Final Report on the 1994-95 Budget Estimates and Outcomes

THIRTEENTH REPORT TO THE PARLIAMENT
NOVEMBER 1995
PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

THIRTEENTH REPORT TO PARLIAMENT

FINAL REPORT ON THE 1994-95 BUDGET ESTIMATES AND OUTCOMES

NOVEMBER 1995

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Final Report on the 1994-95 Budget Estimates and Outcomes
November 1995

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PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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CHAIRMAN'S INTRODUCTION

This Report is the Committee's fourth budget estimates report and finalises the inquiry into the 1994-95 Budget. The Government remains committed to the implementation of the recommendations contained in the Report of the Victorian Commission of Audit and supports the vast majority of the Committee's recommendations on the budget estimates reports as contained in the Committee's Ninth Report.

The Committee's inquiry and Report highlights the need for continuing work being undertaken in relation to program evaluation and published performance and planning information. The development of relevant and meaningful performance measures for use by government departments and reporting entities is fundamental to the successful implementation of a number of recommendations that remain outstanding from the Report of the Victorian Commission of Audit.

The 1994-95 Budget outcome, which registered a surplus of $214.6 million compared to an estimated budget deficit of $23.8 million, further highlighted the substantial fiscal achievements of the Government.

The Committee has proposed, as a further refinement to the budget process, a number of measures that will improve the already rigorous accountability framework that currently exists for the public sector. These include a revised mechanism for the reimbursement of costs associated with performance audits undertaken by the Auditor-General and the increasing need to make all public sector agencies accountable for funding on the basis of desired and agreed outputs and outcomes.

The Report examines the performance audits of the Auditor-General undertaken by Mr Fergus Ryan and Mr Alan Talbot, which conclude that the Auditor-General was meeting his objectives effectively, economically and efficiently. The Committee recommends that the time frame for subsequent performance audits of the Auditor-General be changed to five years, with a provision of a three year minimum term.
The actual Budget outlays on early departure programs was again substantially lower than the estimated Budget outlays. The successful implementation of this policy initiative will continue to yield ongoing salaries and related expenditure savings to the Budget.

I thank the other members of the Public Accounts and Estimates Committee for their contributions to this Inquiry. On behalf of the Committee, I thank Mr Garry Ferris, Director of Research and Mr Johann Jansz, Research Officer, for their briefing of the Committee, advice, analyses and drafting of the report, and Mr Sean O'Reardon for providing administrative support.

Hon. G. Graeme Weideman, MP, JP
Chairman
EXECUTIVE SUMMARY OF MAJOR FINDINGS AND CONCLUSIONS

Introduction (Chapter 1, refer page 1)


The Parliament should specifically address the issue of the appropriateness of its budget being subject to the same estimates scrutiny as all other appropriations, and by whom, and stands by its recommendation. The Parliament should also be included as part of the Committee's public hearings process.

Response to the Committee's Ninth Report (Chapter 2, refer page 7)

The Parliamentary Committees Act 1968 requires the Government to respond to the recommendations of the Committee, in the Parliament, within six months of the Committee's reports.

- The response by the Department of Treasury and Finance to the Committee's Ninth Report noted that of the eight recommendations made by the Committee one had been accepted in total while the other seven had been accepted in part. A closer study of the responses (including the action taken to date and further action planned) however, indicates that seven of the Committee's recommendations are better described as having been rejected rather than accepted in part.
Response to the Committee’s Ninth Report (Chapter 2, refer page 7) (cont.)

• The Committee’s Ninth Report observed that if Departmental Performance Estimates (DPEs) or any other successor documents were to be prepared and implemented, the recommendations concerning program evaluation made by the former Economic and Budget Review Committee in its 1990 report titled *Program Budgeting* would be substantially met. The Committee further noted that such action would also represent a significant step towards fulfilling related recommendations of the Victorian Commission of Audit.

• The Committee is concerned that the form and content of published performance and planning information to be left entirely to the discretion of each department. The Committee therefore reiterates its previously stated concerns, which include that:

  • *each department will use its own discretion in selecting the types of information to disclose and using what means, for example Annual Reports, Ministerial Statement in the Parliament or press releases, if at all. Therefore the lack of consistency of the various types of information and the form of document within which it is presented may impact adversely on Parliamentary accountability of the budget estimate;*

  • *detailed information on output measures and outcomes may not be presented as part of one set of key documents, that is the Budget Papers, and at about the same time; and*

  • *relevant key information, if available, may not be consistent from year to year or between departments and hence difficulties may arise when comparing performance from year to year and between departments;*
Budget Overview (Chapter 3 refer page 21)

- The 1994-95 budget outcome was a surplus of $214.6 million compared with an estimated budget deficit of $23.8 million (1994-95 Budget Papers) due to a higher current account surplus of $931.9 million offset by a deficit of $717.4 million in the capital account.

