

Joint Committee of Public Accounts and Audit
2021 Review of the Auditor-General Act 1997
19 February 2021

Opening Statement by the Auditor-General

1. Good morning Chair and Committee Members.
2. Thank you for the opportunity to brief the committee today as part of its Review of the Auditor-General Act 1997.
3. I understand as part of its review the Committee is considering the mandate of the Auditor-General and how this is supported by the ANAO's budget, structure, resources and processes.
4. Related to this, I have previously provided the Committee a 2021 Budget Submission which outlines the financial pressures facing the ANAO, due to:
 - a. the impact of rising supplier and employee costs;
 - b. the cost impact of auditing more complex government entities and transactions and unstructured record keeping;
 - c. the external pressure on audit institutions to increase the quality of audit work – depth and breadth of evidence investigation and examination – to drive accountability and provide assurance; and
 - d. the impact of savings and efficiency measures in an environment of rising costs.
5. As you know the Auditor-General's functions as set out in the *Auditor-General Act 1997* (the Act) include:
 - auditing the financial statements of Commonwealth entities, Commonwealth companies and their subsidiaries;
 - conducting performance audits, assurance reviews, and audits of the performance measures of Commonwealth entities and Commonwealth companies and their subsidiaries;
 - conducting a performance audit of a Commonwealth partner (as described in section 18B of the Act); and
 - auditing the performance statements of Commonwealth entities in accordance with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), that is, at the request of the Finance Minister or the responsible Minister.

6. Through the Act these functions provide, as indicated in the ANAO's submission to the Committee of 27 November 2020, "a robust framework for supporting accountability and transparency of the Australian Government".
7. The functions are appropriation funded, on the whole, which I believe remains appropriate. As set out in the ANAO's submission at paragraph 33, the funding model means that "the focus of ANAO audits is auditing for the Parliament and if the ANAO was considered to have an audit client for these engagements, the client would be the JCPAA".
8. The accountability framework in the public sector mandates the Auditor-General as the financial statements auditor. The impact of the mandate is that resources for financial statements audits are allocated "first" in the ANAO's budgeting processes. A large proportion of the ANAO's mandated financial statements audits (just over 65 per cent of the total number of audits) are contracted out to private sector auditing firms in order to deliver the total coverage of entities in a timely way. Since 2014–15, the annual cost of contracted-out audits has increased by approximately \$2.9 million. While 137 entities out of the 246 mandatory financial statements audits pay fees for the cost of their financial statements audit, this revenue is returned annually to consolidated revenue – not retained by the ANAO to offset increased costs in conducting these audits. The fees associated with undertaking these audits have increased from \$12.0 million in 2015-16 to \$14.9 million in 2019–20, a 24.2 per cent increase.
9. The ANAO has limited flexibility in managing the costs of conducting financial statements audit given their mandated nature, the reliance on external suppliers for 65 per cent of these audits and the quality standards we must meet. Over time, a number of strategies have been used to manage increasing costs. Adjustments to risk settings is one approach used to manage increasing costs in financial statements auditing. Any further adjustments to risk setting would put the ANAO in an uncomfortable position – that is, the likelihood that the quality of financial auditing would fall below the level at which Parliament could be confident in the ANAO's work. The reality is that any cost increases in this mandated function must be met by savings in other parts of our business – primarily performance audit.
10. Performance audit reports are a key part of the Parliament's accountability framework. They provide the Parliament – through this Committee, other parliamentary committees and individual members of Parliament – with independent, evidence-based assessment of the proper use of resources by executive government. Historically, for the last two decades, the ANAO has provided the Parliament with an average of 47 performance audit reports per year against an average KPI of 49. I have seen no evidence provided nor argument put as to why, with the growth in the

general government sector and the increased complexity in service delivery and funding arrangements, this level of reporting to Parliament should reduce.

