

## INTRODUCTION

### Background to the inquiry

- 1.1 The past decade has been a period of significant change for the Commonwealth public sector as it has moved towards an accrual financial management framework. Under-pinning the financial operations of the sector have been two pieces of legislation—the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act).
- 1.2 The FMA Act sets out the requirements for agencies which collectively comprise the legal entity, ‘the Commonwealth’. Such agencies function as financial and custodial agents for the Commonwealth without acquiring separate legal ownership of the money and assets they deal with on behalf of the Commonwealth. The CAC Act, on the other hand, covers public sector bodies which have their own separate legal identity by virtue of their incorporating legislation. This allows them to acquire ownership of money and other assets coming into their possession.<sup>1</sup>

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1 The Hon John Fahey, Minister for Finance, FMA Bill Second Reading Speech, House of Representatives Hansard, 12 December 1996, p. 8344.

- 1.3 Both pieces of legislation were first introduced to Parliament in June 1994 and were referred to the then Joint Committee of Public Accounts (JCPA)<sup>2</sup> for review. The Committee's review was tabled as *Report 331* in September 1994.<sup>3</sup> The Bills, however, lapsed when Parliament was prorogued for the 1996 Federal election.
- 1.4 Subsequently re-introduced to Parliament in December 1996, the legislation came into effect on 1 January 1998.<sup>4</sup> The Acts which received the Royal Assent, however, were essentially the same as the Bills introduced some three and a half years earlier. In the interval between drafting and enactment, and since, the Commonwealth has introduced full accrual reporting and accrual budgeting, which commenced for the 1999–2000 financial year. Commonwealth Budgets are now based on accrual principles and appropriations are for outcomes identified by the public sector rather than for the cash needed to fund operations.
- 1.5 Because the legislation was drafted before the current accruals framework was complete, the Committee considered that a review of the legislation's effectiveness was timely. The Committee quickly became aware that the Department of Finance and Administration (DoFA) had also initiated a review, but considered a parliamentary perspective was important as part of a broader inquiry and as a check on the Executive and the public service.
- 1.6 Accordingly, the Committee's inquiry has also focussed on:
- whether accountability to Parliament has been maintained as the devolution of responsibility to agencies has increased;
  - whether Chief Executive Officers (CEOs) are subject to sufficient accountability and performance assessment; and
  - whether the Department of Prime Minister and Cabinet (PM&C) should retain responsibility for coordinating the guidelines for annual reports.

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2 On 1 January 1998, following amendment to the Public Accounts Committee Act 1951, the JCPA became the Joint Committee of Public Accounts and Audit.

3 JCPA, *Report 331, An Advisory Report on the Financial Management and Accountability Bill 1994, the Commonwealth Authorities and Companies Bill 1994 and the Auditor-General Bill 1994, and on a Proposal to Establish an Audit Committee of Parliament*, AGPS, Canberra, 1994.

4 The Bills passed the House of Representatives in March 1997, and were amended in the Senate in September 1997. The amendments were accepted and the three Acts received Royal Assent in October 1997.

## **Conduct of the inquiry**

- 1.7 The inquiry was advertised in the national press on 10 July 1999, at which time submissions were invited from the public. In addition, selected FMA agencies, CAC bodies, and other interested people were invited to contribute to the inquiry. The Committee received 49 submissions and 4 exhibits. A list of the submissions received by the Committee can be found at Appendix A and a list of exhibits can be found at Appendix B.
- 1.8 The Committee subsequently held two public hearings on 13 September and 14 September 1999. A list of participants at the hearings can be found at Appendix C.

## **Structure of this report**

- 1.9 Chapter 2 focuses on the details of the Commonwealth's financial management legislation—whether the provisions meet the needs of the new accrual framework and the needs of the public sector. The chapter proceeds with a discussion of the consistency of the legislation with respect to other Commonwealth and state legislation, and concludes with a brief discussion of the impact of the current level of devolution of responsibility for management decisions to individual Commonwealth agencies.
- 1.10 Chapter 3 discusses accountability issues and begins with the opportunity provided by the new accrual budgeting for the Parliament to scrutinise appropriations. The chapter then proceeds with a review of the accountability arrangements for chief executive officers including examination of annual reports for evidence of efficient, effective and ethical performance, and concludes with a discussion of the arrangements for preparing and reviewing the Commonwealth's annual report guidelines.

## **Further information**

- 1.11 Further information about the Joint Committee of Public Accounts and Audit, transcripts of the public hearings and the text of this report can be found on the home pages of the Committee on the world wide web.<sup>5</sup>

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5 The JCPAA's world wide web address is <http://www.aph.gov.au/house/committe/jpaa>