- The higher current account outcome was mainly due to increased revenue from Public Authority contributions ($110 million), Commonwealth Grants ($96 million) and taxes fees and fines ($61 million), decreased current outlays on interest payments ($174 million) and Health and Community Services programs ($109 million) partially offset by expenditure on payments to the Emergency Service Superannuation Scheme ($104 million) and the Hospital Superannuation Board ($129 million).

- The greater than estimated deficit in the capital account was mainly due to the non receipt of a budgeted payment from the Transport Accident Commission ($300 million) and the termination of the Accelerated Infrastructure Program ($200 million), partly offset by under expenditure on separation packages ($107 million).

- Had several significant 'one-off' transactions not occurred during 1994-95 a notional budget surplus of $99 million (estimate - deficit $519 million) would have resulted.
The Budget Papers (Chapter 4, refer page 33)

- The Budget should be tabled in the Parliament prior to the beginning of the financial year to which it relates.

- The Department of Treasury and Finance, has instituted a several projects for the preparation of a series of guidance manuals to assist departments with the implementation of output management and budgeting and to facilitate outcomes evaluation. This series of guidance manuals when released, will form an integral part of the public sector planning, budget and review reforms introduced by the Victorian Government.

Parliament's Budget (Chapter 5, refer page 49)

- The Committee proposes to introduce an accountability mechanism to compliment the periodic reimbursement of the cost of performance audits, from Parliamentary appropriations. The Committee views its proposed process as a model for the progressive funding of outputs for all budget sector bodies. It is hoped that this process will form part of the provisions of the Audit Act 1994 and that the principle will be extended across the budget sector.

- The Committee's mechanism for the reimbursement of the Auditor-General's performance audit costs comprises:

  - The submission of quarterly invoices by the Auditor-General to the Committee (on behalf of the Parliament); with

  - Quarterly reports indicating the stage of progress of each performance audit (for example planning, implementation or reporting) on the annual performance audit program.
The accountability processes, as described, will ensure that the Auditor-General is meeting his stated outputs in accordance with his performance audit program. In proposing this accountability mechanism or output based funding model for the Victorian Auditor-General's Office, its extension to other public sector agencies is desirable.

The performance audits conducted by Mr Fergus Ryan of Arthur Andersen and Mr Alan Talbot concluded that the Auditor-General was meeting his objectives effectively, economically and efficiently and that the direction and momentum of the Audit Office was positive and constructive.

A performance audit shall be conducted at least once every 3 to 5 years to determine whether the Auditor-General is achieving his or her objectives effectively and doing so economically and efficiently.

Audits conducted under section 15 of the Audit Act 1994, and performance audits conducted under section 16 of the Audit Act 1994, focus on economy, effectiveness and efficiency issues. The audit of the Annual Statement of Financial Operations also has some focus on effectiveness and efficiency.

Public authorities generally regard audits conducted under section 15 of the Audit Act 1994 as performance audits due to their focus on issues concerning the economy, efficiency and effectiveness of an organisation's operation. These authorities have concerns with regard to the onus of payment for such audits.

The cost associated with the conduct of section 15 audits of the Auditor-General be defrayed from Parliamentary appropriations akin to that of performance audits since they both deal with economy, efficiency and effectiveness issues and moreover could add significantly to the cost of the financial audits payable by public authorities.
Parliament's Budget (Chapter 5, refer page 49) (cont.)

- It is more appropriate that the audit of the Annual Statement of Financial Operations is funded from Parliamentary appropriations, since these audits are conducted by the Auditor-General on behalf of the Parliament under the provisions of Part 5 of the Financial Management Act 1994.

- The Committee commends the presiding officers of the Parliament on the appointment of an internal auditor during 1995, as recommended by the Committee in its Sixth Report.
FINDINGS AND RECOMMENDATIONS

Finding 1.1 (page 4)

The Committee finds that its recommendation for determining an appropriate mechanism for the scrutiny of the Parliament’s budget, remains outstanding to date. The Committee stands by its original recommendation and advises the Parliament to address this issue as a matter of urgency.

