

Presentation to ACPAC 2009

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Enhancing public financial and performance reporting and accountability in Victoria, sharing the PAEC's achievements to date including recent proposed reforms to Victoria's public finance practices and legislation

Introduction and Objectives

The Public Accounts and Estimates Committee (PAEC) of the 56th Parliament of Victoria was established in February 2007, comprising of ten members, the highest number of all Joint Parliamentary Committees, so as to enable a wider representation of minor parties.

Its ten members combined represent four parties, the Australian Labor Party (ALP), the Liberal Party and the National Party (as a 'Coalition') and the Greens. Six members are nominated from the Legislative Assembly (lower house) and four from the Legislative Council (upper house).

This presentation aims to inform ACPAC 2009 delegates about the diverse and unique responsibilities and annual Inquiry program of the PAEC and to highlight important proposed reforms to the Victorian Government's financial and performance reporting to Parliament that the Committee is currently examining, with its Report on these reforms nearly finalised.

The PAEC's statutory responsibilities and functions

In relation to Committee statutory responsibilities and functions, delegates will be aware that the PAEC in Victoria is unique compared to other Public Accounts Committees in Australasia and other Westminster systems in that the Victorian PAEC has statutory responsibilities in relation to the Budget Estimates.

The Committee has wide-ranging statutory-based powers and accountabilities to Parliament derived from Victorian legislation:

- The *Parliamentary Committees Act 2003*;
- The *Audit Act 1994*; and
- Part V of the *Constitution Act 1975*.

The Committee has functions and powers under to review, scrutinise, inquire and report on all matters relating to State public sector finances and public sector administration, budget estimates and budget financial and performance outcomes

Its statutory responsibilities are manifold and commit the PAEC to a very intensive year-round program of activities involving consideration of matters of high-level, technically complex and sensitive nature, and a plethora of Inquiries referred to it by Parliament, the Premier and the Committee itself. The Committee has broad powers to instigate self-references on Inquiries.

Owing to the Committee's unique and far-ranging responsibilities, the delivery of increasingly high standard reports to Parliament as part of its core functions and public Inquiries is expected.

Its accountabilities to Parliament can be broadly classified into:

- Annual year-round core functions (namely, Budget Estimates, Financial and Performance Outcomes and Auditing functions. The Budget Estimates Inquiries involve the conduct of hearings with Ministers); and
- Public Accounts functions (namely, conduct follow-up reviews of the findings and recommendations of the reports of the Auditor-General, which involve public hearings). This function also enables the Committee to hold public Inquiries on any matter relating to financial administration or public sector management referred to the Committee.

The Committee also undertakes special Inquiries from time to time into specific aspects of public administration either selected by the Committee for examination or referred to it by the Governor-Council on behalf of the Parliament or government. The Committee has reported on diverse subject matters such as its Inquiries into:

- Strengthening Government and Parliamentary Accountability;
- Trustee arrangements for the Parliamentary Superannuation Fund; and
- currently, Victoria's Public Finance Practices and Legislation.

Since its formation, the PAEC of the 56th Parliament has overhauled the manner and frequency of its reporting to Parliament, with a focus on enhancing government accountability and usefulness of information to Parliamentarians and the public.

For instance, in relation to its Budget Estimates Inquiry, the Committee made a decision that that this important Inquiry would better serve debate in both Houses on the Appropriation Bills by the Committee's tabling of its report in three parts on the Budget Estimates. Parts One and Two contain summaries of issues raised at public hearings that the Committee holds with the Premier, Treasurer, Attorney-General and Ministers, together with full transcripts of hearings. These two reports are tabled in a timely manner to facilitate House debates on the Appropriation Bills on the Budget.

On frequency, over a period of two years, 2007 and 2008, the PAEC has tabled 16 reports to Parliament comprising a total of 343 recommendations.

