



Auditor-General for Australia



Australian National
Audit Office

Submission No: 3-4

30 November 2009

Ms Sharon Grierson MP
Chair
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Ms Grierson

At the Committee's hearing on 19 October 2009 the Committee sought further advice on the resource implications of the various mandate variations outlined in our submission of 9 April 2009. The resource implications are discussed in the Attachment in the order in which they are set out in that submission.

The Australian National Audit Office considers that options (b) and (c) in relation to the audit of Performance Indicators would be the only mandate variations that would have resource implications.

Yours sincerely

Ian McPhee

**JCPAA Inquiry into the *Auditor-General Act 1997*
Resource implications of various mandate variations**

The resource implications of various mandate variations are discussed below.

The Auditor-General's functions

Any clarification of the Auditor-General's functions along the lines proposed would have no resource implications.

Acting as Auditor under the Corporations Act

Amendment of sub-section 21(1)(c) of the *Auditor-General Act 1997* would provide legislative certainty to the existing arrangements whereby the Auditor-General undertakes the financial statements audit of all Commonwealth entities that are subject to the *Corporations Act 2001* and therefore would not have any resource implications.

Audit of Performance Indicators

As indicated in our submission of 9 April, there are several options to enhance audit coverage of performance indicators, and any increase in audit coverage in this area would require appropriate budget supplementation. The extent of such supplementation would depend on which option is preferred.

Option (a): *the conduct of a periodic review of indicators as part of the ANAO's performance audit program*

This option would result in the refocussing of some performance audit resources but would not require budget supplementation.

Option (b): *a review of an agency's compliance with its performance indicator responsibilities as an adjunct to the audit of an agency's financial statements in a similar way to that undertaken by the Western Australian Auditor-General*

This option would be ideal in providing more focussed assurance to the Parliament in relation to performance information published by Australian Government entities but would be resource intensive. The experience of the Western Australian Audit Office suggests that, in addition to initial set up costs, ongoing costs of between seven and ten percent of the cost of the financial statement audit program would be required. The actual costs would largely be dependent on the adequacy of agency systems and processes relating to the collection and reporting of performance information. Based on costs incurred by the ANAO on its financial statements audit program in 2008-09 of approximately \$40.5 million, this would involve

indicative budget supplementation of between \$2.8 million and \$4.05 million per annum. Further work would be required to confirm this estimate.

Option (c): a review of an agency's compliance with its responsibilities for a sub-set of indicators which the Parliament and/or the Government considers relate to critical programs or areas of public administration including, for example, environmental sustainability. This review would be undertaken as an adjunct to the audit of an agency's financial statements.

Option (c) is a more modest proposal, acknowledging that there would need to be a process to allow the Parliament or Government to identify the critical programs or areas of public administration. In the event that the Committee considers there would be advantages in increasing audit coverage in this area, such coverage would be additional to existing audit coverage and therefore would also require appropriate budget supplementation. The resources required would be dependent on the number and type of indicators that would be subject to audit. It would nevertheless be expected that, indicatively, additional costs of up to \$2 million per annum would be required. Clearly, the costs would be influenced by the number of critical programs or areas of public administration nominated. Further work would be required to confirm this estimate.

Removal of GBE Exemption

A decision to provide the Auditor-General with the authority to conduct performance audits of Government Business Enterprises would, in practice, not have a significant impact on the ANAO's performance audit work program and therefore would not require budget supplementation.

Cross-jurisdictional issues

Our submission of 9 April outlined four options to enhance external accountability arrangements in response to recent developments in federal public administration. Implementation of options (a) and (b), which would provide the Auditor-General with the authority to conduct audits of bodies that receive Commonwealth funding would be an important factor in the development of future performance audit work programs and individual audits that related to grant payments. On the basis of an adequately resourced performance audit program, it is anticipated, however, that there would not be an overall increase in performance audits. On this basis, budget supplementation would not be required.

Commonwealth jurisdictional issues

The extension of the Auditor-General's authority to audit the performance of certain internal parties, including contractors, who are involved in the delivery of government programs or activities would also be an important factor in the development of future performance audit work programs and individual audits. However, consistent with the position outlined above in relation to cross-jurisdictional issues, it is anticipated that any additional audit coverage would be accommodated within existing performance audit resources. On this basis, budget supplementation would not be required.