Finding 2.1 (page 20)

The Committee, having reviewed the Department’s response to its Ninth Report to Parliament, finds that critical aspects of its recommendations concerning:

• supplementary budget estimates information for the Parliament;

• performance measurement data for the Parliament; and

• creation of regulations relating to internal control, audit committees and internal audit,

will not be adopted.

Finding 3.1 (page 25)

The Committee finds that the:

• 1994-95 budget outcome was a surplus of $214.6 million compared with an estimated budget deficit of $23.8 million due to a Current Account surplus of $931.9 million offset by a deficit of $717.4 million in the Capital Account;
Finding 3.1 (cont.)

- the better than estimated Current Account outcome was mainly due to increased revenue from Public Authority contributions ($110 million) Commonwealth Grants ($96 million) and taxes fees and fines ($61 million), decreased current outlays on interest payments ($174 million) and Health and Community Services programs ($109 million) partially offset by additional payments to the Emergency Service Superannuation Scheme ($104 million) and the Hospital Superannuation Board ($129 million); and

- the greater than estimated deficit in the Capital Account was mainly due to the non receipt of a special dividend from the Transport Accident Commission ($300 million) and the cost of terminating the Accelerated Infrastructure Program ($200 million), partly offset by an under expenditure on separation packages ($107 million).

Finding 3.2 (page 29)

The Committee finds that the overall 1994-95 budget outcome was a surplus of $215 million (estimate - deficit $24 million). Had several significant ‘one-off’ transactions not occurred during 1994-95 a notional budget surplus of $99 million (estimate - deficit $519 million) would have resulted.

Recommendation 4.1 (page 38)

The Committee recommends that the Budget be tabled in Parliament prior to the financial year to which it relates.
Finding 4.2 (page 46)

The Committee finds that Department of Treasury and Finance, has instituted several projects for the preparation of a series of guidance manuals to assist departments with the implementation of output management and budgeting and to facilitate outcomes evaluation.

This series of guidance manuals when released, will form an integral part of the public sector planning, budget and review reforms introduced by the Victorian Government.

It is the Committee's intention to monitor the progress of these initiatives within the Department of Treasury and Finance, and assess the relevance and effectiveness of the guidance manuals upon their release and implementation within departments.

Finding 4.3 (page 47)

The Committee finds that the introduction of management by outputs is accompanied by increasing potential for the purchase of public sector goods and services from external providers and through outsourcing arrangements. This heightens the need for an accountability framework which ensures that:

- agencies do not compromise their public and parliamentary accountability as a result of service/outsourcing agreements;

- public sector agencies cannot hide behind confidentiality requirements that they have agreed to, or inserted into service/outsourcing agreements to avoid accountability.

- public sector agencies cannot outsource their responsibility for public resources or legislative functions under their control.

- the accountability framework under which the vendor must operate is clearly set out in service/outsourcing agreements.
Recommendation 4.2 (page 47)

The Committee recommends that enhanced parliamentary accountability is mandatory due to the increased potential for public sector goods and services (outputs) to be purchased from external providers and through outsourcing arrangements. Greater parliamentary accountability may be achieved through:

- the independent scrutiny of agency outsourcing arrangements and service agreements by the Auditor-General; and

- the issue of ministerial directions by the Minister for Finance, pursuant to the Financial Management Act 1994, requiring public sector entities to include details of outsourcing arrangements above a specified value in their annual reports to Parliament. Required details should include a schedule listing the vendor engaged, summary particulars of the service provided, the total fees incurred and future commitments in relation to each outsourcing arrangement.

Finding 5.1 (page 58)

The Committee finds that:

a) the presentation of progress reports by the Auditor-General upon his performance audits during each year, which accompany requests for reimbursement of the cost of those performance audits from Parliamentary appropriations, will enhance the accountability of the Victorian Auditor-General's Office.

It is important for the Victorian Auditor-General's Office, as it is for all budget sector authorities, to be accountable for the delivery of stated outputs and that accountability to the Parliament not just occur at year end but also occurs progressively throughout each year and has a clear linkage to fund flows;
Finding 5.1 (cont.)

b) the presentation of progress reports by the Auditor-General to the Committee will not impair the independence of the Victorian Auditor-General's Office. The Auditor-General must always maintain the sole right and responsibility to determine the application of audit resources and selection of performance audits. Equally the Committee reserves its right and responsibility to review and publicly comment on the Auditor-General's performance audit program as it sees fit.

