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The Parliament of the Commonwealth of Australia

# **Report 388**

**Review of the Accrual Budget Documentation**

**Joint Committee of Public Accounts and Audit**

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## **Chairman's Foreword**

Since 1999–2000 the Commonwealth's Budget documentation has been based on an accrual-based outcome and outputs framework. This is designed to allow Parliamentarians and the public to see the real cost of delivering benefits to the Australian community (outcomes) and agency goods and services (outputs). The real cost includes indirect costs such as corporate overheads, depreciation and maintenance, and the opportunity cost of capital.

The documentation primarily comprises the Budget papers, portfolio budget statements (PBSs), and agency annual reports. The information they contain is used to ensure government activities are transparent and accountable.

The review was conducted by the Committee in the previous Parliament, and examines the structure of the outcomes and outputs framework, the continuity of financial and performance information, the level of detail in the PBSs, the appropriateness of performance information, and various accounting issues.

The Committee examined the links between the various components of the framework in a sample of agencies. The Committee acknowledges that with any new system there will be a period of adjustment. However, while the Committee is satisfied that agencies have to date endeavoured to achieve consistency, there is still room for improvement.

One area which needs work is that of cross-portfolio information. The Committee believes that some agency outcomes are so broad and far reaching as to be in effect outcomes shared with other agencies. These shared outcomes should be identified. The Committee has recommended that agencies with shared outcomes should determine a lead agency with prime responsibility for the outcome. However, all involved agencies should identify and report on their contribution to the outcome in their PBS and annual report.

The Committee considered two aspects of continuity—the provision of timely information and the year by year continuity of information. Timeliness of information can be enhanced by the provision of earlier annual reports and the Committee has recommended that the tabling of agency annual reports be brought forward by one month to the end of the first quarter of the subsequent financial year.

Where outputs span across several years of funding, consistency is particularly important. Unfortunately, when changes occur, sometimes only a simple statement that there has been a change appears in the documentation. This is insufficient and unacceptable. Agencies need to explain what the change is and how stakeholders can compare the previous format to the current format. There also needs to be an explanation of the underlying reasons for the change and the implications for the funding of agency programs.

Some agency outcome statements do not provide enough detail because they are too highly aggregated to describe agency objectives in a meaningful way. This prevents Parliament adequately assessing proposed resource allocation and agency performance. This is particularly the case with Defence which has a single broad ranging outcome. The Committee has recommended that agency outcome statements should provide more detail. Where agencies have a single broad ranging outcome, or a small number of highly aggregated outcomes, intermediate outcomes should be identified.

The level of disaggregation of agency departmental outputs provided in PBS and annual reports also varied widely. The Committee considers that there would be considerable benefit in agencies providing more disaggregated output information to support transparency and accountability for performance. The Committee therefore strongly encourages Finance, in consultation with relevant Parliamentary Committees, to identify and make available to the Parliament, agencies, and the public, examples of better practice where agencies have provided appropriately disaggregated outcomes and outputs information in a cost-effective manner.

The Committee received evidence that while forward estimates information by outcomes and outputs is not currently included in the PBSs, the information is available and in fact is being provided by one agency in an appendix to its PBS. The Committee concludes there would be benefit in all agencies providing such information in their PBSs.

A practical and informative performance information framework is an integral element of the new outcomes and outputs budget framework as it enables the understanding and monitoring of agency outcomes and outputs. Agency progress in this area is patchy and indeed the Committee noted examples of performance measures which did not provide a target against which performance could be measured. The Committee has recommended that agency performance measures in the PBSs must always be accompanied by a comparative standard. Agencies should report their performance against this comparative standard in their annual reports, with a discussion if actual performance significantly varies from that expected.

The Committee is satisfied that the guidance advice Finance and the ANAO provides to agencies is at an appropriate level. However, it is important to determine whether this guidance is adopted or has some other positive outcome. The Committee therefore considers Finance and the ANAO should monitor the improvements shown by agencies. Further, the Committee recommended that Finance and the ANAO develop performance measures with targets for the advice they provide.

The *Charter of Budget Honesty* requires the Government to publish a Final Budget Outcome (FBO) report within three months of the end of the financial year. The Committee has discovered that the FBO is not audited. The reason given was that auditing the FBO would compromise its timeliness and end of year usefulness. Nevertheless the Committee concluded that the information in the FBO is sufficiently important to warrant an audit to provide additional assurance.

The Committee concludes that the overall structure of the accrual budget documentation framework is sound. However, there will need to be continuous refinement and this may take a number of years. The Committee has a keen interest in accountability and transparency of government and will maintain its interest in the accrual budget documentation into the future.

