

Other reporting matters

Introduction

- 6.1 This chapter discusses issues raised by the Committee which relate to Parliament's need for improved reporting on matters relating to the CRF and the Budget. Details of increased reporting on Special Accounts being introduced are contained in Chapter 4.

Government response to JCPAA *Report 388 Review of the Accrual Budget Documentation*

- 6.2 The Committee raised the issue contained in Recommendation 11 in its *Report 388* that the Final Budget Outcome Report (FBO Report) should be audited by the ANAO. The Committee noted that the ANAO has indicated that it was willing to audit the FBO.¹
- 6.3 The Auditor-General addressed this issue in Audit Report No. 25, 2002-03, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002*. The audit report confirmed ANAO's willingness to audit the FBO Report if requested, but noted this was a policy issue.

1 *Transcript*, pp.66-7.

Which accounting standards to use would also be an issue. The Audit Report continued:

An audit of the FBO Report would, in the first instance, entail a review of the general government sector component of the CFS [Consolidated Financial Statements for the Commonwealth], to ensure consistency of input to, and presentation of, the FBO Report. Secondly, a component of such an audit would include a review of the Commonwealth financial statements to determine adherence with the relevant Government Finance Statistics ... framework.²

6.4 The Auditor-General also drew attention to the timing of providing financial statements to Parliament:

The *Charter of Budget Honesty Act 1998* [Charter of Budget Honesty Act] requires the FBO Report to be tabled by 30 September of each year. To meet this deadline, all material entities forming part of the CFS are currently required to produce audit cleared material financial statement balances by 15 August of each year. This timetable continues to present significant challenges to most entities involved, including the ANAO.³

6.5 The Government, in its response to the Committee's *Report 388*, did not agree to the recommendation that the FBO be audited:

... the FBO must be published by 30 September, in accordance with the Charter of Budget Honesty Act. Under present arrangements this deadline is met with little time to spare. Therefore, the introduction of a complete audit process would compromise this legislative requirement. As the individual agency accounts that are consolidated into the FBO are audited, there is already an implicit audit process undertaken.

The CFS are already audited by the ANAO. Under the FMA Act the CFS must be tabled within five months of the end of the financial year. Given that audit of the CFS already provides assurance on aggregate financial statements, the Government does not consider it necessary to add another layer of checking for the

2 ANAO, *Audit Report No.25, 2002–03, Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002*, December 2002, p.19.

3 ANAO, *Audit Report No.25, 2002–03*, p.19.

FBO with associated consequences for what is already a tight FBO timetable.⁴

6.6 Other issues raised were:

- whether auditing the FBO would require an amendment to the *Auditor-General Act 1997*⁵—Finance commented that if the FBO were to be audited it would be prudent to legislate for it.⁶
- whether the FMA Act should be amended to require the FBO to be audited—Finance commented that the FBO Report was required under the Charter of Budget Honesty Act. Accounts under the FMA Act were already required to be audited.⁷

Conclusion

6.7 The Committee notes that the Charter of Budget Honesty Act requires the release of the FBO Report by 30 September. Prior to the commencement of that Act, the audit of the Aggregate Financial Statement, prepared by the Finance Minister, included an audit of the budget outcome. (The budget outcome contained some but not all of the information now contained in the FBO, and was expressed in cash accounting terms.) The audit was typically completed in November after the end of the financial year.

6.8 The Committee notes that the major impediment to auditing the FBO at this time is one of timeliness. The Committee believes that advances in accounting systems may in future overcome this problem. In the event that the FBO is audited in the future it would be prudent if the task were written into an appropriate Act.

6.9 The Committee notes, however, that the New Zealand Treasury is required to forward the annual consolidated financial statements of the Crown to the Audit Office no later than 31 August.⁸ The Audit Office is then required to issue an audit opinion within 30 days of receipt of the annual financial statements.⁹ The audit of the annual financial statements

4 JCPAA, *Report No. 388: Review of the Accrual Budget Documentation, Government Response to recommendations of a policy nature*.

5 Mr Maurice Kennedy, *Transcript*, p.68.

6 Mr Ian McPhee, Finance, *Transcript*, p.68.

7 Mr Marc Mowbray-d'Arbela, Finance, *Transcript*, p.69.

8 New Zealand's *Public Finance Act 1989*, section 27.

9 New Zealand's *Public Finance Act 1989*, section 30.

of the Crown for the year ended 30 June 2002 was completed on 13 September 2002.¹⁰

- 6.10 Under the Constitution Parliament is the guardian of public money. In this capacity, Parliament needs to have confidence that the budget which reports on the receipt and expenditure of public money is prepared according to relevant accounting standards and provides a true and fair reflection of the Government's financial position.
- 6.11 Until 1997, Parliament received independent expert verification of this from the Auditor-General who audited the budget outcome as prepared under the International Money Fund Government Finance Statistics framework and reported in the Aggregate Financial Statements. The requirement to audit the budget outcome disappeared when the Audit Act was repealed in 1997 when the new financial framework was introduced.
- 6.12 This requirement should, in the future, be reinstated through an amendment to the Financial Framework Legislation Amendment Bill. In order for the Auditor-General to perform an audit the harmonised accounting rules under which the budget is prepared in Australia need to be published as does any subsequent amendment to these rules.

