



## JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

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### **REPORT BY THE JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT ON THE 2010-2011 DRAFT ESTIMATES FOR 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 ultimately 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.

The Committee met with the Auditor-General in February to review the Audit Office's budget proposals for the coming financial year. The Auditor-General advised that he would be seeking additional funding of \$5.6 million over five years in this year's budget.

The additional funding was to be applied in three main areas. First, the Audit Office sought \$5.3 million for audit work required following the establishment, and projected expansion, of the National Broadband Network Company Limited. This additional audit work is mandatory under section 13 of the *Commonwealth Authorities and Companies Act*, which requires the Audit Office to audit the financial statements of Commonwealth companies and their subsidiaries. The additional expense will be offset in full by audit fee revenue, although in this context it is important to note that such revenue is returned to the budget rather than being available to the Audit Office.

As I said in my corresponding statement last year, the Committee believes that the Audit Office should be fully funded for any new obligations that Government places upon it, particularly where new agencies are established. The Committee is therefore pleased that the Audit Office will receive the additional funding it sought in this year's budget in relation to the NBN Company Limited. The Committee also notes that the recent transfer of the Office of Indigenous Evaluation and Audit from the Department of Finance to the Audit Office has been properly accompanied by ongoing funding of approximately \$4 million per year.

The Auditor-General advised the Committee in February that he would also be seeking an additional \$1.5 million over five years in support of his reviews of compliance of proposed government advertising campaigns with guidelines for agencies issued in July 2008. This funding request was withdrawn late in the budget process when, following a review of the guidelines by Dr Allan Hawke, the Auditor-General's role in providing review reports on proposed advertising campaigns was abolished on 31 March.

Finally, the Audit Office sought \$5.3 million for the period 2009-10 to 2013-14, partially offset by audit fees of approximately \$1.2 million, to meet the workload associated with the full revision to the Australian Auditing and Assurance Standards, which reflect changes to international auditing standards. As a result of these changes, some 41 revised auditing standards become effective in 2010-11. The changes result in an increase of about a third in mandatory auditing procedures, with the extent of new requirements exceeding 20 per cent. The changes therefore increase financial statement audit effort significantly, and require updates to audit methodology and related training.

The Audit Office has not been successful in its bid for funding this year for this additional workload. While this is disappointing, the Committee acknowledges that in last year's budget the Audit Office, with the Committee's strong support, received an additional \$20.1 million over four years. This enabled the Audit Office to restore its target number of performance audits to the traditional level of around 50 audits per year, following a reduction to 45 for the 2008-09 financial year.

The Audit Office's total revenue from Government is estimated at \$73 million in 2010-11. Mr Speaker, the Auditor-General has advised that his appropriation for the year ahead will allow him to meet his obligations, including maintaining his targets for production of performance audit reports and public sector "Better Practice Guides". The Committee therefore endorses the budget proposed for the Audit Office for 2010-11.

However, the Committee is concerned by the lack of new funding in support of the revision to the Auditing and Assurance Standards. While the new standards should enhance public confidence in the quality and relevance of audit services, the Committee is of the view that they will significantly increase the effort required to audit the financial statements of public sector entities. Based on its internal analysis and external assessments, most notably from the UK, the Audit Office estimates that the new requirements will result in an average increase of five per cent in financial statement audit effort, based on its auditee profile of 275 small entities and 34 material entities.

Given that the financial statement audits, and the associated professional standards, are mandatory obligations for the Audit Office, there is a risk that ongoing budget pressure in this important area of audit activity may in time force the Auditor-General to again reduce his program of performance audits and Better Practice Guides. The Committee continues to assert that any such downgrade would be a false economy, and not in the interests of either the Parliament or the people it serves.

The Committee notes that the Auditor-General made a similarly unsuccessful request in last year's budget for additional funding to meet the costs of the revision to the Auditing and Assurance Standards, and previously received only partial funding for the substantial increase in audit workload arising from the introduction, from 2008-09, of the General Government Sector financial statement.

The Committee therefore flags its support for any request by the Auditor-General, in next year's budget process, for additional funding to meet the costs of the revised auditing standards. In the longer term, the Committee also notes that the Auditor-General has previously suggested that it would be desirable to have in place arrangements that allow the Audit Office's funding to be adjusted in line with changes in the scale of the public sector, and agrees that this matter requires further consideration to ensure that the Audit Office is properly funded into the future and able to discharge its responsibilities to the Parliament.

I present a copy of my statement on behalf of the Joint Committee of Public Accounts and Audit.

Sharon Grierson MP  
Committee Chair

11 May 2010