

Continuity of financial and performance information

Introduction

- 3.1 This chapter discusses the degree of continuity of information available in the accrual budget documentation. Continuity of information is essential to support transparency and accountability by assisting the Parliament to compare proposed agency performance levels with actual performance. Such comparison also assists decisions concerning future allocation of resources to agencies to enable delivery of their outputs to achieve government outcomes.
- 3.2 The PBS and annual reports are the principle external reports produced by agencies to report on their projected and actual performance and to demonstrate accountability for their expenditure of public monies. The PBS are authorised by Ministers for use by Parliament when it considers the Budget. The PBS describes agency outcomes and effectiveness measures as well as outputs and performance measures when funds are appropriated. Annual reports describe and comment on the achievement of these measures.

- 3.3 In November 2000, Finance issued guidance to government agencies to assist them to develop their outcomes and outputs frameworks.¹ Advice in this regard, was also made available through Finance's internet web site.²
- 3.4 The Department of Prime Minister and Cabinet (PM&C) is responsible for providing information to agencies about the content of their annual reports. This is in the form of PM&C's *Requirements for Annual Reports*, which require the approval of the Committee.³ The requirements apply to annual reports for departments of state pursuant to the *Public Service Act 1999*.⁴ As a matter of policy, the requirements also apply to prescribed agencies under the *Financial Management and Accountability Act 1997*.⁵
- 3.5 The requirements for annual reports are designed to ensure that annual reports contain a core set of information to ensure that accountability requirements are met and to provide consistency for readers. Revised guidelines, issued in May 2000, required agencies to include in their annual report:
- the agency's outcomes and outputs structure;
 - as a transitional requirement for the 1999–2000 financial year, a map from the former program structure and how it aligns with the new outcomes and outputs structure; and
 - a report on performance against the specific performance measures or assessments set out in the PBS.
- 3.6 The Committee identified two key issues relating to the continuity of accrual budget documentation information:
- the delay between the provision of the agency PBS at Budget time and the subsequent reporting of achievements in the annual report; and
 - the year by year continuity of information for comparative purposes, particularly where agencies change their outcomes and outputs structures.

1 Finance, *The Outcomes and Outputs Framework Guidance Document*.

2 <http://www.dofa.gov.au/budgetgroup/>

3 The current requirements were approved by the JCPAA on 5 April 2000.

4 *Public Service Act 1999*, s. 63 (2) and s. 70 (2).

5 *Financial Management and Accountability Act 1997*, s. 5.

The delay in agency reporting

The nature of the problem

3.7 The provision of information to Parliament on agency proposed performance levels and actual performance needs to occur in a timely manner. Such timeliness supports accountability and allows scrutiny of agency resource allocation decisions for their outputs which have been designed to achieve the Government's outcomes.

3.8 Finance has acknowledged the difficulties in reducing the delay between the provision of the PBS at Budget time and the annual report:

... in effect, there is something like 18 months between what is promised in the PBS to be performed and what is actually delivered in the annual report. Short of changing the entire budgetary timetable, I am not sure that there is that much that can be done about that time lag.⁶

3.9 However, Finance added that the Commonwealth's timeliness in the preparation of agency annual reports compared favourably with private sector companies. Finance stated:

... we have a table ... that compares the performance in annual reporting between the Commonwealth—and the preparation of our whole-of-government reports on financials—with those of Australia's top 20 companies. We are about eighth.⁷

3.10 While acknowledging progress relating to agency annual reporting, the Committee notes a difference between the private and public sector reporting—a public company board has a financial statement in July, whereas the Parliament receives public sector annual reports in the second quarter after the end of the financial year.

Part-year performance information in the PBS

3.11 Since 1997, the Senate Finance and Public Administration Legislation Committee (SFPALC) has tabled three reports on the format and content of the PBS. The SFPALC third report tabled in 2000,⁸ noted among other things that, in relation to performance information, the delay between the setting of indicators and reporting against them was too long.

6 Mr Stephen Bartos, Finance, *Transcript*, p. 5.

7 Mr Stephen Bartos, Finance, *Transcript*, p. 9.

8 SFPALC, *The Format of the Portfolio Budget Statements Third Report*, November 2000, p. 1.

- 3.12 The SFPALC suggested that agencies provide part-year performance information in the PBS for those quantifiable indicators for which the information was readily available. The Government has yet to respond to this suggestion.
- 3.13 The Committee has discussed in Chapter 5 the possibility of agencies providing in their PBSs part-year performance information for the previous financial year.