Disclosure of rephasing of expenditure

6.13 The Committee inquired about prospects for increased disclosure being provided on the rephasing of expenditure, from one year to a later year(s).¹¹

6.14 Finance advised:

Finance recently provided guidance to agencies in respect of 2003-04... PBS. In this guidance, Finance requested each agency identify what portion of the Outcome totals, amongst other things, is due to rephasing.¹²

10 Report of the Audit Office, *Crown Financial Statements of the Government of New Zealand for the Year Ended 30 June 2002*.

11 *Transcript*, pp.64-5

12 Finance, *Submission No.17*, p.69.

Review of outcomes and outputs

6.15 The Committee asked for an update on the progress of the review of outputs and outcomes.¹³

6.16 Finance responded:

A recommendation of the recently completed Budget Estimates and Framework Review was to progressively review outcomes over coming years. This review will involve Finance considering each agency's outcomes as to their appropriateness. This process has commenced.

In reviewing outcomes, Finance is mindful of those recommendations in the Committee's Report 388, relating to the specificity of outcomes.¹⁴

Improved reporting following from the recommendations of the Budget Estimates and Framework Review

6.17 The Committee noted that Finance distributed a memorandum in November 2002 introducing 20 substantial changes to the financial framework and its operation, including the quality of the flow of information to Finance, reviewing the outcomes of agencies, abolishing agency banking and many other changes. The Committee asked whether Parliament will be provided with any additional information as a result of the additional information that Finance will receive under those changes.¹⁵

6.18 Finance advised that:

...the Minister publishes monthly statements on the Budget. The intention is to get that reporting in a more timely fashion, as well as the end-of-year results. The intention is also to collect information by programs, under the outcomes levels.¹⁶

13 *Transcript*, p.65

14 Finance, *Submission No.17*, p.69.

15 *Transcript*, p.65. The changes referred to by the Committee relate to implementation of the Government's Budget Estimates and Framework Review. The PBS Guidelines for 2003-04 and the FMOs for reporting periods ending on or after 30 June 2003 take into account the recommendations of the Review.

16 Mr Ian McPhee, Finance, *Transcript*, p.65.

The collection of program information is intended to assist with the refinement of estimates construction and monitoring of the Government's within-year financial position.

Detailed 'Total Resources for Planned Outcome' tables are provided in the current PBS, and in the PAES [Portfolio Additional Estimates Statements] for instances of additional expenditures. This information will in many cases be at similar or lower levels of detail than the proposed program structures. PBS and PAES also include estimates of expenses from Special Appropriations and of administered revenue and revenue from other sources.¹⁷

- 6.19 The Committee asked if any legislative change is required from any of those changes.
- 6.20 Finance advised that the changes were all done administratively. If legislative change were required Finance would have tried to include them in the Bill.¹⁸

Reconciliation of the Consolidated Revenue Fund with the cash budget balance

- 6.21 The Committee asked if there was any reason why the cash budget balance could not be reconciled to the CRF and its components.¹⁹
- 6.22 Finance responded:

Revenues or moneys raised by the Executive Government automatically form part of the CRF by force of section 81 of the Constitution. There is, however, no requirement for the CRF to be accounted for in any particular form.

However, for practical purposes, total Commonwealth general government sector²⁰ cash, less cash controlled and administered by CAC ... [bodies], as reported under Australian Accounting Standards AAS 31 'Financial Reporting by Governments', represents the CRF referred to in section 81 of the Constitution. On

17 Finance, *Submission No.17*, p.70.

18 Mr Ian McPhee, Finance, *Transcript*, p.66.

19 *Transcript*, p.66.

20 The definition of the general government sector is contained in a footnote attached to paragraph 4.53 of Chapter 4.

this basis, the estimated and projected balance of the CRF is shown in the Budget Paper No. 1 (page 10-7).²¹

Reporting on the Consolidated Revenue Fund

6.23 The Committee noted that the CRF was reported in the aggregate financial statements that were audited and that the CRF was not now so reported. The Committee expressed concern that this change was a substantial diminution of transparency.²²

6.24 Finance advised:

- It was looking at a possible disclosure note in the CFS in future years to address concerns raised about reporting on the CRF.²³
- The CRF comprised revenues and moneys raised or received by the Commonwealth. Money in official bank accounts of the Commonwealth (the official public account) was easy to account, but other money (for example, money received by officials, but not yet banked in an official account of the Commonwealth) was more difficult to account. This had always been the situation.²⁴
- Finance was exploring ways of obtaining information from Agencies about cash on hand to complement information available on the official public account.²⁵

Conclusion

6.25 The Committee welcomes the proposed improvements in reporting for 2003-04. On behalf of Parliament it will keep a watching brief on actual improvements to ensure the changes result in greater transparency and accountability in reporting for the 2003-04 year, and to ascertain whether its requests for improved reporting are being satisfactorily addressed.

21 Finance, *Submission No. 17*, p.70.

22 *Transcript*, p.12.

23 Mr Ian McPhee, Finance, *Transcript*, p.12.

24 Mr Ian McPhee, Finance, *Transcript*, p.12.

25 Mr Ian McPhee, Finance, *Transcript*, p.64.