Table 1: Reports of the PAEC, 56th Parliament of Victoria

Report Number	Title of Report	Date Tabled
73	<i>Report on the 2007-08 Budget Estimates – Part One</i>	24 May 2007
73	<i>Report on the 2007-08 Budget Estimates – Part Two</i>	7 June 2007
73	<i>Report on the 2007-08 Budget Estimates – Part Three</i>	20 September 2007
74	<i>Report of the Appointment of a person to conduct the financial audit of the Victorian Auditor-General's office</i>	7 June 2007
75	<i>Report of the Appointment of a person to conduct the performance audit of the Victorian Auditor-General's office</i>	21 June 2007
76	<i>Report on Trustee arrangements for governing the Parliamentary Contributory Superannuation Fund</i>	11 October 2007
77	<i>2006-07 Annual Report</i>	31 October 2007
78	<i>Report on strengthening government and parliamentary accountability in Victoria</i>	9 April 2008
79	<i>Report on the 2006-07 financial and performance outcomes</i>	8 May 2008
80	<i>Report on the 2008-09 Budget Estimates – Part One</i>	29 May 2008
80	<i>Report on the 2008-09 Budget Estimates – Part Two</i>	12 June 2008
80	<i>Report on the 2008-09 Budget Estimates – Part Three</i>	15 October 2008
81	<i>Notification of new Inquiry into Victoria's public finance practices and legislation</i>	11 June 2008
82	<i>Review of the Findings and Recommendations of the Auditor-General's Reports tabled July 2006 - February 2007</i>	13 November 2008
83	<i>Annual Report 2007-08</i>	9 October 2008
84	<i>New Directions in Accountability (Preliminary Report) – Inquiry into Victoria's Public Finance Practices and Legislation</i>	13 November 2008

Source: Public Accounts and Estimates Committee, *2006-07 Annual Report and 2007-08 Annual Report*

The Committee is currently preparing to table an additional three Reports in early May 2009 pertaining to:

- *2007-08 Financial and Performance Outcomes Inquiry;*
- *Review of the Findings and Recommendations of the Auditor-General's Reports tabled March 2007 – December 2007; and*

- *New Directions in Public Finance and Accountability, Final Report, Inquiry into Public Finance Practices and Legislation.*

Delegates will be interested to learn that under the *Audit Act*, the Committee has taken on an enhanced role as the Audit Committee of the Parliament. Effectively the Committee stands as a mediator between the Auditor-General and executive government, and supports the independence of the Auditor-General on behalf of the Parliament.

The Committee and the Auditor-General have the common aim of enhancing public accountability and their roles in contributing, on behalf of Parliament, to improving the standard of resource management in the Victorian public sector, are complementary in nature.

The Committee has approved renewed and more intensive activities for the:

- Follow-up reviews of the findings and recommendations of the Auditor-General's Reports, on a prioritised six-monthly basis; and
- Analysis and managing of scoping of prospective performance audits proposed by the Auditor-General in line with his Audit Plan.

The Committee is assisted in these responsibilities by its four-member Audit Sub-Committee, another new initiative of the Committee. This Sub-Committee also facilitates the professional, consultative and cooperative relationships between the Auditor-General and the Committee.

This year, the number of audit specifications of varying complexity to be reviewed by the Committee is expected to total over 50 in number. The Committee also appoints independent financial and performance auditors to review the operations and performance on the Auditor-General's Office.

The matters to be considered in the follow-up reviews of Auditor-General's findings and recommendations are of varying technical complexity and involve sensitivities that impact on Departmental efficiency of administration, service delivery and program management, those that involve risk and probity issues. They can also include matters that highlight inadequate monitoring and accountability measures instituted by Departments and related agencies. The follow-up reviews spanning an average of six-months each encompass reviewing batches of 12 to 15 reports tabled by the Auditor-General about 12 months prior hence (to allow for a reasonable period of time for Departments to implement or commence implementing recommendations).

