



## JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

PO Box 6021 Parliament House, Canberra ACT 2600 | Phone: (02) 6277 4615 | Fax: (02) 6277 2220 | Email: [jcpa@aph.gov.au](mailto:jcpa@aph.gov.au)

### **REPORT BY THE JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT ON THE 2009-2010 DRAFT ESTIMATES FOR THE AUDIT OFFICE, AND THE APPOINTMENT OF THE INDEPENDENT AUDITOR OF THE AUDIT OFFICE**

Mr Speaker, the *Public Accounts and Audit Committee Act* requires the Committee to consider 'draft estimates for the Audit Office', with the Chair making a statement to the House on budget day on whether, in our opinion, the Auditor-General has been given sufficient funding to carry out his duties.

In support of this process, the Auditor-General is empowered under his Act to disclose his budget proposals to the Committee, which we then consider and use to make representations to Government as necessary. This process reflects both the Committee's status as the Parliament's audit committee, and the Auditor-General's status as an independent officer of the Parliament.

In my statement on budget day last year, I reported that the Committee had "significant reservations" about the Auditor-General's budget for 2008-09, which saw the Audit Office suffer a 3.25 per cent reduction in base funding, in addition to having to absorb significant new responsibilities.

In response to its decreased budget the Audit Office reduced its target number of performance audits from 51 in 2007-08 to 45 in 2008-09, and its target number of public sector "Better Practice Guides" from four in 2007-08 to three in 2008-09. In my speech last year I noted that the Parliament was not well-served by this, and that the Audit Office could not consistently deliver the outcomes expected of it by the Parliament, the Australian community and its agency clients on its existing funding base.

The Committee met with the Auditor-General in March to review the Audit Office's budget proposals for the coming financial year. Following that meeting the Committee wrote to government to recommend support for the Auditor-General's request for an additional \$30.8 million over four years, with an ongoing amount of \$9.3 million annually.

The additional funding was to be applied in four main areas. First, and foremost from the Committee's perspective, \$7.4 million was sought over four years to restore the target number of performance audits to its traditional level of around 50 audits per year, following the reduction to 45 for this financial year.

Both the Committee and the Auditor-General regard this measure as being particularly important given the increasing size of the public sector, and the number of requests from Parliament and private citizens for audits. I am pleased to advise that the Government has agreed to provide the funding sought in tonight's budget. As a result, the target number of performance audits will increase to 47 next financial year and to 50 in 2010-11. This is in addition to the production, in both years, of four Better Practice Guides and the new Defence Major Projects Report, for which funding was provided in last year's budget.

By way of explanation, the Audit Office was asked to prepare alternative budget proposals costing a total of \$20 million or \$10 million over four years, in addition to its preferred position of \$30.8 million over four years. The Government has determined that the Audit Office will receive an additional \$20.1 million over four years in tonight's budget, with total revenue from Government estimated at \$68.4 million in 2009-10. Whereas tonight's budget allocation allows the return to a desirable level of performance audits, not all areas will receive the allocations originally proposed by the Audit Office.

The Audit Office sought \$10.2 million over four years to enhance IT and other specialist audit capabilities. In relation to IT, the Auditor-General advised that the Audit Office is having difficulty in responding to the significant growth and change in the public sector IT environment. Agencies are increasingly relying on complex, integrated IT systems to deliver outcomes, and the Auditor-General therefore sought funding to undertake structured data analysis in support of the audit program. Additionally, the Audit Office sees a need to increase its use of professional valuation and actuarial advice in light of significant growth in the scale of infrastructure and investment funds, and the greater use of current cost methodologies to determine asset and liability values in financial statements.

The Committee notes that the Audit Office will receive \$8.5 million of the \$10.2 million it had sought to enhance IT and other specialist audit capabilities.