**Bob Charles, MP**  
**Chairman**



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# Membership of the Committee 39<sup>th</sup> Parliament

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Deputy Chair Mr David Cox MP

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	Senator the Hon Rosemary Crowley (until 28/6/01)	Mr Malcolm Brough MP (until 7/3/00)
	Senator the Hon John Faulkner (until 12/10/00)	Mr Petro Georgiou MP
	Senator the Hon Brian Gibson AM	Ms Julia Gillard MP
	Senator John Hogg	Mr Alan Griffin MP (until 9/8/99)
	Senator Andrew Murray	Mr Peter Lindsay MP (from 7/3/00)
	Senator the Hon Nick Sherry (from 28/6/01)	Ms Tanya Plibersek MP (until 10/4/00)
	Senator John Watson	The Hon Alex Somlyay MP
		Mr Stuart St Clair MP
		Mr Lindsay Tanner MP (from 9/8/99)
		Mr Kelvin Thomson MP (from 10/4/00)



## **Membership of the Sectional Committee – 39<sup>th</sup> Parliament**

Chair            Mr Bob Charles MP

Deputy Chair   Mr David Cox MP

Members        Senator the Hon Rosemary Crowley    Mr Stuart St Clair MP  
                      Senator the Hon Brian Gibson            Mr Lindsay Tanner MP  
                      Senator John Hogg  
                      Senator Andrew Murray  
                      Senator John Watson

## **Committee Secretariat**

Secretary            Dr Margot Kerley

Inquiry Secretary    Dr John Carter

Research Officer     Mr Mark Rogala

Research Officer     Ms Rebecca Perkin

Administrative Officer   Ms Maria Pappas



# Membership of the Committee 40<sup>th</sup> Parliament

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	Senator John Watson	Ms Catherine King MP
		Mr Peter King MP

The Hon Alex Somlyay MP



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Chair            Mr Bob Charles MP

Deputy Chair   Ms Tanya Plibersek MP

Members        Senator John Hogg

Ms Sharon Grierson MP

Mr Peter King MP

The Hon Alex Somlyay MP

## **Committee Secretariat**

Secretary            Dr Margot Kerley

Inquiry Secretary    Dr John Carter

Research Officer     Mr Mark Rogala

Research Officer     Ms Rebecca Perkin

Administrative Officer   Ms Maria Pappas



## Duties of the Committee

The Joint Committee of Public Accounts and Audit is a statutory committee of the Australian Parliament, established by the *Public Accounts and Audit Committee Act 1951*.

Section 8(1) of the Act describes the Committee's duties as being to:

- (a) examine the accounts of the receipts and expenditure of the Commonwealth, including the financial statements given to the Auditor-General under subsections 49(1) and 55(2) of the *Financial Management and Accountability Act 1997*;
- (b) examine the financial affairs of authorities of the Commonwealth to which this Act applies and of intergovernmental bodies to which this Act applies;
- (c) examine all reports of the Auditor-General (including reports of the results of performance audits) that are tabled in each House of the Parliament;
- (d) report to both Houses of the Parliament, with any comment it thinks fit, on any items or matters in those accounts, statements and reports, or any circumstances connected with them, that the Committee thinks should be drawn to the attention of the Parliament;
- (e) report to both Houses of the Parliament any alteration that the Committee thinks desirable in:
  - (i) the form of the public accounts or in the method of keeping them; or
  - (ii) the mode of receipt, control, issue or payment of public moneys;

- (f) inquire into any question connected with the public accounts which is referred to the Committee by either House of the Parliament, and to report to that House on that question;
- (g) consider:
  - (i) the operations of the Audit Office;
  - (ii) the resources of the Audit Office, including funding, staff and information technology;
  - (iii) reports of the Independent Auditor on operations of the Audit Office;
- (h) report to both Houses of the Parliament on any matter arising out of the Committee's consideration of the matters listed in paragraph (g), or on any other matter relating to the Auditor-General's functions and powers, that the Committee considers should be drawn to the attention of the Parliament;
- (i) report to both Houses of the Parliament on the performance of the Audit Office at any time;
- (j) consider draft estimates for the Audit Office submitted under section 53 of the *Auditor-General Act 1997*;
- (k) consider the level of fees determined by the Auditor-General under subsection 14(1) of the *Auditor-General Act 1997*;
- (l) make recommendations to both Houses of Parliament, and to the Minister who administers the *Auditor-General Act 1997*, on draft estimates referred to in paragraph (j);
- (m) determine the audit priorities of the Parliament and to advise the Auditor-General of those priorities;
- (n) determine the audit priorities of the Parliament for audits of the Audit Office and to advise the Independent Auditor of those priorities; and
- (o) undertake any other duties given to the Committee by this Act, by any other law or by Joint Standing Orders approved by both Houses of the Parliament.