Examples of priority one topics considered in two current rounds of follow-up reviews encompassing public hearings with Departmental Secretaries and heads of agencies are:

- State investment in Major Events;
- Maintaining Victoria's Rail Infrastructure Assets;
- Promoting Better Health through Healthy Eating and Physical Activity;
- Improving our Schools: Monitoring and Support; and
- Funding and Delivery of Two Freeway Upgrade projects.

Each year, the Committee also considers the Auditor-General's forward audit program contained in an Annual Plan and the proposed annual budget for the Auditor-General's office.

The consultation and communicative relationship between the Auditor-General and the Committee is contained in a Protocol Statement, which is akin to a Statement of Intent governing relationships between two independent bodies.

On enhancing public accountability, a significant Inquiry that the Committee is currently undertaking is entitled *New Directions in Public Finance and Accountability* for its *Inquiry into Victoria's Public Finance Practices and Legislation*, key areas of investigation of which will be highlighted in this presentation.

In June 2008, the Committee notified Members of both Houses of Parliament in Victoria of its Inquiry into Victoria's Public Finance Practices and Legislation. This Inquiry was conducted at the same time as the Government's comprehensive review into the *Financial Management Act 1994* and related legislation, known as the 'public finance bill' project.

Victoria is already a world leader in financial reporting, with advanced accrual based budgeting and appropriation frameworks. The Committee considered that the Government's review of the legislation provided an opportunity for it to build on its past achievements and adopt a leading edge resource management and accountability framework.

In November 2008, the Committee issued a preliminary report entitled *New Directions in Accountability*¹ which outlined a range of issues, which the Committee considered could be included in the new legislation and action that could be undertaken by the Government, aimed at enhancing the financial management of the public sector and reporting requirements to Parliament. The issues identified by the Committee accorded with best practice in international jurisdictions.

Since the issue of the preliminary report, the Committee has considered the feedback received on the ideas and options that were put forward in that report which assisted the Committee's considerations and the contents of its final report, due to be tabled in May 2009.

I would like to give delegates some insight and a preview into areas that the Committee is considering for recommending reform in financial and performance reporting practises.

This report of the Committee focuses on these key areas, amongst other areas, the:

- Budget framework;
- Appropriation framework; and
- Accountability framework – both financial and performance reporting.

I intend to focus my presentation on proposed reforms in these key areas to enhance financial and performance reporting in the Victorian public sector to Parliament.

¹ Public Accounts and Estimates Committee, *New Directions in Public Finance and Accountability, Preliminary Report, Inquiry into Victoria's Public Finance Practices and Legislation*, November 2008.

Budget framework

Victoria currently has in place an accrual based budget and appropriation framework, with its key focus on outputs.

The *Financial Management Act 1994* requires the Victorian Government to annually prepare Budget Papers (including Estimated Financial Statements) and table them in Parliament with the Annual Appropriation Bills.

Currently, the Victorian Government is also required to prepare an annual Budget Update which must be tabled in Parliament by 15 December, and a Pre-election Update which must be released within 10 days after the issue of the writ for an election.

The Act also currently requires financial policy objectives (both short and long term) and strategies statements (including key financial measures and targets) to be outlined in the Budget Papers and Budget Update, covering the financial year to which the budget or budget update relates and the following 3 financial years. Long term planning documents could also be produced on a regular basis.

At present, the Victorian Government also includes comprehensive information on the activities of the Victorian budget (general government) sector in the Budget Papers.

The Committee has identified, for examination, a number of areas where opportunities exist for enhancing the information recorded in the Budget Papers, including that:

- A greater focus on outcomes could be progressively instituted, particularly linked to the Government's long-term goals in its policy vision in *Growing Victoria Together*;
- Performance indicators to be subject to on-going review to ensure that they reflect appropriately the service outcomes;
- The timeframes covered in the Budget Papers could uniformly disclose data for the three forward years and the two years prior to the budget year;
- A reconciliation could be included of the value of the appropriations recorded in the Annual Appropriation Bills with those recorded in the Budget Papers;
- The Budget Papers could disclose additional details of ongoing capital asset construction projects;
- Various estimated financial statements could disclose forward estimates and actual (projected) results, and contingent expenses for operating purposes; and
- Individual entities could be required to prepare annual plans (sometimes referred to as strategic plans or resource plans) which clearly outline, among other matters, their contribution to the State budget.

