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ACCOUNTS COMMITTEES**

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**Conference met at 8.41 a.m.**

**CHAIRMAN**—Good morning, ladies and gentlemen. Please remember that presentations for both of these coming sessions are to be for five to 10 minutes. Then we will invite discussion from the floor. If you want to say something from the back benches, let us know and we will send a hand-held microphone around.

**Accountability versus efficiency**

**Mr TRIPODI**—Before I speak about the paper, I want to start by saying generally that obviously this is not a subject that we have had an inquiry into or written a report on, but it is a recurrent theme that comes up during our inquiries and discussions with agencies and the private sector. As a consequence of this issue, we have written a report, which we will table later on this week, about whether our public sector is sufficiently flexible in incorporating what the private sector has to offer and vice versa.

The sort of general conclusion I have come to in this paper—I am touching on the issue of criteria and processes—is whether the criteria and processes are sufficient at the moment to invite and involve the private sector properly. I think our conclusion is that at this stage, at least in New South Wales, we are not entirely prepared to incorporate private sector initiatives and ideas in a proper way so that they get proper consideration. That is a general conclusion that we came to.

I would like to talk about two improvements that should be made in the procurement of private-public infrastructure. The main argument in favour of private sector involvement is that the private sector is more efficient. However, the drawback of such a relationship with the private sector is that the lines of accountability become blurred. Governments, and especially public officials, like to use the involvement of the private sector as justification to keep the details of a transaction secret. They argue that they are involved in a commercial transaction and, as in the private sector, the details of the transaction should not be disclosed.

The other possibility is that the firm may go bankrupt, leaving the public sector responsible. Regardless of what the contract in question might say, this usually leaves the government financially responsible to continue providing the service. I think we have all seen how project risks stick to government. People often think there is a tension between efficiency and accountability in dealing with the private sector. There is a belief that the more disclosure there is, the less opportunity the private sector has to work its magic. However, this is not necessarily so. For example, a tendering process can achieve both goals. It encourages competition and it brings efficiency. By using a clearly defined open process, it also fosters accountability.

Today I would like to make two proposals to further improve both efficiency and accountability. Firstly, process: there should be a more transparent process through which the private sector can place proposals on the agenda for serious consideration by government. Currently in New South Wales it appears that proposals can be lost. Secondly, criteria: governments can use basic economics to develop meaningful criteria for private sector involvement. In the past governments have not developed precise criteria; instead, they have tended to use goals that are difficult to define and measure, such as value for money and

appropriate risk transfer. This makes it hard for the private sector to tailor proposals to government's needs. Under the current New South Wales guidelines, for example, the Department of State and Regional Development is a contact point for unsolicited proposals. The problem with this is that the department does not manage any infrastructure. Further, that department does not have any authority over infrastructure agencies. It is a line agency and is seen as an advocate for the private sector. It cannot do more than be a postbox. The guidelines contain no information on how unsolicited proposals are initially considered. The problem with that is that project proponents need to be well connected as projects may only commence from lobbying ministers or senior bureaucrats. Projects may only receive serious consideration if the proponents know the right people.

The latest development in New South Wales regarding unsolicited proposals and the use of private funding generally has been the government's green paper released last November. The government is interested in receiving submissions on the following areas: protecting the government's interest—for example, optimising value for money and risk transfer; what areas are suitable for private sector involvement; and how processes can be improved to assist the private sector. This green paper says that the government welcomes unsolicited projects and makes the following proposals: that the Director-General of the Premier's Department be the contact point for complex and multi-agency unsolicited proposals, and proposals that support a single agency should be considered by that agency.

If I were a private financier, I would not find these statements very reassuring. For example, to get a meeting with the Director-General of the Premier's Department is very difficult given the countless duties which that person has, and particularly if you do not know the right person through whom you can organise that meeting. To say that a single agency proposal will be considered does not provide any evidence of a process or readiness to adopt a process that would give the private sector any comfort that its proposals would receive a decent, thorough and professional level of consideration. If this is the perception in the private sector, then the private sector may be hesitant to expend the resources necessary to prepare a substantial proposal. I am generally concerned about the way governments present themselves to the private sector beyond the standard partnerships language. Unsolicited proposals are an example. The Public Accounts Committee intends to raise this issue in its submission to the government, and the Public Accounts Committee of New South Wales is also applying itself to the development of a process by which the private sector can involve themselves with public sector industry.

I would like now to consider which sectors are the most appropriate for the funding of infrastructure. This is an issue of criteria. Historically, governments have been vague about what sorts of projects they are interested in. For example, the current New South Wales guidelines require net benefits to the community and that the government will assume the risks that it is best able to manage. It does not go much beyond that in describing what the public sector is looking for in terms of private sector involvement. However, these conditions only raise further questions. How do you know when there is a net benefit? How is it measured? How do you trade off performance against costs? Is the government properly protected against risks? Has the private sector shifted too much risk back to the government? The New South Wales green paper is also vague. It says that the government wants to work with the private sector and is willing to consider almost any proposal, but gives very few options or indications of what the government

has in mind. Most comparable documents in other jurisdictions are exactly the same, and I am referring to other states and some federal documents also.

One example of meaningful criteria being developed for the private sector, for private funding of public infrastructure, is from academic Max Neutze called *Funding urban services, Options for physical infrastructure*. I will spend some time explaining his concepts. I am sure that most of us are familiar with his concepts, but we have not incorporated them into a framework. Neutze taught economics at the Australian National University and was appointed emeritus professor and visiting professor in its urban research program. The first of Neutze's criteria is the scope for competition in the market for the services provided. This largely depends on whether there is a natural monopoly in the market concerned. Generally competition is less feasible for networks but more feasible for the use of networks and facilities connected to them.

To take an example, the private sector should not be funding the building of powerlines because this will give it an interest in a natural monopoly. No-one else is likely to make the capital investment to build a parallel capacity. However, there will not be efficiency problems if the private sector builds and operates a power station. Where electricity is competitively traded, the private sector may be forced to keep its prices reasonable.

The second criterion is the sensitivity of the project's profitability to other actions of government. If the project is highly sensitive the private sector will try to reduce its risk by restricting the government's future actions or it will heavily discount future returns and seek to offset the risk by requesting higher than normal revenues. An example of sensitive infrastructure is freeways. If the government were to build alternative road capacity nearby, less traffic would use the freeway, or motorway as we call them in New South Wales. If the government wished to expand public transport, this would also threaten those traffic volumes. The private firms involved would seek to insert terms into the contract prohibiting the government from taking these actions, and these firms, at least in New South Wales, have often been successful in securing these anticompetitive measures. Even if such terms were not included in the contracts, they would probably sue anyway.

Neutze's third criterion is the extent to which the service is used to redistribute income—the equity objective. Where a service is provided for equity reasons, the government is likely to place restrictions on private sector providers to ensure that equity goals are met. One example is public housing. On the one hand the government is likely to set strict standards, but on the other it will be tempted to set price limits. After all, this is what social housing is all about. But these restrictions will reduce the opportunities for the private sector to be innovative or to get involved, which is one of the advantages of it being available.

The fourth criterion is one that we are familiar with, and that is the issue of externalities. If there are positive externalities that can be demonstrated, or the reversal of negative externalities, then the government would encourage that participation. Because the free market has not provided a socially optimal result, governments will wish to regulate private involvement in these areas, and this will limit the private firm's ability to innovate and limit their profits.

The four criteria are not absolute, but they are indicators of where the private sector's involvement is more likely to be beneficial. Neutze regarded the distinction between networks



and other infrastructure as most important, saying that private ownership of networks has almost no advantages and is likely to be more costly than public provision.

I would like to give a case study in New South Wales of the airport rail link which has been referred to earlier. It is a rail link connecting Sydney's Central Station with Kingsford Smith Airport. If we look at that particular project, first of all it was a natural monopoly. The consortium had a natural monopoly on rail travel to the airport and faced no private sector competition in this market. It set the station usage fee itself—the private sector involvement was to build stations—and was not subject to the scrutiny of the New South Wales Independent Pricing and Regulatory Tribunal, which is a state approximate equivalent to the ACCC. Also, the airport rail link was a network. Profitability was affected by other actions of government. The link formed part of a network, and the operators have sued the government for \$17.5 million because trains ran late and because they did not include luggage space. As to redistributing income, the third of Neutze's criteria, the government had a direct interest in the service because, as part of the public transport system, it had equity objectives. There was always the possibility that the government might indirectly interfere with the station's profitability through regulation because they were concerned about the price they may charge travellers. So you have that risk also.

Unfortunately, the main examples of private sector involvement in New South Wales have been networks. These include the Harbour Tunnel, the M2 freeway in Sydney's north-west, and the airport link. In New South Wales, thankfully, this approach appears to be changing. The current government has rarely used private financing to build any network infrastructure, but there are still examples of it. The new green paper raises the possibility of using private financing for smaller projects and does not specifically contemplate networks.

In conclusion, while the New South Wales government has encouraged the private sector, it has given little guidance about what infrastructure projects it will consider for private funding. Similarly, it has not given the private sector sufficient reason for confidence on how unsolicited proposals will be given serious consideration. Rather, in its determination to keep its options open, it has avoided defining criteria. Governments are entitled not to use private financing for infrastructure. They may finance projects through public funding. However, any reluctance or difficulties in accommodating private infrastructure is inconsistent with a government's objective of maximising the net public benefit.

The New South Wales green paper has opened an opportunity for the private sector and all the stakeholders in this particular industry to express their point of view on this matter. The New South Wales Public Accounts Committee is making a submission on that, focusing on the issue, process and criteria.

**Mr HENDERSON**—This is very interesting and very topical in terms of unsolicited proposals in the Northern Territory. My background before politics was in the IT industry. I am interested to see that your green paper states that, although the government welcomes unsolicited proposals, there is no process in place as to how to handle them. In the Territory we have had companies in the technology field come to government with an unsolicited proposal for implementation of new technology to improve business efficiencies across government. The company that has proffered the intellectual property has seen its intellectual property turn up in a tender so it gets very angry about that, especially if it does not win the bid.

Because the public sector, through outsourcing, is losing engineers and IT people we have to look more and more to the private sector for those ongoing innovations in terms of introducing new technology. I do not know how other states are handling that intellectual property that the private sector brings to government in terms of initiatives and how they are protecting that from going back to the marketplace by way of a tender. If you have not got a process, are you working on a process to handle that? Certainly, from my knowledge of the IT industry, a number of big companies have had their fingers burnt and are very wary of coming to government with unsolicited proposals. How are you intending to handle that?

**Mr TRIPODI**—We have the green paper at the moment, which was put out in November by the government. We intend to make one submission to that but also to develop a framework which looks at how we can formalise the process of introducing the private sector. So in New South Wales it has not been developed properly and has not met all the criteria for probity and all the rest of it, but we are trying to work towards that. We often debate protection of intellectual property. It is a very difficult question to resolve. The only thing we have concluded on that issue is that often the private sector will claim to have intellectual property when really they do not and do not have anything particularly new or special. It is just a claim of theirs and they use it to justify or argue for some kind of preference in the process of considering what they have to offer. So you need to ask yourself, 'Is this really intellectual property, or is it just that they have been the first proponent of this particular idea or way of treating some government objective?'

The second issue is: if they do have some particular intellectual property, in New South Wales we have managed to structure the expressions of interest and the tendering process in such a way that they still gain the competitive advantage of having that intellectual property and that idea is not shared among their competitors. So the tendering process is structured in such a way so that they can preserve the benefit of that competitive advantage and the government can be the recipient of it while also meeting all the probity requirements in the process.

**CHAIRMAN**—I have stuffed up a bit. I have forgotten that Mr Vatuloka, the Fijian Auditor-General, has also produced a paper on this issue entitled 'Accountability and efficiency'. It is extraneous to your book. I call on him to speak to his paper.

**Mr VATULOKA**—My paper is short. I am here alone. As you probably know, we do not have a parliament. The Public Accounts Committee is appointed by the Minister for Finance, is chaired by the President of the Fijian Institute of Accountants and has a couple of members from the private sector and a number of former civil servants. I have been Auditor-General for a year. I was appointed in January last year. Unfortunately, four months down the track we had the civilian coup. So I had a lot of problems initially.

My first report was said to be really controversial. I had all things going against me. But I hope the independent Public Accounts Committee with the President of the Fijian Institute of Accountants as its chairman will put up a good report with regard to my first report. Incidentally, two other of my reports for the year 2000 are going to be tabled today, so we will see what sort of media attention that will get.

My paper is short. Given the role that the public sector plays in the economy, it is essential that it should be seen to be efficient because if it is then it can be said to be optimising the use of

resources. But the public sector is always seen to be inefficient and public servants are stereotyped as lazy, incompetent and wasteful in Fiji. But why is it that the public sector is said to be inefficient? It is because the public sector endeavours to be accountable, and this creates obstacles that prevent it from being efficient. Accountability is a driving force within the public sector. It drives public officials and agencies to ensure good public service performance. Some will say that accountability is also applicable in the private sector. However, as you know, accountability between the two sectors differs considerably. The public sector is required to comply with a higher standard of accountability because its activities are funded by taxpayers who give involuntarily. There is an obligation for good governance and transparency. The amount of tax paid by a taxpayer does not correspond to the amount of services he or she receives or thinks he or she receives.

My paper discusses a number of arrangements and procedures in the Fijian public sector which illustrate the conflict between efficiency and accountability. One is in the area of staffing decisions. While the heads of departments, or the chief executive officers as you call them, may have the power to appoint and promote officers within their organisation, there is a public service appeals board which hears appeals from unsuccessful applicants. This is very time consuming. If there is no appeal, the time the vacant position was advertised to when the position is filled may be two or three months. But if there is an appeal it will take from six to 12 months or even longer, so it is very time consuming. The head of the department or the chief executive officer does not have the power to lay off or demote staff. So they continue to retain officers whose performance may be less than satisfactory. Another area is changes to staff numbers or classifications of staff, including the minimum qualification requirements or salary levels. That has to be approved by the Public Service Commission. Again, it is a long process. It may take a year; it may take 1½ years or longer.

Another area that I have discussed in my paper is the purchase of goods and services. There are detailed rules and procedures which ensure that wasteful spending is minimised. The head of department can authorise expenditures of up to \$10,000. Above that, we have the minor tenders board and the major tenders board. Going through those boards is, again, a lengthy process. In addition to that, the tender procedures are very cumbersome and lengthy. In some cases it may not even be appropriate, such as when we have only one supplier; but we have to go through those procedures and all those rules and regulations.

Another area in the purchase of goods and services where I find this conflict of accountability and transparency is that, when funds are appropriated by parliament to the various government departments and ministries, the departments and ministries are not given a free rein over the use of their resources. Transferring funds from one activity to another or one departmental program to another would need to be approved by the Ministry of Finance. While we see this as an important control on unplanned spending, in genuine cases the process of obtaining such approval can be time consuming and lead to delays in activities.

Another area where I found that we have a conflict of accountability and transparency is in the Fijian public sector budgetary system. The budgetary system emphasises input costs and therefore focuses on authorising, limiting and accounting for input costs only. The heads of departments and chief executive officers are forced to be concerned with how much they spend and not focus on outputs and performances. So again we have the conflict of accountability and efficiency.