The purpose of the progress reports are for the Auditor-General to account for funds expended on behalf of the Parliament and people of Victoria, and are not in any way to be used as a mechanism to control or influence the Auditor-General's exercise of his responsibilities; and

c) the presentation of similar high level progress reports by all budget sector authorities to the Parliament would promote timely accountability for the use of public funds.

Recommendation 5.1 (page 59)

The Committee recommends that:

a) the reimbursement of the Auditor-General's performance audit costs be made upon the following output based funding model:

- the submission of quarterly invoices by the Auditor-General to the Committee (on behalf of the Parliament); with

- quarterly reports to the Committee (on behalf of the Parliament) indicating the stage of progress of each performance audit (for example planning, implementation or reporting) on the annual performance audit program (previously advised to the Committee and having been set by the Auditor-General after consultation with the Committee in accordance with the Audit Act 1994).
Recommendation 5.2 (page 59)

The Committee recommends that section 16(6) of the Audit Act 1994 be amended to read:

The reasonable costs and expenses of the Auditor-General in conducting an audit of an authority under this section must be paid from money appropriated to the Parliament upon presentation of progressive invoices, if the Auditor-General has at the same time presented a progress report to the Public Accounts and Estimates Committee.

Recommendation 5.3 (page 60)

The Committee recommends that the introduction of the output based funding model for funding the Auditor-General's performance audits be viewed as a pre-cursor for implementation across the breadth of the public sector. The success or otherwise of this initiative be should be monitored, for possible extension to all public sector authorities.

Finding 5.2 (page 66)

Given the positive conclusions regarding the operations of the Auditor-General detailed in the Fergus Ryan report and the Price Waterhouse report, the Committee recommends that the maximum three year time frame for subsequent performance audits of the Auditor-General be reviewed to five years, with a provision for a three year minimum term.

The three year minimum term will sanction more frequent performance reviews of the Auditor-General to be conducted if it is deemed necessary at the discretion of the Parliament.
Recommendation 5.4 (page 67)

The Committee recommends that section 19(1) of the Audit Act 1994 be amended to read;

An audit shall be conducted at least once every 3 to 5 years to determine whether the Auditor-General is achieving his or her objectives effectively and doing so economically and efficiently and in compliance with this Act.

Finding 5.3 (page 72)

The Committee finds that:

- audits conducted under section 15 of the Audit Act 1994, and performance audits conducted under section 16 of the Act focus on economy, effectiveness and efficiency issues.

- the audit of the Annual Statement of Financial Operations also has some focus on effectiveness and efficiency.

- section 15 audits are conducted as an extension of the financial audits of public authorities and on occasion could add significantly to the cost of audit fees payable by these agencies.

- public authorities generally regard audits conducted under section 15 of the Act as performance audits due to their focus on issues concerning the economy, efficiency and effectiveness of an organisations operations and management. This has become a contentious issue for these authorities particularly with regard to the onus for payment for such audits.

- because the audit of the Annual Statement of Financial Operations, is conducted by the Auditor-General for the Parliament under the provisions of Part 5 of the Financial Management Act 1994 it is more appropriate that these audits are funded from Parliamentary appropriations.
Recommendation 5.5 (page 73)

The Committee recommends that the cost associated with the conduct of section 15 audits of the Auditor-General be defrayed from Parliamentary appropriations akin to that of performance audits since they both deal with economy, efficiency and effectiveness issues and moreover could add significantly to the cost of the financial audits payable by public authorities.

Recommendation 5.6 (page 73)

The Committee recommends the inclusion of a sub-section to section 15 of the Audit Act 1994, which reads:

The reasonable costs and expenses of the Auditor-General in conducting an audit of an authority under this section must be paid from money appropriated to the Parliament.

Recommendation 5.7 (page 73)

The Committee recommends that because the audit of the Annual Statement of Financial Operations is conducted by the Auditor General for the Parliament under Part 5 of the Financial Management Act 1994, the cost of these audits should be defrayed from Parliamentary appropriations.

Finding 5.4 (page 75)

The Committee finds that the Parliament appointed an internal auditor during 1995, as recommended by the Committee in its sixth report. The Committee commends the presiding officers of the Parliament on this initiative.
 FUNCTIONS OF THE PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

The Public Accounts and Estimates Committee is constituted under the
Parliamentary Committees Act 1968, as amended. It presently consists of nine
Members of Parliament drawn from the Legislative Council and the Legislative
Assembly.

