



Budget 2020-21 in focus

Protecting the integrity of the Australian National Audit Office

Briefing paper

October 2020

Summary

The Auditor-General and Australian National Audit Office (**ANAO**) are amongst Australia's key accountability institutions. In spite of their vital work in promoting the accountability and transparency of the Commonwealth public sector, the ANAO has been beset by funding reductions since 2016-17. These funding reductions have, inexplicably, coincided with an increase in the number of entities requiring auditing and the complexity of auditing work.

Predictably but alarmingly, the consequence of this is that the ANAO is now producing 29% fewer performance audits than it was in 2016-17, with that decrease predicted to rise to 36% by 2023-24. The ANAO's recent reports on the 'Leppington Triangle' purchase, the Australian Electoral Commission's management of financial disclosures under the *Commonwealth Electoral Act* (1918) Cth, and the maladministration of \$100 million in sports grants, were all performance audit reports.

Without a Government commitment to guaranteeing the Auditor-General and ANAO sufficient funding to fulfil their statutory functions, their ability to perform their critical role within Australia's democracy risks being compromised.

The role of the Auditor-General and Australian National Audit Office

The Auditor-General is an independent officer of the Parliament whose functions include auditing the annual financial statements of Commonwealth entities and companies, and their subsidiaries, in accordance with the *Public Governance, Performance and Accountability Act 2013* (Cth).¹

Through providing information on these matters to the Parliament, the Auditor-General – supported by the Australian National Audit Office (**ANAO**) – promotes accountability and transparency in the public sector.

In recent years the Auditor-General has uncovered significant cases of misuse of public funds, including the Sports rorts scandal – in respect of which he concluded that the award of \$100 million in sports grants funding focussed on marginal electorates held by the Coalition as well as electorates that were to be targeted by the Coalition at the 2019

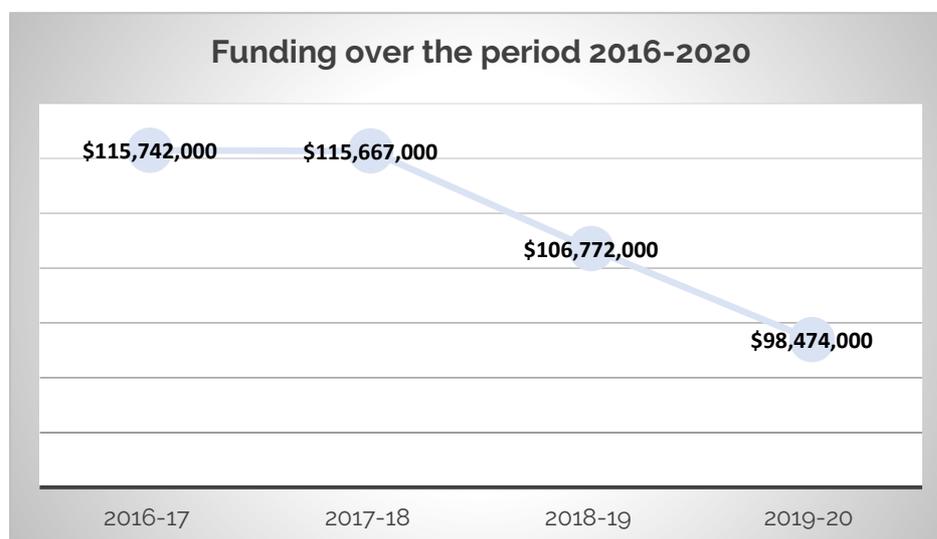
¹ *Auditor-General Act 1997* (Cth) s 11.

election² – and, more recently, the purchase of the 'Leppington Triangle', which saw the Commonwealth pay \$29.8 million for a parcel of land valued a year later at \$3 million.³

The role of the Auditor-General is therefore vitally important, particularly where accountability frameworks are lacking. For example, in the context of the Sports rorts scandal, the fact that Sport Australia is not subject to the *Commonwealth Grant Rules and Guidelines* means that there is no legal requirement that the reasons for funding decisions be documented.⁴ Furthermore, while Sport Australia's *Grant Management Framework* requires that reasons be documented, the Minister is not required to comply with the Framework.⁵

Funding reductions

The ability of the Auditor-General and the ANAO to perform their statutory functions is dependent upon sufficient funding. Inexplicably, the ANAO has faced dramatic funding cuts since 2016-17. The total resourcing made available to the ANAO from the Portfolio Budget Statements has dropped by \$17.27 million since 2016-17.⁶



The ANAO's 2019-20 Annual Report makes clear the scale of the fiscal challenge facing the Auditor-General and ANAO, as well as the consequences of the lack of adequate funding.