Another area where we find that conflict in the budgetary system is that the information that is reported to parliament does not report on how efficient or how effective the department is but just on performance based on the budget. Another area where I found conflict between accountability and efficiency is in the decision making chain. I may have discussed this in the paper. I am sorry that the paper was only in a draft form, but when I sent it through the email on my computer it took one or two hours to get through. When I sent the paper through, it was in a draft form so there may be some mistakes in the paper. Whilst I have only discussed the relationship between the minister and his or her permanent secretary, I must say that a lot of paperwork is involved. That relationship cascades down to the lower levels of the organisation so, if a certain approval needs to be obtained, you would have to go through various levels before you could reach the ultimate point where you could get your approval. Again, there is a lot of paperwork involved.

I have illustrated only a couple of things in my very short paper, but I hope everyone will realise how difficult it is for a developing nation like Fiji. Although we consider ourselves to be ahead of other South Pacific island nations, we still lack efficiency in the operations of the public sector. A lot can be done on that now that we have a public finance and management act, which was approved in 1999. The new government that got in rolled back the reforms of the public finance and management act. So under the interim regime we will have the public finance and management act back again and slowly go into accrual accounting. Hopefully, things will be streamlined then. Heads of government departments and ministries are involved right now in formulating their outputs and also the costing of those outputs and getting those into an accrual budget format. With the public finance and management act that is going to be recommenced in the Fijian public sector, I hope things will improve in the future in the public sector.

**CHAIRMAN**—Thank you very much.

**Mr HALLAM**—I want to go to the question that Paul raised in response to Joe's paper. Before I do that, though, it would be appropriate for us to extend our congratulations to our friend from Fiji. To hear the reports on the public finance management act, and then the reality check to remind us that in the midst of all that there were problems such as the military coup and the suspension of democracy, makes our problems pale into insignificance.

**CHAIRMAN**—Well said, Roger.

**Mr HALLAM**—By way of background, I was local government minister in the first Kennett coalition government and then I had finance in the second Kennett coalition government, and that included the responsibility, amongst others, for outsourcing. So I offer some of my experience in response to Paul's comments. The papers that Joe brings to us remind us of a couple of really important issues that have been coming and going during the currency of our discussions. The first point that our delegates from New South Wales made was that governments might claim that they are involved in commercial transactions with the private sector and use that as some sort of shield, and it takes us back to the discussions we had yesterday about the implications of commercial in confidence. Again, by way of observation and nothing more, I offer this: my conclusion, based on the experience and the extent to which we broached the issue in the first place, is that the private sector is not only relaxed about the

disclosure but, in fact, quite relieved. They are not looking for a defence. In fact, the pressure for suppression comes from the public sector and not the private sector.

The observation I would offer you, Paul, is this: particularly in respect of intellectual property but also in respect of a range of other issues, the real answer is the tendering process and the extent to which that process involves an auditor from day one. This concept of probity—and I am pleased to have all the auditors-general here to take this on board—is absolutely crucial. If you want to win the confidence of the private sector and if you want to change the culture, which I am sure all those of us around the table want to do, then the question of having a probity auditor involved in the tendering process from day one turned out to be the linchpin for us. I am not too perturbed about the rules or the green papers, Joe; my view is that the private sector will find a way through all of those issues if they are given the chance and if you can demonstrate to them that the system is fair and defensible. It seems to me that the probity auditor is the linchpin in all of this, and it is very appropriate that we are talking about it in the context of parliamentary committees and the auditors-general around the table.

**CHAIRMAN**—Thank you.

**Mr RICHARDSON**—Joe, I want to challenge something you said about networks and your definition of natural monopoly. You have used Neutze's criteria and you have mentioned freeways, railway lines and so on. It was the previous government's policy, and I guess yours as well, that where there was private sector involvement in building a freeway there would always be a free alternative. If there is a free alternative, I do not quite see how a freeway becomes a natural monopoly. So far as the new southern railway is concerned, I thought it was the fact that it was not a monopoly that was the major problem with the operation of the line. If you did not have airport buses or the Eastern Distributor that you have mentioned in your paper or other ways of getting to the airport, then it would be a natural monopoly and, presumably, there would not be this enormous blow-out in costs and the underfunding of the railway.

**Mr TRIPODI**—I was just trying to fit an example to the concept that Max Neutze uses in his book. The example does not always fit but what I did say was that it was a rail monopoly, so you do not have competition between different forms of rail. That is the point. I accept that you have competition between other transport forms—but not between rail. The other thing is that the private sector were responsible for the provision of the railway stations, I understand. They would then definitely have a monopoly there in those railway stations because you can only come in and out on the rail through those stations. That is the monopoly I was referring to.

**Mr CAMERON**—I would like to make a brief observation. I was reminded of this by comments made by Eroni, and I reflected for a moment on our comments on the importance of accrual accounting. We need to be a bit careful. We in this room are those mostly responsible for what kind of cultural signals we send to the public sector. It is very easy for us to err heavily on the side of the fiscal compliance—budgetary compliance—and we should do that in terms of good prudent fiscal management. But a focus on expenditure will not generate efficiency. I am reminded of how important it is that any reforms in the area of financial management and accrual accounting need to be underpinned by managerial reforms and better reporting of performance.

Certainly, as an Auditor-General I am incredibly conscious of what the downside cultural response is if we keep hounding the expenditure side when, on the other hand, we are trying to encourage improved performance for the production of quality outputs. I say to my staff when they go in to do an audit, 'Just be careful how you hammer the expenditure side.' Of course, agencies have to comply with the act, et cetera, but it is not about underexpenditure or overexpenditure; it is mostly about the delivery of the social program, et cetera. My comment is this: a focus on just accounting will not give the right signals for improving performance. It has to be strongly underpinned by managerial reform, including managerial freedom, and by a strong ethic of performance and measuring performance, and knowing where you have got to in terms of production and service quality.

Simply from experience we can constantly reveal the misdoings, misdemeanours, et cetera, in terms of contracting; but what kind of culture do we truly want in the public service—those who are concerned about being caned for spending \$10 more than they should have or those who are actually producing more high-quality outputs? In the reform process we need a balance that stimulates improvement and, I guess, a little bit of risk taking as well.

To conclude, I would argue that we need to give public sector managers a little bit of freedom to perform. We need to recognise that maybe they will want to look at different mixes to achieve the outputs and not be too hard on why they underspent payroll and overspent consulting fees, for example, when at the end of the day it is the delivery of the program that matters most.

**Mr BARRETT**—You would not be surprised to hear that I totally agree with what Wayne just said. I would like to illustrate with the examples given by the Northern Territory, and the concerns expressed there—concerns I share—as to the tensions that are created and the mixed signals that are given to public sector managers. When we went out to tender, for many years the Commonwealth tended to go out and say, 'This is what we want to purchase.' Then the culture became, 'Look, you don't know; you don't have the expertise. Go out to the industry and invite them to tell you what it is that they can deliver to best meet your requirements.' That got mixed up with the outputs-outcomes dichotomy, because again the focus was not so much on the outputs but the outcomes that were going to be produced.

The division became: you get expressions of interest and then the firms come and tell you what they are going to do for you. Then, as the Northern Territory indicates, inevitably the best solution would get put into the RFT and then everyone would have a go at it. Of course, this starts to bring tensions from the firm that actually provided the ideas—tension over intellectual property. When I have spoken to public servants about that they have argued, firstly, that this is in the interests of the taxpayer; and, secondly, that they knew that and, therefore, that is the risk they took. If they were really serious, the firm would win. In other words, they had the ideas so they should win. But, at the end of the day, the justification was in the outcomes. So it was a better outcome for the taxpayer.

The interesting point about that is that none of them really addressed the ethical considerations associated with the preservation of intellectual property. I suppose this really comes down to a joint understanding by the public sector of the commercial and other imperatives of the private sector and by the private sector of the public sector imperatives so

that they know, at the end of the day, that the taxpayer dollar is important and why it is important.

There is one other thing I will bring attention to, and I think it is probably of even more concern. Again it is in the IT area but not necessarily confined to it; the examples are in the IT area. For instance, you have an incumbent private sector provider who has, in a sense, a natural monopoly for the reason that they own the railway stations: you are there, you own all the equipment, you have all the systems and you have all the information. So it is not surprising then that, in order to generate value for money—that nasty expression that the private sector does not seem to understand—the public servants say, ‘Look, we have got to get a bit more competition here because we just cannot be faced with this incumbent supplier who is going to continue to give us whatever they think is necessary at a price.’ Consequently, they try to get in an element of competition, but then the problem becomes actually extracting the information from the incumbent supplier in order to be able to understand what you are going to bid for. Of course there is that tension as well. I am really saying that there are a lot of practical problems here that we have got to resolve. It is just not easy to say that it is black and white and that if the private sector understood better it would be a big tick and they could do it, because in fact they are part of the problem.

**CHAIRMAN**—Okay, one last comment.

**Mr GLACHAN**—With intellectual property, what about identifying what the intellectual property actually is, buying it and developing a value for it? Then the government has the right to use it in any way they want to, and the person who has developed that intellectual property is paid for what they have developed. It is just a thought.

### **Retention of corporate memory and skills in the Public Service**

**CHAIRMAN**—We have Leanne Clare, the permanent secretariat from Queensland, representing Ken Hayward; and Pat Barrett, the Commonwealth Auditor-General.

**Ms CLARE**—I am research director for the committee. I would just like to preface this by saying that the paper is not a result of a committee inquiry that has been conducted. The aim here today is to simply highlight some of the points made in the paper with the hope of providing the members here with a context for further discussion. I will start off with what corporate memory is. It is basically an old idea but a relatively new term used to describe the collective brain of an organisation. It is the combined experience, knowledge and creative energy held by an organisation’s employees. It encompasses everything that everybody knows about their job, how the place is run and how things get done. When CEOs declare that, ‘Our employees are our greatest asset,’ they are, in fact, acknowledging the intrinsic value of the organisation’s corporate memory. In the USA, some firms have appointed corporate memory managers. These people are responsible for nurturing, growing and measuring the organisation’s corporate memory and for reporting progress to interested stakeholders.

Corporate memory is something that is relevant to both the public and the private sectors. In the public sector the corporate memory enshrines a process of rigorous accountability and ethical behaviour which has evolved over many years. Changes in service delivery methods in response to downsizing, restructuring or outsourcing have directed attention to building and

retaining the corporate memory asset. The challenge is to maintain the traditional principles of public administration while adapting to contemporary circumstances. The loss of corporate memory is another business risk that needs to be managed or minimised.

The mobility of the work force means that corporate memory can be in a constant state of flux with employees joining and leaving the organisation. Relevant corporate knowledge changes today as the business and external environment evolve. Recruitment of people with the most appropriate skills contributes to building the corporate memory and the recruitment process needs to identify those employees who will be best able to work within the requirements of the job and the existing values and culture of the organisation. However, building the corporate memory goes further than recruiting the right people. It relies on fostering the talent and potential of the work force in capturing new ideas and new opportunities. It is important to design appropriate training and development programs to enhance this. Traditionally, the Public Service offered a lifetime career path. However, this is no longer necessarily the case. Agencies need to establish systems to enable a seamless transfer of relevant and pertinent knowledge from those exiting to those remaining in the work force. This includes succession management programs.

The public sector operates in a regulatory framework which imposes various degrees of accountability for its activities. The corporate memory can be aided through designing information and record management systems that document activities and decisions made and make that information easily understandable and accessible to the people that need it. The increasing complexity or importance of a business process should be coupled with an increasing accessibility to the required information and the advent of technologies provide greater access to all information across all systems. Information can be electronically documented and stored for quick dissemination and easy access. Computer based corporate memories aim to enable efficient use of corporate knowledge. Public sector managers need to optimise the use of this technology. Knowledge transfer can be hindered during times when an organisation is undergoing some form of restructuring or downsizing. As a means of preserving their job, employees may be reluctant to share the specific business information that they possess in the belief that if they hold the essential information they will be more valuable to the agency and less likely to lose their jobs.

The recent trends to introduce market efficiencies and competition into the Public Service through the use of contracting provides flexibility from an external work force that can be bought and sold quickly. The effect that contracting has on the corporate memory depends on the extent it is utilised. At its lowest level, contracting can be thought of as a flexible employment option to cater for short-term shortfalls in required staff. At a further extent, it can replace whole business areas and this means replacing the in-house operation with a private sector provider. The public sector agency then takes on the role of providing strategic direction and contract implementation and review. However, it is essential to maintain some level of in-house expertise or enough corporate memory to ensure proper management and review of those contracts.

Contracting can have a limiting effect on information sharing by splitting the work effort into component parts. Information sharing interaction between different private sector contractors and in-house operational areas can be impeded by commercial and physical boundaries. In terms of measuring the corporate memory, management is often concerned with measurement,



and theorists have grappled with the measurement issues of human capital for some time. Accounting for something as abstract as what is in someone's mind is inherently difficult. At this point in time managers and accountants do not generally attach a numerical value to corporate memory. But even though it is difficult to measure, some leading firms have embraced the notion of measuring and reporting on their corporate memory asset base. These companies have produced supplements to their annual reports that detail human asset information, including detail referring to the value of the company's knowledge capital. There has also been the appointment of directors of intellectual asset management to measure the value of information and knowledge capital through specific management processes.

Corporate memory has always existed and managers have intuitively known it has considerable worth but, with no numerical value generally assigned to it, managers might struggle with resource allocation decisions especially the decision to outsource rather than use the existing human asset base. This is because they may be comparing the benefits of contracting in dollar terms to the cost of erosion of corporate memory in abstract terms.

In conclusion, having acknowledged that there is a corporate memory and that it is of value to the organisation is a positive step towards its retention. However difficult it is to measure, to avoid suffering corporate amnesia the public sector needs to be mindful of retaining its corporate memory. Accountability and the unique demands and processes of the public sector are enshrined in its corporate memory, and a successful public sector with a mind to embrace the challenges of the future will hinge on its corporate memory and exploitation of its potential.

**CHAIRMAN**—Thank you very much for that.

**Mr BARRETT**—The paper that I did is a fairly longish one. It was to help us to form our own views about some of the issues that were there. I thought it might be of interest to some people who have an interest in the topic. What I want to refer to in this short presentation is that there is a shared perception about corporate memory, as indeed the Queensland paper just indicated. I want to focus on understanding business, performance management, which we spoke about in the previous session, and then on work force planning very quickly. If I were able to have a straw poll here I would ask which country or government this quotation refers to:

The management challenge is great. From January 1993 to January 2000, the government civilian workforce was reduced markedly. Many of those who left were among the most experienced professionals in their agency. Even as the workforce became smaller, new responsibilities and new ways of doing existing work combined to demand new skills. Additional skill losses will occur as the baby boomer generation reaches retirement eligibility over the next five years. Today's economic situation and a nationwide shortage of skilled workers challenge the Government's ability to recruit and retain the high quality and diverse workforce it needs now and in the future. We must develop human resources management strategies that are up to the task.

The answer is the United States of America but, in fact, the same passage could have been written of about half-a-dozen or more countries and many levels of government. You might not be surprised therefore that, when the new executive and Congress convened on 20 January in the United States, our equivalent, the government accounting office in the United States, in its advice to the new administration and to the Congress said that the major challenge facing the public sector today was its loss of corporate memory. It is interesting that we should be discussing this topic at a very opportune time.