The Committee carries out investigations and reports to Parliament on matters
associated with State financial management. Its functions under the Act are to
inquire into, consider and report to the Parliament on -

(a) any proposal, matter or thing connected with public administration or public
sector finances;

(b) the annual estimates or receipts and payments and other Budget papers and
any supplementary estimates of receipts or payments presented to the
Assembly and the Council -

if the Committee is required or permitted so to do by or under this Act.

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**ACCRONYMS AND ABBREVIATIONS**

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<th>Full Form</th>
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<tbody>
<tr>
<td>AES</td>
<td>Autumn Economic Statement</td>
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<tr>
<td>BERC</td>
<td>Budget and Expenditure Review Committee</td>
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<tr>
<td>COA</td>
<td>(Victorian) Commission of Audit</td>
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<tr>
<td>DOTT</td>
<td>Department of the Treasury</td>
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<tr>
<td>DPEs</td>
<td>Departmental Performance Estimates</td>
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<td>EBRC</td>
<td>Economic Budget Review Committee</td>
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<tr>
<td>GSP</td>
<td>Gross State Product</td>
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<td>IT</td>
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<td>TAC</td>
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Evidence

Department of Justice - 30 November 1994

Hon Jan Wade, Attorney-General; Mr W. McCann, Secretary to the Department of Justice; Ms T. Whiting, Director, Corporate Resources Division; Dr J. Fitzgerald, Director, Courts & Tribunal Services Division; and Mr S Odachowski, General Manager, Finance & Administration.

Department of Conservation and Environment - 25 January 1995

Hon M. Birrell, Minister for Conservation and Environment; Mr A. Thompson, Secretary; Mr H. Ronaldson, Director, Crown Land and Assets Division; Mr P. Sizeland, Manager, Budget Operations; and Ms E. O'Keefe, Director of Corporate Resources, Department of Conservation and Natural Resources; and Dr B. Robinson, Chairman, Environment Protection Authority.

Department of Finance - 8 February 1995

Hon I. W. Smith, Minister for Finance; Mr F. King, Acting Secretary to the Department; and Mr R. Paice, Comptroller-General, Department of Finance.

Department of Arts, Sport and Tourism - 8 February 1995

Hon Haddon Storey, Minister for the Arts; Mr B. Stewart, Director, Resource Management Division; and Mr T. Jacobs, Acting Director, Arts Victoria, Department of Arts, Sport and Tourism.

Department of Education - 22 February 1995

Hon D. Hayward, Minister for Education; Mr G. Spring, Director, Directorate of School Education; Mr G. Drury, General Manager, Financial and Administrative Services Division; and Mr N. Brown, General Manager, Office of Schools Review, Directorate of School Education.
Department of Transport - 22 February 1995

Hon. A. Brown, Minister for Public Transport; Mr J. McMillan, Secretary; and Mr S. Stanko, Deputy Secretary, Department of Transport; and Mr I. Dobbs, Chief Executive, Public Transport Corporation.

Department of Health and Community Services- 22 March 1995

Hon. Marie Tehan, Minister for Health; Hon. Robert Knowles, Minister for Aged Care; Dr John Paterson, Secretary, Department of Health; Mr Alan Clayton, Director, Resources Division; Mr John Hayes, Assistant Director, Financial Services and Ms Jennifer Williams, Director, Psychiatric Services Division.

Department of the Treasury - 23 March 1995

Hon. Alan Stockdale, Treasurer; Mr Peter Coatman, Ministerial Adviser; Dr Michael Vertigan, Secretary to the Department of the Treasury; Mr Tom Martin, Manager, Budget Management Division; Mr Robert Reeves, Deputy Secretary, Budget and Resources Management.

Submissions

All budget sector entities, responded to the Committee's annual estimates questionnaire. In addition some departments provided further information upon request by the Committee.
EXTRACTS FROM THE RECORDS OF PARLIAMENT

MINUTES OF THE PROCEEDINGS OF THE LEGISLATIVE COUNCIL

Tuesday 10 November 1992

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE - The Honourable R.I. Knowles moved, by leave, That, contingent upon the Royal Assent being given to the Parliamentary Committees (Amendment) Bill, the Honourables P.R. Hall, T.C. Theophanous and D.R. White be members of the Public Accounts and Estimates Committee.

Question - put and resolved in the affirmative.

