



Auditor-General for Australia



9 May 2018

Senator Dean Smith
Chair
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Senator Smith

Updated ANAO 2018-19 budget submission

I am writing to provide you with an update on the ANAO's 2018-19 budget position.

Since I provided my budget submission to you on 2 February 2018, the Government made changes to my budget. The requirement for the details of the Federal Budget to remain strictly confidential until it is released prevented me from briefing you on these changes before budget night.

Now that the budget has been made public I have attached an updated submission on the ANAO's 2018-19 budget estimates for your consideration. In particular, I draw your attention to pages 7 and 8 that provide revised estimates for the ANAO, and to page 9 that provides an update on our future financial position.

In order to maintain the ability to meet the ANAO's 2018-19 and future performance targets I propose to access the ANAO's accumulated appropriation reserves as we transition to the new funding base. Using accumulated appropriation reserves may result in the ANAO having to apply to the Finance Minister to operate at a technical loss.

Agency contact details

Ms Deborah Rollings, Senior Executive Director, Corporate Management Branch (02 6203 7710) can be contacted for further information.

Yours sincerely

Grant Hehir



2018–19 Budget Submission

Joint Committee of Public Accounts and Audit

May 2018

Contents

Introduction.....	2
Insights	2
The ANAO’s Budgetary Arrangements	7
Budget and Baseline Funding.....	7
Current Financial Position	8
Future Financial Position and update on Budget funding requests	9
Audit Fee Calculation Methodology	12
ANAO’s Performance.....	13
Our Business Performance in 2016–17	13
Our Business Environment for 2017–18	14
Our Business Performance in 2017–18	15

Introduction

Under the *Public Accounts and Audit Committee Act 1951* (the PAAC Act), the Joint Committee of Public Accounts and Audit (JCPAA) is required to make recommendations to both Houses of the Parliament and to the Minister¹ who administers the *Auditor-General Act 1997* (the Act) on draft estimates submitted by the Australian National Audit Office (ANAO)².

To assist the Committee in meeting these responsibilities, section 53 of the Act provides that the Committee may request the Auditor-General to submit to the Committee draft estimates for the ANAO for a financial year before the annual Commonwealth Budget for that financial year. Section 53 also states that the Auditor-General must comply with the request in time to allow the Committee to consider the draft estimates and make recommendation on them before the Budget.

The main purpose of this updated submission is to inform the Committee of the ANAO's 2017–18 Budget position and current forward estimates, and to assist the Committee to meet its statutory responsibilities in relation to ANAO resourcing. I would also like to provide you an update on what the ANAO has achieved in the past 12 months and some insights into the next 12 months. It will be important to continue a dialogue in coming years on these aspects of our work as they relate to the overall funding position of the ANAO.

The PAAC Act also requires the Committee to consider the level of fees determined by the Auditor-General. We have set out our approach for determining fees in the Audit Fee Calculation Methodology section of this submission.

Insights

The ANAO is well regarded by the public and the Parliament for its delivery of high quality audit services. Each year, the ANAO delivers approximately 250 financial statement audit opinions, 45 assurance activities, 40–50 performance audits and two reports on the results of financial statements audits. The ANAO also receives many requests from the Parliament (Committees and individual Parliamentarians) and the public to undertake audits and reviews on a range of topics.

Auditing of financial statements of Commonwealth entities is a mandatory function of the Auditor-General. The ANAO's role as the auditor of financial statements has a positive impact on the quality of financial reporting. ANAO Report No. 24 (2017–2018) notes that no modified audit opinions were issued in 2016–17 and while there were 222 findings across the 233 audited entities' financial statements only two significant and 20 moderate findings were reported. Our sharing of audit insights, the provision of regular forums for public sector chief finance officers and audit committee chairs, and the inclusion in individual audit reports of key learnings further provides

¹ Under the Administrative Arrangements Order, the Prime Minister carries ministerial responsibility for matters relating to the administration of the ANAO.