Much has been said about the increased privatisation of the public sector in many countries, including the greater involvement of the private sector in the actual delivery of public services—including public policy advice often in a contestable environment. This has raised questions about the nature of governance, in particular about the role of the public sector and the notion of core government. While there has always been a broad indication about what are some of the elements of core government—and page 4 of my paper indicates that—the reality is that the notion has been defined progressively, mainly by exclusion and/or diminution of activities previously performed by the public sector. Not surprisingly, this situation would seem to require an ongoing assessment as to just what corporate memory we might want to preserve.

Turning to the understanding of business, as with the private sector it is very important to understand the business we are in. At one level there is the business of government with all that it entails in relation to the parliament, the judiciary, the Public Service and indeed citizens. At another level there are specific functions, activities and related legislation. The perceived risk of the loss of corporate memory at both levels is often primarily focused on accountability concerns as well as increasingly on performance, often in its broadest sense, including notions of responsiveness, equity, fair play, probity, privacy, justice and other civil rights and obligations. Simply put, the problems often boil down to the differences between public and private interests. The ongoing challenge for governments and the public service is to achieve the right or sensible or even defensible balance. Peter Drucker, the well-known management guru, has observed that management's biggest and toughest job is balancing short-term versus long-term risk versus opportunity and a number of different objectives, each of them as a survival need. The requirement is for astute, informed judgment based on relevant experience and knowledge and the consequence assurance that that might have for all stakeholders.

Specific concerns have been expressed by parliamentary committees in this respect. They relate to the greatly increased hiring of consultants and the extensive use of contract management, as we have talked about in the last day. With respect to the latter, such concerns have been as much about the lack of project and contract management skills in the public sector and the inadequate knowledge and understanding of the business and functions concerned as they have been about private sector performance and accountability for that performance. In relation to performance management, which is the real focus of most of us today, a major driver of change has been the emphasis on performance or outcomes, or whatever you like to talk about in your own constituencies. In turn this emphasis has been reflected in the accrual based budget and accounting framework at the federal level, with its focus on achievement of required outcomes and agency outputs that help deliver those outcomes. Agencies have been required not only to develop and specify the performance information on which results will be judged but also to be accountable for the manner in which they are achieved. In this respect the Controller-General in the United States has observed that:

Performance management ensures accountability because it generates valid and reliable data on program impact on the allocation of resources and on the economy, efficiency, effectiveness and integrity with which the government's finances are run.

This presumes the necessary knowledge and understanding that are required not only to put such a framework in place but also to ensure that it actually delivers on those requirements. So performance management and the attendant skills, knowledge and experience required to put the culture and the necessary systems in place is likely to be heavily impacted by an apparent shift to increased networking, including partnerships and alliances, across both public and

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private sector organisations. Such a shift is being encouraged, or even driven, by the impact of globalisation and exacerbated by the rapid developments in information communications technology, not least, of course, which we have heard, is the use of the Internet. Such developments often renew the need for, or even make redundant, organisational boundaries. As such, they can also greatly influence organisational structures and work force requirements. In modernising government, the UK has noted that ‘when boundaries become barriers to the free flow of information, ideas and creative energy, they risk creating rigid inefficient organisations’. That is true for both internal and external boundaries. I note that the Victorian Public Accounts and Estimates Committee, when talking about this notion of partnering, said that it could be warranted where:

Service providers are encouraged to be innovative in the delivery of services; the nature of the service is highly variable or evolving leading to poor predictability of demand and service content; and the services will be using leading edge practices and technology in which a high degree of flexibility on the part of both parties will be required to make it work.

Therefore, any significant move to greater partnering and networking within the public sectors, including the private sector, has significant implications for both the skill composition and the corporate memory requirements of the public sector. So there is both a need to engage and a capability to do so. What this can lead to are clearer and more realistic performance agreements, more buy-in on both sides to the results, a basis for ongoing dialogue throughout the year to improve the likelihood of achieving results and, indeed, a capacity for learning and improvement.

The PFI, which we have already spoken about, has provided an interesting test, particularly in the United Kingdom, where this particular initiative has been going for more than a decade. We have spoken a number of times about risk transfer, which has been seen as a major driver for PFI in the UK. Nevertheless, as the UK National Audit Office has observed that, ‘This approach does bring new risks to achieving value for money, which requires skills that may not be available in the organisations concerned.’ The UK National Audit Office then goes on to identify such skills.

At the end of the day, this suggests to me that the whole focus of the public sector, including assistance from the private sector, should be on work force planning. It is really to get across to public service managers the notion of what is involved in work force planning that is a major challenge.

The real notion is to integrate work force planning into the overall strategic management planning processes, which can provide a better link between business outputs and outcomes—and, indeed, the nature, skills and people required to achieve them. This relationship became evident with the different demands being made by government, including pressures to downsize and operate in a more contestable environment. Our own JCPAA has noted that:

... while agencies understand the value of the knowledge held by their experienced contract managers, there was little information on strategies for retaining and strengthening this knowledge base.

Indeed, the Canadian Auditor-General, in a wider sense, noted that it was important to—and I quote:

... address rejuvenation and renewal issues if the public service is to have people with the skills and experience required for the next century while compensating for the loss of experienced professionals and corporate memory.

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Where an agency has undertaken an appropriate work force analysis to obtain a good understanding of the characteristics of its work force and the identification of the skills and knowledge needed to achieve its business objectives, now and in the future, the question then becomes whether the desired skills and knowledge: need to be acquired by the agency itself, either through recruitment or use of external consultants or contractors; can be developed in-house through succession planning, career management or more effective learning and personal development strategies; and/or currently exist and need to be retained in the agency. This becomes a matter of developing appropriate strategies to retain key personnel as well as putting in place knowledge management systems to capture and retain relevant corporate memory.

For in-house resources, the key question is: what are the necessary attracters? I note with interest that concerns have been expressed in the national parliament about the use of performance pay and performance bonuses. Equally, stress has been placed at the federal level on non-financial employee benefits. Again, this is an area of tension. People are saying, 'If we are going to be treated in a similar way to the private sector, why shouldn't we have similar kinds of incentives to those that are provided in the private sector?' In practice, this means that public sector managers have to be more imaginative in their approach to staff and to focus on those matters that consultation shows are of most importance to them. If we do not do that, we risk not being responsive in creating the outcomes that governments require.

My final point is that I think both the executive and the parliament should take some comfort from the fact that such issues are being seriously examined by public sector managers. While the initiatives being taken at the federal level owe a great deal to the increased management flexibility provided by the principles based personnel and financial legislation, in my view the latter needs to be constantly reinforced by ministers and parliamentary committees in particular to encourage the widespread implementation of work force planning and knowledge management, including, as necessary, an emphasis on retention and utilisation of public sector corporate memory. It has to be said that, once the latter is gone, it is very difficult, if not impossible in some cases, to retrieve it.

**Mrs MADDIGAN**—I want to raise an issue for comment by Leanne or Pat in relation to information technology and the loss of corporate memory. Leanne mentioned the importance of having information management systems to record why decisions are made. I guess a lot of decisions that used to be made by either memo or notes on file are now done by email, which often means that there is not a permanent record of them. If your strategic planning is good enough, I do not know whether or not that matters, or whether it means that we are losing forever some really good paper trails on why decisions were made. I would be interested in Pat's or Leanne's view on that.

**Mr BARRETT**—I have made a number of public comments on this issue. It is of real concern. There is no question that email and its use have required managers to consider what is the appropriate protection for them within their decision making capabilities and responsibility, as well as for any external oversight. So they have to be worried about the factors. When they are asked the question, 'What was the basis of these decisions?' people are then running around—and I have seen this in agencies—trying to find out who did what and who said what and, because it has all been done on email, in many cases it has been wiped. Even with the backups which are supposed to be retained—and I hope the chairman does not mind me saying this—in one inquiry we did on magnetic resonance imaging, with the support of the relevant

minister involved, we had to get expert private sector expertise to go back and read the disks—that is how desperate we got—in order to retrieve the decision making that was absolutely essential to the accountability at the end of the day. More particularly, it was the minister who was concerned as much as his agency.

I think the only thing is really to ensure—and I know it sounds bureaucratic but I cannot think of any other approach—that management sets down clear guidelines within the agencies that, where emails impact on decisions, they are to be retained in the database and in your data warehouse and to be under the appropriate file classifications. This is important to our National Archives. The National Archives has just introduced a new standard for us to ensure that we are able to capture this information in a standard format that will be available to future generations and academics who come along to do studies on this and that they will be able to retrieve the information in a format that is consistent and reliable.

**Mr TORBAY**—In a recent study tour looking at partnerships between the private and public sector, I was very interested in the skill base and the negotiations that were going on, particularly in respect of the PFIs in the UK. Some of the interviews that we undertook highlighted some very substantial differences. The focus between the public and the private sector really created some interesting discussions from our perspective on the committee.

The focus in the public sector seemed to be on this concept of value for money which had a very broad meaning—and a bit of a different meaning for everyone. The private sector were almost predatory in every sense of the word. I found that the skills that were being developed—often through trial and error—in the public sector were quickly absorbed by the private sector, even midway through deals. I found that it was difficult to retain those skills in the public sector. It was enormously disadvantaging, in my view, to the public interest. I am interested in giving you this feedback: most of the people that we had discussions with in the private sector spoke about the remuneration. In almost all cases they said they were earning between two and 10 times what they had been, and nearly all of them had come from the public sector in the early stages of their careers.

**Prof. GUTHRIE**—The discussions I have heard around the table in the last two days have been about financial resources, outsourcing, contracting out and privatisation. Some of the discussion moves between the costing of it and the expenses and revenues and the profitability of it, and we are now moving, with Pat's paper and the other presentation today, into trying to understand how we are going to manage the knowledge that is associated with a lot of these public sector reforms. It seems to me that there is a new shared perception amongst a number of the public sectors in this country that management of knowledge is very important, that we need to understand our systems and processes and our stakeholders and that, more importantly, we need to understand the value of our human capital.

At Macquarie Graduate School of Management we have been doing some research into the issues of management and knowledge and, more importantly, intellectual capital and intangibles. What we find in the private sector, and especially in the new economy in the private sector, is that there is an irrelevance in financial reporting and financial numbers. When we look at Microsoft, something like 15 per cent of their value is explained by the balance sheet figure. We have another figure out there, which we call intangibles or intellectual capital. It seems to me that now, with Pat's paper and a number of the discussions that are going on, we can start to

focus in on the public sector and try to understand this new way—that is, what are the intangibles within the public sector that we need to manage and maybe value through some of the systems? Corporate memory, of course, is one way to go. I suppose my question to Pat is this: what role do you see in the public sector for new management techniques and valuation techniques such as the triple bottom line, balance score cards, intangible asset monitors and the range of new frameworks that are starting to develop in the private sector?

**Mr BARRETT**—I am happy to respond, Mr Chairman. Thank you, Professor Guthrie, for those comments. My personal view is that I think audit officers have to be proactive and they have to contribute to the development and the introduction of notions such as balanced score cards, triple bottom line, knowledge management systems and the like. Why is that so? The fact of the matter is that we are out there every day of the year in agencies where a lot of this stuff—and they are spending a fortune on consultants and courses, et cetera—is trying to be implemented. We have two advantages in that. One is that we can see the techniques that are being tried. We can see what success or otherwise they have had and we can actually draw attention to that. So I think the focus for me at least has been to try and encapsulate that, particularly with the major players, in better practice guides and the like to try and raise the level of debate and the change in culture.

You are absolutely right. I know the JCPAA gets sick and tired of me going up and talking about the changes in Public Service culture—if I could find another term for it I would use it just to be different. But, in a sense, that is what we are trying to achieve: a totally different attitude and approach that actually ensures, where we need to operate in direct partnerships or in contestable situations with the private sector, that the public sector is able to do so. I will just put in a little advertisement here from the public sector point of view which we heard from Dick Humphry last night regarding the impact of globalisation. I know a lot of people now are trying to play down the extent to which globalisation might in fact impact on the sovereignty of national governance. But, frankly, as a small country, if we cannot try to get better partnerships between the public and private sectors where our real competition is international and not national we are in deep trouble. Consequently, I see the focus as being—particularly with the governments I see around Australia—that if they are progressively trying to get improved outcomes by greater participation of the private sector, then the issue for us is how to work together and understand what each other's imperatives are so we can produce an outcome that is internationally competitive.

**CHAIRMAN**—Mr Barrett, this topic is about the retention of corporate memory. One of the things that seems to be self-evident is that the old public sector was highly risk averse—not willing to take risks—and every action in terms of the number of people, decision making and all that was in a sense perhaps overspend so that mistakes were not made. Yet we are talking today about trying to create a culture where the Public Service is willing to take risks, and that means that sometimes there will be failure.

We have in our inquiries asked a lot of chief executive officers of departments whether our inquiries make them risk averse, because every time they stuff up we haul them in front of us to ask them why they stuffed up. We have had a variety of answers to that. Is it a bad thing that we are losing corporate memory if in fact it is a skill we do not want to retain?

**Mr BARRETT**—You might recall that in my opening remarks I asked: what corporate memory is it that we are trying to retain? That is a real issue. The fact is that, as the Queensland paper says, corporate memory is rapidly changing. Quite clearly, when we have got new skills, new approaches, et cetera, which we are learning, then that is changing. But we know there are some enduring corporate memory issues that are dear to the hearts of parliamentarians, and indeed the bureaucracy, that do go to the core of democracy which we have been talking about in the last day or so. That is the core understanding of the way government works. In fact, one of the biggest criticisms that have been made by governments of the private sector is that you really do not understand the nature of government and how it works. The fact is that it is a facilitating arrangement where in a genuine partnership the Public Service can ensure that the requirements—whether it be for outcomes reporting, performance management, accountability concerns, efficient process or whatever it is—can be built into that model to ensure the outcomes that the government wants to achieve will actually be achieved properly and effectively.

The problem I see in the risk management arena and the question of being risk averse is the mixed signals that continue to be given to the public sector. That is the problem that we have got to try and overcome. That is why we try to work with our Joint Committee of Public Accounts and Audit for them to make the kinds of statements that they make. In other areas where we have got separate estimates committees, sometimes the message is clear that we do not want you to be risk averse; in fact the whole series of questions and responses would suggest that that really is the imperative that parliament wants the bureaucracy to take on board.

We have been going at risk management now in a concerted manner at the federal level since 1996 when the first guidelines were put out by our management advisory board. I think they are well and truly understood. The issue for CEOs is to ensure that they have got the systems in place so that when the JCPAA, estimates committees and individual parliamentarians ask them the questions, they can actually show them that they have gone through a risk assessment and the way in which they prioritised their risks and then monitored and reviewed them. As I see it around Australia, parliamentary committees are giving the Public Service credit if they do that. But if there is no evidence that they are doing that, then of course they are going to cop the criticism of taking undue risks, wasting taxpayers' money and the like.

**Mr TRIPODI**—On this issue of managerial performance, the issue of performance indicators often comes up in the New South Wales Public Accounts Committee, as it would in just about every other one, I would imagine. We have been quite hesitant to embrace performance indicators simply because we think they are a bit of a straightjacket for the particular agency. In light of the fact that we are subjected to very deep analysis like that which is offered by the *Daily Telegraph* on a daily basis, where they can grab one of these graphs and interpret it whatever way they like to interpret it and probably punish some public servants or ministers who probably did not deserve to be punished, and they can do it very effectively, we are quite wary about the impact that performance indicators can have on the public sector.

