BUDGET DAY STATEMENT

14 May 2024

Joint Committee of Public Accounts and Audit

2024-25 Draft Estimates for the Australian National Audit Office and the Parliamentary Budget Office

On behalf of the Joint Committee of Public Accounts and Audit, I present this statement on the draft budget estimates of the Australian National Audit Office—the ANAO—and the Parliamentary Budget Office—the PBO.

The Committee is required, under the *Public Accounts and Audit Committee Act 1951* and the *Parliamentary Service Act 1999*, to consider the draft budget estimates of the ANAO and the PBO, respectively, and to make recommendations to both Houses of Parliament regarding these estimates.

This required statement on behalf of the Committee in advance of the Budget being handed down is an important transparency measure that informs the Parliament and the public on the adequacy of the ANAO's and the PBO's resourcing. The Committee considers both offices vital in supporting the work of this Parliament and in strengthening integrity and transparency in public administration.

The Committee has carefully scrutinised the ANAO's and the PBO's draft Budget estimates and has resolved to endorse them, subject to further review of the costings and final estimates which may be agreed with the Department of Finance.

The ANAO received supplementations in both the 2021-22 and 2023-24 budgets to deal with acute cost pressures, but it is not requesting any additional funding in this budget. As outlined in its Budget Submission to the Committee, however, the ANAO will require additional funding in future years if it is to meet both its legislative requirements and other outputs under the present framework. This is due primarily to the cumulative impact of the efficiency dividend which currently applies to the ANAO.

For many years over successive Parliamentary terms, the Committee has been grappling with the unsustainability of ANAO's long term financial position and the risk arising to its operational independence and ability to perform its vital statutory roles at an appropriate level of output.

For the coming financial year, the ANAO can draw on accumulated reserves to meet its resourcing requirements. It has become clear to the Committee, however, in discussions over many months regarding the ANAO's funding models and projections that its current financing model is not sustainable over the long-term.

The ANAO is a relatively small agency with a legislative mandate to undertake financial statements auditing, alongside a set of other agreed outputs, notably performance audits and more recently performance statements auditing. Financial audit work must meet strict standards and can involve unavoidable unforeseen costs. Although the ANAO has invested in technology and in-house capability to improve efficiency and reduce costs, it has been demonstrated over multiple terms of Parliament that it is simply not possible for the ANAO to bear the cumulative impact of the efficiency dividend without reducing outputs which can only occur in the performance audit program. Indeed, the impact of the efficiency dividend has been the key driver of its prior supplementary funding requests.

Conceptually, the Committee considers that the efficiency dividend need not and should not apply to the ANAO. The efficiency dividend is a reasonable tool of Executive Government, both to free up resources in Departments of State and similar entities for other priorities and to send a management signal of fiscal discipline. Evidence gleaned over multiple terms of Parliament, however, demonstrates that it is simply not possible for the ANAO to accommodate the cumulative impact of the efficiency dividend without reducing its performance audit program below the number agreed on a bipartisan basis to be optimal – 48 performance audit per annum.

Hence for some decades now, an inevitable ritual dance has developed, where every few years the ANAO moves into a Budget deficit and properly indicates it has no choice by to start cutting the performance audit program. In response the Government of the day eventually provides supplementary funding, sometimes with and sometimes without political drama.

The application of the efficiency dividend is predicted by ANAO to have a cumulative budgetary impact of $10.9 million between 2014–15 and 2027–28.

This is not a new issue. Back in 2008, the JCPAA commented in *Report 413 The Efficiency Dividend: Size does matter* that *'the ANAO saves the Australian taxpayer significant sums of money each year through reduced opportunity for fraud, better accountability and improved agency performance. Saving small sums on the ANAO's budget only costs the Government larger sums later on…'*

The value to the Australian Government of a robust audit function is significant, as it fosters and drives efficiency, effectiveness and accountability throughout the public sector.

The Committee notes with interest also that the New South Wales Government has permanently excluded integrity agencies from an efficiency dividend since 2022-23 to safeguard their future independence, and that it did so in response to recommendations by the Public Accountability Committee of the NSW Parliament.

It has been the presumption in different quarters for many years that the efficiency dividend drives efficiency in a sustainable manner as applied to ANAO, but this is simply not borne out by the analysis and the facts.

The strong and considered recommendation of the Committee is that ANAO should simply be excluded from any future efficiency dividend. Doing so will maintain the performance audit program at the level broadly agreed to be necessary and thereby enhance efficiency and effectiveness across Commonwealth entities. This approach will also avoid the periodic circus and political drama about ‘cutting the audit program’ before additional funding is inevitably provided by the Government of the day.

In addition to enabling ANAO to better absorb market-based cost increases in the conduct of its mandatory audit functions, removal of the efficiency dividend will help it to reach the target of 48 discretionary performance audits per financial year, a number that the JCPAA had recommended be funded in its 2022 review of the *Auditor-General Act*.

The JCPAA recognised at that time that resourcing of the ANAO was not adequate but did not have sufficient evidence to justify a recommendation to remove the efficiency dividend. The Committee now takes a different view on this however following the additional considerations and analyses that have been conducted and regards it as the simplest and most effective first step in ensuring ANAO’s financial sustainability. It avoids the periodic wasted effort of justifying the obvious with analysis and business cases, and the political circus of accusations that the government of the day is ‘cutting’ the audit office budget before it is inevitably ‘restored’.

Parliamentary Budget Office

The PBO’s estimated expenses for 2024-25 amount to $10.371 million. The Committee notes from the PBO’s portfolio budget statement, under the strategic direction section, that its expected resourcing for 2024-25 will make it challenging for PBO to maintain its service levels for parliamentarian requests as well as meet its publication and election related responsibilities.

The Committee has understood for some time that the principal continuing budgetary issue facing the PBO has been sustained increases in demand for its work across the Parliament, coupled with the depletion of its special appropriation fund from $6 million, allocated at its inception, to now around $1.8 million. Although the PBO should continue to meet most of its fiscal requirements from its departmental appropriation, this special appropriation has represented a crucial buffer for it to manage risks to its operational independence and in meeting unexpected costs, including the heightened demands for its services in recent years.

The Committee has supported the replenishment of this fund in previous budgets but acknowledges and accepts the recent advice from the Department of Finance that as it was created to assist PBO through its establishment phase only, a new policy proposal (NPP) is required to obtain additional funding.

The Committee supports the PBO’s request for additional funding of $1.1 million per year over 4 years from 2024-25, and ongoing, and the establishment a $3 million special account to provide a reasonable measure of ongoing fiscal independence from Executive Government and resources to call upon if needed, subject to appropriate rules regarding access to the special account.

The JCPAA confirms its continuing support for the PBO and its role in providing valuable information and analysis to all Parliamentarians to better inform public debate.

I thank the Acting Auditor-General and the Parliamentary Budget Officer for their work in support of the Parliament and the JCPAA and Committee members for their thoughtful and detailed consideration of these budget requests.