² Sub-section 8(1)(j) and 8(1)(l) of the PAAC Act.

entities with information that can be used to positively impact on the quality of reporting.

For several years, timeliness of auditing of financial statements has been a key focus both for the ANAO and for the Committee given the contribution that timely audit reports can make to earlier tabling of entities' annual reports. The ANAO report "Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2017" provides information on timeliness of reporting including that in 2016–17: of the 178 entities required to present annual reports to the responsible Minister in accordance with relevant legislative requirements, 91 per cent were signed within three months of the reporting date; and the length of time taken to approve and table entity annual reports from the date the auditor's report was provided ranged from 13 to 102 days with an average time of 47 days.

Delivery of earlier financial statements audit reports will remain a priority for the ANAO.

A key focus for 2018–19 will be assessing the ANAO's readiness to be able to undertake performance statements audits more broadly in the sector noting the Committee's recent recommendations in *Report 469: Commonwealth Performance Framework*, specifically that the Australian Government amend the framework, as a matter of priority, to enable mandatory annual audits of entity performance statements by the ANAO of entities selected by the Auditor-General.

Achieving timely audit reports on performance statements will require consideration of the most efficient and effective resource deployment to this work. We expect that the ANAO will maintain dialogue with the Committee on this issue in coming years.

Continued adoption of multiple systems and new tools within the Australian public sector and its providers, and the management of data control and security, presents the ANAO with challenges to accessing and mining data as part of the audit evidence base. Adapting and keeping up to speed with technology advancements, while also safeguarding data is a priority for the ANAO. New organisational arrangements have been established to increase the ANAO's capability and capacity to use data analytics to improve audit quality and efficiency. The capability also offers opportunity to further diversify ANAO products – *ANAO Report No.19 (2017-18): Australian Government Procurement Contract Reporting* is an early example of our new efforts in this regard. We are also developing new approaches to searching entities' data reflecting technological opportunities and the absence of sound record keeping in agencies.

The ANAO continues to focus on the breadth of the legislative mandate and the full range of powers that the Parliament included in legislation. The ANAO conducted a number of performance audits with the Committee's agreement involving Government Business Enterprises and Commonwealth Partners. To date, the ANAO has completed performance audits on the delivery of the Moorebank Intermodal Terminal, the administration of the National Broadband Network Satellite Support Scheme, Australia Post's efficiency of delivering Reserved Letter Services, and the management of the pre-construction phase of the Inland Rail Programme.

Performance audits on cyber resilience of corporate Commonwealth entities and government business enterprises (not yet commenced) and the procurement processes and management of probity by the Moorebank Intermodal Company (in progress) have also been requested by the Committee.

The ANAO has continued to support the Parliament's interest in the Performance Management Reform agenda through undertaking a series of performance audits on corporate planning and the management of risk by public sector entities. The most recent audits in this series are *ANAO Report No.54 (2016–17) Corporate planning in the Australian Public Sector*³, and *ANAO Report No.6 (2017–18) The Management of Risk by Public Sector Entities*. Similar to the observations of *ANAO Report No.58 (2016–17)*, both of the audits concluded that further work is required by entities to fully address the core elements of the PGPA Act⁴. The ANAO's continued focus in these areas is expected to assist in keeping the Parliament, the government, and the community informed on implementation of the resource, risk and performance management frameworks introduced by the PGPA Act.

A key feature of Australian public sector governance is the independence of the Auditor-General, whose responsibilities and mandate are set out in the Act. The ANAO advises policy departments such as the Department of the Prime Minister and Cabinet (PM&C) and the Department of Finance, when potential or emerging conflicts to the Auditor-General's independence are identified. Recent examples include the introduction of Shared Services arrangements and the recently mandated property management coordinated procurement requirements that aim to optimise whole-of-government property management outcomes. These arrangements are activities subject to performance audit activity. To date there has been proper consideration of these arrangements, to minimize and threat to the independence of the Auditor-General.