The provision of earlier annual reports

- 3.14 There are two major divisions within an annual report—the audited financial statements and information about the agency’s activities and performance. Under accrual accounting it should be possible to obtain financial statement information relatively close to the end of the financial year. The compilation of content additional to the financial statements may, however, result in production delays for the final annual report.
- 3.15 Finance noted that although the annual report timetable has been brought forward considerably, there was room for improvement. Some of the world’s best companies were able to produce accurate financial reporting within a day of closure and that such a timeframe would be something to aim for. It would be useful for agencies, and also for Parliamentary scrutiny.⁹
- 3.16 Finance also considered that at the moment, agency systems were not able to achieve this degree of timeliness in financial reporting. It suggested that it would be the next generational change—when agencies introduce new financial management information systems—that might allow them to achieve this level of timeliness.
- 3.17 Finance also drew attention to barriers to achieving more timely financial reporting for a number of agencies, including:
- statutory reporting requirements which might need to be met; and
 - collecting of information from the states, for example in relation to payments from the Commonwealth, which would need to be reported.¹⁰
- 3.18 Finance concluded that these issues made the reporting by some agencies’ a little more difficult than in the private sector, and this would have to be taken into account.¹¹

9 Mr Stephen Bartos, Finance, *Transcript*, p. 9.

10 Mr Stephen Bartos, Finance, *Transcript*, p. 9.

Conclusion

- 3.19 Accrual accounting systems, if being used effectively should be providing agency managers with regular financial information. It is therefore not unreasonable to expect earlier end of year financial statements, as agencies become more familiar with accrual accounting systems and the capacity of those systems improves as technology advances. There is an audit stage to be completed before the financial statements are provided to Parliament, but auditing should be able to be completed within approximately four to six weeks of agencies finalising their accounts.
- 3.20 Regarding performance information, managers should also be collecting information throughout the year. Such progressive information would enable them to recognise under-performance early in the financial year and allow the application of resources to boost performance. Therefore final performance information should also be available close to the end of the financial year.
- 3.21 Currently agency annual reports have to be tabled by 31 October. Despite Finance's reservations the Committee concludes there is room for the earlier tabling of annual reports and it is reasonable for reports to be tabled by the end of the first quarter of the following financial year, ie by 30 September.

Recommendation 2

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

Other ways to provide more timely information

- 3.23 The Committee has also considered the possibility of dividing the annual report information into:
- audited financial statements—to be tabled as soon as possible after the end of the financial year; and
 - agency activity and performance information—to be tabled as soon as possible, but at a later time.

3.24 Finance responded to the suggestion in a supplementary submission:

Given the annual report is a report on performance Finance would be concerned if efforts to achieve more timely reporting resulted in the divorce of financial from non-financial reporting.¹²

3.25 The Committee considers the gains in timeliness (a matter of one or two months) would not warrant the cost in terms of money spent and administrative difficulties in publishing two documents to meet this requirement.

3.26 The Committee has also considered the possibility of the provision to Parliament, on a monthly basis, the portfolio management accounts. Responding to this suggestion, Finance commented:

At the portfolio level, departments report to Ministers on progress in formats and at frequencies that meet the needs and preferences of individual Ministers. Whether to report to Parliament at a greater frequency than at present would be a decision for Government.¹³

3.27 The Committee believes there is no need to pursue the matter further. If as implied by Finance's comment, there is variation in the detail within those reports and the frequency with which they are produced, the ability of Parliament to compare agency performance would be limited. If the reports were aggregated, the lack of detail would again make them of limited value.

3.28 The Committee has discussed the issue of the level of detail in the Budget documentation in Chapter 4.

Year by year continuity of information

Introduction

3.29 If Parliament is to effectively scrutinise executive government there is a need for continuity in the information provided throughout the budgeting cycle. This should change little from year to year to enable Parliament to continuously track expenditure over time. If this is not achieved Parliamentarians will have difficulty explaining to the public that

12 Finance, *Submission No. 21*, p. 161.

13 Finance, *Submission No. 21*, p. 160.

Commonwealth funds, that is to say taxpayer funds, have been spent appropriately.

- 3.30 The need for stable outcomes and outputs frameworks for budgetary and reporting purposes was emphasised by the SFPALC in its third report on the PBSs. The report noted that:

Senators were 'exhibiting varying levels of patience' with the current levels of instability in the reporting frameworks in some portfolios; there is a clear expectation that the frameworks should stabilise sooner rather than later.¹⁴

- 3.31 The Committee acknowledges that from time to time in response to government initiatives there will be changes to portfolio structures. This will result in the reallocation of responsibilities from one agency to another with consequent impact on the reporting framework. The discussion that follows concerns situations where such changes have not occurred.

