



Speaker

Mr Andrew Barr MLA  
Treasurer  
Legislative Assembly for the ACT  
GPO Box 1020  
CANBERRA ACT 2601



Dear Mr *Andrew*

#### **ACT Audit Office Budget 2018-19 – Recommended Appropriation**

Section 20AB(a) of the *Financial Management Act 1996* provides that, for an Officer of the Legislative Assembly, the Speaker must, before the beginning of a financial year and after consultation with the Officer and the appropriate committee of the Assembly, advise the Treasurer of the appropriation that the Speaker considers should be made for the Officer in relation to the forthcoming financial year (i.e. the 'recommended appropriation').

The process of consultation with the Auditor-General and Standing Committee on Public Accounts on the recommended appropriation in relation to the 2018-19 budget for the ACT Audit Office has recently concluded.

In accordance with section 20AB(a) of the *Financial Management Act 1996*, I recommend the ACT Audit Office be provided with an appropriation of \$3 335 000 for 2018-19. This recommended appropriation consists of the base appropriation<sup>1</sup> of \$2 935 000 plus a recommended increase of \$400 000 to meet the costs of recruitment of a new Auditor-General (\$120 000) and for undertaking a performance audit (\$280 000). The recommended appropriation does not include technical adjustments that usually occur at a later stage in the budget process. The '2018-19 Budget – Expense Initiative Budget Proposal (Budget Bid)' included in **Attachment A** provides further information on the recommended increase to the appropriation in 2018-19.

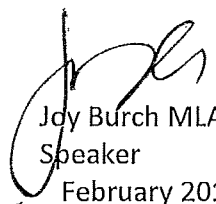
Also included in the '2018-19 Budget – Expense Initiative Budget Proposal (Budget Bid)' is the appropriation to progressively increase the number of performance audits over the period covered by the 2018-19 budget estimates.

<sup>1</sup> Controlled Recurrent Payments estimate for 2018-19 as included on page 12 of 2017-18 Budget Statements A.

A letter in support of this budget bid from the Standing Committee on Public Accounts is included in **Attachment B**.

Under section 20AB(b) of the *Financial Management Act 1996*, I am required to present this recommended appropriation to the Assembly. I intend to table this letter on budget day.

Yours sincerely

  
Joy Burch MLA  
Speaker  
February 2018

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**Attachment A**

**ACT Audit Office 2018-19 Budget – Expense Initiative Budget Proposal  
(Budget Bid)**

## BUDGET-IN-CONFIDENCE

### 2018-19 Budget – Expense Initiative Budget Proposal (Budget Bid)

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**Agency:** ACT Audit Office.

**Initiative Reference No. and Title:** Additional Performance Audits and Recruitment of new Auditor-General.

**Minister's Priority Ranking for Proposal:** Not applicable.

**Government Priority:** Not applicable.

**Electorate:** Not applicable.

**Funding Category:** Expansion.

**Existing Program:** Not applicable.

**Year to cease funding:** Ongoing funding.

**Link to Budget Consultation Submission(s):** Not applicable.

**Offset:** No.

**Impact on Aboriginal and Torres Strait Islander people:** Not applicable.

#### Financial Impacts Summary

Financial Impact	2018-19 \$'000	2019-20 \$'000	2020-21 \$'000	2021-22 \$'000
<i>Capital Impacts – Not applicable</i>				
Capital				
Capital Provision				
<i>Expense Impacts</i>				
Expenses	280	560	280	280
Recruitment Expenses	120			
Expenses – depreciation				
<i>Revenue Impacts – Not applicable</i>				
Revenue				
<i>Savings/Offsets Impacts – Not applicable</i>				
Savings				
Offsets				

Staffing Impact	2018-19	2019-20	2020-21	2021-22
Total Additional FTEs	2	3	4	4

Note 1: Figures for *Total Additional FTE's* assume that additional audits will mostly be completed by the ACT Audit Office staff with some audits being completed with the assistance of audit contractors.

## BUDGET-IN-CONFIDENCE

### 2018-19 Budget – Expense Initiative Budget Proposal (Budget Bid)

#### 1. Description of Budget Proposal for Government

The Speaker is seeking additional appropriation to enable performance audit coverage of public services provided by the ACT Government to be progressively increased and for the recruitment of a new Auditor-General.

