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Ms Renae Jewell  
Committee Clerk  
Standing Committee on Estimates and Financial Operations  
Legislative Council  
Parliament House  
PERTH WA 6000

Dear Ms Jewell

### **SUBCOMMITTEE INQUIRY INTO PUBLIC SECTOR EXPENDITURE**

I am responding to a letter from the Hon Sue Ellery MLC, Acting Convenor of the Standing Committee on Estimates and Financial Operations' Subcommittee Inquiry into Public Sector Expenditure.

The letter invited the Office of the Auditor General to provide a written submission on the matters referred to in the Committee's terms of reference. As the terms of reference essentially address a matter of government policy, it is not considered appropriate for my Office to provide such a submission.

The Committee has also requested specific information in relation to the resources of this Office. These are addressed below:

#### **1. What stage is your agency at in implementing a three percent efficiency dividend?**

We have been advised by the Department of Treasury and Finance (DTF) that Cabinet has endorsed a three per cent efficiency dividend to be applied to the budget for the Office with effect from 1 January 2009. My Office has not undertaken any specific measures to implement the efficiency dividend to date. However, we have given serious consideration to the prospect of a dividend.

With respect to the current financial year, I have written to DTF questioning the authority for reductions to be made to the appropriations approved by Parliament for this Office. While DTF have advised that they do not believe there is any impediment to these reductions, they have not changed my view that authority does not exist for anyone other than the Parliament to reduce the budget for my Office within the current financial year. Accordingly, we have not introduced specific measures to meet dividend requirements within the current financial year. However, as a matter of course, we are continually seeking efficiencies and economies in conducting audits and in this context the Office will strive to achieve savings against budget allocations.

The prospect of reductions to the Office budget for 2009-10 is a matter that I understand will be considered as part of the budget process.

**2. Has your agency submitted a report to your Minister and/or the Treasurer and/or Treasury on how the agency proposes to implement a three percent efficiency dividend? If so, has your proposal been approved?**

My Office provided a 2009-10 budget submission to the Treasurer on 9 January 2009. In accordance with a request from DTF the submission addressed the impact of a three per cent efficiency dividend on the Office. To date we have not received feedback from either DTF or the Treasurer about this submission.

**3. What measures does your agency propose to take to implement a three percent efficiency dividend? Please provide details, including whether any particular programs have been cut to achieve a three percent efficiency dividend.**

Although DTF has advised that Cabinet has endorsed reductions, the Office is awaiting advice from the budget process as to whether an efficiency dividend will be applied to our budget.

We have advised the Treasurer that due to our legislated mandate to conduct audits and a cost structure that is dominated by fixed costs, staff and contractor expenses it will not be possible to achieve savings of the magnitude sought without reducing the level of public sector audit work that the Office conducts. Accordingly, the application of a three per cent efficiency dividend on this Office would result in a reduction in the level of audit activity and reporting to Parliament.

While we do not believe reductions to audit activity are in the public interest, our submission to DTF does address the impacts that such a reduction would have and also addresses the prospect of reductions being applied to both financial audit and performance examinations. Financial audits make up the majority of audits conducted by this Office. These involve the audit of the accounts of each government agency at least once a year as required by audit legislation. In contrast, performance examinations are initiated at the discretion of the Auditor General and their frequency is not prescribed by legislation. Given the legislative requirement to conduct financial audits, reductions can more readily be applied to the performance examinations area where there is more discretion.

However, performance examinations are generally valued by members of Parliament and targeting reductions solely at this area would result in a severe impact. Accordingly, our submission identified the prospect of using a relatively new provision of the Auditor General Act 2006 (AG Act) to reduce financial audit activity. It is understood that this provision was made to avoid the need to conduct audits for inactive or dormant entities rather than to achieve budget reductions. However, if reductions are to be made, this provision could be used.

Specifically, section 14(2) of the AG Act allows the Auditor General (AG) to dispense with all or any part of an audit of the accounts of an agency if the AG considers it appropriate in the circumstances. Section 14(3) and (4) requires the AG to first consult with the Treasurer and to notify the Public Accounts Committee and the Estimates and Financial Operations Committee. The dispensing of audits would initially relate to the 2008-09 and 2009-10 financial years as the provision in the AG Act only allows for a maximum of three years without audit.



**4. How will a three percent efficiency dividend impact on the general level of service delivery in your agency?**

This issue has largely been addressed in responses to questions above. If a three per cent efficiency dividend were applied to this Office it would result in a reduction to the level of audit activity and reporting to Parliament. We do not believe this would be in the public interest.

A further concern is the potential impact on the long-term capacity of the Office to maintain a level of activity that will meet the needs of the Parliament.

**5. If applicable to your agency, how will the dividend impact on service delivery to regional areas?**

While measures outlined above do not specifically target regional areas, the application of a dividend to this Office would likely see a reduction in its capacity to visit regional areas and obtain evidence first hand in developing reports to Parliament when investigating topics that have a regional impact.

**6. How will a three percent efficiency dividend affect your agency's functions, performance and staffing arrangements?**

This issue has been largely addressed in my response to questions raised above. Staffing recruitment and retention have been key issues for this Office in recent years and reductions in areas such as recruiting and staff development would have a longer term impact on the capacity of the Office.

**7. If applicable, do you believe that a three percent efficiency dividend will have a disproportionate effect on your agency because it is a smaller agency? If so, please explain why.**

It is generally recognised that smaller agencies have less budget flexibility to address efficiency dividend reductions. That is certainly the case for this Office where the majority of costs are either fixed or directly related to audit activity.

The Office remains committed to efficiency and economy in the use of public funds and we continue to pursue initiatives that will reduce the cost of public sector audit. However, as noted above, the Office has not implemented any specific initiatives in response to the efficiency dividend initiative. It is also important to note that decisions in relation to the 2009-10 budget have not been made and I remain hopeful that the efficiency dividend will not be applied to this Office in the forthcoming budget process. Nevertheless, the Office has given serious consideration to the matter in case it does become necessary for our budget to be reduced. In this context I would be pleased to provide any further information to the Committee that might be required.

Yours sincerely



COLIN MURPHY  
AUDITOR GENERAL  
30 January 2009