that position.

Mr LAVERY — And indeed on many occasions when we have been dealing with reports, that process has been very constructive.

Mr BETTS — In many cases it enables us to achieve common ground with the Auditor-General because inevitably in the process of his making recommendations we are considering what our response should be to those, and in the dialogue that takes place the form of words we put into the report can often give assurance to the Auditor-General that we have taken his recommendations seriously, so from that point of view again it is constructive.

The CHAIR — One of the issues he has raised with us in the past is that he gets responses from secretaries and heads of agencies and they start raising issues at the last moment — quite considerable issues — even though the audit has been going on for four months. He has some concerns there about the scope of such arguments being brought forward after the audit has virtually concluded.

Mr BETTS — That is right, and I think one of the points we make in our submission is that it is very helpful for both the Auditor-General and the agency head to have early discussions so that, for instance, the terms of reference or specifications for the reviews are clarified and finalised early in the piece.

The current Auditor-General has done more than his predecessors in terms of opening up early dialogue. Clearly, it is regrettable if material issues are raised very late in the piece but I suspect that goes to the professionalism of the relationship and we can always do things better. I do not think that necessarily argues for precluding departments from having the opportunity to put statements in published reports.

Mr WELLS — Obviously the Chair gave you a copy of the report written by Howard Ronaldson in regard to his concern with 5.2.1 about right of access to premises and records of private sector contractors. The Department of Transport must have massive contracts worth millions of dollars. If in future the Auditor-General's views were to be carried and he had the right to be able to enter third-party premises to gain evidence for an audit, how do you see that impacting on the contract and contractors in future contracts? For example, will some contractors prefer not to bid because of concerns about the Auditor-General stepping into that third-party premises or do you think it will make little or no difference when it comes to the contracting tender process?

Mr BETTS — Thanks for that question. I have only just received the submission from Howard's department, so I have not had a chance to study it. As a matter of principle, it is fair to say that the Auditor-General should have access to all the information that he reasonably requires in order to perform his functions under the Audit Act and fulfil his accountabilities to Parliament, and nobody is disputing that. Having said that, when you look at the range of different contracting arrangements that we have in place, there are also some competing objectives which would need to be reconciled.

You mentioned contracts worth millions and millions. In fact we make payments of well over \$1 billion every year and those range from very large contracts, for instance with Metro and Yarra Trams, through to relatively small contracts for school bus operators run by Victorian families in regional Victoria. So we would need to ensure, again as a matter of principle, that any such power was sensible and did not add significantly to regulatory burdens or to perceptions of sovereign risk.

Again we all want firms to be able to invest with confidence in Victoria and we should at least have pause for thought before we set up powers which might be perceived at least to be capable of being exercised in a

capricious way. I am not suggesting the Auditor-General would do that, but in considering what the nature of that power might be if we went down that course you would need some checks and balances around it as a minimum to ensure that if the Auditor-General were going into private sector companies to obtain information, there were some reasonable grounds for doing that and that there had been a prior process of dialogue with the relevant agency responsible for that.

A lot would depend on how the Auditor-General applied such powers in practice. If they were applied capriciously, that could have a significant impact on Victoria's reputation as a place to invest, but that is speculative on my part. We are nowhere near that. You are simply considering options at this stage.

I think we would also need to go up against the risk that the proper accountability of departments would be diluted if the Auditor-General were to go straight to contractors. The project managers and the contract managers in my department should feel and should be held absolutely accountable for the management of their contractual relationship with private sector suppliers, including the gathering of relevant information.

If the Auditor-General is unable to access information through the department, which is relevant to his objectives, then in the first instance that would be and should be an adverse finding against the department, because we are either not collecting the information in the first place or we are not supplying it to the A-G.

That is a little bit of a circuitous response to your question, but I think there are competing objectives to be balanced here: on the one hand, the need for the Auditor-General to perform his functions without unreasonable impediment from the state government; and, on the other hand, the legitimate commercial interests of private sector suppliers, including some that are very small and may struggle with the compliance burdens associated with it. However, that would depend on how it was drafted and how it was applied.