One issue which relates directly to this point is that if you do have performance indicators you actually can create the pressures and incentives to be conservative—that is, to allocate resources towards the areas where the performance indicator will look good rather than take the risks of evolving with the needs of the community and realigning your programs. As soon as you start shifting resources from an area where a performance indicator is measuring to another

area where it is not measuring but probably where the community wants those resources to be going as it changes with the demands that the community has, your performance indicator starts to look bad. These performance indicators actually create rigidity and a conservative culture within the particular agency. In New South Wales, we are very hesitant about performance indicators, because we think they actually will discourage performance if you define performance quite broadly.

**Mr SINCLAIR**—I want to pick up the point that Pat Barrett has just made about the role that public accounts committees and audit offices can have in changing culture. As many of you may be aware, we have been through a process which the government entitled ‘Modernising government’. When that white paper was introduced, a very serious issue was put up by senior civil servants which was to say that the accountability regime imposed by the audit office and the PAC was, in fact, a barrier to the change that the government was trying to create. This got to such an extent that the audit office, C&A-G and the public accounts committee then made public statements to the effect that they supported change, that they were in favour of good, well-managed risk taking within the public sector. As Pat said, if you have gone through a good process of change management, of assessing risk, that is a good position to be able to put to a committee of public accounts. At that stage, the committee might be able to accept that a project has gone ahead, but if the risks have been well-managed and it then fails there is a legitimate excuse as to why that project has failed.

In the UK, it has been very much the job of the audit office, and indeed of the public accounts committee, to go out and put that message to the executive. Quite frankly, the executive, because of the culture that is built up, has been reluctant to accept that the PAC and the NAO will take that view. So we have had to be advocates for the change process ourselves and advocates that our own culture has changed in the way that we approach the accountability of the executive and the way that we will deal with the executive when projects go wrong. So I just wanted to really enforce the point that Pat had made to say that that is very much the UK experience as well.

**CHAIRMAN**—Thank you for that.

**Proceedings suspended from 10.02 a.m. to 10.22 a.m.**

**Defining the public interest**

**CHAIRMAN**—The next topic is public interest in the new contestable environment and this, I understand, is going to be a hypothetical. Des Pearson and Tony Fletcher are doing the honours, so, Des, please go.

**Mr PEARSON**—Thank you, Chairman. The topic is defining the public interest, and one would think that would be quite a simple task, given that such a concept is critical and core to our system of democracy in pursuit of the common good. But the background to my paper is that I found it is very much a term taken for granted, though it is an oft-used term. Yesterday alone, by my observation, the term, or a very close substitute for it, was used in six papers, but in the legislation it is, effectively, never defined. It is used but never defined, so when I come at it from the perspective of the role of an Auditor-General, I have decided to approach it as to how as an Auditor-General I operationalise this concept in my office. That is a challenging task, as I have tried to set out in the paper, because of it not being precisely defined. It is a very



value- laden term and that is a dangerous area for Auditors who are not entitled to delve into the policy area.

In practice, I see the key considerations from my office's perspective, and how it is operationalised in the auditing role is very much coming through in what we audit and how we audit. When I reflect on those two dimensions, in my jurisdiction I have got a very large given: I have to audit and give an opinion on the financial statements and performance indicators of every agency every year, and that takes about two-thirds of my resources. But the discretionary element, where I can deploy a third of my resources, is in the performance examination area. The review of the operation of controls in the public sector and legal compliance are other areas covered by my mandate. In that area, that is where the discretion on the what and the how really comes to bear.

In the paper I have given some insight into a couple of types of audits. For the legal compliance ones, where I have been inducted into the public sector the legislation is the absolute authority from the parliament. It was quite disturbing to find the level of non-compliance with such core and basic legislation as environmental protection and explosive and dangerous goods legislation in Western Australia that we reported on late last year.

In the broader performance examination area, I have instanced a couple in the paper, one dealing with the administration of bail and remand prisoners in Western Australia, the other one dealing with homeless youth. The homeless youth one I found particularly revealing in the sense that it was not a shortage of resources but a mismatch of matching the need with available resources. There I feel the audit contribution provided a positive catalytic contribution.

Taking the selection of the 'what' a step further and going to how we pursue serving the public interest in Western Australia, there are a number of considerations, but I preface these by saying that they are subject to the stock in trade overlay of auditors' focus that relates to accountability, equity, efficiency, effectiveness and regularity. There are probably three key considerations. One is the significance of the issue, the second is our assessment of the contribution that can be made by an audit involvement, and the third is achieving a balanced coverage during the program year or in the course of the audits.

In terms of the significance of the issue, this is where we do bring in a very subjective element. Our goal is to serve the public interest. The first distinction there is serving the public interest but not interpreting that in the context of what the public is interested in, so there is a high level overlay there. To approach that, we select topics based on four themes in two categories. In relation to program delivery we look at continuing ongoing programs as one focus. The other focus is identifying new and emerging programs early in their lives so that we give them audit attention with the colloquial approach that if there is something wrong we can draw it to attention before the horse has bolted rather than after.

The second two categories that we look at in these themes are broader. They are in terms of basic accountability, which is the probity dimension in the public sector, and the broader one is environmental scan surveilling as to the state of the state—the macro level look at the public sector's operations to bring that into consideration. We then, almost in a matrix sort of way, overlay that across the public sector, which is a large amorphous mass, but we crystallise it down into central government, and we define that as looking at central agencies, public safety

and economic development type areas. The second sector we define is community, which is basically the health, welfare and education raft of areas. Thirdly, we have what we call infrastructure, which is the physical infrastructure—roads, railways and ports—to try to get a balance across our coverage there.

The next step is the contribution to be made. I tend to look at that in terms of opportunities and risks. As to opportunities, I see that an audit can be catalytic in a positive sense by providing positive assurance as to the operation of programs or, conversely, there can be a less than satisfactory situation crystallising out the issues as a basis to precipitate remedial and corrective action.

On the risk side of things, a key example of one of the moderating effects we have is trying to ensure that our emphasis on an issue does not upset the priorities in the scheme of things within a portfolio area. I do not think I need to go into detail in the health area. Health is an area that is laden with those sorts of problematic areas. For instance, if you look at the length of waiting lists, that could precipitate an inappropriate concentration or focus at an inopportune time. Again, they are very much value laden and judgmental issues, but we certainly try to consider them seriously.

The third dimension in our considerations is achieving a balanced coverage. I think my office is probably somewhat representative of other public sectors inasmuch as my budget is of the order of \$10 million and I audit a public sector that turns over \$30 billion per annum and the whole of government accounts lists assets of about \$60 billion. So it is a very light coverage. I think it is important to achieve a balanced coverage, and we try and do that across those themes and sectors within a program year. Clearly, you cannot do everything within a year so we bring in a longitudinal dimension that, over roughly the term of a parliament—which in Western Australia is four years—we try and get a reasonably balanced coverage in that circumstance.

In terms of rounding that out and the issues and thoughts I was trying to cover in the paper, I see us facing a continuing challenge. I see it as difficult enough, from what I am trying to describe in our discussion here, but we are in a fast-moving world today and I see ever more judgment being required into the future. The sort of approach we are taking within my office is to try and develop a basis for the exercise of sound, principle-driven understanding and judgment that the world is not that simple anymore that you can set firm rules and leave them in place. So you have to try and imbue the principles and have those principles understood and embraced. I think it is increasingly important that there be a sensitivity to the context in which audits are being undertaken, and that needs to be an informed sensitivity to the context because, in one respect, auditors do have a role to blow the whistle if it needs to be blown. So we do not need to be sensitive to the extent of 'it's not nice so we won't blow the whistle', but it does need to be an informed and balanced sensitivity.

The final point I would make is that we are no longer in the world of having firm programs into the future. I feel we have to operate a degree of a program but with a continuous assessment of risks and priorities so that we bring to bear what I call a purposeful flexibility. While we may have a program of two or three audits and examinations to undertake, the only one that is firm is the one that is actually in course, and there is a final check before we go to the next topic. That rounds out the thoughts from my perspective, and I would hand over to Tony Fletcher.

**Mr FLETCHER**—The paper I have presented reaches the same conclusions as Des has enunciated: that the public interest is practically impossible to define in a generic way so the decisions have to be made on a case by case basis. But fundamental to that is having the information available to make the proper decision, and whilst the parliaments are given the job of protecting the public interest, quite clearly the parliament operates best if it delegates that responsibility to a committee such as the public accounts committee, which is far better placed to consider properly the public interest and to make judgments about it.

I want you to consider just very briefly the similarities between the public accounts committee representing the parliament, the taxpayer owners and employees and those who do business with government and the roles of the non-executive directors in a listed corporation who represent the shareholder owners, employees and those who do business with the listed corporations. Quite clearly, the non-executive directors have a fiduciary duty to those parties that I have mentioned previously. If they are denied the fundamental information or the papers that the executive used to make management decisions, then they are at risk of not fulfilling their fiduciary duty and, further, they are at risk of litigation by any parties in the future.

Why should there be any difference between what the public accounts committee does as a representative of the taxpayer owners of the state and the obligations that are placed on the non-executive directors of a listed company? I do not think there is a difference, and I think over time we are going to require more information to be available to us. But I will address that a bit later on. We have decided today that we should have a hypothetical as an experiment to see if there is another way of skinning the same cat or of making this meeting informative and interesting for the parties concerned.

*[The hypothetical was not recorded at the speakers' request].*

**Mr PEARSON**—To summarise the hypothetical, from the auditor perspective clearly I read into my colleagues' responses that there is a heavy focus on establishing the factual base, getting the facts together, and in a sense there was a timing imperative and a timing challenge that worked against it. There is just time involved in the process of assembling the facts and reaching the balanced conclusion. That I think is going to be a residual challenge facing us, because in the audit function credibility is the key issue and we cannot afford to compromise our process and the prudent establishment of the factual base for the sake of expediency.

Clearly, access to both the contract, all the provisions in the contract and the cabinet documents is critical to enable the formation of an audit conclusion. Clearly, there was a heavy overlay between the audit function and the public accounts committee function which, to me at least, points out the need for very active and full communication between the A-G and the PAC for that to be able to operate. So they are probably the three key things, as I see it, from the audit perspective: the ability to establish the facts, adequate time to actually distil and crystallise those facts, and the key communication link with the public accounts committee.

**Mr FLETCHER**—The hypothetical brought out the issue that there always has been and always will be a political imperative involved in the adversarial system. We tend to look at the issues from our political point of view, and there is no getting away from that—we will not get away from that. However, reports to this conference and to other conferences in the past have shown quite clearly that public accounts committees and the individual members of those

committees work very hard to try to reach consensus in relation to an issue. It is in our best interests and in the best interests of our taxpayers for us to strive to do that at all times.

It was interesting to hear that Auditor-General Des from Western Australia and Auditor-General Bob from New South Wales had different access to cabinet documents. Des has a statutory right and Bob works by a gentleman's agreement to achieve the same end. That highlights the capacity to develop a level of trust whereby performance will demand trust and trust will give you access to documents. The challenge for members of the public accounts committee, both now and in the future, is to always work professionally and to strive for a standard of ethics that builds that level of trust that really allows us to perform for the people who elect us, the taxpayers of our various states, while keeping in mind the distant goals—that is, to develop and deliver good outcomes, sound management and good lifestyles to the people we represent.

**CHAIRMAN**—Would anyone else like to make a statement?

**Mr MACDONALD**—I would like to make an irreverent comment. I am in awe of the responsibility of Australian politicians. They are obviously misreported in the New Zealand press. My reaction as I was sitting through it, and I shared that with Annabel, was that I would be rushing around in a huge spin trying to work out what had happened as I got a message from the press asking, 'What were you doing in terms of this inquiry that you are carrying out?' I would go and find out which MP had informed the press that I was carrying out an inquiry because I certainly had not been informed about it. I am afraid that happens quite a lot—that someone gets hold of something that is politically charged and they announce in the house that the auditor-general is carrying out an inquiry, despite the fact that we have a protocol that says that nobody is actually able to announce in the house that the auditor-general is carrying out an inquiry unless they have actually been asked to do so.

**Mrs MADDIGAN**—Do you refuse to do it if the house has already said, 'We are going to'?

**Mr MACDONALD**—Not surprisingly, it gets rather difficult in those circumstances, which is why we have a protocol which everyone tends to ignore.

**Mr CAMERON**—One observation I would make is that it is not hard to carry out inquiries. We obviously can do that either as A-Gs or PACs. The question is: how quickly can you complete that and make the information available? I was really interested in what happens to the product and I was interested in Len's capability to be able to share that product with PAC rather than having to table it in the house. I would be interested to know from those around the table whether or not that is possible. It is the issue about whether PAC carries out the inquiry or the A-G does—or any other party for that matter. If in fact it is the A-G, whether or not in most cases they are only empowered to report to the parliament, certainly in Victoria's case there are significant clearance processes which can add at least a month to the outcome, if not more. Natural justice will require some of that anyhow. I would be interested to hear about which is the best option—A-G or PAC. Essentially, it is about public disclosure, making the public know what the facts of the matter were and whether anybody else had any views about the reporting powers, particularly of the A-G.

**CHAIRMAN**—Would the auditors-general each like to very briefly respond?

**Mr BARRETT**—I certainly take the point that you have made, Wayne, about the timing and the natural justice issues and all those concerns. Certainly, my interpretation of the act is that I would report to parliament, and that is the condition I refer to individual requests, including ministerial requests. That is not to say that, if it was not audit information contained in the process of an audit that I came across, I would have no hesitation giving that to the PAC. But once I have information that I get in the process of an audit, I have the same restrictions that Len has and perhaps most of us have. So, in that sense, I am bound. I cannot in fact then just willy-nilly give it to the PAC. If it was not in the process of the audit, then I can, and I certainly would indicate that. It is up to the PAC to actually do with it what they want.

**Mr HAMILTON-SMITH**—Mr Chairman, I might comment on that as well. In the case of the disposal of electricity assets in South Australia, we had a situation where there were concurrent inquiries being carried out by the Economics and Finance Committee and the Auditor-General. The way that came about was that the Auditor-General partly began investigations on his own account but then was asked to more specifically investigate at the request of the PAC, and the two virtually worked in tandem to bring out the information. The Economics and Finance Committee delivered that a bit earlier, and then a far more detailed and thorough report from the Auditor-General was subsequently presented in parliament. The process of that was also brought into the parliament as a whole, so the two were concurrent. In our case it worked quite well. They were in tandem, if you like, or parallel with each other. It was not a case of either/or although, of course, there were efforts to try to ensure there was only one inquiry. The reality was that two progressed because of the nature of the process.

**Mr LONEY**—The issue that Wayne raised is also, I think, an issue for public accounts committees, and particularly for ours, and that is the tabling of reports. In Victoria we do not have the capacity to table outside of session, so in the sort of situation that we were talking about before, where you have a premier going to an election, you may actually commence an inquiry, but you have no capacity to report in those circumstances. That also raises problems, and in that situation, if it is an incomplete inquiry, then the documents of the committee become the property of the presiding officers of parliament and are not necessarily available to the incoming committee, who may choose not to continue the reference anyway. I think there are issues around tabling. We have sought for some time now to be able to table out of session, and our Scrutiny of Acts and Regulations Committee is currently looking at that and will report on it sometime shortly, we hope, as part of another inquiry. I think the ability to table and when you can table is an important issue.