The ANAO, as directed by the Auditor-General, has commenced an internal review of the Act. The internal review will identify if there are any potential changes to the Act that would increase the independence of the Auditor-General and ensure that the Act is consistent with international better practice for independence and accountability. The last major review of the Act was conducted by the Committee in 2011 and it is important to ensure that the Act reflects contemporary developments in international better practice. If the internal review identifies that suitable amendments can be made to the Act, the Auditor-General will provide a paper to the Committee. The internal review will assist the Auditor-General and ANAO with providing a high standard of independent assurance to Parliament.

The Committee is aware that the *Public Governance, Performance and Accountability (Consequential and Transitional Provisions) Act 2014* removed the Auditor-General's ability to table the ANAO annual report directly in each House of the Parliament. The inability of Auditor-General to table the ANAO annual report in Parliament was inconsistent with the Auditor-General's position as an independent officer of the Parliament. The Auditor-General's ability to tabled ANAO annual reports was

³ The ANAO's first examination of entity corporate planning was considered in *ANAO Report No.6 (2015–16) Corporate Planning in the Australian Public Sector*.

⁴ *ANAO Report No.54 2016–17 Corporate Planning in the Australian Public Sector*, pp.8–9. *ANAO Report No.6 2017–18 The Management of Risk by Public Sector Entities*, pp.9–10

reinstated through the *Prime Minister and Cabinet Legislation Amendment (2017 Measures No. 1) Act 2018*.

The ANAO's overall financial position for 2017–18 remains sound, having met its 2016–17 deliverables with a small operating surplus. In the past 12 months we have continued to focus on the implementation of our three-year “Future Ready” change program to enable us to maintain a professional practice, while keeping pace with advances in auditing and public administration.

The ANAO completed a review of its performance measures during 2016–17. These refined performance measures as documented in the 2017–18 ANAO Corporate Plan have been developed to facilitate reporting on our support to the Parliament and the ongoing areas of interest to the Government, the Parliament, and/or the public.

In the first quarter of 2018–19, both the accommodation lease for our office building and the arrangement with our current IT provider (UNISYS) will expire. Work is underway to confirm our accommodation requirements and to determine the future IT environment that will be needed to support our staff and the delivery of the Auditor-General's mandate.

A business case was presented to the Finance Minister to obtain Commonwealth regulatory authority support for the ANAO to enter into a new long term lease with the landlord of the ANAO's current premises and for the ANAO to be authorised, in accordance with the budget process rules, to plan for the necessary capital expenditure to refurbish the fit out of the tenancy. On 27 September 2017, the ANAO received endorsement from the Minister for Finance to proceed to negotiate and enter into a 12-year lease with two five-year extension options for the currently occupied premises.

The ANAO has used this opportunity to reduce the net lettable area to be leased within the premises in order to re-align with current Australian Government property density targets. The negotiated lease incentive will also deliver savings of approximately \$8 million over the life of the lease by way of reduced rental payments. The ANAO has advised the Department of Finance of its intent to utilise available departmental appropriation to fund any refurbishment of the premises, currently estimated to be approximately \$10 million. In accordance with the budget process rules, the Finance Minister's approval of any commitment of funding over \$5 million will be sought. The office has also now notified the Public Works Committee of the proposed public works, given the estimated cost is between \$2 million and \$15 million (GST exclusive).

Assessment of responses to the request to market for future IT support is progressing. The costs of engaging an IT provider and implementing a new IT service arrangement are being managed within existing resources and funding. In the event that costs exceed existing resources and funding, we will seek the Finance Minister's approval for an operating loss and to use accumulated reserves to fund any shortfall.

Attracting and retaining highly skilled staff is challenging in the public and private auditing sector. The ANAO's staff members are predominately professionals with qualifications, experience and technical capability in the audit sector. The ANAO has been experiencing a relatively high attrition rate, particularly within the Assurance Audit Services Group. One immediate response to the attrition rate has been to increase investment in graduate recruitment, with the graduate intake increasing from 19 in 2016 to 28 in both 2017 and 2018. During 2017–18, the ANAO will also consider a range

of employment arrangements which will enable delivery of its work. Some of these considerations will be factored into the development of the next Enterprise Agreement for our staff.

