

## Summary of activities during 2005-2006

### **Committee membership**

- 2.1 On 7 February 2006 the Chair of the Committee, the Hon Bob Baldwin MP, was discharged from the Committee following his appointment as Parliamentary Secretary to the Minister for Industry, Tourism and Resources. Mr Tony Smith MP was subsequently nominated to replace Mr Baldwin as a member of the Committee.
- 2.2 On 9 February 2006 Mr Smith was elected unopposed to the Chair of the Committee.
- 2.3 The following members of the Committee over the financial year were also discharged: former Committee Chair, the Hon. Alex Somlyay MP, Senator Nigel Scullion, Ms Anna Burke MP, Senator Claire Moore and Mr Ken Ticehurst MP. The following members were nominated in their each of their respective places: the Hon. Bronwyn Bishop MP, Senator Fiona Nash, Dr Craig Emerson MP, Senator Mark Bishop and Dr Dennis Jensen MP.

## Committee reports 2005-06

### Report 404, *Review of Auditor-General's Reports, 2003-2004, Third and Fourth Quarters; and First and Second Quarters of 2004-05*

- 2.4 At its first meeting following the 2004 federal election, the Committee resolved to complete a review of three ANAO reports begun in the previous Parliament, and also to undertake a program reviewing a further eight Audit Reports, selected from the 37 ANAO reports that had been presented to Parliament in the previous few months.
- 2.5 The 11 reports were:
- Audit Report No. 25, 2003–04: Intellectual Property Policies and Practices in Commonwealth Agencies;
  - Audit Report No. 34, 2003–04: The Administration of Major Programs, Australian Greenhouse Office;
  - Audit Report No. 36, 2003–04: The Commonwealth's Administration of the Dairy Industry Adjustment Package, Department of Agriculture, Fisheries and Forestry, Dairy Adjustment Authority;
  - Audit Report No. 46, 2003-04: Client Service in the Family Court of Australia and the Federal Magistrate's Court;
  - Audit Report No. 50, 2003-04: Management of Federal Airport Leases;
  - Audit Report No. 4, 2004-05: Management of Customer Debt (Centrelink);
  - Audit Report No. 5, 2004-05: Management of Standard Defence Supply System Upgrade;
  - Audit Report No. 21, 2004-05: Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004;
  - Audit Report No. 15, 2004-05: Financial Management of Special Appropriations;
  - Audit Report No. 16, 2004-05: Container Examination Facilities (Australian Customs Service); and
  - Audit Report No. 18, 2004-05: Regulation of Non-prescription Medicinal Product.
- 2.6 Report 404 was tabled on 7 November 2005 and made 42 recommendations. The 11 audit reviews considered issues such as

grants administration; customer service; regulatory functions; management of assets; contract management; and program implementation.

- 2.7 As of July 2006 nine Executive Minutes had been received for this report, agreeing with 29 of the Committee's recommendations.
- 2.8 The Committee notes that it is still awaiting a response to three recommendations, arising from its review of Audit Reports Nos. 34 and 15.
- 2.9 The Committee will continue to pursue outstanding government responses to its recommendations.

#### **Report 405, *Annual Report 2004-2005***

- 2.10 Section 8B of the PAAC Act requires the Committee to table a report on its performance each financial year. *Report 405*, tabled on 28 November 2005, reported on the Committee's activities in the 2004-2005 financial year.

#### **Report 406, *Developments in Aviation Security since the Committee's June 2004 Report 400: Review of Aviation Security in Australia – An Interim Report***

- 2.11 On 7 December 2005 the Committee tabled a brief interim report containing nine recommendations arising from evidence it had gathered to date on its further inquiry into aviation security in Australia.
- 2.12 On 21 September the Prime Minister and Minister for Transport and Regional Services released *An Independent Review of Airport Security and Policing for the Government of Australia* by the Rt Hon Sir John Wheeler and announced the Government's in principle acceptance of its recommendations.
- 2.13 Report 406 identified two areas of aviation security that were the subject of recommendations made by the Wheeler Review where specific requirements should be put forward:
- the proposed review of the *Aviation Transport Security Act 2004* (ATSA) and *Regulations 2005* (ATSR); and
  - the proposed changes to the background checking processes of application for Aviation Security Identification Cards (ASICs).
- 2.14 In February 2006 the Deputy Secretary of the Department of Transport and Regional Services wrote to the Committee providing an update of

the Government's review of ATSA and ATSR and arrangements relating to the issuing of ASICs.