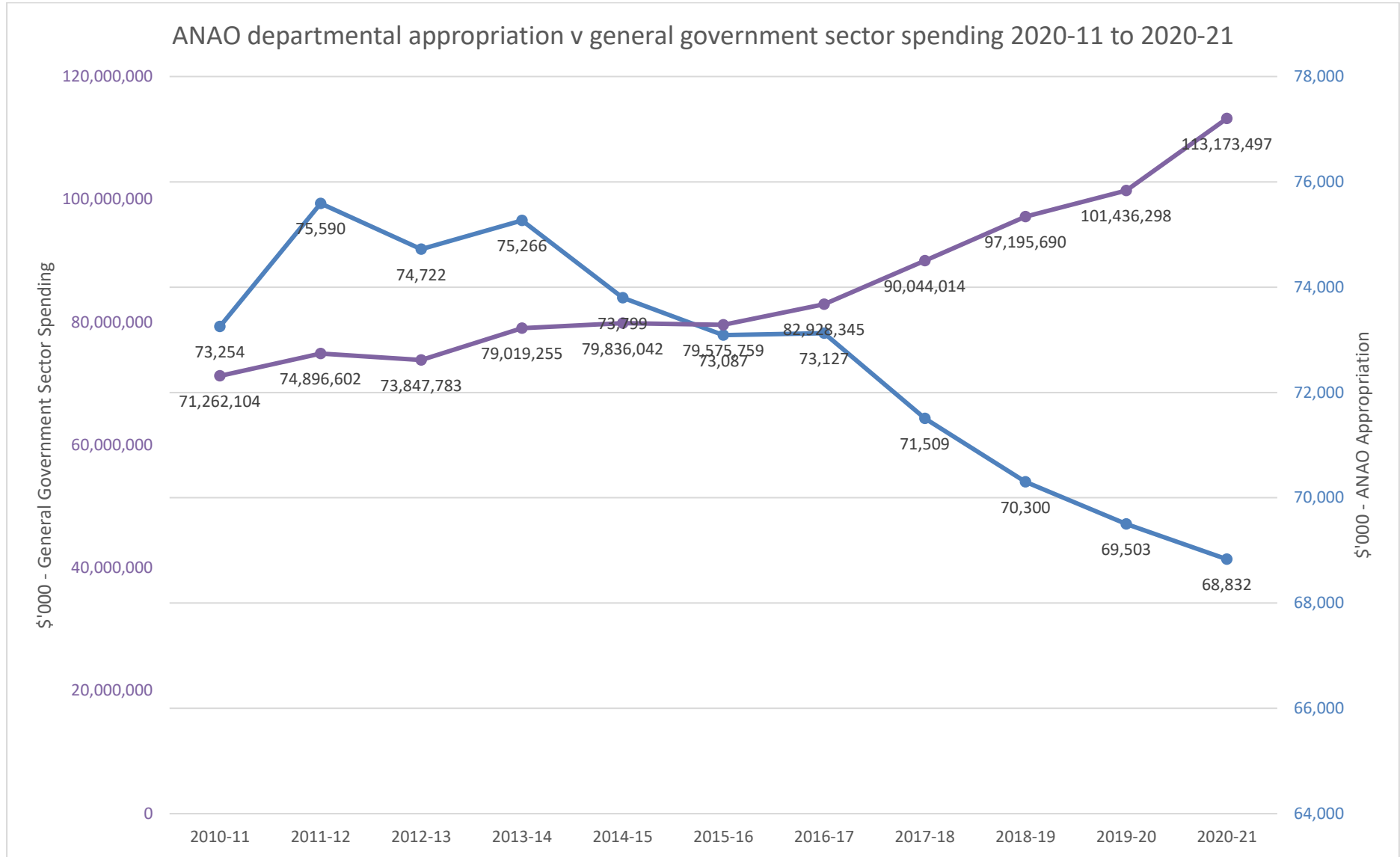
11. As you know, I am forecasting a reduction in performance audits to 40 in 2021–22, falling to 36 by 2024–25. I anticipate that even with reduced numbers, the depth and breadth of audits within the performance audit program will also reduce. In fact, but for those years where a double dissolution has impacted on the Auditor-General's ability to table reports in the Parliament, the forecast delivery for next year will be the lowest in 20 years. In effect, I am unable to provide the Parliament to the same extent with the evidence it has used to hold executive government to account thereby reducing accountability and transparency.
12. In contemplating what performance audits to conduct each year, the ANAO considers riskbalanced with coverage of portfolio, activity type and stage of program delivery. As required under the Act, the priorities of the Parliament are considered through a process facilitated by this Committee. The ANAO also considers the frequency of audits in various entities and past performance, including the need to follow-up recommendations made both by the Parliament and the Auditor-General.
13. In recognition of Parliamentary interest, the ANAO has introduced a number of 'series' audits which provide a longer term examination into specific areas of government activity such as cyber security, implementation of recommendations, nbn, National Disability Insurance Agency, indigenous service delivery, PGPA framework implementation and COVID-19 response implementation. With a forecast 25 per cent reduction in the number of performance audits, our capacity to maintain these series audits is compromised. Likewise, coverage in portfolios with significant government expenditure such as Treasury and Australian Taxation Office, Social Services and Services Australia and Defence, is likely to be reduced. It will also impact the ability of the ANAO to respond to emerging priorities including those identified by the Parliament.
14. Often it is the prospect of an audit which is a driving factor in performance improvement. We see during performance audits the improvements occurring in process, controls and governance from the point in time when an audit is listed in our annual audit work program. With a reducing number of performance audits, many smaller agencies may not be audited for extended periods of time, potentially over 20 years. This reduces the pressure to maintain performance and compliance.
15. The forecast reductions in performance audit reports for the Parliament are occurring at a time when general government sector expenditure is increasing. Between 2013-14 and 2020–21 the ANAO's appropriation has reduced by \$6.43 million or 8.5 per cent, while general government