**CHAIRMAN**—Tony and Des, you started out talking about what is public interest, and you raised another issue as to how independent public accounts committees are. I do not know about each of you, but I can say that in the Commonwealth for a long period of time we have—and this is before me—worked very hard to try to always achieve unanimous reports, so that we get the respect of both the bureaucracy and the executive. We really do not offer very many recommendations. We keep the number of recommendations down to very small limits, because we believe that we are taken more seriously if we do not frivol away or try to regulate the system. We try to make more broad-brush sort of policy or procedural recommendations. We have found for our purposes that that is highly successful. It is difficult because we all know that we are in a contestable environment. We are here because of politics, and politics is the art of the possible. That is what we are doing, and it is difficult. We also help place the auditors under some difficulty too because they also have to operate in that same contestable

environment, while trying to stay independent from the politics of it. You have raised some very good issues. Well done.

**Mr LONEY**—Thank you.

### **Impact of devolution**

**CHAIRMAN**—In this session I will deal today very briefly with a theme that has become central for all of us who are concerned with the issues of good government and public accountability—namely, the impact of the now dominant policy trend towards the devolution of responsibility for delivery of government services. In the Commonwealth a devolved financial management framework has been in place since the 1 January 1998. What that means, of course, is that instead of a central agency deciding all of the operating parameters of all of the departments, each department does its own set of accounts and decides its own priorities.

The Financial Management and Accountability Act and the Auditor-General Act, which replaced the Audit Act 1901, underpinned the devolution of responsibility across the public sector. In the Commonwealth the central agency financial control by the Department of Finance and Administration has been replaced by financial management by individual departmental secretaries and CEOs. So in the public sector agency financial management is underpinned by section 44 of that FMA Act, which under the heading ‘Promoting efficient, effective and ethical use of Commonwealth resources’ states:

A Chief Executive must manage the affairs of the Agency in a way that promotes proper use of the Commonwealth resources for which the Chief Executive is responsible.

It is in this area of devolved responsibility that the JCPAA has increasingly focused its attention over the last three years. Specifically, I guess since 1998 we have undertaken four major inquiries into this area of financial devolution. The first of those was into asset management, the second was into government purchasing, the third was into public service contract management and the fourth into corporate governance in Commonwealth government owned business enterprises—state enterprises, for the states.

We would have to say—I think without much competition—that structural reform is still a long way from complete. It is not finished. One of the reasons why I say that is that we are convinced that there are skill shortages in the public sector and there is some loss of corporate knowledge that impacts on the ability of the public sector to do its job. That is not saying that the public sector is not good. The Olympics was an excellent example. I believe the private sector was absolutely amazed that it was a public sector type bureaucracy that organised and ran superbly the 2000 Olympics. So full credit to the team of people who were involved in that. It was a massive undertaking. They did it a heck of a lot better than Atlanta did—you will remember that Atlanta was all done by the private sector. I say all this and I am not a public sector person. One of the reasons I am here is that I thought the bureaucracy was too insular and that we needed a few people who came from the private sector and from industry. So we learn as we go along.

The second reason I say structural reform is not complete is this loss of corporate knowledge. We have debated that today and we mentioned it yesterday, but it is a recurrent theme

throughout what we as public accounts committees, audit officers and auditors-general consider. It seems to me that sometimes we place too much faith in the private sector and that brings us a bit undone. In a sense that is what the hypothetical was about, wasn't it? We placed faith in the private sector that they would do the right thing with the water supply and it appears they did not, so that took very public intervention.

In some sense I think we would all agree that we have placed overreliance on the CEO of a department—that is, the departmental secretary—without necessarily giving that officer, that individual, appropriate guidance. I think sometimes when we change things we overshoot, if you know what I mean. When we devolve things, we just go holus-bolus and devolve it. When we go to centralise things, we just go holus-bolus and centralise it instead of taking a more moderate approach. I think we have overshot a bit and a little bit of central guidance would not go astray in terms of guiding our chief executives on how we want them to report, what we want them to report on and what we expect of them in terms of performance.

Our inquiry into purchasing was a good example of that, in a sense. We used to have a central purchasing agency. We scrubbed it—it went to God—and everybody did their own purchasing. The guidelines we gave them were deficient enough, and we so devolved it that we had people buying stuff all over the place who had no experience and no qualifications. As a result of that, we were not giving our Australian and New Zealand suppliers enough of an opportunity to help build our industry base and to allow them to participate with government. So we took the easy option. We knew who these well-known US, English or German companies were and they could do no wrong, so we would give them the contract and say, 'To heck with taking a chance on a small or medium sized business in Australia.'

When we did that purchasing inquiry, we found that, because they overshot so far, the agencies have come back and now more and more agencies are establishing central units not to totally control all purchasing but to provide guidance to all their purchasing officers on direction and who might be a good supplier. I think Dick Humphry's review in March 1977 with respect to GBEs is also a factor that says structural reform is not quite finished yet. One of the things he recommended was a single shareholder minister. What we wound up with is a dual shareholder minister for Commonwealth GBEs—that is to say, generally speaking, the Minister for Finance and Administration is one of the ministers and the other shareholder minister is the portfolio minister, although we created a new GBE recently, and that was Centrelink. We gave Centrelink not to the portfolio minister but to the Minister for Finance and Administration, who is the only one to administer that GBE.

Very briefly, in asset management we looked very carefully at the FMA Act and how the departments and the chief executives were going to use that act to underpin their responsibilities. When you go to accrual accounting, it is important that you manage the asset base. It is absolutely critical. I suspect the public sector should have been doing that a long time ago, but the move to accrual accounting forces that on chief executives. They have to look at their assets, because if they do not use them properly they are wasting millions and sometimes billions of dollars. In the paper we give examples of the kinds of potential savings there are through properly managing the asset base.

Mr Barrett was very much a part of it. Every department has an asset use charge, so the assets that they have must be properly valued in the first place. Then I think 12 per cent of that asset

valuation is charged to their accounts every year. You say, 'It's only paper money,' but in fact it forces them to use their assets efficiently. Instead of going out and buying a new building, if they can more attractively lease the building they should do so. That is what it is all about. But I have to say that asset management, as with the whole FMA Act, is largely a matter of guidance, not prescription. In other words, it is not a long list of absolute dos, don'ts and regulations. I think JCPAA is reasonably happy that that is appropriate. In the asset management report, 100 per cent of our recommendations were accepted. That was not bad.

One of the things that we have done, and it applies to this paper and to what we are talking about here, is prepare an annual report, just as departments do. In our annual report this year we decided that we would put in a performance indicator of our performance. We decided that the percentage of recommendations that were accepted would be a good indicator of our performance as a committee because if we had done a good job then we would get the government to agree on policy changes and the bureaucracy to agree on procedural changes. If we had done a rotten job, or had come up with too many recommendations, we would show poor performance. So that is the way we reported it, and I am sorry it is not triple bottom line—I just found out what that is.

The purchasing inquiry I have talked about very briefly. One of the things we found was that Telstra, for instance, which is 50.1 per cent owned by the Commonwealth, a huge organisation with \$4 billion of purchases annually—is that right?

**Mrs MADDIGAN**—I have not got the figures, sorry.

**CHAIRMAN**—Anyhow, it is a ginormous amount of money that they spend every year in purchasing. They found that as a wholly owned Commonwealth owned business enterprise they had gone along with the devolution of purchasing, too. They had stuff being purchased all over the country by all kinds of people. They hauled it back into a central control unit, particularly for large purchases, and saved, I have forgotten how much money, but you can read the report. It was really very significant—many, many millions of dollars.

We made recommendations regarding the reporting of activities so that the suppliers out there can find out what is really happening in the Commonwealth and what chance they have of participating in government business. We talked about value for money. Everybody seems to agree that nobody really knows what it means. What it does not mean is simply the cheapest price.

We did talk a lot about ANZ content purchases, and I am pleased to report that most Commonwealth agencies have responded to that report very well and have got their ANZ content up significantly. The contract management report focused on the skill base managing the contracts once the purchase order was let. It focused on the knowledge of the people trying to drive the thing. I think the point has been made here—and I have forgotten who made it—that you do not start contract management when you start to manage the contract; you start contract management when you start to write the specification for the purchase order. That needs to be planned and followed through, and it is clear, at least in my view and I think the committee's view, that the Public Service still has a long way to go in matching the private sector in managing large contracts. Some of Mr Barrett's audit reports will confirm that.



Turning to the contract management report, we once again, as we did in an earlier report on Collins class submarines, asked for auditor-general access to contractor records. As I told you yesterday, that has now been accepted and the bureaucracies are in the process of telling us exactly how it is going to work.

We looked at commercial-in-confidence and made very specific recommendations that nothing is in confidence unless the department's CEO says it is. If he says it is—that is, a portion of a contract is commercial-in-confidence—then he must justify to our committee why he did so. We have yet to hear from the bureaucracy, but we are hopeful.

The last report was corporate governance. With Commonwealth government business enterprises, we found that basically there are not many left. I think there are nine—that is all that we have got left. We have sold most of them. Of those remaining, most of those are corporatised, and the ones that are not will be shortly. That means they operate in a more contestable environment. Most of our recommendations centred around their boards of directors and the competence of their directors and the importance that they place on training, just like everybody else, so that they know what they are doing and they perform properly because they are operating what is essentially a public company.

So all of these things go together to form the accountability parameters and framework that we are talking about here in the entirety of this conference. Those are some of the whole-of-government issues that we have looked at over the past two and a bit years, and next year we will go back and have a look at the Audit Act and see how well that is performing. We are going to have a look at how departments are reporting their outcomes and outputs so that politicians who do not necessarily understand all the bureaucratic jargon and who may not even be familiar with standard accounting procedures can have a good idea of what is happening.

**Mr MALOWAY**—My question is about Centrelink. Have you have done an analysis of the progress of Centrelink? How it is developing and what are the results so far?

**CHAIRMAN**—Not really. Mr Barrett has conducted an audit—

**Mr BARRETT**—We have done a number of audits. Obviously, with the size of Centrelink and the question marks over its operation in a welfare environment and the issue of its status means that we have had a considerable interest in it. It is not only its size and the resources it uses but also its impact on the community. We have done a number of audits on Centrelink and they have all been reasonably positive. Clearly, there are always things that need to be improved as they do anywhere else but, generally, its operations have met the requirements of good corporate governance.

They have had quite good performance information which they have reported adequately on. They have good internal management. Their service charter and the follow-up with that and with their clients or customers or whatever terminology you use—I would sooner use 'citizens'—have tended to be reasonably positive.

They have had their problems. As the chairman said the other day, they are looking at the whole of their IT outsourcing, and the board has been concerned with that to ensure that not only do they get an efficient competing operation but also they ensure that they meet the

concerns of privacy and confidentiality for individuals and any other public interest issues that may come up because of the nature of their operation. In a sense they are still very much on trial, being operated with private sector members on their board in an area where they are a natural monopoly but where they are trying to ensure that they do have performance information on which the government and the parliament and the general public can be reasonably confident that they are using the extensive resources efficiently and effectively. It has been the subject of a lot of attention and to this point in time I think they have a pretty satisfactory report card. In fact, they extensively use the balanced scorecard approach for their own internal management and they are probably one of the more successful agencies that has adopted the balance scorecard approach.

**CHAIRMAN**—Do you want to tell us about that for those of us who do not know exactly what a balanced scorecard means?

**Mr BARRETT**—It is a bit like value for money problems: what is it that you are trying to assess in terms of performance? For example, you could be talking about, as we talked about yesterday, quality of service and trying to assess what that actually means in practice and getting indicators that reflect the face-to-face arrangements. In part of the service charter, for instance, there are quite a lot of measures that indicate the relationship between those who deliver services and those who are the recipients of services that go beyond simply things like response times in terms of letters, telephone calls and the like to the actual relationships. You try to assess that across quite a lot of variables. That is the whole nature of a balanced scorecard; you try to get a more balanced view about the overall performance of management in delivering their required outputs and outcomes. That is fairly information intensive and it does involve a fair amount of judgment. There are considerations, such as New South Wales put, in terms of the limitations of performance information. Nevertheless, if they are taken as performance indicators and used as such, then with a wide variation of all price factors, non-price factors, service factors and the like you can get a better view from internal and external stakeholders as to how the agency is travelling. That is the whole notion of trying to get those encapsulated so that both the clients and the people who have to manage those services are satisfied that they do reflect a much more balanced view about what it is that determines the impact of the performance of that agency.

**CHAIRMAN**—I now call on Martin Hamilton-Smith, from the South Australian public accounts committee, and Dr Arthur McHugh, the Tasmanian Auditor-General, for a session on measuring performance.

### **Measuring Performance**

**Mr HAMILTON-SMITH**—Thank you, Mr Chairman. We have a paper in the conference notes dealing with measuring performance in the public sector, but I am going to broaden it out a bit to the measurement of performance across government as a whole. It is very hard to distinguish between them. I am going to make the point that really performance needs to be measured against plans and that it cannot be divorced from the overall corporate strategy and culture of government. In essence, measuring performance needs to relate to the value proposition that government and the public sector have put to the people: what is the return on the investment for the taxpayer? I think this is the increasing focus and direction in which we are heading. When we approach it from that direction, we find ourselves wanting in measuring

performance. I assume that our experience in South Australia is consistent with that of most other states, and it will be interesting to talk to people afterwards.

The South Australian state budget was prepared on an accrual output basis from 1998-99. The concept of outcomes and results orientation was aimed at ensuring that full cost of outputs and all goods and services produced to achieve those outcomes provided by an agency form the basis of resource allocation. The goal was to shift the focus of portfolio agencies away from traditional concerns about program spending and activity levels towards outcomes and outputs.

To give one example—and there are many—South Australia funds and operates a universal kindergarten capability for the people of South Australia and hopes to offer places for up to 96 per cent of eligible children. We have been able to ascertain from this new accounting process the cost per child of provision of services, taking into account all costs. We found that we are actually delivering the service at a far greater cost than equivalent services that parents can access through the private sector. It raises questions about whether government is efficiently providing those services or whether there is a better way to provide them. There are many examples of that. Once you capture the full costs, you can really start to put the acid test on whether or not you are performing efficiently.

One clear aspect of the revised approach to both developing and monitoring the budget was the distinction between outcomes and outputs. Outcomes and outputs have been employed as a basis for measuring the extent to which certain priorities have been achieved by portfolio agencies. According to government, the reorientation towards outcomes was achieved through a framework of reforms comprising top down planning from government priorities, setting key performance indicators and related targets and reporting thereon. However, when you start to examine the departmental annual reports, you find a little of that wanting. Best practice suggests that performance measures are developed, monitored and reported on throughout an organisation by identifying the vital measures that provide the clearest picture of portfolio performance, monitoring performance, providing relevant reports and analysis, evaluating performance and taking actions to improve.

The South Australian Department of Treasury and Finance has developed a framework for performance measurement and has introduced a guidebook called *Measuring performance*, which forms part of the budget handbook. The guidebook suggests that measuring performance includes an ongoing process of monitoring, analysis and reporting, as well as a rolling review process that takes place over a longer time frame. The performance measurement framework is based on the balanced scorecard approach—and details are provided in our paper—which moves away from the sole use of quantitative measures. This approach requires performance being monitored and reported upon in areas of growth, innovation and learning, customer satisfaction, internal business processes and people commitment.

At the same time, traditional financial measures—including asset management and sustainability, accrual measures of profitability and financial stability—are also employed. The guidebook requires that portfolio statements—public documents prepared by the portfolios—must show how performance will be measured for the key outcomes and outputs agreed in the budget process. The types of performance measures which are reported include effectiveness, benchmarking outcomes and costs, sustainability, quality, quantity, timeliness and cost, and efficiency.