## Other Committee activities

### The operations and resources of the Audit Office

- 2.15 Section 8 (1) (j) of the PAAC Act requires the Committee to consider draft estimates for the Audit Office. Under the Act, the Committee must make recommendations to both Houses of Parliament and to the Prime Minister on those draft estimates. This is by way of a statement by the Chair to the Parliament on budget day.
- 2.16 In May 2006, the Committee reviewed the ANAO draft budget estimates for 2006-07, and received a briefing from the Audit Office.
- 2.17 The Auditor-General identified three priority areas for which he had sought additional funding from 2006-07:
- \$2.8 million over four years for the adoption of Australian equivalents to international reporting standards and financial statement audit of the Future Fund Management Agency;
  - \$650,000 over two years for audit of financial statements of the Department of Defence; and
  - \$3.57 million over four years and \$962,000 per annum on-going for an annual audit report of major defence projects.
- 2.18 The Committee noted that the Audit Office did not receive approval for funding of an annual report on progress in major defence projects. The proposal was similarly not approved in last year's budget. In his report to the Parliament on budget day 2005, the Chair stated:
- The Committee has in recent years devoted considerable attention to the Auditor-General's reports on individual defence projects. We believe that funding the Audit Office to produce an annual audit on progress with such projects could well deliver significant benefits for both the department of defence and the Australian taxpayer. Such a report would also be in line with developments in the United Kingdom and the United States. We will assess this issue further during our current inquiry into financial reporting and equipment acquisition at the Department of Defence and in

that light may make recommendations to the parliament at a later date.<sup>1</sup>

2.19 The Chair also noted that:

the increasing requirements of auditing standards and the need to be competitive in the accounting and auditing labour market are exerting sustained cost pressures which flow through to the Audit Office's budget for 2006-07 and the out years. The cost of audit contractors has also increased, adding to the budget pressures. While the Audit Office has used contractors for many years to assist with the larger commercial audits and to manage peak workloads, the Auditor-General informed the committee that he is also using contractors for government agency work due to staff shortages. In the light of these developments, the Auditor-General has indicated that he will be reviewing his budget position and market conditions throughout 2006-07 and will inform the committee of the outcome of this review ahead of next year's budget.<sup>2</sup>

2.20 On the advice of the Auditor-General that the budget of \$64 million was sufficient for 2006-07 the Committee endorsed the proposed budget.

### Appointment of the Independent Auditor

2.21 Part 7 of the *Auditor-General Act 1997* provides for the appointment of the Independent Auditor. Sections 44(2) and 45(1) of the Act establish that the Independent Auditor:

- must audit statements of the Auditor-General in accordance with section 57 of the *Financial Management and Accountability Act 1997*;
- may at any time conduct a performance audit of the Audit Office.

2.22 Schedule 2 of the Act specifies that the appointment of the Independent Auditor will be for at least three years and not more than five years and requires that:

The [Audit] Minister [currently the Prime Minister] must not make a recommendation to the Governor-General ... unless:

- (a) the Minister has referred the proposed recommendation to the Joint Committee of Public Accounts and Audit for approval; and
- (b) the Committee has approved the proposal.