These opportunities for reform are consistent with better practice codes for fiscal and budget transparency enunciated by the IMF² and the OECD³.

Appropriation framework

The appropriation framework in Victoria is based on the *Constitution Act 1975*, annual Appropriation Acts and standing legislation, known as special appropriations, which are supplemented by discretionary budget management arrangements outlined in the *Financial Management Act 1994* eg the use of warrants.

The current Victorian government review of the *Financial Management Act 1994* to determine the appropriate budget framework could result in a change in the purpose of funding stipulated in appropriations acts from the provision of outputs to the provision of outcomes.

A number of jurisdictions have appropriations for specific outcomes, with output and outcome information contained in the budget papers. The Australian, Netherlands, United Kingdom and Swedish governments have in place appropriations for outcomes and not for outputs. The Commonwealth Government of Australia appropriates funds for operating purposes at an entity level based on the entity's outcomes in relation to their outputs, administered expenses, and payments to States, ACT, NT and local government. Funds for non-operating purposes (capital purposes) are also appropriated at an entity level.

The Committee is examining the merit of accrual-based annual appropriation of funds for individual outcomes.

The Committee is also considering separate appropriation authority relating to operating and capital expenditures, as well as multi-year appropriation authority for capital expenditures as capital projects require long planning and construction periods. In relation to capital works, the Budget Papers could disclose the expenditure estimates for the budget year and the three forward years, and the balance of the projected expenditure after that period.

Accountability framework – both financial and performance reporting

Financial Reporting – On Timeliness and Frequency

Victoria has been at the forefront of financial reporting at an entity and whole of government level.

The information gathered by the Committee disclosed that both Sweden and the Commonwealth of Australia produce mid-year interim reports similar to Victoria, while British Columbia and Western Australia produce interim reports on a quarterly basis, and New Zealand and Canada on a monthly basis. Only the interim reports produced in Sweden are subject to audit review.

The ultimate aim in interim reporting, especially in reporting the results of the budget sector to Members of Parliament, is to provide complete, reliable and useful information which should be available on an on-going (real time) basis.

² International Monetary Fund, *Code of Good Practises on Fiscal Transparency*, 2007, Washington D.C., United States of America

³ OECD, *Best Practises for Budget Transparency*, OECD Journal on Budgeting, Volume 1, No. 3, 2002, Paris, France.

The information required should not be restricted to financial information, but should include both key financial and non financial performance information associated with both outputs and outcomes.

However, the Committee recognises that to make available complete, reliable and useful financial and non financial performance information for day to day decision making, and ensure accountability on an on-going (real time) basis, relies on entities having in place appropriate management information systems.

The Victorian legislation currently requires that the audited whole of government financial report (annual financial report) be tabled in Parliament by 15 October. Based on the experiences in other jurisdictions (eg Sweden, British Columbia, New Zealand and Western Australia), the Committee is considering the merit of a shorter reporting time period.

Victoria is well placed compared with other jurisdictions in public sector entities producing audited financial reports and making them available for tabling in Parliament. The majority of public sector entities have publicly reported on a full accrual basis for a number of decades. While quality financial reports are produced, opportunity exists to implement enhancements which may assist in their overall usefulness for users.

The legislation currently requires all entities' report of operations, including audited financial reports, to be tabled in Parliament by 31 October. The time period for reporting at an entity level could also be shortened based on the experiences in other jurisdictions and the requirements of Corporations law in reports of public companies.

Meeting the Needs of Users

Some jurisdictions (such as the United States) are experimenting with providing, as part of the annual reporting process, summarised financial information to assist users in better understanding the financial affairs of the entity, in addition to detailed financial reports as part of the annual reporting process, which may appeal to a wider audience.