The Auditor-General undertook a review of performance measures, as presented in the 1999-2000 budget papers. It was undertaken to make a preliminary assessment of how the development of key performance indicators have progressed and to highlight any issues that might warrant the government's attention. The review indicated that considerable variation in the emphasis for performance measurement criteria existed between portfolios—that is, quantity, quality, and timeliness and cost. It also indicated incompleteness of performance indicators and that the use of information was inherently subjective when measurement criteria were difficult to ascertain.

Audit undertook a more detailed review of performance measures developed by two portfolios: the Department of Education, Training and Employment and the Department of Human Services. The two portfolios comprise about 40 per cent of total payments in the 1999-2000 consolidated account. The following preliminary observations were made in respect of the portfolios' key performance indicators: no performance measurements or measures for outcomes had been developed by either portfolio; of the output measures, 28 per cent either did not have targets established for that financial year or required the collection of baseline data; and from a review of the portfolio statements, the reasons for, and the significance of, the Department of Human Services performance measures focusing on quantity—while the Department of Education, Training and Employment focused on quality—were unclear.

The 1999-2000 audit undertook a further limited scope assessment of four key portfolio agencies to follow up on the progress achieved by government agencies in this area. The key findings of the review were that there were unclear linkages between agencies' strategic and detailed plans—and I will come back to that point later—and that the information reported within the budget papers for stated outputs and performance measures simply did not measure up to those plans.

Attainable rather than key performance indicators to achieving the output were listed within the budget papers. Some agencies considered key performance indicators provided by the departments of treasury and finance as ones being for external reporting purposes and readily measurable and achievable rather than having true indications to agency performance. Currently, the budget papers are widely considered a distinct management reporting exercise for external purposes rather than an integral link to the operational planning and management of government. Most agencies had not developed the systems, processes and procedures to readily facilitate timely, regular and continual monitoring of performance measures on an internal and external basis.

The audit review of the 2000-2001 budget papers reveals many measures and many outputs. What is clearly absent, however, is a specification as to what measures would be considered key. Performance measures can always be found in abundance for any sector. Alone however, such measures fail to appropriately discern exactly what are considered key—that is, relating to wider government objections and outcomes—and which are considered information or contributory to key measures. Audit also expressed concern that there was no basis for frequent reporting in a monitoring sense to cabinet on a current year's budget. The focus seems to be on updates for the next budget cycle. Also, it is not apparent that formal reporting of actuals is a requirement for agencies.

In respect of government business enterprises, performance is a little more pragmatic and can be examined a little more scientifically. Unlike their private sector counterparts, public corporations in South Australia do not have autonomy in establishing their corporate governance arrangements and, as such, they must comply with the government's framework of legislation and policies aimed at improving the accountability, governance and effectiveness of their business. The South Australian government's preferred accountability model for these commercial agencies is through the provision of the Public Corporations Act 1993. Agencies operating under that act are required to prepare a charter that outlines the purpose of the organisation, its strategic objectives, restrictions on its performance and reporting accountability obligations. In addition, an annual performance statement must be prepared that sets out financial targets for the coming year: borrowing limits, dividends, key performance indicators and short-term strategic objectives. In the case of government business enterprises it is easy to look at financial indicators, return on equity, return on assets, debt equity ratios, annual dividend targets, et cetera, as well as non-financial performance indicators such as customer service standards, reliability of supply, labour productivity, et cetera.

In conclusion, our performance measurement process in South Australia probably warrants considerable repair. Performance must be measured on the basis of plans. Plans clearly flow from a strategy which flows from aims and objectives. Government lacks—and this is a personal view—an overarching strategic framework within which various departments and government business enterprises should be operating. This is quite evident when one picks up departmental annual reports and finds different vision statements, different objectives and different strategies spelt out in a manner which clearly indicates that there is no central strategic guidance which is binding together the activities, efforts and performance of those departments and which provides a basis upon which performance can be measured.

This was quite apparent during our Economic and Finance Committee's examination of industry assistance. Hundreds of millions of dollars have been spent in South Australia—and I am sure in other states—on attracting and retaining industries. Yet when you look for a model or a basis for measuring the performance of that investment you find yourself wandering around in a dark room groping for answers. On some occasions the return on investment appears to have been to create jobs. On other occasions the reason appears to have been to create investment or to create or add to GSP. On other occasions, all too rare, the object seems to have been to attract some form of innovation or some form of intellectual property to the state.

There is no common thrust in our industry assistance programs. That is not surprising when you consider there seems to be no overarching strategy in securing a return on investment, because there is simply no well considered strategic approach. I am sure other states—as I see heads nodding around the table—find themselves in the same predicament. Now, of course, the political realities of life tell us that often governments do not want to be held to account and therefore do not want specific objectives or targets which can be used as a basis upon which to measure performance. There are logical reasons for that which we all understand.

I think the important thing for us to realise, and for public accounts committees to realise, is that the world is changing and that with the new economy and the information based changes that are out there at the moment government and public accounts committees need to change, and this has been touched on in a number of matters we have discussed earlier. Parliaments rather than governments may have to agree or set down strategic parameters within which

successive governments must operate, and there may be a changing role for public accounts committees and for other structures of parliaments here in establishing this strategic environment in which successive governments need to operate so that the rapid 90-degree turns are evened out and so that there is a valued proposition that can be put to the people of the state as to where we might go over 15 or 20 years rather than short-term, short focused outcomes and the short-term focused measurement of performance, which seems to be the characteristic in most states.

As mentioned earlier in other papers, there perhaps needs to be a new paradigm. In accounting for public funds and in their examination of government, maybe public accounts committees need to embrace more fully the private sector—and I would add to it our centres of innovation—and look at the three, the private sector, government and our centres of innovation, our universities, as one economic activity and one financial activity which needs to be accounted for on the basis of some new paradigm which no longer looks at government in isolation and accounts for public funding in isolation but is more interconnected with the other components of our activities and of government's involvement with the community in the expenditure of public funding.

Such a new approach might help us to overcome some of the political imperatives we have talked about in the last couple of days which tend to undermine an overarching strategy in each state—the statement of clear objectives and targets and then a solid, concise process for measuring performance. With that, I will hand over to Tasmania.

**Dr McHUGH**—About 45 years ago I sat down in a classroom in Perth, Western Australia, and was given Charles Dickens's *Tale of Two Cities* and told to read it, learn and inwardly digest. My very dim recollection of that book is that it starts off something like this: 'It was the best of times, it was the worst of times; it was the summer of something or other, it was the winter of something or other else.' Was Charles Dickens just having a bad hair day? Couldn't he get a decent weather forecast at the time? Couldn't he make up his mind? Were there no professional sportsmen around to take advice on what the weather conditions would be like that day? Or was he expressing the infinite complexity of human condition and the fact that individuals and groups may be affected simultaneously in very different ways by the same events that are occurring in their vicinity? I rather think it is the latter.

If you were a man from Mars or a woman from Venus and someone said, 'Here's the Tasmanian education system,' and there are hundreds of schools, tens of thousands of students, thousands of teachers and there is \$600 million of public money spent on it every year, most of it coming from the Commonwealth, how successful do you think we would be in measuring that kind of output from such an education system with numbers of five, 10 or 15? Does anybody think that is going to be realistically possible? Yet that is the kind of task that we set ourselves. At least half the people around the table will be saying 'Aha! Arthur McHugh is on our side. Kemp's wrong. The Commonwealth's misguided. Educational statistics about literacy and numeracy are misconceived.' No, I am not on your side. But what I attempted to do in this paper, as a typical auditor and a typical Auditor-General, was to set down the doom, the pessimism and the difficulties that are associated with performance measurement.

Why do we measure things? First of all, statistics are not only lies and damned lies; statistics are useful in order to inform public debate. You cannot have a decent debate about education

without knowing some statistics. You know what your own child or your neighbour's child is achieving. You know what their experience is, but you cannot know the totality of experience. You cannot know that without there being some practical, consistent collection of statistical material upon which to base decent public policy. It abstracts from the individual case. It avoids the problem where one person in a public housing queue waits for three days for emergency accommodation, ignoring the fact that for the last five years everybody has been treated wonderfully and beautifully. It abstracts from the individual case to the general case. That is why we measure things, but the problem with measuring things, as I said in the paper, is that frequently we have to make do with outputs rather than outcomes. I come back again to education. How do we know now that what we are doing to children is going to be beneficial to them 10 or 15 years after they start their educational experience? It is a matter of having some kind of theoretical model in our minds so that, if we do this to them and allow them this experience, later on they will become good citizens, valuable workers or whatever objectives you have in mind for your education system.

In the good old days, if you ran a railway you had a big lever next to the station. You pulled the lever and one thing said 'go' and the other thing said 'stop', and with a bit of luck the driver would obey the signal. But in education, or in health to some degree, we do not seem to have those simple cause and effect relationships clearly worked out and agreed. We change from one method of teaching reading to another every five years. We follow the English, we follow the US, we follow New South Wales, in a never ending cycle. During this time the performance measures, which are being based upon people's notions of how we should best achieve our outcomes, are constantly changing. There is a very great problem with the fact that we only sometimes measure outputs, and that sometimes we do not know the proper linkage and the strength of the linkage between outputs and outcomes. This, to some degree, is incurable. So the paper properly takes a somewhat pessimistic line that somehow around the corner we will all discover the truth about how to do this thing properly.

Of course, the other problem is that when we go to these overarching measures we lose the particular. Those of you who took the trouble to look at the paper would have noticed the forty-spotted pardalote problem. And what is that problem, you ask yourself? The problem is that when the department that has the responsibility for monitoring environmental research reports on how it has spent its money, it is not going to report on the forty-spotted pardalote expenditure of about \$5,000 a year; it is going to get lost somewhere in that generality. So performance measures at the general level are never going to substitute for an individual inquiry which relates to some specific issue.

What then is the experience in Tasmania? I have mentioned a little research exercise I did. It took me fully 20 minutes to open the budget estimates documents for last year and to scan a particular agency. I opened at random; it happened to be DPIWE, which is the Department of Primary Industries, Water and Environment. Without wishing to take them to task in any way, I have given four examples from their departmental budget measures. What did we find in relation to the environment for Tasmania, the leader in clean, green environmental consciousness, et cetera? We had something there about ozone and we had something about the Launceston air quality but nothing about soil and nothing about water. This is not quite the acme of perfection of performance reporting, so we are not there yet in Tasmania.

What is the way forward? I have suggested some very simple practical things—they are not news to anybody. First of all, the targets have to be set by the people who are governing the state. There is no sense in asking the department to conceive of the performance measures. If they are going to be set by the department, they have to be agreed to by the government. In the same way, if it were a GBE, you would not let the GBE go and run its own profit and dividend forecasts or decide which areas of activity it was going to be involved in. The minister would say, ‘I want to settle these things first.’

Performance measures ought to be settled by the executive. They ought not to change from year to year or to include targets. They ought to require a third party—such as my own—checking whether the indicators have been properly reported. We all also ought to aspire to outcome measures—but, also, in some cases, to recognise the futility of that. I have given the example of Treasury and Premier and Cabinet offices. Another one might be useful: I had the great fortune to work for the National Companies and Securities Commission about 12 years ago, and I think it did a tremendous job.

The National Companies and Securities Commission was visited several times towards the end of its career by very earnest young men—and they were young men—from the department of finance. I think Pat Barrett sicked them on us in his previous manifestation. They told us that we had to have performance indicators, and we said: ‘We’ve got performance indicators. We tell you how many companies we have registered, how many names we have reserved and how many prosecutions there are.’ They said: ‘Oh no. We realise that but we want you to have policy. We want you to be able to say how effective your policy is.’ We scratched our heads for a long time; we could not think of anything. At the time, we thought we were just plain stupid but, in retrospect, I do not know that there are any good measures for policy agencies and I would be very glad if people told me of the good policy measures that they have for those whole of government departments. Mr Chairman, I have attempted to be a trifle controversial. I do not know whether I have succeeded but that is the end of my commentary.

**CHAIRMAN**—Thank you very much.

**Mr HOPE**—For those of you who do not know, the primary role of the Public Sector Centre of Excellence is research. This year, we have on our schedule research into this very topic—performance measures. Unlike the auditors-general, I do not have to wait for the research to come out to make some comments. I am with Arthur. You might think that I am against performance measurement, because of what I will say in the next couple of minutes, but I am not. It is a very important concept—and it is more than a concept. It has very practical application in all walks of life, not just in the public sector. But, rather like Arthur and Martin, I do have a problem with what I have seen so far and with its implementation.

My problem is that we have this fetish for managing by numbers. It is just like the budget, isn’t it? What is a budget? A budget is a dollar representation or a quantification of an organisation’s goals and objectives. We turn the goals and objectives into dollars: we manage by the dollars and we stop managing by the goals and objectives. Now we have some maturity in our budget process and our budgets are more focused on outputs and outcomes, and perhaps we are starting to manage more by the objectives themselves.



I think that is how we have to view performance measurement. Performance measurement is not about looking at the numbers. I have had a look at both papers and there are some interesting comments, particularly in the South Australian one. The South Australian Auditor-General said, 'I have a couple of years worth of numbers there. It is too few for me to make any conclusions about.' I think he made a very astute comment that it is too few to make some conclusions about. As well as the numbers themselves, what do those performance measures actually measure? Think about what you might have read in that South Australian paper and say, 'Are they appropriate performance measures for the public sector?'

I know the paper talked about GBEs but I have seen plenty of public sector organisations, which are not GBEs but are budget-funded agencies, measuring the performance, particularly financial performance, by the working capital ratio. What the hell does that mean to a budget-funded agency? What does it mean to a local government which has taxing powers? Should we judge working capital as the way to measure a local government when it has taxing powers? The fact is that it has no money left on 30 June but gets all its rates in by July and August, so it knows it can afford to pay its budget. We have to think a bit more about what those performance measures are.

What I am really trying to say is that there is nothing wrong with using performance measurement but it is how you implement it. We have to think about what the performance measures are. Not only do we have to think about what the performance measures are but also we have to think about the context in which we are measuring these things. The reality is that one size does not fit all. You have to look at the context of the organisation and try to figure out what an appropriate performance measure is for that organisation. I do not want to stand here and tell you what appropriate performance measures are, because I think we have to use the principles of performance measurement to work them out, rather than have me suggest what they might be.

One of the points that was made in one of these papers, which I would like to talk about, is the problem of getting the commitment of management. Do you know why you do not get the commitment of management for these things? Because management are generally not involved in setting them. While I appreciate what Arthur says—that the government should set them from the top—the reality is that, if we go back to the old budget and look at variations in the budget, we always talked in terms of management about controllable and non-controllable costs. So if we say to managers, 'You manage by these performance indicators,' and there is no way the manager can control what the numbers turn out to be, they are not going to be particularly committed. So we really need to get useful performance measures. Let me set out some of the principles.

Management have to be involved in developing them. They have to be appropriate—in other words, that is in context—of the organisation. They have to be realistic and understandable and, more importantly, they have to be measurable because sometimes you come up with performance indicators which we cannot measure, and that is the problem with policy that was referred to by Arthur. There have to be measures that assist management to manage. They cannot just be numbers for their own right; they have to assist management to manage.