The ANAO continues to operate on a “digital first” basis in the delivery of its audits and reports. The 2017–18 Corporate Plan was available only electronically through the ANAO website. Further enhancements to our website have embedded our approach to transparency and sharing of information electronically with stakeholders. The electronic tabling of reports in the Parliament, supported strongly by the ANAO, would be a further enhancement both to transparency and efficiency.

The ANAO decided in 2017 to discontinue and cease distributing a range of better practice guides, following consideration of a recommendation of the Independent Review of Whole-of-Government Internal Regulation (known as the Belcher Red Tape Review). We have developed different approaches to sharing insights, including regular forums for public sector chief finance officers and audit committee chairs, and the inclusion in individual audit reports of key learnings that may be considered by Australian Government entities.

We have also begun publishing insights from our performance audits, on both an ad hoc and quarterly basis. Our first effort was released on 21 November 2017 while our first quarterly compilation was released on 13 December 2017.

The ANAO's Budgetary Arrangements

The work of the ANAO is funded mainly by Government appropriation, with a small percentage of revenue generated from audit fees paid by clients for audits by arrangement under section 20 of the Auditor-General Act. Audit fees are set to cover our expenses. In addition, the ANAO has a number of agreements with the Department of Foreign Affairs and Trade (DFAT) for which it receives monies to fund capacity development assistance to the Indonesian Board of Audit and Papua New Guinea Auditor-General's Office.

The ANAO has one outcome being "To improve public sector performance and accountability through independent reporting on Australian Government administration to the Parliament, the Executive and the public". While reporting under a single outcome, the ANAO currently maintains a two program structure which focuses on the financial statement and performance audit work of the office.

In the last two years, the ANAO has increased the resourcing of support activities to the Parliament by way of submissions, appearances and briefings, and international engagement. While this is not reflected in the program structure, it remains a key priority for the ANAO.

Budget and Baseline Funding

The ANAO's estimated position at this time, for the current financial year and baseline funding over the budget and forward estimates is reflected in Table 1:

Table 1 Baseline funding

	Estimated actual 2017-18 \$'000	Budget estimate 2018-19 \$'000	Forward estimates 2019-20 \$'000	Forward estimates 2020-21 \$'000	Forward estimates 2021-22 \$'000
<i>Revenues from government</i>					
Ordinary annual appropriations a	70,531	69,329	68,957	69,155	70,066
Special appropriations	734	748	762	778	778
Total revenue from Government	71,265	70,077	69,719	69,933	70,844
<i>Revenue from independent sources</i>					
Audit related services	2,000	2,300	2,300	2,300	2,300
International development funding	1,800	1,800	1,800	1,800	1,800
Total revenue from independent sources	3,800	4,100	4,100	4,100	4,100
Total revenue	75,065	74,177	73,819	74,033	74,944

a Ordinary annual appropriations include a component for departmental capital funding and reflect efficiency dividends and other required savings contributions known at the time of preparation

The forward funding position of the ANAO until 2021-22 is set out in Table 2 in a presentation consistent with our Portfolio Budget Statements.

