



JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

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**REPORT BY THE JOINT COMMITTEE OF PUBLIC ACCOUNTS AND
AUDIT ON THE AUDIT OFFICE BUDGET ESTIMATES FOR 2006-07**

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*, and reflects the Auditor-General's status as an independent officer of the Parliament.

The Audit Office's budget allocation in 2005-06 was just under \$62 million with a further \$1 million received during additional estimates, and another \$900 000 received as part of the supplementary additional estimates process. The total budget allocation for 2005-06 is \$63.8 million.

The Auditor-General advised the Committee that he had sought additional funding from 2006-07 onwards across three priority areas.

First, the Audit Office sought just over \$2.8 million over four years, to provide audit services resulting from the adoption of the Australian Equivalents to the International Reporting Standards and to fund the financial statement audit of the new Future Fund management agency.

Second, the Audit Office sought additional funding for the audit of the Department of Defence's financial statements, at a cost of \$915 000 in 2005-06, and \$325 000 for each of the 2006-07 and 2007-08 financial years.

By way of background, the audit of Defence's financial statements for 2003-04 and 2004-05 revealed significant issues around the Department's systems and controls. A series of implementation plans to address these issues has been put into place. Progress on these plans will be assessed by the Committee in our new inquiry into financial reporting and equipment acquisition at the Department of Defence.

Third, the Audit Office sought \$3.57 million over four years, and \$962 000 per annum ongoing, to produce an annual audit report on major Defence projects, as resolved by the Senate following a report by the Senate Foreign Affairs, Defence and Trade committee in 2003.

I am pleased to report that the Audit Office received the funding for the financial statement audit work that it had requested for 2005-06 and 2006-07 onwards. For 2006-07 the Audit Office received \$1.125 million to audit the adoption of the Australian Equivalents to the International Reporting Standards; approximately

\$225 000 dollars for the audit of the Future Fund Management Agency; and an increase of \$325 000 for the financial statement auditing of the Department of Defence.

The Committee notes that the Audit Office did not receive approval in the 2006-07 Budget for ongoing funding of an annual report on progress in major defence projects. This proposal was similarly not approved in last year's budget.

The previous Auditor-General advised the Senate, when it formally requested that the Audit Office produce such a report, that this task was beyond the Audit Office's available resources and commitments. The Audit Office's position was endorsed by my Committee in April 2004.

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 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.

Overall, the Auditor-General advised the Committee that the Audit Office's budget for 2006-07 is sufficient to enable it to meet its auditing responsibilities. The Auditor-General had previously informed the Committee that adoption of the Australian Equivalents to the International Reporting Standards had allowed him to manage the Centenary House rental costs by accessing accumulated funds without recording an operating deficit. As a result, the Audit Office has budgeted to break even in 2006-07.

I note that actual outlays under the Centenary House lease agreement will be approximately \$6.7 million in 2006-07, \$7.3 million in 2007-08 and a further \$1.7 million before the lease expires in September 2008. This is reducing the accumulated cash reserves of the Audit Office.

The Auditor-General also advised the Committee 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 also

informed the Committee that he is also using contractors for government agency work due to staff shortages.

In light of these developments, the Auditor-General has indicated that he will be reviewing his budget position and market conditions throughout the course of 2006-07, and will inform the Committee of the outcome of this review ahead of next year's budget.

The Committee is concerned to ensure that the Audit Office is properly resourced, given the importance of its work. In particular, it is vital that the Audit Office is able to attract and retain the high-quality staff it employs to undertake its performance and financial statement audits. We will await further advice from the Auditor-General before informing the Parliament on the resourcing of the Audit Office beyond the coming budget year.

The Auditor-General's advice that his budget of \$64 million for 2006-07 is sufficient has been noted and welcomed by the Committee, and accordingly we endorse the budget proposed for the Audit Office for the year ahead.

I present a copy of my statement.

Tony Smith MP
Committee Chair

9 May 2006