Mr WELLS — To follow up that point, I think from what the Auditor-General said, he obviously wants to work through the department. But if the department is not able to provide it satisfactorily to his requirement, not to the department's requirement, then he is looking for the power to say, 'You are not able to provide it, so I want to be able to enter those premises'. What would your view be, based on what you have just said that it should be the role of the contract manager within your department to provide the information but, if they cannot, then what happens?

Mr BETTS — I do not have a firm view on that. I am articulating arguments for and against a hypothetical power that is being described to me at the moment. I think it is of overriding importance that the Auditor-General is able to report to Parliament with confidence, with accuracy and with relevant data, and to hold executive agencies to account. If such a power could be framed in the right way to balance against the other considerations I have described, then obviously that is something that government would need to consider.

Mr NOONAN — I probably just have some follow-up questions, because this is a pretty substantial issue and the Auditor-General has made that clear in his submission. I know you have not read Howard Ronaldson's submission, but his point essentially is that these additional powers that could be given or granted to the Auditor-General might create a situation where there is a significant disincentive to contractors to deal with government. I am just wondering if you can give that a weighting as an issue that generally would be in the mix of all issues where private entities or operators in a competitive environment are seeking to win government tenders?

Mr BETTS — It is hard to give a weighting when I do not have a clause drafted in front of me and I have not seen its practical application. I would say that in my experience the private sector generally takes a lot of interest in the way in which sovereign risk is managed within different jurisdictions. I think Victoria, going back many years, has had a competitive edge over other states, because of the relatively business-friendly environment we have created here — not just in the last 10 years, but in the last 20.

I would simply say that we should proceed cautiously if we are to increase that perceived sovereign risk, because at the end of the day we want to secure value for money to taxpayers and that involves maximising the number of firms that are prepared to come and compete for government business. It simply needs to be weighed in the balance; I cannot give you a precise weighting; that is something that could only be done once a power had been drafted and it had actually been seen in practice over time. It may be one of those things you never know until after the event.

Mr NOONAN — But you do suggest in your answer that by inserting this sort of provision in the act, it might be viewed as something which creates greater complexity and red tape for business to do business with government in Victoria.

Mr BETTS — Correct, and that would be an issue that would need to be managed in the drafting and in the exercise of that power, if we went down that path.

The CHAIR — When you were preparing for this, did you look particularly at the Auditor-General's submission and have any comments in regard to it? On page 16 he talks about the public transport franchising worth \$2 billion that does not have explicit Auditor-General access. Then later he goes on to say that:

Contracts do not contain explicit access clauses. There are numerous examples;

Not that he gives any, besides that one. He then says:

Where access is provided, it is usually at the discretion of the contracting executive agency, thereby making the Auditor-General subject to executive discretion.

The Partnership Victoria requirements for PPPs state that 'The Auditor-General will have full and complete access as required — and he feels 'as required' is a qualification rather than necessarily something which facilitates that. Have you had a look at that?

Mr BETTS — Yes, indeed, and I have spoken face-to-face with the Auditor-General about it. We meet on a regular basis for a catch-up. I think it may be a commentary on a problem — and this is from a transport perspective; I cannot comment on experiences of other agencies —

The CHAIR — No, I understand that.

Mr BETTS — — which may exist in principle but not in practice. You are right to say there is no explicit power on the face of the franchise agreements that I am aware of that refers to the Auditor-General's right of access.

Having said that, we framed up those franchise agreements with very extensive rights of access to information and we get very regular reports, huge amounts of management information from the franchisees, as you would expect us to as professional contract managers. To the extent that we are gathering that information and holding it is that it is available to the Auditor-General and is made freely available to him with the only caveat that, if commercially confidential information is going to be provided to the Auditor-General, we would generally like to have a discussion with him about how he treats that in any documents that he publishes.

Yes, those contracts do not make explicit reference to the Auditor-General, but they do provide the avenue for us to acquire all the information that we need to satisfy ourselves that value for money is being achieved and by extension that information is readily available to the A-G.

Ms PENNICUIK — We have been toing-and-froing on this one most of the day. I think the auditor said, when we were talking to him about it, the problem with the act at the moment is that it precludes the auditor from gaining access to private premises for him to look at resources, property or money if it is basically taxpayers' money held by those private entities. And that is the issue.

He mentioned the example of there are coercive powers that he can use already, but he hardly ever uses. However, the problem is that, without that ability to actually access information which is held in private premises, it is a constraint on what you are saying should be his unfettered ability to audit taxpayers money. I wonder if you could talk about that from your point of view.