---

1 Mr Tony Smith MP, *House of Representatives Hansard*, 9 May 2006, p. 37.

2 Mr Tony Smith MP, *House of Representatives Hansard*, 9 May 2006, p. 38.

- 2.23 Section 8A of the PAAC Act provides for the JCPAA to approve or reject the Audit Minister's recommendation for an appointment of the Auditor-General or Independent Auditor. Under the PAAC Act, the JCPAA must decide on the Audit Minister's recommendation within 14 days of receiving it, or make a request for more time to consider the proposal. The final deadline for consideration is 44 days after initially receiving the recommendation. If the Committee does not make a decision on a proposal by the required time, the Committee is taken to have approved the proposal.
- 2.24 The term of the previous Independent Auditor, Mr Michael Coleman, expired on 30 November 2005 having been reappointed to the position following his initial appointment on 22 March 1999.
- 2.25 On 23 March 2006 the Prime Minister wrote to the Chair of the Committee, nominating Mr Geoff Wilson of KPMG as the new Independent Auditor.
- 2.26 On 29 March 2006 the Committee considered the Prime Minister's nomination, and conducted a telephone interview with Mr Wilson (who was overseas). The Committee unanimously agreed to endorse the nomination of Mr Wilson as Independent Auditor and wrote to the Prime Minister accordingly.
- 2.27 Although the Committee had no reservations regarding the appropriateness of Mr Wilson for the position, there were reservations about the late receipt by the Committee of the nomination.
- 2.28 The Committee is concerned at the lateness of the nomination on two grounds:
- failure to appoint an Independent Auditor over any considerable period of time may expose the Auditor-General to perceptions and claims that, while he is charged with maintaining accountability, his office is unaccountable; and
  - a late nomination could prevent the Committee from taking full consideration of the proposed appointment.
- 2.29 The Committee notes that it expressed concerns about the lateness of the nomination for Auditor-General in its *Annual Report 2004-2005*, where it also foreshadowed discharging its responsibility in relation to the Independent Auditor:
- While the Committee had every confidence in the suitability of Mr McPhee for the position [of Auditor-General], there were reservations about the late receipt by the Committee of Mr

McPhee's nomination, particularly given that Mr Barrett's retirement had been known for some time, and the consequent pressure on the Committee to make an immediate decision on the nomination.

On this point, the Committee is similarly obliged to approve any nomination for the position of Independent Auditor ... The Committee is due to fulfil this role in late 2005.<sup>3</sup>

- 2.30 The Committee urges the Government to ensure that, when possible, advice for future nominations to the offices of Auditor-General and Independent Auditor are made in a timeframe that allows the proper discharge of the Committee's responsibilities in giving due consideration to the candidates.
- 2.31 On 10 May 2006 the Chair of the Committee wrote to the Secretary of the Department of Prime Minister and Cabinet, Dr Peter Shergold AM, expressing the Committee's wishes to fulfil its role in the selection process for the appointment of the Independent Auditor and Auditor-General and requested that in future it receive:
- written advice (prior to the selection process being conducted) on the process proposed to be used to seek expressions of interest, including the selection criteria for the position; and
  - written advice on all applicants, which the Committee would accept on a confidential basis, and the reasoning behind the selection of the candidate eventually put forward to the Committee.

### Audit priorities of the Parliament

- 2.32 Under Section 8 (m) of the PAAC Act, the Committee must determine the audit priorities of the Parliament and advise the Auditor-General on those priorities. In February the Chair wrote to all other parliamentary committees, inviting them to submit audit priorities for possible inclusion in the ANAO's 2006-07 audit program. Following responses from Committee chairs, the JCPAA advised the ANAO that the Parliament's audit priorities for 2006-07 included:
- the Child Support Agency;
  - the Family Court of Australia;
  - funding and resources available to meet objectives of national parks, conservation reserves and marine protected areas;

---

3 JCPAA, *Annual Report 2004-2005*, paras. 2.27-2.28.

- efficiency and effectiveness of Australian Health Care Agreements;
- efficiency and effectiveness of the Australian Electoral Commission's employment practices and quality control;
- the National Capital Authority;
- recruitment and retention practices in the Department of Defence;
- tendering and contracting processes for personal equipment by the Defence Materiel Organisation;
- protection of critical habitat and listed threatened species under the *Environment Protection and Biodiversity Act 1999*; and
- operation and effectiveness of the Special Access Scheme administered by the Therapeutic Goods Administration.

