

# **Submission to the Inquiry by the Joint Committee of Public Accounts and Audit into Audit Report No. 15 2004-2005 Financial Management of Special Appropriations**

## **Introduction**

The Department of Finance and Administration (Finance) welcomes the opportunity to contribute to the Joint Committee of Public Accounts and Audit's inquiry into Audit Report No.15 2004-2005 *Financial Management of Special Appropriations*.

Finance notes the issues raised by the Australian National Audit Office (ANAO) in preparing the report and considers that it will serve to focus agencies' attention on appropriation management.

Under the financial framework, Chief Executives are responsible for the proper management of appropriations. Finance provides guidance to assist agencies to understand their responsibilities.

In the audit report, the ANAO noted that due to the audit and Finance's guidance "entities have increased their focus" on legislative requirements and reflected this in their management practices. The ANAO also acknowledged the numerous pieces of guidance issued by Finance prior to the audit and noted that the guidance would "provide a strong platform for agencies to enhance their management and disclosure of appropriations".

Based on discussion held with agencies, Finance also considers that agencies are improving their focus on appropriation management.

## **Finance's work on special appropriations**

In the year prior to the audit, Finance issued several pieces of guidance to agencies to assist them with the management of their appropriations. This guidance included:

- the Finance Minister's (financial statement) Orders (FMOs) that are issued each year to agencies and which require disclosure of the use of appropriations, including special appropriations in an agency's financial statements;
  - In the 2004-05 FMOs, Finance expanded the guidance on special appropriations to provide greater clarity on the disclosure required.
- Estimates Memorandum 2003/27, which provided an overview as to how the appropriations framework operates;
- Finance Circular 2004/06, which explained that an appropriation is required to support the expenditure of any money held by the Commonwealth;
- Finance Circular 2004/07, which explains the need for officials to be authorised by a drawing right in order to spend moneys held by the Commonwealth. This includes how agencies can spend moneys from special appropriations that are the responsibility of another agency;
- Finance Circular 2004/08 on repayments made by agencies under the special appropriation provided by section 28 of the FMA Act;
- Finance Circular 2004/16, which reminds agencies of their responsibilities under the FMA Act for appropriation management, including what accounts and records need to be kept for appropriations and cash drawn down to agencies' bank accounts; and

- Finance Circular 2004/17 on appropriations for payment to CAC bodies, including those that are appropriated via special appropriation. It also reminds entities of the reporting requirements for CAC bodies receiving these moneys.

Copies of these finance circulars and the Estimate Memorandum are attached for information.

### **Addressing the audit recommendations**

The ANAO audit made three recommendations that related to the financial framework and Finance.

- Recommendation 3 requests that Finance review the guidance and financial reporting requirements of special appropriations, specifically, 3(a) - special appropriations not drawn on in a given year, 3(b) - special appropriations that are the administrative responsibility of another agency and 3(c) - the approach to achieve a clear read between budgeted and actual use of special appropriations.
  - Finance has addressed the issues identified in Recommendation 3(a) and 3(b) through the additional guidance provided in the 2004-05 FMOs. In regards to Recommendation 3(c) Finance is currently reviewing agencies' current practices with a view to improving the clear read between agencies' Portfolio Budget Statements and Annual Reports.
- Recommendation 4 requests Finance to promulgate advice on the management and disclosure of special appropriations to *Commonwealth Authorities and Companies Act 1997* (CAC) bodies, including the roles and responsibilities of Finance, portfolio Departments and CAC bodies.
  - Finance has addressed this issue through the issue of Finance Circular 2004/17 – *Appropriations for payment to CAC bodies* on 29 October 2004.
- Recommendation 5(a) requests that Finance examine options to promote greater consistency in the management of special appropriations by Commonwealth entities.
  - Finance has addressed this issue through Estimate Memorandum 2003/27 and Finance Circular 2004/16, which should enhance agencies' understanding of appropriations and result in better appropriation management.
- The audit report also identified, but made no recommendation, that some agencies were not estimating their daily funding requirements. Finance is developing a finance circular that reminds agencies to estimate their next-day cash drawdown requirements in order to minimise the occurrence of intra-day overdrafts. This finance circular is expected to be issued in April 2005.

### **Consolidated Revenue Fund (CRF) and Surplus Revenue**

The audit report discussed the composition of the CRF and how it is calculated. The balance of the CRF can be calculated in one of two ways. Firstly, by adding the cash balances controlled and administered by all agencies reporting under the FMA Act, including special public moneys, which are reported separately by agencies. The second approach is to derive the balance of the CRF by subtracting from total general government sector cash the balances of cash controlled and administered by bodies

under the *Commonwealth Authorities and Companies Act 1997*, and then adding special public moneys.

Both calculations give the same result but the second approach has been reported in Budget Paper No.1, as well as in the Consolidated Financial Statements, as it provides a reconciliation between total general government sector cash, as reported in the budgeted and actual financial statements, and the balance of the CRF.

The audit report also discussed Finance's calculation of Surplus Revenue under section 94 of the Constitution. On 10 June 2004, the ANAO and Finance, as part of the audit, discussed this issue. Finance advised the ANAO that surplus revenue calculations had been done - in the context of the ANAO's annual financial statements audit - for all financial years from 1999-2000 to 2002-03.

However, in light of the evolving legal advice as to what components comprise surplus revenue following the abolition of fund accounting in 1999, Finance undertook to review all of its surplus revenue calculations over this period and provide revised calculations to the ANAO as part of its special appropriations audit. These calculations were subsequently reviewed, signed off by senior officers in the Department and provided to the ANAO, in a consistent format, on 26 October 2004.

## **Conclusion**

Finance considers that agencies are more aware of their responsibilities and are responding to both the enhanced guidance available and the recommendations of the audit report.

The additional guidance already made available by Finance and the work still underway should further assist agencies to implement internal controls that will allow proper management of special appropriations.

Department of Finance and Administration

23 March 2005