

## Finance and Public Reference Committee

### Transparency and accountability of Commonwealth public funding and expenditure

#### Introduction

Although the government's intentions for its amendments to the system of appropriations in force until 1997 can be seen as commendable, it is clear that the parliament, especially its House of Review, ceded considerable power to the executive and diminished its capacity to control and understand discretionary executive spending.

2. The above conclusion is not new. In various forums, Parliament has been consistently advised by non-government authorities that the changes to annual appropriation acts have significantly increased the government's powers over spending and, by inference, reduced the capacity of Parliament to monitor and control executive spending. To use the words of just one source of advice, Parliamentary Library Research Paper N0 16, 2001-02: "one of the central conclusions of this Paper is that the Parliament is at risk of relinquishing its ultimate control over Commonwealth financial matters to the Executive." Adjusting for the conservative language used by the Library, it can be argued that the Parliament lost that control when it agreed to a number of fundamental changes in the reform of Commonwealth finances.

3. A second theme in this paper is that the limited role of the Commonwealth auditor-general means that the parliament has no effective assurance on the outcome of the government's budget.

#### Annual Appropriations

4. It has never been clear why the government proposed and the Parliament accepted that annual appropriations should be expressed in accrual terms. It has been an elementary rule in most successful businesses that the cash management of the whole entity be centralised. By allowing accrual appropriations, the Parliament has allowed the government to establish hollow logs and to forfeit control over the use of those accumulated monies for which the government has no present need. (One instance seen by the writer concerned an additional appropriation of over a billion dollars successfully sought to meet additional salaries in the Defence department. Ultimately that appropriation was not used for salaries but to compensate the department for a write-down in asset values of the amount appropriated.)

5. This loss of control can be seen in many areas including in the provision of appropriations for depreciation. Depreciation is clearly an expense of conducting an activity requiring substantial capital assets. However, the cash so made available to the government is not required unless and until the asset is replaced. Moreover, the appropriation seems to have neglected that, at the outset of the new financial arrangements, the Parliament had already provided the funds to acquire the assets being

depreciated. Appropriating for depreciation reimburses the government for appropriations it has already received.

6. Similar points can be made about most of the accrued liabilities of the government. Superannuation is undoubtedly an expense of operations, but the government may have no need for the cash being appropriated for many years, possibly decades.

7. The accumulated cash is available to the government to meet cash expenses for the outcome established in the appropriation act. And an effective audit of these monies would require a tracking of accumulations and spending over many years. Such a task is prone to significant errors, especially when there are administrative changes or changes to the format of outcomes in the appropriation acts.

8. A return to appropriations being related to the expected cash needs of the government - as provided for in its cash flow statement for the upcoming financial year - would not diminish the value of accrual accounting but would repair the loss of control which Parliament allowed in 1997.

9. A corollary to re-establishing adequate Parliamentary control over public monies is that annual appropriations revert to annual lives so that at the end of the financial year appropriations lapse and that there be a severe reduction in the ability of the minister for finance to siphon off appropriations or monies to special accounts.

#### Program Budgeting

10. Whatever merit there was in linking appropriations to the programs managed by government disappeared when those program outcomes were severely contracted in number and broadened in scope.

11. As the Committee would know, the fact that many Commonwealth agencies have but one program means that the spending by those agencies is effectively untrammelled and uncontrolled, as long as that spending is consistent with the broad expression of outcome. (But also see comment below following the High Court case for Combet.)

12. If program appropriations are to continue, the Parliament would be entitled to insist on a clearer and more precise enunciation of outcomes, thus requiring a significant increase in the number of outcomes managed by Commonwealth agencies.

#### Transferability of Appropriations

13. As one of the High Court justices noted in the judgement on Combet, the majority judgement which allowed departments to incur any spending - whether or not it was consistent with departmental outcomes - would surprise most or all members of Parliament. That judgement necessitates a change in appropriation bills, if Parliament wanted to re-assert its control over executive spending.

14. As it stands, the acts appropriating the treasury would allow any government to draw on those appropriations to fund its entire election advertising campaigns. The Parliament might judge that electoral concerns would ensure this does not happen. But given the precedents, such consolation is too slight to justify Parliaments' relinquishing their responsibility to legislate against inappropriate government spending.

#### Budget Accountability

15. As the committee would realise, most of the Commonwealth's budget - even that expressed in cash terms - is outside of the annual appropriations. Nevertheless, Parliamentary oversight includes spending authorised by standing appropriations. Similarly, even when appropriations were cash-based, Parliament had the right to examine the use of assets by a government even though such assets had been funded in prior years.

16. This is to say that the entire budget proposed by a government should be a major issue for Parliament's oversight role.

17. It is thus disconcerting to read (in paragraph 2.44) that the ANAO has adopted the view that whether or not a budget outcome is audited by the auditor-general is not a matter for its advice.

18. For a start, legislation has already established that the auditor-general is an officer of the parliament. The functions of the auditor-general, including the question of auditing budget outcomes is thus a legitimate matter for Parliament and it is legitimate, indeed proper, that ANAO untangle itself from the barb-wire fence, notwithstanding the presumed desire of the government that the budget outcome not be audited.

19. Given the importance of the budget, it attracts significantly more attention than the audited final accounts of the government, it should be audited. Moreover, if it were, the government would have more effective incentives to follow the standards which the auditor-general would use to conduct those audits.

20. As it stands, the budget outcome published by the government is grossly misleading, not only because of its treatment of GST. Treatment of certain leases as operating instead of finance leases and the government's treatment of earnings from the Future Fund distort the presentation of the budget as it is proposed and as it is finally reported. The government's lax approach to accounting allowed the Treasurer recently to proclaim debt free day when the Commonwealth still had net debt, according to accounting standards supporting Government Finance Statistics.

21. Associated with this discussion is the question of accounting standards. Australia's adoption of the International Financial Reporting Standards has reduced the differences between the standards used by agencies to report their finances and those used for the budget. Nevertheless, differences remain and agencies have the cost of the dual reporting standards. Having two standards also leads to confusion among those members of the

public, and the Parliament, who might wish to take an interest in government accountability.

22. Although unifying the two sets of accounting standards is an issue for Australia's accounting bodies, the Parliament is entitled to impose its own choice on what standard the executive is to use to report to Parliament. If Parliament insisted, as it can, that GFS be used by Commonwealth departments and other government reporting entities, the cost of duplicated reporting would be eliminated and the clarity of government reporting would be enhanced.

### Conclusion

23. It is disappointing that ANAO eschewed from providing clear recommendations for the committee to consider. That the government would wish to control the manner in which Parliament provides its consent and in which the government reports on its finances is no reason for ANAO's diffidence. However, the committee is encouraged to repair serious deficiencies which have become clearer over time in the manner in which public monies are appropriated and the manner in which the government reports on budget outcomes.

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