Table 2: ANAO 2017-18 Estimated Actual and Forward Estimates

	Actual 2016-17 \$'000 ^a	Estimated actual 2017-18 \$'000	Budget estimate 2018-19 \$'000 ^b	Forward estimates 2019-20 \$'000	Forward estimates 2020-21 \$'000	Forward estimates 2021-22 \$'000
<i>Expenditure</i>						
Assurance Audit Services	46,061	43,069	42,307	42,059	42,177	42,679
Performance Audit Services	28,647	33,887	32,918	32,725	32,821	33,230
Total expenses	74,708	76,956	75,225	74,784	74,998	75,909
<i>Revenue from independent sources</i>						
Audit related services	2,471	2,000	2,300	2,300	2,300	2,300
International development funding	1,946	1,800	1,800	1,800	1,800	1,800
Total revenue from other sources	4,417	3,800	4,100	4,100	4,100	4,100
Net cost of services	70,291	73,156	71,125	70,684	70,898	71,809
Revenue from Government	72,852	71,265	70,077	69,719	69,933	70,844
Surplus/(Deficit)^c	2,561	(1,891)	(1,048)	(965)	(965)	(965)
<i>Revenue from Government</i>						
Ordinary annual appropriations ^d	72,143	70,531	69,329	68,957	69,155	70,066
Special appropriation	709	734	748	762	778	778
Total revenue from Government	72,852	71,265	70,077	69,719	69,933	70,844

^a As shown in the Statement of Comprehensive Income of the ANAO's 2016-17 Financial Statements.

^b The above Table incorporates efficiency dividends and other required savings contributions known at the time of preparation.

^c The budget and forward estimates have been prepared using the Capital Budgeting Policy for Australian Government entities. This policy allows the ANAO to incur a deficit equal to depreciation expense for which the ANAO is not funded.

^d Total ordinary annual appropriations incorporate efficiency dividends and other savings measures.

Current Financial Position

The ANAO operating surplus for 2016–17 was \$2.561 million (2015–16: deficit of \$0.401 million). The surplus was mainly attributable to a small increase in audit services income and reduced staff salaries and related expenses as a result of staff attrition and bond rate adjustments to leave balances. Supplier expenses remained consistent with the prior year.

During 2016–17 the ANAO received \$0.991 million of capital funding through annual appropriations and carried forward \$0.431 million in unspent funds from the prior year. The capital funding was primarily used for the acquisition of IT equipment and software. The ANAO carried forward \$0.403 million capital funding into 2017–18.

The ANAO has managed current financial pressures while continuing to deliver high-quality services, and expects to operate within budget for the 2017–18 financial year.

As is the case for all non-corporate government entities, we are required to continue to manage operations within the current budget process operating rules. In the event that costs exceed existing resources and funding, we will seek the Finance Minister's approval for an operating loss and to use accumulated reserves to fund the shortfall.

The ANAO has advised the Department of Finance of its intent to utilise available departmental appropriation to fund any refurbishment of the premises once lease negotiations are finalised. The refurbishment is currently estimated to be approximately \$10 million. In accordance with the budget process rules, the Finance Minister's approval of any commitment of funding over \$5 million will be sought. The office has also notified the Public Works Committee of the proposed public works, given the estimated cost is between \$2 million and \$15 million (GST exclusive).

The ANAO's current enterprise agreement ends on 20 April 2019. Planning for the development of the new agreement has commenced and the ANAO will work closely with the Department of Finance and the Australian Public Service Commission in developing a bargaining position that complies with the Australian Government bargaining framework.

Any cost increases resulting from the new enterprise agreement will be delivered within existing resources. Further savings initiatives or additional efficiency dividends by Government in the 2018–19 Budget process will be closely managed to minimise the impact on our ability to deliver the planned audit program under the Act.

Assessment of responses to the request to market for future IT support is progressing. The costs of engaging an IT provider and implementing a new IT service arrangement are being managed within existing resources and funding. In the event that costs exceed existing resources and funding, we will seek the Finance Minister's approval for an operating loss and to use accumulated reserves to fund any shortfall..

Future Financial Position and update on Budget funding requests

The ANAO is not seeking supplementation in the 2018–19 Budget. However due to Government imposed savings measures, available appropriation has reduced by \$0.690m in 2018-19 and \$0.920m per annum over the forward estimates. In order to meet the ANAO's performance targets, the ANAO proposes to use its accumulated reserves as it transitions to the new funding base.

Our deliverables for 2018–19 as noted in the portfolio budget statements include the delivery of 48 performance audits, the provision of audit opinions on the financial statements of approximately 250 Australian Government entities, 45 other assurance reports, the Defence Major Projects report, and two reports on our audits of financial statements.