VOTES AND PROCEEDINGS OF THE LEGISLATIVE ASSEMBLY

Friday 13 November 1992

JOINT INVESTIGATORY COMMITTEES - Motion made, by leave, and question - That contingent on the coming into operation of the Parliamentary Committees (Amendment) Act 1992 -

Mr Baker, Mr Hyams, Mr Plowman (Benamba), Mr Smith (Glen Waverley), Mr Thomson (Pascoe Vale) and Mr Weideman be members of the Public Accounts and Estimates Committee.

(Mr Gude) - put and agreed to.
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Appointment of an Auditor to Conduct a Performance Audit of the Auditor-General April 1995

Appointment of an Auditor to Conduct a Financial Audit of the Victorian Auditor-General's Office April 1995

Special Report: Investigation into a Possible Breach of the Standing Orders May 1995
CHAPTER ONE: INTRODUCTION

1.1 Committee Background

The Public Accounts and Estimates Committee is an all party Joint Investigatory Committee of the Victorian Parliament which was established by amendment to the Parliamentary Committees Act 1968 early in the term of the 52nd Parliament.

The Committee has wide powers to conduct investigations and report to the Victorian Parliament on matters associated with State public sector finances or administration and the budget estimates. The Committee's mandate includes the traditional "public accounts" and "estimates" functions.

The public accounts function predominantly entails post examination of the issues raised in reports of the Auditor-General as a basis for future inquiries by the Committee, concerning matters that have ongoing implications for public accountability. In conducting such an inquiry, the Committee's overall objective is to improve the level of performance of the agency/agencies under investigation.

The estimates function comprises a detailed scrutiny of the annual budget papers, the Autumn Economic Statement and any additional or supplementary estimates of revenue and expenditure presented to Parliament.

This Report is the Committee's fourth report on the annual budget estimates.

1.2 The Committee's Objective in its Scrutiny of the 1994-95 Budget Estimates

The Committee's objectives in its scrutiny of the 1994-95 budget estimates are to:

- constructively contribute to the presentation of budget information, including key financial management details, to the Parliament and the community of Victoria;
facilitate a greater understanding of the budget estimates;

encourage clear, full and precise statements of the Government's objectives and planned budget outcomes;

assist the Parliament and the community of Victoria to assess the achievement of planned budget outcomes; and

encourage economical, efficient and effective program administration.

It is not the Committee's intention to replicate the Budget Papers or the Autumn Economic Statement. Rather, the Committee's focus is on selected key areas where additional reporting may assist public understanding.

1.3 The Committee's Approach

1.3.1 General Overview

The Committee presented two reports to Parliament on the 1993-94 budget estimates. The first of these reports, tabled in the Autumn sitting (May 1994), comprised an interim examination of that year's budget and included a review of major budget items and progress against budget in key areas.

The second or final report on the budget estimates was presented to Parliament in the Spring sitting (November 1994) and focused primarily on the budget outcome.

In addition both reports, followed up outstanding issues raised in earlier "estimates" reports of the Committee.

It is the Committee's intention to report to Parliament on the budget estimates twice each year. However, due to the complexity of two significant inquiries undertaken by the Committee during the past year (ie. Information Technology in the Public Sector and the final report on the States Budget and Financial Management Framework), the Committee did not produce an interim report for the 1994-95
financial year. The Committee however intends tabling both an interim and a final reports on the budget estimates for the 1995-96 financial year.

1.3.2 Process followed by the Committee

Following the delivery of the Budget Speech by the Treasurer on 7 September 1994, the Committee circulated a standard questionnaire to all Departments requesting supplementary information to the details presented in the Budget Papers.

The questionnaire was designed to obtain detailed information concerning a number of crucial aspects of Departmental operations and sought:

- the key strategies established by departments to achieve their objectives;

- departmental revenue sources, policies and objectives on a sub-program basis;

- annual productivity savings' targets of departments segregated by sub-program;

- planned staffing reductions in 1994-95 on a sub-program basis;

- accountability frameworks, performance measures and benchmarks developed and implemented within departments to enhance accountability and facilitate the measurement of program outputs and outcomes; and

- a description of all trust accounts administered by departments incorporating account balances and the purpose of each account.

The information received from Departments was analysed and further requests for information issued as appropriate. Some responses to the Committee's questionnaires were received after the requested date.

The standard questionnaire was not forwarded to the Parliament in 1994-95 following it's decision not to complete the Committee's 1993-94 questionnaire. On that occasion the Presiding Officers of the Parliament responded to the Committee's request for supplementary information by stating that they considered it
inappropriate for "...either the Parliament or any department of the Parliament to comply with this request...."1

On that occasion the Committee recommended:

It is recommended that the Parliament determine whether its budget estimates should be subject to the same Parliamentary estimates scrutiny as are all other budget estimates, and if appropriate, who should have responsibility for such scrutiny.2

At the time of writing the Presiding Officers of the Parliament had not yet responded to the Committee concerning this recommendation.