## **Terms of reference**

The Committee will inquire into the effectiveness of, and options for enhancing the format and content of, the current budget documentation including the Portfolio Budget Statements, Annual Reports and the Portfolio Additional Estimates, for the purposes of Parliamentary scrutiny.

Of particular concern to the Committee are the following:

- ❑ the link between the information contained in the PBSs and annual reports of agencies;
- ❑ the explanatory information in each PBS to assist Members and Senators to understand how funds were expended and the measures used to assess performance in achieving government outcomes;
- ❑ the explanation of significant variations in budgeted program expenditure;
- ❑ the relationship of the outcomes/outputs framework with the existing organisational structure of agencies;
- ❑ the level of aggregation of appropriations within portfolio agencies and in particular for administered items;
- ❑ the level of detail and consistency in the recording of forward estimates for outcomes and outputs;
- ❑ the form of recording of asset values and the capital use charge;
- ❑ the presentation of revenue estimates and variations;

- the presentation of budget aggregates, budget parameters, budget assumptions, forward estimates, reconciliation tables, and historical tables;
- explanations of departures from relevant ABS and accounting standards;
- the level of detail provided in the Mid-Year Economic and Fiscal Outlook; and
- the presentation of budgeted program expenditure and year on year variations.



## List of abbreviations

ABS	Australian Bureau of Statistics
ANAO	Australian National Audit Office
ACOSS	Australian Council of Social Service
ATO	Australian Taxation Office
CFS	Consolidated Financial Statements
CPA Australia	Certified Practising Accountants of Australia
Defence	Department of Defence
DETYA	Department of Employment, Training & Youth Affairs
FaCS	Department of Family & Community Services
FBO	Final Budget Outcome
Finance	Department of Finance and Administration
JCPAA	Joint Committee of Public Accounts and Audit
JCPA	Joint Committee of Public Accounts
MYEFO	Mid Year Economic and Fiscal Outlook
PAESs	Portfolio Additional Estimates Statements
PBSs	Portfolio Budget Statements
PM&C	Department of Prime Minister and Cabinet
SFPALC	Sentate Finance and Public Administration Legislation Committee





# List of recommendations

## Recommendation 1

Agencies with a shared outcome should:

- identify the shared outcome and the contribution of other agencies in achieving that outcome in their PBS and annual report;
- determine a lead agency with prime responsibility for that outcome; and
- consider entering into memoranda of understanding with the other agencies to clarify the responsibilities of each agency in achieving the shared outcome. [Paragraph 2.54]

## Recommendation 2

The annual reporting requirements should be amended to require agency annual reports to be tabled by 30 September. [Paragraph 3.22]

## Recommendation 3

Agency outcomes statements should be written in clear simple English language to allow for greater transparency. [Paragraph 4.21]

## Recommendation 4

Agency outcome statements should:

- completely and clearly define their key objectives to reflect the impacts Government expects from their work;
- completely and clearly define the impacts Government expects from agency administered items; and
- accurately articulate the purpose of the relevant appropriations under the Appropriation Acts of the Commonwealth Budget. [Paragraph 4.35]

**Recommendation 5**

Agencies with a single broad ranging outcome, or with a small number of highly aggregated outcomes, should identify intermediate outcomes to indicate the shorter term objectives on the path to achieving their higher level outcomes. [Paragraph 4.36]

**Recommendation 6**

Agency performance measures identified in the portfolio budget statements must always be accompanied by a comparative standard. Agencies should report their performance against this comparative standard in their annual reports, with a discussion if actual performance significantly varies from that expected. [Paragraph 5.14]

**Recommendation 7**

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. [Paragraph 5.35]

**Recommendation 8**

The Department of Finance and Administration should identify and report to the Minister on the risks and benefits of allowing Portfolio Ministers authority to issue amounts out of the Consolidated Revenue Fund directly rather than through the authority of the Minister for Finance. The Department should advise its Minister on the appropriateness of allowing Portfolio Ministers to exercise such an authority. [Paragraph 6.27]

**Recommendation 9**

The Department of Finance and Administration should amend its guidelines to agencies so that information describing the model used for pricing outputs is included in the agency PBS. [Paragraph 6.44]

**Recommendation 10**

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. [Paragraph 6.69]

**Recommendation 11**

The Final Budget Outcome should be audited by the Australian National Audit Office. [Paragraph 6.84]