I remember very well my first role as a CFO, and I wrote the board a paper about what the variances were in the budget. The general manager came to me and said, 'This is a lovely paper,

David. You have told me what the variances are. What you haven't told me is why. Why is there a variance?' That is what the performance measures have to give you an indication about. Why didn't we have the performance we expected to have? That is why it is important to get management involved in them. If you want to get management committed to them, it is the age-old thing. In the public sector now, all managers are evaluated on their performance. So you have to put the performance measures into their performance appraisal—the ones that they have been involved in developing—and then they will be committed to getting the right numbers for you, especially if it means that they get a performance bonus or they may actually keep their job. We have to be a bit hard and callous, I guess, in that regard.

**CHAIRMAN**—Thank you very much.

**Mr DANGOR**—I think one of the issues that we should look at is, 'What are we seeing of management by objective?' Are we setting particular objectives so that the minister, when he presents his particular budget in parliament, is actually entering into a contract with the legislature? The oversight committee then, whether of housing, land or whatever, is going to measure that particular minister on the financial aspects of the outputs and outcomes that they have agreed to. They need to be measured on that particular level and measured continuously, where they are moving from program to program at one particular point in time. We have taken the view—we have had this debate and it is not conclusive— that performance management needs to be referred to the portfolio committees and not necessarily to the public accounts committee, because they cannot be expected to be experts on everything and, in fact, did not agree in the setting of the policy in the beginning. It was the portfolio committee that did that and we should move along in that particular direction. That is the management by objectives with which the legislature, through the portfolio committees, will measure the minister, and that becomes the contract between the minister who is now the manager and the legislature which is his boss.

**Mr RICHARDSON**—The Public Bodies Review Committee has actually done quite a bit of work in the key performance indicator area. Certainly we have not come up with any new meaningful statistics that can be used by education departments. I note that both South Australia and Tasmania say that that is extremely difficult. I also think that it is important that you should establish your goals and set these key performance indicators because it helps the departments to focus on why they are there and what they are doing. If you have a look at the New South Wales Department of Education and Training's annual report over a period of time, you will find that it focuses very much on busyness and the fact that it has so many students, there are so many teachers and so many schools have been opened and so on. It does not tell you anything about what has been achieved by the department. Indeed, if you think about it, you have got to look back and say, 'What do we want to achieve through the education system?' Literacy and numeracy standards are important. They provide an important basis for comparison between years, and that is extremely useful across the whole country.

You can go further down the track and say, 'That's not enough. Why are we educating these young people? What are we hoping to achieve?' We want presumably to make them into useful members of society and useful citizens. We want them to get jobs; we want them to be able to contribute. We want them to be happy throughout their lives. We want them to engage in lifelong learning. These are all activities that I think the education system should be priming those young people for. They are not being addressed in any meaningful way through key

performance indicators but they are something that I think needs to be progressed this century before too much longer if we are going to be a clever country and a knowledge nation. It is simply not going to happen unless we develop those key performance indicators to understand pretty clearly what the schools are supposed to be doing. It is not simply having kids stay at school to make the unemployment figures look good. You can have kids stay at school until the age of 18, go through year 12 and go out onto the dole queues or whatever. That is not the end goal of schooling.

Obviously, retention rates are important and there have been some alarming instances of retention rates slipping in the last year or so. I do not know what the situation is like in Tasmania. I think the retention rate is actually slightly higher than it is in New South Wales. But at the end of the day, are those kids actually learning what they need to learn to get out there and be useful members of society, to progress to tertiary education and to go on from there? Is that what we are actually achieving through the education system?

You can extend that sort of analysis to a whole range of other government departments. Police is one; it is very difficult to actually measure the effectiveness of a police service. If you do it on the basis of the number of criminals apprehended, if part of the rationale for having the police service is to reduce the incidence of crime, then it will become self-defeating. There is no actual incentive for them to reduce the incidence of crime by engaging in crime prevention activities, because that is making them look bad at the end of the day. So you need to look at a broad gamut of key performance indicators for the police service, which is a very difficult thing to do. Ultimately, what you are trying to achieve, of course, is a safer society. That is something that is not just down to the police service to attempt to achieve; it is down to almost a whole of government approach. It goes a long way beyond simply having more police on the beat. It is a very simplistic view of the way in which you conduct your law and order policies. I think those are issues that delegates here should be considering in this whole argument. It is a very difficult one, but I still think that we should be working a little harder at developing key performance indicators, not saying, as the South Australian Auditor-General has done, 'There aren't any. It's all a bit too hard.'

**Mr HALLAM**—I will offer a comment from a quite different perspective. I enjoyed the paper from South Australia and the one from Tasmania. I know that Arthur was trying to be provocative. I am not as despondent as you would want us to be here, Arthur, because we are all genuinely seeking the answer to these issues. I am not sure that there is a Holy Grail out there, but we are seeking some answers. I have been around for long enough to remember the reverse, and we talked about it at lunch yesterday. It is not that long ago that the only real test of stewardship was whether the money had been spent. In fact, come the end of the year, if it was not spent, there was a black mark. So I think we have come a long way. The search for the magical KPI might still be here in a hundred years time, but the embracing of accrual accounting has turned a very important page. I am really heartened to see the work that has taken place across the jurisdictions to pursue the KPI. There will be a different suite for each jurisdiction, and there will be different arguments about whether they are appropriate or not, but my view is that we have come so far from the crude test of whether the money was spent, and that was the only test of stewardship not all that long ago.

I do not feel old. I have been in politics for 16 years and I have seen that change. If we project that forward another four or five years, particularly with the support that we look like getting

from the accounting profession, I see some enormous developments taking place in terms of stewardship. At the end of the day, what we are really seeking is an alternative to the dollar sign in terms of testing for stewardship. I see enormous progress taking place in that context, and I am heartened to hear the comments around the table.

**Mr ASHTON**—I want to disagree with what my colleague Michael Richardson said. I spent 22 years as a school teacher before I got elected to parliament. I want to make this point: key performance indicators being applied to education is one of the most useless things that you could ever try to do. It is very easy to say, ‘Yes, we bought some toner and we bought a couple of photocopiers and we put them in the school and therefore we’ve got some outcomes.’ That is wonderful, and if that is what the public accounts committees of Australia are looking at, good luck to them. But how do you evaluate what a school teacher does in the course of a day when they do not even get into the classroom to teach a lesson because they have a gang that attacks their school—it could be in any state—and when they have to deal with students who come to see them with social and emotional problems? I have had year 11 students who have already got two children collapse at the back of the room with heroin overdoses. At the end of the day you have taught no lesson and some bureaucrat or public accounts person can say, ‘You’re not going very well there. You didn’t get the outcome we wanted for learning’ and these other things that Michael spoke about.

Be realistic. There are some things you cannot apply key performance indicators to if you are talking about the expenditure of public money. You just cannot get widgets out of schools, produce them, send them out there and say that you have done a good job. In teaching, health and a lot of other areas you have to accept that money is not valued just by the outcome you get. There are social implications. There are these triple bottom lines now that do not just involve money.

**Prof. GUTHRIE**—I am from the Macquarie Graduate School of Management. Both papers were very thoughtful about performance measures and operational issues. This issue has been around for a long time, and I suppose I am one of the lucky ones—I have been around for a long time myself. I go back to the late 1970s in Victoria, where I was part of the Victorian Public Bodies Review Committee. I was on the subcommittee of performance indicators for the water industry. A group of us so-called experts worked in water industry performance measurement for two years and came up with an array of indicators that were, in the term we would use now, key performance indicators. We went to the minister and the minister said he wanted five indicators to manage his department. We had a problem: we had to consolidate all our performance indicators into five key indicators.

The problem I have is that we could go through a whole range of public accounts estimates committee reports for the last four, five or six years, and we would all be saying similar sorts of things that the Auditor-General from South Australia said and that I said in the society’s research lecture last year when I looked at accrual annual reports and outputs. We can criticise performance indicators quite easily. The question I have to which I have no answer—because I am an academic and I am allowed to be critical and pose questions—is something that we have to face up to because, at the end of the day, we are talking about over 20 years of performance indicators being part of managerialism in the public sector in Australia and we have not solved the problems. The issue for me is the way forward: do we actually try to move towards some form of standardisation, some sort of principle, some way that we can think about handling this?

The only issue then with standardisation is: do we throw the baby out with the bath water? That is, should we be looking for the range of performance indicators not only in terms of financial but also in terms of the social, environmental and other sorts of issues that we are trying to come to grips with? Pat Barrett's paper gives us some indication as to the array of other performance sets that we may want to use.

**Mr QUINLAN**—A few kilometres from here we have our Canberra Hospital with an intensive care ward. There are a number of souls in there connected up to machines and just a handful of measures that are highly critical to their survival. They are indicators without being a complete picture, and we must look at performance measures starting from that point: although they are not complete they are still critical because the consequences of not having them are quite dire.

I rather think this particular area is developing into a science. There needs to be considerable structure introduced to performance measures. In some of the annual reports and budgets that I have seen in recent times there seems to be a wide net cast, but they do not have the structure that is necessary, so the key indicator sends you further down into examining the performance of the organisation. My bottom line is that they certainly ain't perfect but they are absolutely vital, and we must continue to improve the process of measuring both numbers and the quality of the service that we deliver.

**Dr WILKINS**—I am from the Western Australian Auditor-General's office. I could really reinforce the point Ted has just made. Fifteen years ago the parliament of Western Australia had the wisdom to specify that agencies would report performance indicators. That created a mindset that these are no more than indicators. They provide some sort of window on performance, and they allow members of parliament and the community to ask more probing questions and look into research as trends appear in these indicators. Some of the discussion I have heard here sets very high expectations on—if you use the words—'performance measures', some concept that you have a comprehensive or a largely comprehensive measurement of performance. Numbers in themselves can rarely do that; one needs more.

I would perhaps contrast our Western Australian experience with some of the developments in Canada federally, where I spent six months. They have started a course of not reporting indicators, but requiring a limited number of federal agencies to issue performance reports. The thing that struck me, particularly in the great challenge they have undertaken, when we had the discussion earlier about how little we know about the links between outputs and outcomes, is that they have called on the agencies to start what is really a discussion about what they call attribution: what is known and also what is not known about the effect of their activities. So many things in government are done because they were always done that way; it is common belief that this results in that. Just laying that out on the table makes people realise that in some areas there is a strength of causal connection—and one can talk about research which underpins it—and that in other areas it is currently more faith than scientific information which leads to the programs that are being run.

**CHAIRMAN**—Thank you. Anyone else?

**Mr LONEY**—I have a couple of comments on the discussion of objectives and measurement. Firstly, I will put the point of view that I do not believe it is the public accounts

committee's role to set the objective. It is clearly the government's role to set the objective. The role for the public accounts committee is to keep the pressure on for a meaningful measure against that objective. I think we have to be careful about the role there so that we are not trying to redefine or second-guess what the government is actually aiming at or what its object is throughout that process.

I think the second thing we have to bear in mind is that public accounts committees can probably do a disservice if they are inflexible in their attitude to the measure that has been adopted and the later reporting of that. If you take a rigid view that 100,000 units of this was to be delivered, according to the estimates, and you later pick up the annual report to see it was not delivered, and then want to nail that department on the basis of that, that may not be the best way of going about your task. It may well be that the better way to go about it is to seek the explanation for the change or for the non-achievement of that target. It may well be that the department in working on that particular project determined that it was not an effective project, changed its priority and shifted its funding.

I think we, as committees, have to make the shift as well from simply saying, 'We are demanding a performance measure,' to evaluating what has gone on and using the performance measure for the basis of an evaluation of what has occurred, not as some sort of an end in itself, but as the signpost on the road to evaluating effective performance. I think that is where we really have to go. That probably means that we have got to be, in some senses, a little more flexible about the way that we are treating the departments in their production of measures and not scare them into thinking, 'We said to the public accounts committee we are going to do this, so that is what we have to do.' It is not necessarily going to achieve positive outcomes at the end of it.

**CHAIRMAN**—We in the Commonwealth have a somewhat different view. That is to say, we expect that the department CEOs will decide what performance indicators they want to provide in their annual reports. We expect some consistency and continuity, but we also have the right to tell them what will be in annual reports and we guard that quite jealously. In fact, it almost got removed by accident or by design last year, and we told DOFA very quickly that it was not on.

**Mr LONEY**—Mr Chairman, I do not think we are at cross-purposes. You are talking about the elements that comprise the annual report. I am talking about the actual objective of the department.

**CHAIRMAN**—Fair enough. We will reconvene at approximately 3.15 p.m.

**Proceedings suspended from 12.26 p.m. to 3.18 p.m.**

### **Accrual accounting**

**CHAIR**—We have come down to the end of the two-day conference. The agenda says that accrual accounting is now a universal experience. This topic was suggested at the ACPAC mid-term meeting in February 2000 as a useful way to share experiences. We did hear of the New Zealand experience yesterday. Does anyone want to continue to pursue this accrual accounting issue, or have we satisfactorily done it? Does anyone wish to speak to it?

**Mr SENDT**—I have just one point. I think we probably all have some obligation to assist parliamentarians in particular but other users also, because the quantum and the complexity of financial information now provided is such that I do not think that we can reasonably assume that the layperson in the street or most members of parliament can understand financial statements as they are these days.

In times gone by, people knew what the concept of cash appropriations was. If an agency underspent or overspent by \$1 million, that was a fairly understandable concept. With respect to the financial statements that they get now, accounting standards change and abnormal items disappear or no longer exist. I think we probably all have some sort of obligation to assist in educating—from an Auditor-General's viewpoint—our principal client, the parliament, to understand that. That was not a question, just an observation.

**CHAIRMAN**—Thank you for that. We have a sizeable delegation here from South Africa and they, of course, have their experiences. I did not ask them to speak yesterday during our session when we each described what we have done for the last two years because South Africa is not a member of ACPAC, but I call on them now to share with us their recent PAC experiences.

**Ms ESSOP**—On behalf of the South African delegation, I would like to use the opportunity to thank the Chairman, Mr Bob Charles, and ACPAC, for extending the invitation to this conference. We greatly appreciate it, and we have certainly learnt a number of lessons from our attendance at this conference. I would also like to extend thanks for including us in the program. In fact, yesterday the delegation became quite worried because our national Auditor-General warned us that we were bordering on fruitless expenditure in coming along if we did not participate in it actively enough, so we thank you for including us in the program.

We have circulated our annual report, and I hope everybody has received a copy of it. It is the first annual report of the Association of Public Accounts Committees in South Africa. This association has very similar objectives to those of ACPAC. We are slightly differently structured. We are, I suppose, far more permanently structured in that we have an annual conference at which an executive is elected. I want to take this opportunity, if the conference permits me to do so, to introduce some of the executive members that are with us on this delegation today, and also to introduce our National Assembly public accounts committee members who are here and who are also members of the Association of Public Accounts Committees. I would like them to stand up. We have been sitting at the back of this conference for the past two days, and I think it would be nice for people to see the South African delegation. Our Auditor-General, Mr Fakie, is here, as is another member of the audit office, Mr Botes. They did not attend as part of the delegation because the Auditor-General's office, as is the case in this country, is independent of our accounts committees.

The Association of Public Accounts Committees was launched in 1997 after the various public accounts committees throughout the country realised that we needed to pool our energies in order to promote and enhance our role and responsibilities as various public accounts committees in the country and to enhance democracy in the country after 1994. So the National Assembly, together with the nine provincial legislatures, joined forces and formed this association.