Mr BETTS — I think as with most of the public policy questions, you have got competing legitimate interests here — on the one hand, the need for the Auditor-General to do his job properly and fulfil accountability to Parliament; on the other hand, the ability for Victorian business to do business with a sensible and balanced regulatory burden, and obviously if I was in the Auditor-General's shoes, I would want to have the most extensive powers I could possibly have, and I am sure you would too, but there are other matters which need to be weighed in the balance against that.

I am not an expert on the Audit Act, but as I understand it, the entire thrust of it is to ensure that the executive arm of government is held accountable to Parliament, so the focus of the act as currently drafted is on the executive arm of government as opposed to private sector entities which have a relationship with government agencies, so there is a danger of opening up some fairly fundamental principles about where the Auditor-General's right of investigation ends.

I am not suggesting that Des Pearson would ever do this, but you could end up going down a slippery slope where any recipient of welfare arguably is in receipt of government money and should in a hypothetical instance give the Auditor-General access to their bank account, and we would never get to that stage, but clearly there is a stepping off point along the road where the right balance has to be struck and it is a matter of judgement, and I do not have a highly rigid view on where that is.

Ms PENNICUIK — I just wanted to ask you what you meant by 'business friendly and regulatory burden', because you mentioned those two, and that is something that needs to be balanced, but on the other hand there is a perception in the community and a strongly held view amongst many in the community that too much money is disappearing into these PPPs, alliances, franchises et cetera.

Ms GRALEY — Nobody has ever raised it with me.

Ms PENNICUIK — Perhaps they have not raised it with you, Judith, but they have certainly raised it with me.

Ms GRALEY — I have an electorate of 52 000 electors.

Ms PENNICUIK — It certainly appears in the press and in the commentary quite a lot. I have asked questions in Parliament, I have asked questions in estimates hearings about some of this money — some to do with the franchises during the last estimates — to which there is no answer as to why certain payments are being made et cetera, so from the public's point of view, there is a concern, whether members of this committee want to doubt that, so how does that get balanced about business friendly red tape regulatory burden and why would it be that private providers would not welcome being audited and being shown to be doing the right thing?

Mr BETTS — Of course private sector firms are audited on a regular basis and need to be to publish their annual reports and accounts.

Ms PENNICUIK — Yes.

Mr BETTS — It is interesting to note in the context of what you are saying that the Auditor-General conducted a comprehensive performance review of the rail franchising process which occurred in 2003–04 and found that that constituted good value for money, which probably does not get reported in the media that you are alluding to, and there was also conducted, as I understand it, a review of our metropolitan bus contracting process, again between them hundreds of millions of taxpayers dollars, and at no point has the Auditor-General made any adverse findings about the value for money there or about his ability to access the information he needs in order to satisfy himself as to that value for money.

But I think we would all agree that in terms of people's ability to conduct business and indeed to conduct their lives, there is a point at which external scrutiny becomes unwelcome and potentially a burden, and your argument, whilst I completely understand it, and you put it very articulately, reminds me potentially of the argument that says that people should be under constant surveillance; because if they are not doing anything wrong, they have nothing to fear.

I think there is an element in terms of creating a good business environment here in Victoria which says that the powers of investigation of someone like the Auditor-General should be balanced against other considerations like quiet enjoyment and business efficiency.

Ms PENNICUIK — I think I was speaking in terms of large amounts of public money, and you made the statement then that they should not feel that they need to be under scrutiny, but I would say that holding large public assets, they should be.

Mr BETTS — They should be under scrutiny, absolutely.

Ms PENNICUIK — I am concerned about that statement you just made.

Mr BETTS — I think what we are talking here is about balancing different considerations, and there is a pragmatic balance to be struck, and we can debate exactly where that is, and there will be no single right answer. You and I can have different views and both be reasonable people. I will leave it at that.

Ms GRALEY — I was going to draw your attention to a discussion point 7.1.5 about the provision of reasonable assistance and facilities to audit staff, and I thought this was an appropriate question for somebody who is the secretary of the department of transport. I notice that VAGO's submission to the committee says that agencies frequently delay and frustrate the audit process by a variety of tactics, on occasion extending even to objection of having staff on agency premises. I want you to comment on that maybe and give your own first-hand experience of that.