sector expenditure, over which the ANAO provides assurance to the Parliament, has increased by 68.3 per cent. As a percentage of general government expenditure, the ANAO appropriation has fallen by over 50 per cent over the last 10 years. In short, the ANAO's ability in these circumstances to assist the Parliament through the mandate provided in the Act is now well below historical levels and compromises the Parliament's ability to receive quality information with which to hold executive government to account.

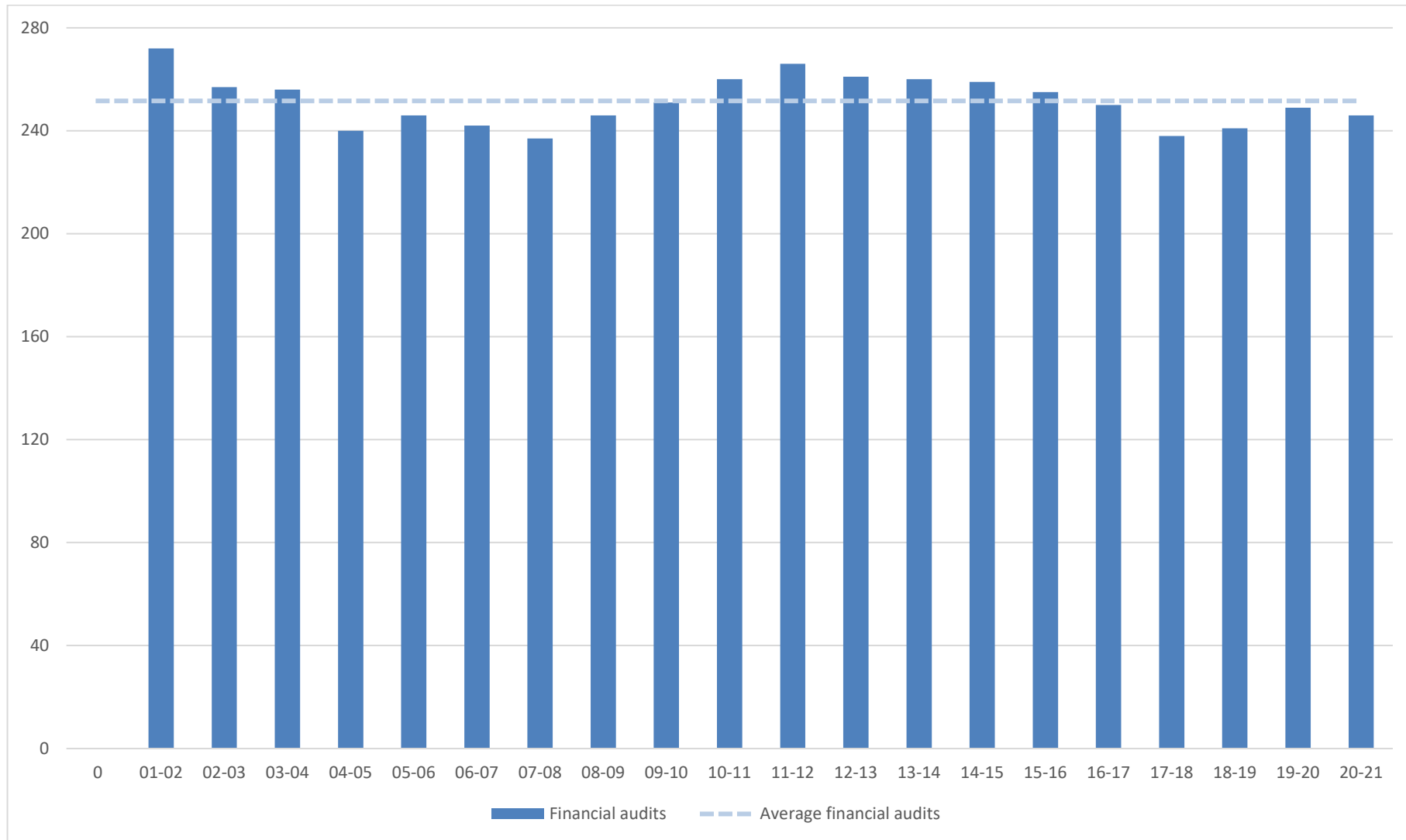
16. Lastly, I will turn to an aspect of the mandate which has been the subject of previous consideration by the Committee. That is, the provision to the Parliament of reliable audited performance information in entity performance statements. Providing the Parliament with appropriate assurance of the material contained in entity performance statements remains a gap in the assurance framework in the Commonwealth. The Commonwealth's accountability framework, as established by the PGPA Act took effect from 1 July 2015. This Committee has played an important role in the implementation of the framework. It held two inquiries and made recommendations into the progress of the implementation of the framework (JCPAA Reports 453 and 457) and conducted a third inquiry (JCPAA Report 469, 2017) in response to ANAO performance audit reports. In Report 469, the Committee recommended (Recommendation 6) that the framework be amended to enable mandatory annual audits of performance statements. Since then, the 2018 Independent Review of the Public Governance, Performance and Accountability Act recommended a pilot of performance statements audits. In response to a request from the Minister for Finance that pilot has been undertaken and a report provided to the Committee. The methodology is robust, the assurance can be given, and it is time to drive improvement to the quality of performance information by introducing the discipline of mandatory auditing. In short, with appropriate resourcing to phase an implementation of performance statements auditing, the ANAO is ready to grow the capability to provide this assurance to the Parliament.