Sound financial management has allowed the ANAO to deliver current commitments to a high quality within our allocated budget. We continue to focus on seeking efficiencies so that we are able to invest in developing key capabilities that will encourage innovation and contemporary work practices within the ANAO.

Decisions by the Government in response to the Committee's recommendations in Report in *Report 469: Commonwealth Performance Framework*, to mandate annual

audits of entity performance statements by the ANAO may have an impact on the ANAO's operating expenses in the forward year estimates. Achieving timely audit reports on performance statements will require consideration of the most efficient and effective resource deployment to this work. The ANAO will maintain a dialogue with the Committee on the transition arrangements that will be required to facilitate annual audits of performance statements in coming years.

The Annual Audit Work Program is designed to reflect the ANAO's strategy and deliverables for the coming year. It aims to inform the Parliament, the public and government sector entities of the planned coverage for the Australian Government sector by way of financial statements audits, performance audits and other assurance activities. The program's development takes into account the views of the Parliament, entity management and other stakeholders.

A continuous and integrated approach to planning audits is adopted by the ANAO on a whole-of-organisation basis. Key risks are identified across the public sector, with these risks informing the financial statements audit planning and potential performance audit coverage. Audit coverage is also based on a consideration of potential audit benefits, parliamentary and public interest, and the timing and resource requirements of audits.

In building the forward audit work program for 2018–19 and beyond, the ANAO continues to seek ways to more fully use the Auditor-General's powers under the Act. The Act provides for the Auditor-General to undertake a range of activities but some powers have thus far been less utilised than others. The office is investigating ways to include a range of more compliance based audits as well as audits which have a shorter, more focused scope and duration. These Assurance audits will be conducted under section 19A(1) of the Act and in accordance with the Australian Standard on Assurance Engagements (*ASAE*) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, issued by the Australian Auditing and Assurance Standards Board, which forms part of the ANAO Auditing Standards.

As mentioned in previous budget submissions to the Committee, the ANAO continues to consider the appropriateness of our current cost-recovery arrangements to ensure they best support it to deliver its functions. The ANAO is currently funded via appropriation for all audit services. There may be benefit in reviewing this approach to consider a cost recovery arrangement for the audits of the financial statements of government entities and when considering the future funding of annual audits of performance statements.

Funding arrangements for the ANAO were considered by the Committee in *JCPAA Report 296: The Auditor-General: Ally of the People and Parliament*. In the event that an internal legislative review proceeds and identifies cost recovery as an appropriate arrangement, this will be discussed with the Committee. A cost recovery approach may improve efficiency incentives for both ANAO and its auditees. Funding arrangements for the ANAO's remaining services should continue to be via appropriation.

In 2018–19, both the accommodation lease for our office building and the arrangement with our current IT provider (UNISYS) will expire.

A business case was presented to the Finance Minister to obtain Commonwealth regulatory authority support for the ANAO to enter into a new long term lease with the landlord of the ANAO's current premises and for the ANAO to be authorised, in accordance with the budget process rules, to plan for the necessary capital expenditure to refurbish the fit out of the tenancy. On 27 September 2017, the ANAO received endorsement from the Minister for Finance to proceed to negotiate and enter into a 12-year lease with two five-year extension options for the currently occupied premises.

The ANAO has used this opportunity to reduce the net lettable area to be leased within the premises in order to re-align with current Australian Government property density targets. The negotiated lease incentive will also deliver savings of approximately \$8 million over the life of the lease by way of reduced rental payments. The ANAO has advised the Department of Finance of its intent to utilise available departmental appropriation to fund any refurbishment of the premises, currently estimated to be approximately \$10 million. In accordance with the budget process rules, the Finance Minister's approval of any commitment of funding over \$5 million will be sought. The office has also notified the Public Works Committee of the proposed public works, given the estimated cost is between \$2 million and \$15 million (GST exclusive).