Mr BETTS — Sure. I am quite happy to talk from my own experience and my own philosophy and that of Len Gainsford, who is the head of audit assurance, which is that as professional public servants, we are very strongly of the view that the Audit Act has been enacted by Parliament, the Auditor-General has an important constitutional role within the Westminster system, and it would be highly unprofessional of us not to provide him with all the access he reasonably needs.

I have never had a complaint from Des Pearson approaching two years as secretary, and I have made it a huge sort of personal objective, an objective for the department, that we are well regarded by the Auditor-General and his office as being good people to deal with — open, prompt in the supply of information. Des and I have an arrangement whereby if he or any of his staff hit any roadblocks along the way, that that is rapidly escalated so that I can remove those roadblocks, so that his people can do the job that they have been appointed to do by Parliament.

Ms GRALEY — Can I extend the question to include performance audit specifications that you mention in your submission?

Mr BETTS — It is very helpful from our point of view as a department on the receiving end of performance audits to understand as early as we can in the piece precisely what the specification is. We can then begin the process of discussion with the Auditor-General about information requirements; we can begin processes around the retrieval of cabinet documents, the gathering of information in a format which will be most legible and user friendly for the Auditor-General's staff, so I guess it is just a plea, recognising that this committee has a very legitimate role in ensuring that the Auditor-General is given appropriate direction that the earlier in the piece the dialogue can begin and the earlier in the piece the specifications can be finalised, the more productive and efficient the audits will be for all concerned.

The CHAIR — We have had a similar view from the audit subcommittee, and I think we are certainly much ahead of the pack now than we were a couple of years ago when there was a bit of a bank-up in terms of the audit, which was possibly also a bit of a follow-on from a previous audit administration, too.

Mr BETTS — Can I also say, Chair, that I chair every Monday morning a meeting of the department's leadership team, and each week we receive a report from Len about the status of pending and recently published reports from the Auditor-General, including outstanding recommendations. Those are looked at by the department's audit committee as well and our internal auditors to ensure that appropriate management discipline is put in place so that we do not find ourselves months after an Auditor-General's report has been published and we have accepted recommendations with red traffic lights showing that we have not acted on them but we have put in place a lot of internal discipline to ensure that when audit findings are made, we act on them and we act promptly, and that we keep the A-G informed about the progress that we have made.

Dr GAINSFORD — Chair, we joke about being popular. At any particular time we have four or five or up to six performance audits on the go, and as Jim just said it is very important that we track these and we make sure that we are progressing things in the right way, too, and if there is a blockage within the department — and there may be for various reasons because people are away on leave, or whatever — and that critical bit of information is available, we refer back to the protocols we have in place to make sure those blockages are cleared.

From our point of view it is very important that we have good process and also given that we are designed around outputs and outcomes, that we also get the right outcomes without fear or favour. If it is something that is detrimental, we certainly will address that.

Mr WELLS — Just on a different issue, do you think the Auditor-General should have the right to be able to audit the offices of the ministers within your departments or should it be restricted just to the department overall, and further again should he have the right to do a performance audit of ministers offices in your department?

Mr BETTS — I do not have a view on that. I would rather not express a view on that if you do not mind. That would be a matter that would need to be discussed on a whole-of-government basis, and I am not really qualified to express a view on that.

The CHAIR — In your submission you talked about legal professional privilege and you felt that it should address legal professional privilege in the context of information gathering powers giving priority to it. Can you talk a little bit for about that?

Mr BETTS — I might ask James Lavery to comment on that.

Mr LAVERY — Yes, we have said in our submission that we think legal professional privilege should apply but obviously it is understandable that in other jurisdictions it does not apply; I think our position on that is that the act should expressly state that it does not or it does.

The CHAIR — You do not have a view either way whether it should or should not?

Mr LAVERY — We would prefer that it did apply but we understand that in other jurisdictions it does not.

Mr BETTS — As long as it is explicit.

The CHAIR — As long as it is explicit. If it did apply, would there be a problem, particularly in terms of the Auditor-General being able to, coming back to contracts where some of that legal professional privilege might apply to information received from the private sector under their contracts?