As part of its preferred bid of \$30.8 million over four years, the Audit Office also sought \$5.6 million to allow an increase in its technical support and quality assurance capability. Global accounting firms have significantly invested in their technical areas since the introduction of the International Financial Reporting Standards, in recognition of greater complexity and to reduce the risk of inappropriate audit opinions. The Audit Office advised that its resources devoted to technical support and quality assurance are the bare minimum having regard to the scale and complexity of its client group, contrary to trends within the auditing profession. The Committee notes that the Audit Office will receive \$3.6 million over four years to help rectify this, as part of the \$20.1 million in additional funding agreed to by the Government.

Finally the Audit Office sought \$7.1 million, as part of its preferred bid of \$30.8 million over four years, to meet the workload associated with a full revision to the Auditing Standards due to take effect in Australia from 1 January 2010. New requirements in nearly 40 standards are expected to increase financial audit effort significantly, affecting not only audit resourcing but also audit methodology and related training needs. However, the alternative bid for \$20 million requested and ultimately selected by Government did not include funding for this additional workload; as a consequence that funding has not been provided at this time.

Mr Speaker, the Auditor-General has advised that his appropriation for 2009-10 will place the Audit Office on a more sustainable financial position, and that it will now have sufficient resources to meet its work program in the year ahead. The Committee therefore endorses the budget proposed for the Audit Office for 2009-10.

While the Committee recommended an additional \$30.8 million over four years, the \$20.1 million ultimately provided is welcome in a difficult budgetary environment. We particularly commend the funding to restore the program of performance audits and Better Practice Guides to previous levels. With the Australian Government's revenues and expenses presently estimated at approximately \$300 billion, a restoration of the audit program will be a modest but prudent investment in a more effective and efficient public sector.

However, the Committee urges the Government to be sympathetic to any request, in next year's budget, for additional funding to meet the costs of the full revision to Auditing Standards. As I said, those new standards will significantly increase the effort required to audit the financial statements of public sector entities – the Auditor-General has advised that the extent of new requirements will represent a 20 per cent increase in workload in that area. I note in this context that the Audit Office has received only partial funding for the substantial increase in audit workload already arising from the introduction, from 2008-09, of the new General Government Sector financial statement.

Given that the financial statement audits are mandatory obligations for the Audit Office, there is a risk that any budgetary pressures in this area will force the Auditor-General to again downgrade his discretionary program of performance audits in future years. Given the importance of the performance audits in driving improvements in public administration and accountability, the Committee continues to assert that any such downgrade would be a false economy, and would be particularly regrettable in light of the welcome restoration of funding in this year's budget.

The Committee also urges the Government to expedite its response to the recommendations in our December 2008 report on the impact of the efficiency dividend on smaller public sector agencies. If adopted, those recommendations will provide significant relief for the Audit Office and other small agencies.

We expect that the Audit Office will be fully funded for any new obligations that Government places upon it, for example if there are any audit obligations attached to measures responding to the global financial crisis, or if new agencies are established. In this context we welcome the provision, in this year's budget, of an additional \$600 000 over four years to audit the newly-created Department of Climate Change.

I also note the Auditor-General's new role, which the Committee is currently reviewing, in conducting assurance reviews of the compliance of public advertising campaigns with Government guidelines issued in mid-2008. While the Auditor-General sought and received \$2.5 million over four years for this work, his evidence to our committee suggests that should the number of advertising campaigns exceed the original level anticipated, then additional resources will be needed before this new obligation could be said to be fully funded. The Committee may make further recommendations in its inquiry report in due course.

Mr Speaker, on another matter the Committee is required, under the *Auditor-General Act*, to endorse the proposed appointment of any person to the office of Independent Auditor before that appointment can be recommended to the Governor-General. The Committee is also obliged to report its decision to Parliament. The Independent Auditor is a person appointed from the private sector, on a part-time basis, to serve as external auditor to the Audit Office.

I take this opportunity to advise the House that on 19 March the Committee unanimously approved the re-appointment of the current Independent Auditor, the CEO of KPMG Australia Mr Geoff Wilson, to a second term.

I present a copy of my statement.

Sharon Grierson MP  
Committee Chair

12 May 2009