Stability in the outputs and outcomes structure

- 3.32 The Committee sought views from witnesses on whether they felt year-on-year performance measures contained within Budget documents and annual reports were effective.

- 3.33 Finance's submission noted that in the initial years of a new system there could be significant variations in the numbers of outcomes and outputs as portfolio structures settle down. However, it was desirable that there be greater stability. Performance reporting was most effective when trends could be compared over time. Finance added that reporting could be expected to evolve with experience, changing needs, and the availability of more relevant or more reliable information.¹⁵

- 3.34 Finance commented during the public hearing that the experience of other jurisdictions is that it might take up to five years 'to bed these things down.'¹⁶

- 3.35 Finance told the Committee that some changes in outcomes and outputs structures were inevitable because:

... the needs of the Australian community change, and quite rapidly, and therefore the structure of organisations and the way

14 SFPALC, *The Format of the Portfolio Budget Statements Third Report*, November 2000, p. 39.

15 Finance, *Submission No. 13*, p. 108.

16 Mr Phillip Prior, Finance, *Transcript*, p. 51.

programs are put together changes to deal with them. Those [changes], I think, are legitimate.¹⁷

- 3.36 However, Finance warned that it was not legitimate to introduce changes 'to obscure otherwise embarrassing information'. The problem, Finance added, was to identify such changes.¹⁸ The Committee notes the advice provided on Finance's website that:

... changes to outputs should only be undertaken if there will be a material improvement in the specification and such improvements are not outweighed by the need for year-on-year consistency.¹⁹

- 3.37 Comments provided to the Committee by various agencies indicated that a degree of stability had been achieved in agency outcomes and outputs.²⁰ FaCS stated that it recognised the importance of maintaining stability in its outcomes and outputs structure and performance indicators. However, FaCS reinforced the following point:

... that it is important to continue to identify and make improvements to its outcomes and outputs structure and to introduce change where the benefits of improved clarity and accountability outweigh the potential disadvantage of change.²¹

- 3.38 The quality of FaCS information advising of its budgetary changes was noted by ACOSS, which stated that FaCS:

... provides better budgetary information, on the whole, than most other Federal Government Departments. Its annual budget publication 'What's New, What's Different' is a very useful budget-night summary of policy measures in the portfolio that should be emulated by others.²²

- 3.39 In its submission, the CPA Australia commented that variations to the information presented in the PBS from period-to-period can be confusing but could be partly addressed if 'maps or notes are provided to highlight the changes in outputs, outcomes and performance measures.'²³

- 3.40 Finance advised the Committee that in relation to outcomes and outputs structures, the guidelines did indicate that if there is a change in structure
-

17 Mr Stephen Bartos, Finance, *Transcript*, p. 10.

18 Mr Stephen Bartos, Finance, *Transcript*, p. 10.

19 Finance, *Submission No. 13*, p. 112.

20 DETYA, *Submission No. 17*, p. 137; ABS, *Submission No. 14*, p. 122; DHAC, *Submission No. 16*, p. 133; Treasury, *Submission No. 19*, p. 151.

21 FaCS, *Submission No. 15*, p. 128.

22 ACOSS, *Submission No. 1*, p. 2.

23 CPA Australia, *Submission No. No. 5*, p. 37.

it should be clearly spelt out and indicated in the PBS. Finance added, however, that it was not a requirement but a guideline.²⁴

- 3.41 Regarding responsibility for the provision of information concerning changes to agency outcomes and outputs, Finance argued that whether there was a central responsibility or devolved responsibility was a fundamental issue. Finance concluded that responsibility lay with the agency chief executive officer (CEO):

The legislation that parliament has passed—the Financial Management and Accountability Act and the Commonwealth Authorities and Companies Act—makes it clearly the responsibility of the CEO of an agency to get those things right. Unless and until that legislation is changed, it is not something that we see a role for central control of.²⁵

- 3.42 The ANAO told the Committee that the framework information provided by Finance clearly indicated that its guidance documentation contained what Finance regarded as minimum requirements. The ANAO added that agencies needed to respond to the feedback they were getting from the Parliament and other places to refine or improve the information that was provided.²⁶