Mr LAVERY — I can understand that there might be difficulties if it did apply but those difficulties are not insurmountable.

The CHAIR — How might you surmount them?

Mr LAVERY — Legal professional privilege can be waived in instances so if an assessment was made as to whether the privilege really needed to apply, then in certain instances we can make an assessment as to whether it is waived or not. I do not know whether that adds your question.

The CHAIR — But you may not be able to actually waive it because it might be held by the contracting company?

Mr LAVERY — You are talking about third-party legal professional privilege?

The CHAIR — Yes.

Mr LAVERY — The submission, as I understand it, was made on the basis that it is our legal professional privilege. In relation to legal professional privilege of third-party contractors, for instance, I think that has to continue to apply. Otherwise, for instance, you are getting a private sector franchisee holding privilege and if the act provides that that privilege is waived and the auditor has access to that information, then obviously that goes to the sovereign risk issues that Jim was talking about beforehand.

The CHAIR — Okay. The other issue under the same chapter was the application of auditing standards. You support the requirement to follow government-approved auditing standards but do you have a view on what you meant by government approved auditing standards? Does that just mean the general auditing standards because there is a suggestion that it does comply with the general auditing standards which apply to government in terms of accounting standards but also that the Auditor-General, it was suggested, should be

given some discretion as well? I am not too sure what you meant by the requirement to follow government-approved auditing standards.

Dr GAINSFORD — Now it is a government approval process. If you look at something like impairment testing of assets, it is very important for reasons of consistency and measurability and those things that we have some comparison. Also, particularly when we are dealing with private sector entities, that as close as possible we are speaking a common language. If, however, in his judgement he needs to depart from those, which would be generally accepted, then at least the noting of where those departures took place would be useful.

The CHAIR — If this is to apply, then it should be legislated in that way?

Dr GAINSFORD — It is convention. I am not sure whether it should be legislated as such but if it is a convention that is commonly accepted, the noting could then pick up exceptions.

The CHAIR — There is a requirement under acts here in Victoria that we follow the appropriate accounting standards.

Dr GAINSFORD — That is right; there are auditing standards as well.

Ms PENNICUIK — If I could just take up one other point you raised and it is in regard to agency comments — that is, the subject we were talking about when you first arrived. I understand you are here on behalf of the Department of Transport but this is a general question across all departments.

You said that all department agency heads would apply the highest standards. I wondered what you meant by those standards. I say this in the context that I mentioned before with other witnesses that I often find those comments distracting and some concerning, not necessarily from the Department of Transport. I would like to know whether there could be some other way of doing it such as the department doing a response to the Auditor-General's report does not include commentary in the report. Do you have any comments on that?

Mr BETTS — I am relatively relaxed about the format of the report. I do not have further views on quite how the department's view is expressed although it is helpful for people reading the Auditor-General's recommendations also to be able to readily access departmental commentary on it. I would expect, certainly from my department and other people's departments, that if secretaries are making statements in the Auditor-General's report or to PAEC or publicly generally, they would observe the highest standards in relation to ensuring their statements are factually supported, verifiable and backed by evidence.

Ms PENNICUIK — Good.

Mr NOONAN — On another matter that the Auditor-General has raised in his submission about joint investigations, we had a discussion this morning about his view that the act provides no powers for the office to participate in joint investigations with other independent officers which might include interstate audit officers. Clearly, in the last couple of years substantial monies have been flowing through from the commonwealth for state-based projects. This, perhaps, is an issue that has been heightened by those sorts of arrangements. I am just wondering how your department could be affected by a move to create some joining up of powers across investigations.

Mr BETTS — With commonwealth audit agencies in particular?

Mr NOONAN — It refers to interstate audit officers in the Auditor-General's submission. I do not know how many projects your department might be involved in which might have interstate arrangements.

Mr BETTS — Relatively few in the sense that the national rail network, for instance, which runs interstate is managed by a commonwealth agency called the Australian Rail Track Corporation. Our key interface with commonwealth agencies is where they provide funding for infrastructure within the state of Victoria either through the old AusLink-type programs or through Infrastructure Australia or the stimulus package. I do not have a strong view on how they should be audited.