The ANAO has experienced an overall reduction in appropriation revenue since the 2013-14 financial year, and for the third consecutive year it has reported an operating

² Australian National Audit Office, "Award of Funding Under the Commonwealth Sport Infrastructure Program" 15 January 2020 <<https://www.anao.gov.au/work/performance-audit/award-funding-under-the-community-sport-infrastructure-program>> accessed 28 September 2020, at 24.

³ Australian National Audit Office, "Purchase of the 'Leppington Triangle' Land for the Future Development of Western Sydney Airport" 21 September 2020 <<https://www.anao.gov.au/work/performance-audit/purchase-the-leppington-triangle-land-the-future-development-western-sydney-airport>> accessed 28 September 2020, at 1-2.

⁴ Australian National Audit Office, "Award of Funding Under the Commonwealth Sport Infrastructure Program" 15 January 2020 <<https://www.anao.gov.au/work/performance-audit/award-funding-under-the-community-sport-infrastructure-program>> accessed 28 September 2020, at 23.

⁵ Ibid.

⁶ Department of Prime Minister and Cabinet, Portfolio Budget Statements 2016-2020.

deficit (of \$3.117 million, in comparison to \$4.778 million in 2018-19).⁷ The Auditor-General has attributed these losses to a number of factors, some of which include the increased complexity of audit work and the absence of funding to audit newly created Commonwealth enterprises,⁸ as the Independent Auditor has concluded, they are also the consequence of reduced funding.⁹

The decrease in funding is perplexing, to say the least, particularly in circumstances where it coincides with an *increase* in entities to audit. Between 2017-18 and 2019-20, 13 new entities requiring audit activities were created: these include WSA Co and Australian Naval Infrastructure,¹⁰ for example, with their enormous budgets. No additional funds were provided to enable these audit activities to take place.¹¹

As the Independent Auditor reported in her 2020 performance audit of the ANAO, the ANAO is subject to an "efficiency dividend" which is in place as a Government saving measure to "encourage efficiencies in the operations of Commonwealth entities".¹² However, as the Independent Auditor also acknowledged, the ANAO's audits must be delivered under the ANAO Auditing Standards; because these establish minimum requirements, the potential for efficiency gains in the ANAO's delivery of its services is limited.¹³

The ANAO has described the situation with regard to efficiency and productivity gains as follows:

Options for efficiency and productivity have been explored and implemented or are in the process of being implemented; however, they are not keeping pace with reductions to appropriation while the costs of delivering quality audit products continue to increase. The ANAO is now in a position where, in order to deliver the

⁷ Australian National Audit Office, "Annual Report 2019-20", <https://parlinfo.aph.gov.au/parlInfo/download/publications/taledpapers/601091e0-bf1e-4246-aca6-27e2f5653ea7/upload_pdf/ANAO_Annual-Report_2019-2020.pdf;fileType=application%2Fpdf> accessed 28 September 2020, at 36; Australian National Audit Office, "ANAO Annual Report 2018-19" 14 August 2019 <<https://www.anao.gov.au/work/annual-report/anao-annual-report-2018-19>> accessed 28 September 2020.

⁸ Australian National Audit Office, "ANAO Annual Report 2018-19" 14 August 2019 <<https://www.anao.gov.au/work/annual-report/anao-annual-report-2018-19>> accessed 28 September 2020; Australian National Audit Office, "ANAO Annual Report 2019-20" 21 September 2020 <https://parlinfo.aph.gov.au/parlInfo/download/publications/taledpapers/601091e0-bf1e-4246-aca6-27e2f5653ea7/upload_pdf/ANAO_Annual-Report_2019-2020.pdf;fileType=application%2Fpdf>, at 36.

⁹ "Performance Audit of Internal Budgeting and Forecasting Processes and Practices, Australian National Audit Office", Report by the Independent Auditor, September 2020 <https://parlinfo.aph.gov.au/parlInfo/download/publications/taledpapers/a2f79d90-d200-40e5-918e-afb49d6e86fd/upload_pdf/Independent-Auditor-report-ANAO-September-2020.PDF;fileType=application%2Fpdf> accessed 28 September 2020, at 18.