- 3.43 The ANAO also suggested that agencies including the ANAO itself, would value some indication from Parliament, particularly in the area of determining the level of disclosure, some idea of materiality and what was important for the Parliament and what was not. The ANAO fully accepted that there would always need to be changes within government programs. However, the issue was how agencies could assist Members and Senators to follow the changes through in the transitional phase. That is where specific guidance would be useful.²⁷

Conclusion

- 3.44 Consistency in reporting is crucial in order for the Parliament and the public to be able to scrutinise the budget documents fully and accurately. This is particularly important when analysing outputs which span across several years of funding.
- 3.45 The Committee considers that agencies making changes to their outcomes and outputs framework from one year to the next need to provide more

24 Mr Stephen Bartos, Finance, *Transcript*, p. 21.

25 Mr Stephen Bartos, Finance, *Transcript*, p. 10.

26 Mr Ian McPhee, ANAO, *Transcript*, p. 10.

27 Mr Ian McPhee, ANAO, *Transcript*, p. 10.

transparent and detailed information to allow the Parliament to properly monitor changes across financial years. Specifically, the Committee considers that a simple statement that there has been a change in structure is insufficient and unacceptable. Agencies need to explain what the change is and how stakeholders can compare the previous format to the current format to clearly establish a link between structures. There also needs to be an explanation of the underlying reasons for the change and the implications for the funding of agency programs.

3.46 The Committee believes the issue could be addressed by:

- Finance assisting agencies by providing more comprehensive information through identifying and publishing examples of better practice. The approach would provide centrally suggested direction rather than prescriptive central control;
- Finance providing a guidance model for best practice in relation to reporting on variations; and
- agencies reporting fully on any variations in the content and or formatting of budget documents, particularly in their PBSs.

3.47 The provision of detailed explanations about changes to agency outcomes and outputs frameworks will enhance transparency and accountability to Parliament for agency performance. However, if agencies do not embrace such identified better practice, it may be necessary to implement such practice as a requirement rather than as a guideline.

3.48 Finance should also:

- monitor whether agencies are adopting the better practice identified in the advice it provides; and
- bring to the attention of Parliament and relevant Parliamentary committee's where agencies appear not to be adopting better practice.

Historical data

3.49 The submission from ACOSS drew the Committee's attention to a problem that had arisen in the budget papers due to the implementation of the accrual-based outcomes and output framework. ACOSS found that there was a break in the historical data on outlays by function and sub-function in the 1999–2000 budget papers:

Prior to 1999, the Statistical Appendix to Statement 4: "Outlays" in Budget paper Number 1 contained tables detailing outlays by

function and sub-function over the previous 10 years, and the next 3 years. However, the 1999 Budget Paper Number 1 only provided aggregate historical data for expenses by portfolio. The situation improved somewhat in 2000. In that year the statistical appendix included data on expenses by function and sub-function for the five years commencing 1999-2000.²⁸

3.50 ACOSS concluded that the break in the series in 1999 meant that 'the Budget Papers [could] no longer be used to track long-term trends in social expenditures.'²⁹

3.51 Finance recognised that there was a break in historical series due to the change from the cash to the accrual framework, and commented that 'the department is examining the potential to overcome this.'³⁰ During the public hearing Finance provided the following comment:

Certainly, in the first year of the budget documentation, for what were good reasons at the time, we took a decision to have the primary concentration in the budget statements on portfolio rather than function. In the light of experience, in this budget we move back to having the primary discussion and presentation in Budget Statement No. 6 based on a functional basis, which does allow for greater continuity.³¹

3.52 CPA Australia pointed out that 'of key concern at most levels is the continuity between outputs from year to year.' However, CPA Australia reasoned that the initial levels of discontinuity were to be expected after a monumental shift and that there 'is going to be some trade-off between the benefit of continuity and improved specifications.'³²

Conclusion

3.53 The Committee believes it is important for all agencies to strive to achieve consistency in the information they provide to Parliament under the outcomes outputs framework, both within and between budgetary cycles. The Committee agrees with the sentiments of CPA Australia and acknowledges that there will always need to be a balance between consistency of information and change due to continuous improvement as agencies become more familiar with the framework.

28 ACOSS, *Submission No. 1*, p. 2.

29 ACOSS, *Submission No. 1*, p. 2.

30 Finance, *Submission No. 8*, p. 62.

31 Mr Stephen Bartos, Finance, *Transcript*, p. 5.

32 Mr Adam Awty, CPA Australia, *Transcript*, p. 16.