We have an annual conference, as I indicated, and in between conferences we have a council of delegates that meets quarterly, in a very similar fashion to the kind of conference that you are holding now, where the various legislatures report back from their jurisdictions on work done and the experiences gained from the public accounts committees. We take, as a very key responsibility of the association, the building of capacity of public accounts committee members, so we have structured a more institutionalised form of training program for our public accounts committee members. We are very pleased to say that we are reporting in our annual report that we have just completed our first module and will be moving on to our second module and then, in the third quarter, to our third module of training. By the end of this year we are hoping to have trained all public accounts committee members in South Africa, which we believe is a really major achievement.

We would also like to take this opportunity to extend an invitation, like we did for our previous conference in May 2000, to ACPAC to attend. That annual conference will be held in May again this year. It is to be hosted by our province KwaZulu-Natal. It is going to be, I believe, a very exciting conference. Many of the themes discussed at that conference would be similar to the kinds of issues raised at this particular conference. We would like to take the opportunity to extend that invitation to ACPAC members. I am not certain how you would organise it from this end, but we will be sending a formal invitation and I hope we will get positive responses to that.

We would obviously be continuing our training programs and our capacity building programs, but we also believe that a very large portion of our responsibility as an association in South Africa is to also build our relationships internationally. We are planning to build those relationships, firstly, in our own neighbourhood states, the southern African community and, as well, in the African Parliamentary Network Against Corruption. We have been invited to become a chapter of that particular association as well, and we are looking forward to further international relationships.

This is the tail-end of your conference and I would not like to take up very much more of your time. The annual report has been put before you and I hope that if people, when reading it, have any further queries about it they will feel free to contact us in South Africa. If any public accounts committee from any of the states in Australia is planning any visits to South Africa soon, please feel free to contact us in South Africa. We would be very willing to host you. Thank you very much again for your kind hospitality.

**CHAIRMAN**—Thank you for that. Does anyone have questions of South Africa or any comments to make?

**Mr FLETCHER**—I certainly would be interested in exchanging some ideas with you regarding the personal development training modules. Do you have at home details of your training modules that we might be able to receive by email and exchange some ideas in relation to that? If I could exchange cards with you, I would appreciate that.

**Ms ESSOP**—Yes, absolutely. We do have that and we could easily make it available to anybody who is interested. We are in the process of developing our second module. If you are interested, we could give you full documentation about how we are planning the unfolding of what we believe to be an institutionalised training program for public accounts members.



**CHAIRMAN**—Thank you, South Africa.

### **General Business**

**CHAIRMAN**—We have three items that I am aware of on general business. Before I proceed to those, does anyone have an item of general business they wish to raise?

**Mr FLETCHER**—I want to put on notice for the next biennial conference that it would be a good idea to use the visiting delegates to a greater degree. I understand there may well be some problem with that, but I would like it to be recorded that I believe one or two workshop sessions, as opposed to plenary sessions, would be advantageous. We could sit down face to face with international visitors from the various jurisdictions and work through case studies or exchange ideas or just talk about the practical realities of being on public accounts committees in the various states and nations. I ask that that be noted and be a consideration for the next time.

**CHAIRMAN**—I want to progress that a bit further now, thank you. The first thing I have to do is indicate that Mr Max Trenorden of Western Australia has proposed a possible issue for discussion at the next conference in 2003 entitled ‘Whole of government financial reporting’. I would make a suggestion to the council that, in fact, our standard procedure has been for the chair and the secretary of the various PACs to meet at the host location in January or early February, it would be 2002, to decide on the agenda for the 2003 conference. Rather than dealing with Max’s paper per se, does it meet with everyone’s approval that it be considered at that meeting? There being no objection, that will be done.

A paper by John Williams of Canada has been distributed to all of you. Those of you who were in Fremantle will recall that John came to that conference. He was then chairman of the Canadian federal public accounts committee and he proposed at that time some kind of international grouping of PACs. We supported that in principle. Since that time, last January 2000, we had in this building an Asia-Pacific parliamentary forum which encompassed 70-odd countries, including the United States, China, Japan and us. Anyhow, as part of that conference, I proposed an Asia-Pacific grouping of public accounts committees in order to enhance public accountability, transparency and probity, and to progress those ideas through the non-developed as well as the developed world to share ideas with other countries to try to help bring along some of our brothers and sisters who have not moved as far down the democratisation path as we have. That motion was successful—it was passed unanimously—but to date I have been unsuccessful in finding funding for a secretariat. I have now on two occasions approached the World Bank. The World Bank has a vice-president and some other people a bit lower down who share the same view as I do, and that is that they could potentially save heaps of money feeding failed economies by helping to promote public accountability through their parliaments. Does that make sense? I thought it made a lot of sense. There are some proposals still floating around but they have not yet come to fruition.

In his paper John is now proposing GOPAC, the Global Organisation of Parliamentarians Against Corruption. He has travelled all over the world. I am unsure how you want to deal with this; he is not here to speak to his paper. He has corresponded with me two or three times. Canada’s elections are over, but he is not here because they are sitting. Do you want to deal with his paper? We did last time in principle approve some sort of loose grouping but the problem is

always finding an appropriate secretariat that is divorced from any one of us—is separate—and the financing for that.

**Mr FLETCHER**—May I give an opinion? I attended the Halifax Conference of the CCPAC in September of last year. John Williams was the principle speaker there and he outlined his proposition to the Canadian conference in much the same way he did in Fremantle, but obviously he had moved ahead since the days of Fremantle. He spoke with a passion, as you have, and I know Max Trenorden also has a passion for the concept that you are putting forward at the moment—that is embodied in John's paper. The best he was able to do at the CCPAC was similar to what was achieved in Fremantle, in that he gained the in-principle support of the Canadian conference to move ahead. It seems to me that, in the paper we have had put before us today, he is saying that he is much further down the track now than he was in September last year. I am not sure how others read that but, personally, I think there is value in the international arrangements. We could all benefit from that, as well as it doing good. It seems to me that the only way to progress it is from a national level, so probably your organisation or others have to give some lead with regard to that.

**Mr LONEY**—I concur with what Tony just said. We would be of the view that this is a desirable thing to try to progress but that, necessarily, it is really about national accounting bodies. The issue for us here today is the role ACPAC would play as distinct from the joint committee of the Australian parliament. That is, essentially, the issue here. It would be, in my view, that we would wish to play some role in promoting the concept and achieving the realisation of it. I am not 100 per cent sure at the moment of where that fits between this group and, as I say, the joint committee of the Australian parliament. It would seem to me, in reading the paper, that it is obviously based on national bodies.

**CHAIRMAN**—I read the paper differently. I interpreted the paper to mean that he would like ACPAC to join his GOPAC.

**Mr LONEY**—Yes, that may well be. If that is indeed the case, it would certainly be my view that ACPAC should seek to be part of those arrangements and participate in whatever appropriate way he has in mind to support the concept and pursue the realisation.

**Ms ALLAN**—We certainly have not had the opportunity to consider the proposal within New South Wales. I certainly endorse the principle from our Tasmanian representative that international networks are important. From my understanding of your speech yesterday, you were a participant in that Halifax conference and there was some value in it. I do not think that we in New South Wales like the concept of GOPAC or the wording of GOPAC. We have a very strong Independent Commission Against Corruption and I am happy for other states to also have such a body. This is an important regulator in New South Wales at all levels of politics and it would have a certain connotation that it would be of more relevance to that arena than to public accounts. I would not like to discourage Mr Williams; he is well down the track. If you look at the third last paragraph on the last page, you will see that he is anticipating an international organisation of seven chapters getting together in Ottawa next year. He is very advanced in his thinking, but it is not a title that I feel warm about. I think we should be looking at international relationships but perhaps not in this forum. I would like to think that your organisation, Mr Chairman, had a closer look at this before we committed ourselves to it.

**Mr GLACHAN**—I strongly support what Pam is saying. I do not like the idea of the word ‘corruption’ in an organisation. I like your idea of a grouping of public accounts committees in the Asia-Pacific region which would help to educate people in parliaments and in government agencies throughout that region in the way things should be done. As far as I am concerned, that would be very valuable and I would strongly endorse what you are suggesting.

**Mr PECK**—This is not the only proposal doing the rounds at the moment; there is another one from India which is looking at something worldwide as well. I think the reason the word ‘corruption’ is in there is that it is the key to a Pandora’s box, isn’t it, in terms of opening up the World Bank? I think that is why it is called corruption. In principle, we can say that it is a good idea but we do have to go back and consider the implications of it, certainly as far as funding from New Zealand is concerned. New Zealand is going to have to pay for another trip and we are going to have to give it some thought. I do think the paper is targeted at national organisations. That deals us into the game. We are keen on international involvement and taking our place in this forum, but we do have to consider the implications of doing so. Maybe we do not need to take a long time either. We might even be able to do this by a correspondence process and come back to ACPAC with a decision fairly quickly.

**CHAIRMAN**—If I can respond very briefly: maybe I am wrong, but I think in part it comes down to money. This kind of thing will not work unless it has its permanent secretariat at some neutral location and that has to be funded. I have not proposed that any such organisation in the Asia-Pacific be funded by the constituency, by each of the individual parliaments or by ACPAC because, in fact, my Speaker said no. I tried him out before I ever put the thing up to the Asia-Pacific Parliamentary Forum. He said no, that he did not have any money. Okay, fair enough. So I tried the World Bank. If that came off, probably everybody would say, ‘Hey, yes.’ They would jump on the bandwagon. That makes sense, doesn’t it? I do not see any sense in trying to progress what I put up, or even what John Williams put up, until we find somebody with some money. It just comes down to that.

**Mr FLETCHER**—Pardon me for intervening for a second time, but it seems to me that, without being unkind to John Williams, because he has taken an idea and he has moved it forward quite considerably, I am not sure just how much hard-nosed assessment has been part of his process to date. He has gained in-principle approval, but there are many challenges that face the idea before it gets to reality. The challenge is to move to the next stage, which is a meeting of minds and an exploration, not necessarily by one person but by the group, whereby you can make those hard-nosed decisions on whether the funds are available and what the sources of funds are. I think we should explore the opportunities to move to that stage rather than an international meeting. It is possible nowadays to do that by email or by links of some nature. I think we do need to get to a committee stage and make some hard-nosed decisions in relation to where the idea goes next.

**CHAIRMAN**—Could I make a suggestion? The next general business agenda item might help us a bit. I would like to propose that ACPAC invite South Africa, Canada and any others that anybody here thinks they would like to put on the list to join ACPAC.

**Mr FLETCHER**—Are you going to change ACPAC’s name? Are you going to give it a broader—

**CHAIRMAN**—Tony, if they decide they want to join, I think that whoever is running the show at that time ought to be able to help guide the group in making a decision.

**Mr FLETCHER**—Sure, I am not opposed to the concept. I think it is a really good idea.

**CHAIRMAN**—You are opposed?

**Mr FLETCHER**—I am not opposed. I think it is a really good idea and I would encourage that.

**CHAIRMAN**—Is there any disagreement? There being none, it is so ordered and we will invite South Africa and Canada. Is there anyone else we want to invite?

**Mr FLETCHER**—New Zealand, Fiji and Papua New Guinea.

**CHAIRMAN**—New Zealand, Fiji and Papua New Guinea are members of ACPAC.

**Mr SENDT**—Do you want to invite the Pacific Islands as well?

**CHAIRMAN**—We certainly could. It has been proposed that we add the democratic nations of the South Pacific. How far do we go? Do we go all the way up to Micronesia?

**Mr FLETCHER**—Isn't it better to deal with the known parties we have with us today if there is an indication that they would like to join? Perhaps a meeting of chairmen or another body at a later stage can explore the wider parameters.

**Mr PECK**—I think that is a much better way of dealing with it.

**CHAIRMAN**—Mark is happy to accept your suggestion. I simply suggested Canada and South Africa because both of them have come to this conference. Canada also came to Fremantle. Canada may not wish to join. South Africa may go back home and decide they wish not to join. That is up to them. All I am asking is that this council approves inviting them. That would be a step on the way. This thing works, doesn't it? Look at the crowd we have had here for two days. That is a demonstration that you can make it work. So if we keep adding on at the edges, the next thing you know we will have all of South-East Asia. It will just happen that way. It might take a few years, but so what? That is agreed.

I am unaware of any other agenda item except that I need a nomination for the location of the next conference in 2003 and the mini-conference in 2002. Mark?

**Mr PECK**—Out of self-interest, I want to nominate Victoria. It is close to us.

**CHAIRMAN**—I have a nomination for Victoria. Victoria has been nominated. Are there any other nominations? Is Victoria happy to accept the nomination?

**Mr LONEY**—Victoria will accept, yes.

**CHAIRMAN**—There being no objection, Mr Peter Loney will become the next chairman of ACPAC.

**CHAIRMAN**—Before I give up the chair, I just want to say a few things. I would like, firstly, to thank *Hansard*. They have been very patient with us. There are a hell of a lot of us here. I hope that you feel it has been successful. I do not like conferences and conventions—quite frankly, I never have—but I found this thing of such value in Fremantle in the exchange of ideas that could be transferred and built upon. In fact, when you listen around this table, you know that some of that has happened in the last two years and some more will happen in the next two years. It is very valuable for us and, therefore, for our parliaments. I thank the auditors-general and their staff for participating in the conference. They have to turn around and do this now again tomorrow and I am not sure what is left for them to talk about. Perhaps they are going to talk about us. I want to thank all of our secretariats. I want to thank the observers. I thank particularly, last but not least, all the participants from the states and the territories and my colleagues from the Commonwealth. Thank you one and all. With that, I am delighted to close the 6th ACPAC Biennial Conference.

**Mr TRIPODI**—Mr Charles, I do not think I can speak on behalf of everyone, but at least on behalf of New South Wales. We want to extend to you our thanks for your hospitality here in Canberra. It has been very well organised. It has been a great treat for us and we have all benefited, I feel. Thank you to you and your secretariat.

**CHAIRMAN**—Thank you, Joe.

**Mr HELWER**—On behalf of myself and the vice-chairman of our public accounts committee, I want to thank you for having us. We certainly have enjoyed the discussion in the last two days. One of the reasons we are here is that we are going to make some major reforms to our public accounts committee. It has not been operating very well and it has not been very effective up to now. One of the reasons why our Auditor-General thought that it would be beneficial for us to attend here is that we understand yours is one of the better committees in the Commonwealth, and we certainly found it very interesting. Our Auditor-General thought it would be beneficial for us to attend your conference, and we have certainly enjoyed it. Thank you for your hospitality, and we hope to be able to meet you people again.

**CHAIRMAN**—Thank you for joining us. There is one more speaker.

**Mr GUMEDE**—Thank you very much. Since someone this morning quoted Charles Dickens, let me not corrupt Charles Dickens and just say that it was the best of times. In fact, I would like to express our deep appreciation for your accepting us and adding value to our world of information. Really, at this stage we are changed people from when we came in here. I think that is what everyone in our team feels. With those few words, we would like to give a few presents to a few people: the chairperson of ACPAC, the deputy chairperson of ACPAC and all the chairpersons of the different provinces. As a gesture to the secretariat, we have something small to offer them as well. It does not mean that we did not appreciate the contribution of the other ones, but for them we preserve a thank you which we believe is more than the material presents. Thank you very much.

**CHAIRMAN**—I have been very unsuccessful at closing this thing down. Are we all finished? Thank you all.

**Committee adjourned at 3.52 p.m.**