¹⁰ WSA Co Corporate Plan 2018-19 <https://westernsydney.com.au/sites/default/files/2019-06/2018-19_WSA_Co_Corporate_Plan.pdf> accessed 28 September 2020, at 8; Minister for Finance, "Australian Naval Infrastructure Up and Running" 14 June 2017 <<https://www.financeminister.gov.au/media-release/2017/06/14/australian-naval-infrastructure-and-running>> accessed 28 September 2020.

¹¹ "Performance Audit of Internal Budgeting and Forecasting Processes and Practices, Australian National Audit Office", Report by the Independent Auditor, September 2020 <https://parlinfo.aph.gov.au/parlInfo/download/publications/taledpapers/a2f79d90-d200-40e5-918e-afb49d6e86fd/upload_pdf/Independent-Auditor-report-ANAO-September-2020.PDF;fileType=application%2Fpdf> accessed 28 September 2020, at 19.

¹² Ibid at 18.

¹³ Ibid at 16.

*mandated financial statement audit functions, we need to reduce the number of discretionary performance audits provided to the Parliament.*¹⁴

The inevitable impact of reduced funding

While it is entirely predictable that the ANAO has been forced to respond to reduced funding by reducing its performance audit activity, it is also deeply concerning. Whereas in 2016-17, 59 performance audits were performed, in 2019-20 that number fell to 42 and it is predicted to fall to 38 by 2023-24.¹⁵ The Auditor-General has predicted that the reduction in funding will continue to reduce the ANAO's capacity to deliver performance audits into the future,¹⁶ and has written to the Prime Minister to propose that the ANAO's funding is made sustainable, so that it can continue to promote transparency and accountability in the Australian Government sector.¹⁷

The value of the ANAO's performance audits has been thrown into sharp relief by its recent reports on the 'Leppington Triangle' purchase, the Australian Electoral Commission's management of financial disclosures under the *Commonwealth Electoral Act (1918)* Cth, and the maladministration of \$100 million in sports grants.

Conclusion

As the Auditor-General himself has concluded, it is "imperative that the quality of [the ANAO's] audit work is maintained over time, particularly in an environment where extracting evidence is becoming more complex and dependent on use of technology-based tools, where and scrutiny of audit findings is increasing."¹⁸

The importance of the quality of the ANAO's work being maintained is further heightened by the Government's unprecedented, rapidly-deployed spending in response to COVID-19.

The Auditor-General and ANAO are amongst Australia's key accountability institutions; in the lead-up to Budget 2020-21 we urge the Government to commit to guaranteeing them sufficient funding to fulfil their statutory functions, and to ensuring that their ability to perform their critical role within Australia's democracy is not compromised.

About The Centre for Public Integrity

The Centre for Public Integrity is an independent think tank dedicated to preventing corruption, protecting the integrity of our accountability institutions, and eliminating undue influence of money in politics in Australia. Board members of the Centre are the Hon Tony Fitzgerald AC QC, the Hon David Ipp AO QC, the Hon Stephen Charles AO QC, the Hon Anthony Whealy QC, Professor George Williams AO, Professor Joo Cheong Tham and Geoffrey Watson SC. More information at www.publicintegrity.org.au.

¹⁴ Australian National Audit Office, "ANAO Annual Report 2019-20" 21 September 2020 <https://parlinfo.aph.gov.au/parlInfo/download/publications/taledpapers/601091e0-bf1e-4246-aca6-27e2f5653ea7/upload_pdf/ANAO_Annual-Report_2019-2020.pdf;fileType=application%2Fpdf>, at 36.

¹⁵ Ibid at 20; the number of performance audits completed in 2019-20 is reported as 42 in the ANAO's Annual Report, but 44 in the Independent Auditor's Report (at 20).

¹⁶ Australian National Audit Office, "ANAO Annual Report 2019-20" 21 September 2020 <https://parlinfo.aph.gov.au/parlInfo/download/publications/taledpapers/601091e0-bf1e-4246-aca6-27e2f5653ea7/upload_pdf/ANAO_Annual-Report_2019-2020.pdf;fileType=application%2Fpdf>, at 1.

¹⁷ Ibid.

¹⁸ Ibid at 36.