The Committee believes that the Parliament should specifically address the issue of the appropriateness of its budget being subject to the same estimates scrutiny as all other appropriations, and by whom, and stands by its recommendation.

The Committee followed its schedule of public hearings into the budget estimates. This schedule ensures all Ministers and Departments are invited to appear before the Committee at least once in the life of the 52nd Parliament, with the major portfolios of Treasury and Finance, Health, Education and Transport invited to appear at least once each financial year. The evidence given at the public hearings was analysed and where the Committee considered it necessary, further requests for information were issued as appropriate. For the same reasons detailed above the Parliament was excluded from the Committee's public hearings process.

Finding 1.1

The Committee finds that its recommendation for determining an appropriate mechanism for the scrutiny of the Parliament's budget, remains outstanding to date. The Committee stands by its original recommendation and advises the Parliament to address this issue as a matter of urgency.

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2 Ibid, page 36
1.4 Legislative Requirements - Response by the Responsible Minister

Section 40(2) of the *Parliamentary Committees Act 1968* provides that:

"Where a report to the Parliament of a Joint Investigatory Committee other than the Public Bodies Review Committee recommends that a particular action be taken by the Government with respect to a matter, the appropriate responsible Minister of the Crown shall, within six months of the report of the Committee being laid before both Houses of the Parliament, report to the Parliament as to the action (if any) proposed to be taken by the Government with respect to the recommendation of the Committee."

Consequently this section of the *Parliamentary Committees Act 1968* requires the responsible Minister to respond to the recommendations of the Committee in the Parliament within six months of the Committee's report.
CHAPTER TWO: RESPONSE TO THE COMMITTEE'S NINTH REPORT

2.1 Introduction

The Committee's final report on the 1993-94 Budget Estimates and Outcomes (the Committee's Ninth Report) was tabled in Parliament in November 1994. As discussed at paragraph 1.4, section 4O(2) of the Parliamentary Committees Act 1968 requires the Government to respond to the recommendations of the Committee in the Parliament within six months of the tabling of the Committee's reports.

During October 1995 the Department of Treasury and Finance responded to the Committee's Ninth Report (refer Appendix A). The response however is yet to be tabled in Parliament.

The response to the Committee's Ninth Report noted that of the eight recommendations made by the Committee one had been accepted in total while the other seven had been accepted in part. A closer study of the responses (including the action taken to date and further action planned) however, indicates that seven of the Committee's recommendations are better described as having been rejected rather than accepted in part.

The following represents the Committee's position in respect of those of its recommendations which it understands to have been rejected by the Department.

2.2 Departmental Performance Estimates

Recommendation 2.1 of the Committee's Ninth Report to Parliament provided:

The Committee recommends that all budget sector bodies be required to table in the Parliament, within 28 days of the presentation of the Budget to the Parliament, a supplementary budget estimates document which provides sufficiently detailed budget estimates information at sub-program level,

The Department's response to recommendation 2.1 included (refer Appendix A for the complete response):

\textit{As advised in the Government's response to the Committee's Sixth Report (refer recommendation 2.1 of that report), Ministers and departments may decide whether and in what way to publish detailed planning information. They could for instance, incorporate such information in their annual reports.}

The Department's response does not adopt the changes intended by the Committee. The Committee's recommendation was premised on the preparation of Departmental Performance Estimates (DPEs) for presentation to Parliament, as foreshadowed in the 1993-94 Budget papers. DPEs were intended to provide:\footnote{Ibid, pages 18 & 19}

- each department's objectives or mission statement which matched the objectives set out in the Budget Papers;

- narrative on the contribution by the Department to the budget strategy with an outline of planning objectives;

- program details including the objectives as per the Budget Papers and a summary of outlays by sub-program;

- sub-program details which included narrative of the management strategies being employed to implement the sub-program and program objectives in the budget year and beyond. This may include a discussion of the external factors which are likely to impact on performance;
clear and succinct sub-program objectives, which were (wherever possible) measurable;

sub-program performance estimates which provided information on the quality of service delivery as well as the quantity of the outputs produced or delivered;

comparisons of performance with similar services in the private sector, interstate or overseas including appropriate benchmark measures wherever possible;

a list of program evaluations completed with a brief summary of the results of the evaluation.