In 2017-18, the Audit Office is doing an additional audit using its cash reserves as recommended by Mr Des Pearson in the 2016 Strategic Review report. Therefore, the Audit Office will deliver a total of eight audits in 2017-18 compared to the seven in the prior year. The additional appropriation would enable the number of performance audits to continue to be eight in 2018-19, then increase to ten in 2019-20, eleven in 2020-21 and twelve in 2021-22.

Full time equivalent (FTE) staff are estimated to increase by two in 2018-19, three in 2019-20 and four in 2020-21 and 2021-22 with some audits being completed with the assistance of audit contractors.

Expenses for the recruitment of a new Auditor-General is a one-off amount that occurs in 2018-19.

#### 2. Statement of objective(s) and operational need

##### *Performance Audits*

The objective of increasing appropriation funding is to enable the number of performance audits to be progressively increased over the period of the budget estimates (i.e. from 2018-19 to 2021-22).

The Audit Office's main legislative responsibilities are the completion of financial audits and performance audits. The annual appropriation (\$2.9 million in 2017-18<sup>1</sup>) remains significantly below the funding from financial audit fees (\$4.0 million in 2017-18<sup>2</sup>).

The recommended increase in appropriation would improve the balance of funding between the Audit Office's financial audit and performance audit responsibilities. Historically, the Speaker and Public Accounts Committee have sought to improve the balance in funding between the financial audit and performance audit responsibilities of the Audit Office by recommending appropriation increases.

The Audit Office expects the demand for performance audits to continue to increase in response to concerns raised by the Legislative Assembly and community, including through representations and Public Interest Disclosures.

<sup>1</sup> Controlled Recurrent Payments as per page 12 of 2017-18 Budget Statements.

<sup>2</sup> User Charges as per page 12 of 2017-18 Budget Statements.

## BUDGET-IN-CONFIDENCE

### 2018-19 Budget – Expense Initiative Budget Proposal (Budget Bid)

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#### *Recruitment of new Auditor-General*

A new Auditor-General is to be appointed following completion of the term of the current Auditor-General. The Speaker has requested that the cost of recruitment be covered in the Audit Office's budget. The Auditor-General has agreed. One hundred and twenty thousand is proposed to cover recruitment expenses. In the 2010-11 financial year the recruitment process for a new Auditor-General cost \$90 000.

#### **3. Strategic planning and value for money assessment**

Performance audits are an important way of holding the government to account for the delivery of efficient and effective public services and for identifying ways of improving these services.

It is usual for the Audit Office to be able to prepare seven performance audit reports for tabling each financial year which means that coverage is always restricted with some topics only periodically receiving attention. It also means that the more pressing topics are selected over routine processes that also warrant coverage. While the ACT is small compared to larger jurisdictions the span of topics is similar.

In the 2016 Strategic Review report, the external reviewer, Mr Des Pearson, concluded that:

...the ACT Audit Office is achieving its legislative objectives effectively, and doing so efficiently and in compliance with the *Auditor-General Act 1996* and the relevant professional audit and accounting standards.

This positive conclusion indicates that the Audit Office would use additional funding well.

The Audit Office participates in a confidential macro-benchmarking study annually that compares the cost and timeliness of its performance audits to other audit offices. This benchmarking data shows that the Audit Office produces performance audits at a lower cost and in a similar time frame to that achieved, on average, by all State and Territory audit offices in Australia.

The average cost per performance audit in 2016-17 was \$280 142 compared to the average cost per audit for all states and territories of \$346 125. In 2016-17, the Audit Office took an average of 8 months to complete audits compared to an average of 9.7 months for all State and Territory audit offices.

#### **4. Alignment to ACT Government priorities and policy**

Not applicable:

## BUDGET-IN-CONFIDENCE

### 2018-19 Budget – Expense Initiative Budget Proposal (Budget Bid)

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#### 5. Impact (involvement and costs) on other directorates and/or stakeholders

Performance audits are conducted independently by the Audit Office. The impact of these audits on the work and costs for other directorates depends on the results of the Audit Office's assessment of the quality of services provided by directorates.

#### 6. Outputs and outcomes (Implementation Schedule)

Under this Budget Proposal, eight performance audits will be completed in 2018-19, ten in 2019-20, eleven in 2020-21 and twelve in 2021-22.

#### 7. Performance Measures

The additional appropriation of \$280 000 in 2018-19, followed by further increases of \$560 000 in 2019-20, \$280 000 in 2018-19 and 2019-20.

