



JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

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REPORT BY THE JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT ON THE AUDIT OFFICE 2007-2008 BUDGET ESTIMATES

I rise on behalf of the Joint Committee of Public Accounts and Audit to report on the budget estimates of the Australian National Audit Office. This is a requirement of the *Public Accounts and Audit Committee Act 1951*, and reflects the Auditor-General's status as an independent officer of the Parliament.

The Audit Office's direct appropriation in 2006-07 was just over \$64 million, with no further funding sought or received during the year.

The Auditor-General advised the Committee that he had sought additional funding from 2007-08 onwards across two priority areas. First, the Audit Office sought \$19.6 million over four years to meet the requirements of new auditing standards.

Concerns about the quality of financial reporting, following high-profile corporate collapses both overseas and here in Australia, have led to more stringent requirements being imposed under the Australian Auditing Standards. The Auditor-General has advised that the Standards continue to evolve, with further additional requirements expected to be imposed in the years ahead.

The ANAO's audits are, of course, undertaken in accordance with these Standards, and the additional requirements have had a direct impact on the level of resources required by the Audit Office.

Second, the Audit Office sought additional funding, of \$3.7 million over four years, to increase assistance provided to audit institutions in the Asia Pacific region.

Within the limits of its resources, the Audit Office has provided valuable assistance to other countries. For example, the Audit Office is assisting the Indonesian Board of Audit and Papua New Guinea's Audit Office, and has released staff to work in Afghanistan and the Solomon Islands.

The assistance to Indonesia and Papua New Guinea is being provided under the auspices of AusAID programmes. However, the Audit Office is facing increasing calls for more informal, short-term assistance which it is obliged to fund from its internal resources. For example, the Audit Office hosted 34 short-term visits in 2005-2006, involving 319 delegates from a range of countries. I note that the Audit Office was unable to support recent requests for ongoing audit training from the Bank of Indonesia and Thailand's Auditor-General because of resource constraints.

I am pleased to report that during the course of the Budget processes, the Audit Office has managed to achieve an acceptable outcome in relation to its request for funding to meet the requirements of the new auditing standards.

The Audit Office received half of the new funding sought for meeting the requirements of the new auditing standards; that is, \$9.8 million over four years. The Audit Office has also retained funding previously used on the audit of Telstra which will cover most of the shortfall. The Auditor-General resigned as the auditor of Telstra during the year, and negotiated to retain the portion of the audit cost that represented the Audit Office's internal investment in the audit. This amounted to \$7.6 million over four years.

The remaining shortfall, of \$2.2 million over four years, will be made up from efficiencies generated by the Audit Office in its operational costs. These efficiencies include changes to the Audit Office's accommodation arrangements, which will result in substantially reduced rental payments from September 2008. While some of those resources will be required for refurbishment and re-fitting of premises, there should still be savings available.

The Committee notes that the Audit Office did not receive approval in the 2007-08 Budget for increased assistance to audit institutions in the Asia Pacific region. However, the Audit Office will review possibilities of obtaining funding from other sources on a government-wide basis. The Committee hopes that government-wide solutions can be progressed as soon as possible, given the strong capacity of the Audit Office and other agencies to help encourage better governance practices in our region.

In addition to these funding measures, the Committee itself recommended that the ANAO receive additional funding of \$1.5 million in the 2007-08 budget to produce an annual audit on progress in major defence capital equipment projects.

By way of background, the Committee is undertaking a major inquiry into financial reporting and equipment acquisition at the Department of Defence and Defence Materiel Organisation, following a series of critical reports by the Auditor-General on individual projects.

Although the inquiry is still ongoing, it quickly became clear that there would be significant benefit in the Audit Office being funded to annually review progress in major Defence capital equipment projects, in a manner similar to a review conducted by Great Britain's National Audit Office.

The Committee therefore released an interim statement of the inquiry late last year, unanimously recommending that the Defence Materiel Organisation produce an annual report on progress in the "top thirty" capital equipment projects. That report, in turn, would be subject to published assessment by the Audit Office.

The recommendation made by the Committee is similar to one previously made by the Senate, and which the Audit Office has unsuccessfully sought funds for in the three previous Budgets. Both the Audit Office and Department of Defence have indicated their support for the Committee's recommendation.

I am pleased to advise that the Prime Minister has indicated that a submission, agreed between the Audit Office and Defence, should be brought forward in the context of the 2008-09 Budget to give effect to the Committee's recommendation.

We believe that the annual progress report will put the Audit Office and the Parliament in a much stronger position to review project management at Defence while major projects are still in train, rather than looking in the rear view mirror via an audit, and parliamentary review, sometime after projects are finalised.

The Committee had recommended that the Audit Office receive start-up funding for this initiative in this year's budget; however, that funding was not forthcoming. The Auditor-General has advised that his staff will still be able to undertake significant preparatory work within existing resources this coming year. This is something that the Committee will assess as the year progresses.

We also acknowledge that this new process will have resource implications for the Defence Materiel Organisation, and believe that this should be taken into account as required in future years.

Overall, the Auditor-General advised the Committee that the Audit Office's budget for 2007-08 is sufficient to enable it to meet its auditing responsibilities. However, he also advised the Committee that the cost of qualified auditors, accountants and audit contractors continues to rise, which does put pressure on its budget.

We note that the Auditor-General has increased the allocation for staff remuneration from within the Audit Office's budget for 2007-08. However, the attraction and retention of staff in the current market will remain a key issue for the Audit Office. In light of these developments, the Auditor-General has indicated that he will monitor his budget position and market conditions throughout the course of 2007-08, and will inform the Committee of his assessment ahead of next year's budget.

The Committee considers it important to ensure that the Audit Office is properly resourced. The Audit Office must be able to attract and retain the high-quality staff it employs to undertake its performance and financial statement audits. We will await further advice from the Auditor-General before informing the Parliament on the resourcing of the Audit Office beyond the coming budget year.

The Auditor-General's advice that his direct appropriation of just over \$63 million for 2007-08 is sufficient has been noted and welcomed by the Committee, and accordingly we endorse the budget proposed for the Audit Office for the year ahead.

As this will be the last Committee statement on the Audit Office budget before the federal election, I take this opportunity to commend the Auditor-General and his staff for the productive relationship they have cultivated with the Committee in this Parliament, and for the efforts they go to ensure that we are kept properly informed. Their share of the federal budget is a very cost-effective investment in ensuring that standards are maintained across the public sector, and in ensuring that the Parliament is able to scrutinise the performance of executive agencies in spending taxpayers' money.

I present a copy of my statement.

Phil Barresi MP
Committee Chair

8 May 2007