



6 September 2002

Dr M Kerley
Secretary
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Dr Kerley

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT
REPORT 388 *Review of the Accrual Budget Documentation*

Attached is the ANAO's response to Report 388 *Review of the Accrual Budget Documentation*.

A copy of our response has been provided to the Department of Finance and Administration, and the Department of Prime Minister & Cabinet for information.

Yours sincerely

Ian McPhee
Deputy Auditor-General

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT
REPORT 388 Review of the Accrual Budget Documentation

Recommendation 2 (report paragraph 3.22)

The annual reporting requirements should be amended to require agency annual reports to be tabled by 30 September.

ANAO Comment:

The ANAO works closely with agencies on the audit of their financial statements to meet the current reporting deadline of 31 October. While many agencies will be able to meet the tighter timetable recommended by the Committee, a small number of significant agencies is likely to find this timetable difficult, at least in the short term.

Recommendation 7 (report paragraph 5.35)

The Department of Finance and Administration and the Australian National Audit Office should develop performance measures for the advice they provide to agencies. Performance targets should accompany those measures.

ANAO Response:

Agreed. The ANAO provides advice to agencies mainly during the course of its annual program of audits, and through the production of Better Practice Guides. Much of the advice is aimed at assisting agencies to meet their identified performance information and/or to improve that information.

In terms of its audit reports, the ANAO currently measures the level of acceptance of audit recommendations, which is an indication of agency managers' assessment of the benefits offered by the adoption of recommendations. For 2001-02 some 92% of recommendations were accepted by agencies against our performance target of 90%. Further, some 95% of agencies in 2001 – 2002 (target 90%) have acknowledged the value added by ANAO performance audit reports, based on our survey results.

Better Practice Guides (BPG) provide both guidance to agencies and a framework against which agency performance can be measured in future audit coverage. As noted by the Committee, the ANAO has produced a BPG on 'Performance Information in Portfolio Budget Statements'. Following on from the release of this BPG, the ANAO is planning to undertake a cross-portfolio audit to assess the quality of performance information in annual reports in a structured manner. This audit is also expected to lead to the development of an approach which will allow agencies to undertake their own assessment of outputs and outcomes with the aim of improving the quality of annual reporting to the Parliament

In the light of the Committee's recommendation, we will also look to survey agencies about the benefit of guidance provided by our BPGs. This will complement the performance information we currently collect on our audit products and services.

Recommendation 10 (report paragraph 6.69)

The Department of Finance and Administration, in consultation with the Australian National Audit Office, should review ways in which agencies should disclose details of any operating surplus to output or output group level. These details should be able to be matched to the agency's audited financial statements. *The Finance Minister's Orders* should be amended to put into effect such a reporting requirement.

ANAO Response:

Agreed. The ANAO supports enhancements to the reporting framework consistent with the views of the Committee. The ANAO considers that in addition to the requirement for note disclosure of "net contributions/cost to the budget" by outcome included in the 2001-02 Finance Minister's Orders, reporting at the output level could include not only the budget variance, but an analysis of the cause of any significant budget variance in terms of:

- the quantity of outputs delivered; and
- the cost of outputs delivered.

Recommendation 11 (report paragraph 6.84)

The Final Budget Outcome should be audited by the Australian National Audit Office.

ANAO Response:

The ANAO agrees that auditing the Final Budget Outcome (FBO) would provide additional assurance to users of this financial statement. However, whether the FBO is subject to audit is a matter for the Government and the Parliament to decide.

While in the short term any such audit could be performed under the section 20 'By Arrangement' provisions of the *Auditor General's Act 1997*, it is considered that appropriate legislative amendments should be made in the longer term to reflect clearly the Government's and Parliament's intentions.

The ANAO also notes that this initiative has resource implications which would be dealt with in the context of the ANAO's submission to the JCPAA on its annual budget estimates, in the first instance.