The ANAO's IT outsourcing agreement with UNISYS dates back to 1997 and the most recent market test was conducted in 2009, with an option to extend the contract in 2014 taking the agreement to June 2018. The agreement focuses on infrastructure support, customer support provided through a Brisbane based IT service desk and on premise desktop support.

The expiration of the current outsourcing agreement has provided the ANAO an opportunity to test the market and discover service providers and solutions that can deliver a high quality IT service to staff. Given the importance in selecting the right provider and IT solution for the ANAO, a project board has been established to oversight this project.

Assessment of responses to the request to market for future IT support is progressing. The costs of engaging an IT provider and implementing a new IT service arrangement are being managed within existing resources and funding. In the event that costs exceed existing resources and funding, we will seek the Finance Minister's approval for an operating loss and to use accumulated reserves to fund any shortfall.

Audit Fee Calculation Methodology

For some financial statement audits, Commonwealth bodies are liable to pay fees. Section 14(1) of the *Auditor-General Act 1997* provides for the Auditor-General to determine a scale of audit fees. The fees paid by Commonwealth entities for financial statement audits are returned to the Budget and are not available to the ANAO unless they relate to additional services. Estimated revenues from additional services over the budget and forward estimates are included in Table 3.

In relation to audit fees, the *Public Accounts and Audit Committee Act 1951*, sub-section 8(k) requires the Committee to consider the level of fees determined by the Auditor-General under subsection 14(1) of the *Auditor-General Act 1997*. Information relating to the methodology utilised to determine the ANAO level of fees is outlined below.

Charge-out-rates are used to determine the notional or actual audit fee in respect of financial statement audits and to report the cost of performance audits. The audit fees for financial statement audits of non-corporate Commonwealth entities are notionally calculated for information purposes and inclusion in the notes of the agency's financial statements. Other entities, mainly Commonwealth statutory authorities and companies, are required to pay audit fees. The ANAO will continue to consider the appropriateness of our current cost-recovery arrangements to ensure they best support the capacity of the office to support the delivery of its functions.

Consistent with government policy, the ANAO aims to establish charge-out-rates at a level sufficient to cost recover our activities over time. An hourly charge-out-rate is determined for each staff classification. The establishment of charge-out-rates is guided by a costing model that takes into account all relevant costs including the attribution of overhead costs and is designed to achieve full notional cost recovery of the ANAO operating budget. The basis of allocation of overhead costs is determined having regard to the nature of the expenditure and the charge-out-rate is calculated using an accrual-based costing model.

For the 2017–18 financial year, chargeable hours are estimated at 357,900. Using the methodology outlined above, the average hourly charge-out-rate for the ANAO is \$189.25 (\$193.51 for 2016–17), ranging from \$133.28 per hour for a junior auditor through to \$296.26 for a senior executive.

ANAO's Performance

Our Business Performance in 2016–17

The ANAO's 2016–17 Annual Report was tabled in the Parliament on 4 September 2017. This included an annual performance statement, as required by paragraph 39(1)(a) of the PGPA Act.

During 2016–17, the ANAO provided 250 audit opinions on the financial statements of the Australian Government for inclusion in entities' Annual Reports.

In 2016–17, the Auditor-General produced 58 performance audits reports for the information of the Parliament against a target of 48 for this period. Although this number included performance audit reports that were unable to be tabled following the dissolution of the Parliament of Australia by the Governor-General on 9 May 2016, this result was also achieved through improved business processes that began in 2015–16 within the Performance Audit Services Group. These improved processes include: greater collaboration across all service groups across the office, changes to the format and structure of the performance audit reports, successfully revised audit review processes and streamlined publications processes. These improvements culminated in a decrease in the average cost to undertake a performance audit and in the time taken to complete these reports.

In addition to performance audits and financial statements audits, the Auditor-General undertakes other assurance activities. These can consist of reviews undertaken by agreement with the auditee, either at their request, or in response to requests from ministers or parliamentary committees, or at the discretion of the Auditor-General. In 2016–17, two limited scope assurance reviews were undertaken by the Performance Audit Services Group.