Attachments:

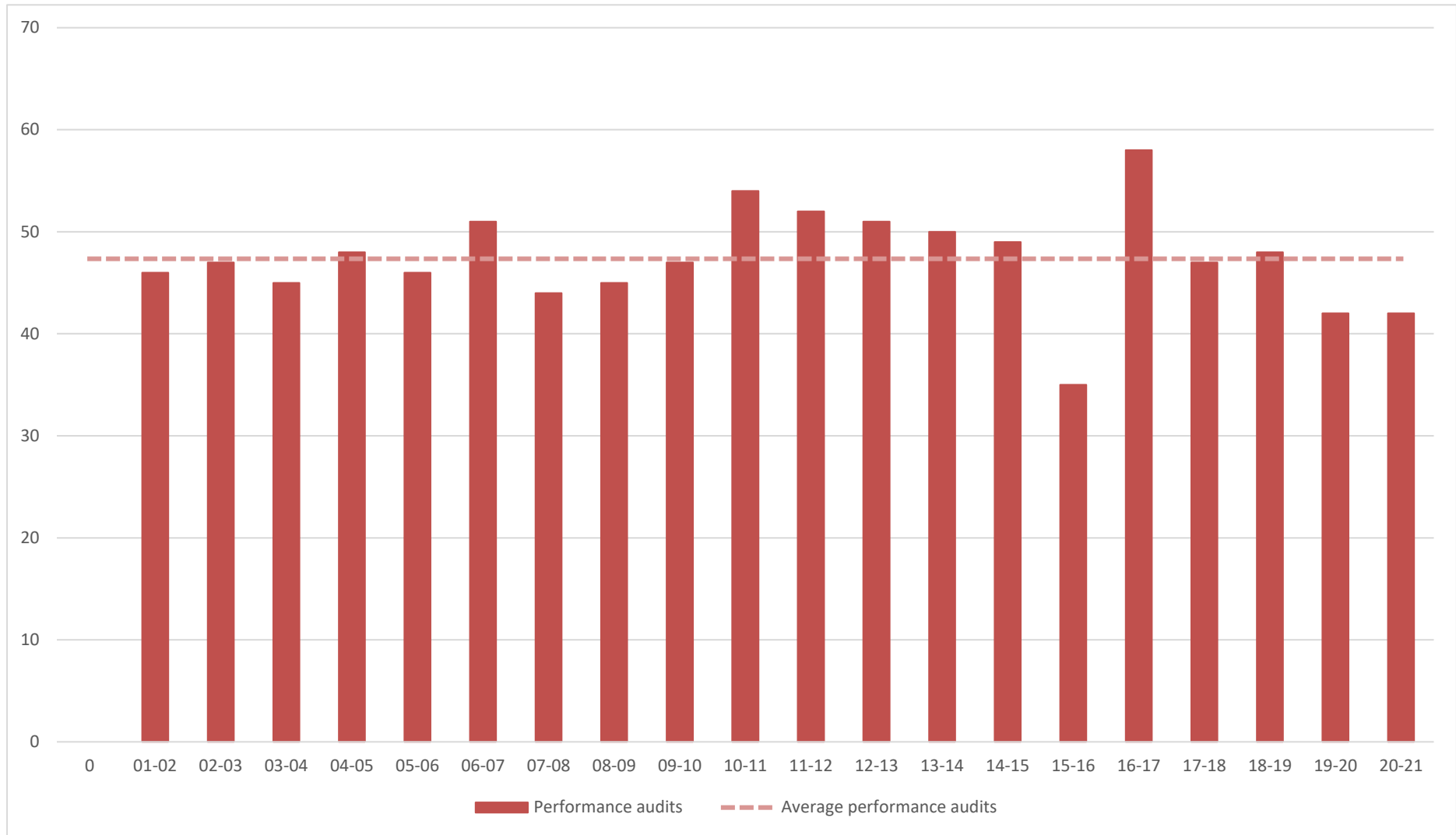
- A – shows the decline in the ANAO budget as a proportion of general government sector spending
- B – shows the number of financial statements audits (also indicative of the number of government entities) undertaken over the last 20 years
- C - shows the number of performance audits undertaken over the last 20 years
- D – instances of entity engagement in an audit from 2001-02 to 2020-21 (YTD)



Number of financial statements audits undertaken from 2001-02 to 2020-21 (forecast)



Number of performance audits undertaken from 2001-02 to 2020-21 (forecast)



Number of instances of entities being engaged in an audit from 2001-02 to 2020-21 (YTD)

