



## JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

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### **REPORT BY THE JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT ON THE ANAO BUDGET ESTIMATES FOR 2005/06**

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*, under which the Committee operates.

The ANAO's budget allocation in 2004-05 was just under \$60 million, with a further \$2.34 million sought – and largely granted – during additional estimates.

The ANAO advised the Committee in March that an additional allocation in 2005-06 of \$4.55 million – in addition to the funds granted during additional estimates – would enable it to meet its responsibilities. The ANAO also advised that total additional funding required for the period from 2005-06 to 2008-09 was \$17.84 million.

According to the ANAO, this funding was required:

- to meet increased market pressures in terms of the costs of qualified accountants and auditors to conduct financial statement audits, in particular where the ANAO needs to contract-in these services;
- to meet significantly increased costs of auditing the Department of Defence, due to inadequate systems in that Department and the demerger with the Defence Materiel Organisation;
- to provide a greater IT audit capability; and
- to produce an annual report on progress in major Defence projects, as requested by the Senate in May 2003.

The ANAO also noted the impact of the nine percent ratchet clause in the Centenary House lease. The rent at Centenary House will increase by \$517 000 in 2005-06, a further \$564 000 in 2006-07, and a further \$615 000 in 2007-08.

The Auditor-General has now advised the Committee that he has received additional funding of just over \$2.3 million for 2005-06. This includes approximately \$1 million to cover additional costs associated with the Department of Defence, and a further \$1.3 million for contracted-out financial statement audits, enabling full cost recovery in this area.

However, \$1 million sought for the extra costs of IT audit capability and contract-in expertise has not been provided. Nor has next year's rent increase for Centenary House of \$517 000 been funded. These costs will have to be absorbed within the ANAO's total budget of around \$63 million.

The Auditor-General has advised the Committee that these constraints, with some adjustment of priorities, will be manageable in 2005-06. On that basis the Committee concludes that the ANAO's budget allocation, for this financial year, is sufficient to enable the Auditor-General to properly exercise his functions and powers under the *Auditor-General Act 1997*.

The Committee has some concerns, however, about the situation confronting the Auditor-General beyond this coming financial year. As I mentioned, the rent for Centenary House will increase yet again in 2006-07. A new Certified Agreement for ANAO staff is also due to commence in 2006-07, and the increase in hourly rates for contract audit services shows no sign of abating.

The ANAO has indicated that it will, of course, continue to meet its statutory financial auditing obligations. Any reduction in activity will be at the expense of the ANAO's discretionary products, such as its cross-agency "Better Practice Guides" and Business Support Process Audits, and performance audits.

The Committee would be greatly concerned by any such reduction in the ANAO's discretionary work. Items such as the Better Practice Guides, which are applicable across the entire Commonwealth public sector, are a cost-efficient method of raising the standard of public administration.

For example, the Committee's current review of management of special appropriations has revealed a desperate need for increased awareness of best practice across the public service. A decrease in such advice and oversight by the ANAO, for want of adequate funding, would strike the Committee as a case of "penny wise, pound foolish", and the same could be said about any reduction in the ANAO's highly successful program of around 45 to 50 performance audits annually.

In summary, the Committee is persuaded that the Auditor-General has a sufficient budget allocation to allow him to meet his responsibilities for 2005-06. However the Committee will monitor the situation beyond 2005-06 closely, to make sure that the ANAO's wider program of performance audits and other discretionary activity is not compromised.

The Committee asks the government to be mindful of our concerns in considering any ANAO requests during the course of this year, in relation to any unanticipated cost increases. In relation to the Auditor-General's budget for 2006/07, we would urge the government to be sympathetic to any strictly-defined proposals from the

ANAO to access reserves, or undertake limited borrowings, until the Centenary House lease expires.

In light of the expected budget surplus, the Committee is disappointed that the ANAO has not gained all of the additional funding it had sought. However we are aware of the need for the Government, as responsible financial managers, to continue to retire government debt and invest for the future.

I present a copy of my statement.

Bob Baldwin MP  
Committee Chair

10 May 2005