Following on from the recommendations of the Belcher review, and in consultation with the Committee and Commonwealth agencies, the ANAO conducted a review of its role in the continuing development of better practice guides during 2016–17. Pending the outcomes of this process, better practice guides were not reviewed or re-issued. Feedback from the consultation process was that where another entity has, or will be, producing a similar resource and has committed to continue to do so, the ANAO could add more value by monitoring the effectiveness of the resource whilst ceasing to produce its own resource. On this basis, the ANAO discontinued and ceased distributing most of its better practice guides.

The ANAO has retained three of its 17 better practice guides and these are available on the ANAO website:

- Successful Implementation of Policy Initiatives;
- Public Sector Audit Committees; and
- Public Sector Governance.

Our Business Environment for 2017–18

The ANAO's purpose is to improve public sector performance and support accountability and transparency in the Australian Government sector through independent reporting to the Parliament, the Executive and the public.

The ANAO's 2017–18 Corporate Plan articulates short and longer term initiatives for our key capability areas. We will continue to refine the key elements of our Corporate Plan, and the changes required to our organisational arrangements to support their implementation. We will also continue to work through the implications of changes to the performance reporting framework.

The ANAO aims to create an organisation that encourages and welcomes diversity. This includes diversity of backgrounds, views, thoughts and approaches. The ANAO's objective is to attract a range of people across varying professions and backgrounds, to build a successful and sustainable organisation with a culture that enriches our work and impact. Our diversity fosters an environment of mutual learning, respect, openness and appreciation to differences and other perspectives. Such a positive culture creates opportunities for a variety of different voices to be encouraged and heard.

The ANAO seeks to ensure diversity at the executive and senior executive levels. At 30 June 2017, the ANAO's gender profile was 55:45 female to male. This profile was largely consistent at the senior executive level, where the ratio was 52:48 female to male. At the senior executive level, 52 per cent have both public and private sector auditing experience.

Attracting and retaining highly skilled staff is challenging in the public and private auditing sector. In 2017–18, the ANAO's attrition rate remains relatively high, particularly within the Assurance Audit Services Group. ANAO's staff members are predominately professionals with qualifications, experience and technical capability in the audit sector. The skills, qualifications and experience of our staff make them attractive to both the public and private sector. One immediate ANAO response to the attrition rate has been to increase investment in graduate recruitment, with the graduate intake increasing from 19 in 2016 to 28 in both 2017 and 2018.

Over the next 12 months the ANAO will develop an enterprise workforce strategy to address any systemic issues impacting the ANAO's attrition rate. During 2017–18, the ANAO has also considered a range of employment arrangements which will enable delivery of its work. Some of these considerations will be factored into the development of the next Enterprise Agreement.

Our Business Performance in 2017–18

Our targets for the 2017–18 performance audit work program include 48 performance audit reports, with the goal of tabling 12 reports each quarter. As at 31 January 2017, we have tabled 26 reports. We have completed all significant audits of financial statements for Australian Government entities for the 2016–17 financial year, including those entities consolidated into the Consolidated Financial Statements. Planning for the audit of financial statements for the financial reporting year of 2017–18 is also underway.

The ANAO continues to assist the Indonesian Board of Audit and the Papua New Guinea Auditor-General's Office achieving key elements of our program of activities to support each institution. This includes close liaison with DFAT to understand the implications of any changes at a whole-of-government level, and their implications for the support we can provide. The ANAO has one staff member on secondment in both Jakarta and Port Moresby. The ANAO has also continued to provide secondments for two staff from the Papua New Guinea Auditor-General's Office annually. We also provide support to visitors and delegations from overseas.

The ANAO's current enterprise agreement ends on 20 April 2019. Planning for the development of our new agreement has commenced and the ANAO will work closely with the Department of Finance and the Australian Public Service Commission in developing a bargaining position that complies with the Australian Government bargaining framework.