### Annual report guidelines for Commonwealth agencies

- 2.33 The *Public Service Act 1999* requires that annual reports of Commonwealth agencies be prepared in accordance with guidelines approved on behalf of the Parliament by the JCPAA. These guidelines are known as the *Requirements for Annual Reports*.
- 2.34 On 21 June 2006 the committee approved the draft requirements for 2005-06 annual reports for release to agencies.
- 2.35 There were only minor changes to the requirements the Committee had approved for the previous year, principally to formatting and dates. The Committee notes the Prime Minister's advice that next year's draft requirements will incorporate more substantial changes arising from the ANAO's January 2006 report *Reporting Expenditure on Consultants*, which the Committee examined at public hearings on 22 May and 14 June 2006.

### Speeches and meetings with delegations

- 2.36 The Committee is keen to disseminate information on its functions, work program, and role in public sector accountability. Accordingly, the Committee, its Chair and Secretariat participate in conferences and symposia discussing public sector accountability, and often make presentations on the Committee and its activities. During 2005-06 the Chair, Deputy Chair and Secretary made the following speeches and presentations:



<i>Role of the JCPAA (Committee Secretary)</i>	Department of Finance Administration officials	August 2005
<i>Role of the JCPAA (Mr Bob Baldwin MP, Chair and Committee Secretary)</i>	Delegation from Ghana	September 2005
<i>Role of the JCPAA (Committee Secretary)</i>	Responsible Parliamentary Government course	September 2005
<i>Role of the JCPAA (Mr Bob Baldwin MP, Chair and Committee Secretary)</i>	KPMG representatives undertaking a comparative study of Australasian Public Accounts committees	September 2005
<i>Role of the JCPAA (Mr Bob Baldwin MP, Chair and Committee Secretary)</i>	Delegation from Ghana	October 2005
<i>Role of the JCPAA and the process of re-opening the aviation security inquiry (Mr Bob Baldwin MP, Committee Chair)</i>	CPA workshop, Cook Islands.	October 2005
<i>Role of the JCPAA (Committee Secretary)</i>	Delegation from Indonesia	November 2005
<i>Role of the JCPAA (Committee Secretary)</i>	Overseas public servants undertaking an anti-corruption course, Monash University	November 2005
<i>Role of the JCPAA (Deputy Chair and Committee Secretary)</i>	Delegation from the Indonesian Board of Audit	February 2006
<i>Role of the JCPAA (Mr Tony Smith MP Committee Chair, Senator Watson and Committee Secretary) 40 officials from developing countries</i>	Overseas officials studying Public Accounts Committees, La Trobe University	February 2006
<i>Role of the JCPAA (Committee Secretary)</i>	"Inside Committees" presentation to House of Representatives staff	April 2006
<i>Role of the JCPAA (Committee Secretary)</i>	Delegation from Papua New Guinea's Department of Finance.	May 2006
<i>Role of the JCPAA (Committee Secretary)</i>	Visitor from Bangladesh	May 2006
<i>Introductory remarks on the Auditor-General (Mr Tony Smith MP, Committee Chair)</i>	Auditor General's House of Representatives Briefing	June 2006

## ACPAC Conference

- 2.37 The Australasian Council of Public Accounts Committees (ACPAC) meets biennially, and comprises members and staff of public accounts and audit committees of the Commonwealth, each Australian State and Territory, and the New Zealand, Papua New Guinea and Fiji parliaments.
- 2.38 The Chair, Mrs Bishop MP and the Secretary attended ACPAC's mid-term meeting in Alice Springs from 26-28 April 2006. The main purpose of the meeting was to agree on an agenda for the next biennial ACPAC conference, to be held in Canberra in the first half of 2007.

- 2.39 It was agreed that the theme for the next ACPAC conference would be 'Challenges Facing Contemporary Public Accounts Committees'. The following agenda items were agreed:
- the relationship between Public Accounts Committees (PACs) and the Executive;
  - the impact of devolution on financial, project and risk management in public sector agencies;
  - the role of Auditors-General and PACs as government functions are outsourced to the private sector; and
  - the relationship between PACs and Auditors-General.
- 2.40 It was also agreed that the conference would consider recent developments in accounting issues of relevance to the public sector, including progress on the Financial Reporting Council's review of sector-neutral accounting standards and the Generally Accepted Accounting Principles/Government Finance Statistics convergence project.