The performance measures used to assess the performance of the Audit Office on the additional performance audits will be the same as those used to currently assess performance. These are the:

- number of performance audit reports presented to the Legislative Assembly. If the requested funding is approved, then this will be eight audits in 2018-19, ten in 2019-20, eleven in 2020-21 and twelve in 2021-22;
- percentage of agencies satisfied with performance audits. The target percentage for this performance measure is 95 percent;
- percentage of agencies agreeing that the audit will help their organisation improve the administration of the audited activity. The target percentage for this performance measure is 80 percent; and
- average period of completion of performance audits. The target for this performance measure is seven months.

## BUDGET-IN-CONFIDENCE

### 2018-19 Budget – Expense Initiative Budget Proposal (Budget Bid)

#### 8. Strategy to manage cost increases and demand increases

The cost of additional performance audits will be controlled by managing:

- audits to approved budgets and deadlines; and
- the size and scope of audits.

Cost and demand increases can be also managed by reprioritising planned performance audits to enable the Audit Office to respond to emerging priorities and issues raised by the Legislative Assembly and community in a timely manner.

#### 9. Impact on ACT Households

The additional appropriation may result in performance audits identifying cost and delivery efficiencies and/or improvements leading to a reduction in costs.

#### 10. Timing

##### *Performance Audits*

The additional funding would result in an increase in the number of performance audits from eight in 2017-18 to twelve in 2021-22.

##### *Recruitment of new Auditor-General*

A new Auditor-General needs to be appointed in early August 2018 to support continuity between the incumbent Auditor-General and the new one. Continuity will facilitate the delivery of audit work programs and is also important as the financial audit season (June to September) will be at its peak time.

#### 11. Identify the year in which this initiative would cease

##### *Performance Audits*

Not applicable as it is ongoing.

##### *Recruitment of new Auditor-General*

Recruitment funding for the new Auditor-General is only needed in 2018-19.

#### 12. Identify saving/offset options

Not applicable.

#### 13. Communications

Not applicable.

**BUDGET-IN-CONFIDENCE**

**2018-19 Budget – Expense Initiative Budget Proposal (Budget Bid)**

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**14. Contact Officer**

Contact Officer: Mr Ajay Sharma

Position: Principal, Professional Services

Phone Number: 6207 0830

**Attachment B**

**Letter from the Standing Committee on Public Accounts**



## LEGISLATIVE ASSEMBLY

FOR THE AUSTRALIAN CAPITAL TERRITORY

### STANDING COMMITTEE ON PUBLIC ACCOUNTS

Vicki Dunne MLA (Chair), Michael Pettersson MLA (Deputy Chair)

Alistair Coe MLA, Bec Cody MLA

*JD*  
20/2/18

Ms Joy Burch MLA  
Speaker  
Legislative Assembly for the ACT

Dear Madam Speaker,

#### *ACT AUDIT OFFICE PROPOSED BUDGET FOR 2018-19*

Thank you for your letter of 12 January 2018 in which you seek to consult the Standing Committee on the Budget Bid for the ACT Audit Office for the 2018-19 financial year, consistent with provisions set out in Section 20 AB(a) of the *Financial Management Act 1996* (ACT).

The Committee considered the Budget Bid at its private meetings of 31 January, 7 February, and 20 February 2018.

#### *Proposal to extend performance audit program*

The Committee supports the proposal to extend the Audit Office's performance audit program in the coming years, as detailed in the Budget Bid.

It notes that this has been the subject of dialogue with, and recommendations by, previous Standing Committees on Public Accounts of the Legislative Assembly for the ACT.

The Committee considers that the imperative of scrutiny and accountability for the ACT public sector will be well served by the expanded performance audit program described in the Budget Bid.

#### *Committee consideration of proposed budget for 2018-19*

Under Section 20AB (a) of the *Financial Management Act 1996* (ACT), I wish to advise that the Committee has resolved to support the proposed budget for the 2018-19 financial year.

The Committee wishes to be informed of the Treasurer's consideration of your recommended appropriation for the Audit Office at the conclusion of the budget process.

If you have any queries in relation to this letter please contact the Committee's Secretary, Dr Brian Lloyd, on 6205 0137

Yours sincerely

A handwritten signature in black ink, appearing to read "Vicki Dunne". The signature is written in a cursive style with a large initial 'V'.

Vicki Dunne MLA  
Chair

20/2/18