While such summaries may prove to be useful in the longer term, from a public accountability perspective, they could be supported by more detailed reporting, such as the audited financial report.

Consideration could be given to producing a two page summary which incorporates key extracts from the financial statements and performance statements, including comparative data, and is cross referenced to the detailed statements.

The summary should form an integral part of the annual report and appear immediately before the detailed financial and performance statements. The summary should not be seen as a substitute for the detailed discussion and analysis of the statements (which should include comparative information for up to five years) which is a key part of the report of operations.

The summary should assist users of the financial report, including Members of Parliament.

Financial Reporting Standards

While accountability reports are currently required to be prepared in a manner and form determined by the responsible Minister, the legislative framework could be enhanced to also require that they are prepared in accordance with the accounting profession pronouncements, namely the Australian Accounting Standards. Such an approach would enhance the credibility of the accountability of the Government.

To assist users and preparers of financial reports, the level of disclosure in general purpose financial statements could vary depending on the size of the entity.

Performance Reporting

The Committee in its May 2008 Report on the *2006-07 Financial and Performance Outcomes*⁴ stated that:

"The quality and quantity of performance information reported was generally poor, but there were a small number of agencies and departments that have adopted excellent reporting practices.

Aside from the requirements of the Financial Reporting Directives and the output targets from the budget process, most reports include little or no information about their performance during the year. Most reports focus primarily on reporting activities and projects, rather than achievement of objectives.

... Structure aside, the quality of performance information provided in most annual reports is very poor and would appear to reflect a degree of confusion by agencies about the purpose and nature of annual reporting. Annual reports should be about enhancing the accountability of agencies but may appear to view them as little more than a public relations exercise. The Committee noted the following issues relating to the quality of performance reporting in annual reports:

- *few agencies have reported performance against milestones and targets...*
- *the planned objectives of activities and projects are rarely established...*
- *none of the annual reports reviewed made good use of benchmarking data...*
- *where agencies have reported performance data it is often presented on its own without reference to the performance in previous years ..."*

Based on an analysis of a number of jurisdictions' accountability processes, the trend in public performance reporting is to focus on both outcomes and outputs.

⁴ Public Accounts and Estimates Committee, Report on the *2006-07 Financial and Performance Outcomes*, May 2008, pp 666-667

The Committee identified from its visits to the various overseas jurisdictions that every jurisdiction struggled with the notion of identifying the appropriate performance indicators. This issue lies not with whether the targets are achieved, but whether they are the right targets, whether they properly demonstrate the desired outcomes, and whether the targets skew the performance of the agency - in other words, trying to meet the target rather than trying to deliver on core objectives. In addition, if the targets are achieved, there is a further issue as to the soundness of the underlying data.

For those jurisdictions that publicly report performance information, the Committee recognised that it is an ongoing challenge to ensure that the performance indicators and targets are both relevant and appropriate, and that the underlying systems are in place to provide reliable information.

Progressive jurisdictions have required that all public sector entities to produce audited performance reports (including efficiency and effectiveness indicators) and include them, with their audited financial reports, in their annual reports tabled in Parliament.

In the Victorian public sector, there are varying requirements with regard to the reporting of performance information, such as:

- Departmental annual reports are required to disclose unaudited performance information which includes among other things:
 - a comparison of the output targets specified in the State Budget with actual performance against those targets;
 - a comparison between their portfolio financial statements published in Budget Paper No. 4 and actual results for the portfolio for the corresponding financial year; and
 - a summary of their financial results.

Regional water authorities are the only entities required to disclose in their annual reports an audited statement of performance.

At a whole of government level, the Victorian Budget Papers disclose a range of high-level measures which are aimed at illustrating how the Government is progressing in achieving its *Growing Victoria Together* vision and goals.

The Committee has taken an early view that Parliament and the community would benefit from greater consistency in the reporting of performance information across the public sector.

That concludes this presentation on the directions of the PAEC towards proposed reforms to Victoria's public finance practices and legislation. It is anticipated that its final report will be tabled in May 2009.