Clearly the commonwealth Parliament has a legitimate interest in ensuring that to the extent that it provides resources to Victoria to improve infrastructure — and we are receiving \$3.5 billion from the commonwealth for

the regional rail link project — that money is handled wisely and in accordance with value-for-money principles. I do not know whether Len has any views on the institutional arrangements.

Dr GAINSFORD — No, not really, Jim. The only other issue I would add to that, and probably it is a very long bow, is that we are proud of the fact that we have a compact now with the Australian Tax Office. That is a federal agency so there is clearly information that does flow there but it is not audit-related as we see it.

The CHAIR — The discussion paper at 5.2.4 talks about incidental functions of the Auditor-General. Under section 16E the Auditor-General can provide other auditing services to audit agencies. I guess sometimes the Auditor-General has provided things like performance guides and the document ‘turning principles into practice’ on IT et cetera.

Do you have a view in terms of your department on the role of the Auditor-General, insofar as this is allowed for under the act, to provide other auditing services? Do you see this, even though it is peripheral, as something which is important and there is some further work to be done?

Mr BETTS — I do not have strong views on that. Sorry, I am just reading this now; I did not read it closely the first time round. Clearly the Auditor-General has a great deal of experience across the whole of the public sector and there may be opportunities for promotion of best practice which will draw general conclusions out of the individual performance audits that the Auditor-General and his office conduct; and that may be of some use, although we need to make sure that the Auditor-General in producing guidelines or best practice advice was not compromised in terms of his ability subsequently to dispassionately and objectively review the performance of departments.

If the Auditor-General is looking at, say, a whole series of different projects across different government agencies and different industrial sectors, and some general conclusions are emerging from that, then it is hard to see how it would not be useful for him to draw that together in some form. I do not know whether that answers the specific question you are asking, but I know that is something that Des is quite interested in pursuing.

The CHAIR — I just know that he is producing, for example, portfolio and department ones, ones on water entities and ones on local government et cetera, and they are not just simply financial audits; he is also talking about financial sustainability, liquidity, self-financing, capital replacement arrangements et cetera, which is obviously more than just checking that the accounts all add up.

I am wondering whether you find this helpful or whether it is actually an extension of what you would see as traditionally an audit role? Is this a third area besides the old-fashioned financial audits and the performance audits? Is it an extension of those almost into some of the roles that the SSA is involved in?

Dr GAINSFORD — Chair, it is useful in two ways, I think. One is that the Auditor-General is currently looking at principles, as you say, across different industries and so on. We read all his reports; we actually go through those, and we find that there are some principles that are emerging. You mentioned ICT, for instance, and purchasing. There is some good learning out of that, so we are trying to actually adopt that within our own guidelines, FMA et cetera.

The second benefit is of course that it allows us to have more dialogue with the particular Auditor-General’s officers, perhaps those who have worked on reports that have been tabled, and therefore we can build a bridge professionally on some of those things. I think that has been very useful.

Mr LAVERY — Also arising out of a number of the Auditor-General’s reports that have arisen out of our department we have seen some themes develop — for example, Auditor-General recommendations in relation to how fraud should be dealt with — and it would be useful to be able to pluck those themes out of the particular reports and have the Auditor-General deliver a particular document in relation to a theme, for example.

Ms HUPPERT — Do you actually see it as a role for the Auditor-General, that continuous improvement process?

Mr LAVERY — Yes.

Mr BETTS — And obviously we respond to reports which the Auditor-General has put out about our portfolio and other agencies by ensuring that when we are embarking on a major transaction, which may or may not be subject to a performance audit, we are aware of the latest thinking within VAGO so that we can design our processes to be compliant with the philosophy and principles that the Auditor-General has expressed in other quarters and ensure that we are ready to answer his questions — issues like, for instance, the way in which probity auditors are used. It is very good for us when we are embarking on a major transaction to look at what the A-G has said in other circumstances and so that we can adopt best practice.

The CHAIR — I think that concludes the consideration of the evidence provided by the Department of Transport. I thank the three of you for your attendance today. It has been quite useful. We particularly appreciate the very direct answering of the questions. I did ask if you could check what is on pages 15 or so in terms of the comments of the Auditor-General on the contracts and how they are worded in terms of allowing access. Your experience would be very useful. If you could provide those responses within 45 days, it would be very good. Thanks very much.

Witnesses withdrew.