The Government's response to the Committee's Sixth Report indicated, that DPEs or any other successor documents containing sub-program budget information was to be made optional rather than a mandatory requirement for tabling in the Parliament. Consequently the Committee reiterated it's view (in the Ninth Report), that the Budget Papers alone, did not provide an adequate standard of Parliamentary accountability for the budget estimates given the previous level of disclosure and the Parliament's needs.

The Committee's Ninth Report observed that if DPEs or any other successor documents were to be prepared and implemented, the recommendations concerning program evaluation made by the former Economic and Budget Review Committee in it's 1990 report titled Program Budgeting would be substantially met. The Committee further noted that such action would also represent a significant step towards fulfilling related recommendations of the Victorian Committee of Audit.³

It is clear from the Department's response, that it has chosen not to adopt the Committee's recommendation and persist with it's intention to permit the form and content of the published performance and planning information to be left entirely to the discretion of each department. The Committee therefore reiterates it's previously stated concerns, which include that:

³ Ibid, page 19
each department will use its own discretion in selecting the types of information to disclose and using what means, for example Annual Reports, Ministerial Statement in the Parliament or press releases, if at all. Therefore the lack of consistency of the various types of information and the form of document within which it is presented may impact adversely on Parliamentary accountability of the budget estimate;

- detailed information on output measures and outcomes may not be presented as part of one set of key documents, that is the Budget Papers, and at about the same time; and

- relevant key information, if available, may not be consistent from year to year or between departments and hence difficulties may arise when comparing performance from year to year and between departments.4

The Committee stands by its original recommendation (recommendation 2.1) and confirms its belief in the need for the mandatory publication of detailed budget estimates information by departments at sub-program level which includes performance and benchmark data (where available). Furthermore in the Committee’s opinion, the form and minimum disclosure of the document should be prescribed, and not left to the discretion of each Department. The absence of such information is a matter of concern for the Committee.

2.3 Performance Measurement

2.3.1 Recommendation 2.2 of the Committee’s Ninth Report

Recommendation 2.2 of the Committees’ Ninth Report to Parliament provided:

The Committee recommends that the Budget Papers should not only include estimated current year output measures and actual prior year output measures, but should also include prior year estimated output measures and benchmarks (where available). Further the Budget Papers should include, wherever

4 Ibid, page 20
possible, outcome measures on a similar basis, (that is estimated current year, actual and estimated prior year and benchmarks).  

The Department's response to recommendation 2.2 stated (refer appendix A for complete response):

The main purpose of the Budget Papers, and specifically Budget Paper No 3, the Budget Estimates, is to provide information about plans for the year ahead. It is intended that it continue to focus on the future. Departmental annual reports, however, are required to provide information about the prior year's performance. (See also recommendation 2.3).

Recommendation 2.2 was made in the context of the Committee's assessment of published output measures in the 1994-95 Budget Papers as a mechanism for evaluating the performance of Departments. The Committee found that:

• published output and performance information was mainly quantitative and statistical in nature, rather than true indicators of performance. Furthermore the performance measures varied significantly between and within departments;

• sole presentation of actual results for the past year (for example 1993-94) and estimates for the current year (for example 1994-95) in the Budget Papers, precludes the assessment of the efficiency and effectiveness of Departmental performance. Performance evaluation is only possible if prior year estimates are reported alongside actual results achieved; and

• establishment of benchmarks would greatly assist in assessing performance by comparing data with similar providers in the private sector, interstate or overseas.  

The Committee concluded that the output measures as presented in the 1994-95 Budget Papers were inadequate as a mechanism for Parliament to assess the efficiency of performance of budget sector bodies.

5 Ibid, page 34
6 Ibid, page 25
Recommendation 2.2 was therefore advocating the need for the development and presentation of meaningful quantitative and qualitative measures along with prior year budgets to enable the Parliament to assess the efficiency and effectiveness of service delivery and to identify achievements from improved management practices. The Committee maintains the importance for inclusion of such information, and consequently reaffirms its original recommendation.

2.3.2 Recommendation 2.3 of the Committees Ninth Report

Recommendation 2.3 of the Committee's Ninth Report is an allied recommendation to recommendation 2.2, and was designed to provide legislative status to the matters proposed in recommendation 2.2.

Recommendation 2.3 provided:

_The Committee recommends that the Financial Management Act 1994 should require all public sector agencies to include performance measures in their annual reports and that Budget Papers must include performance measures._

The Department's response to recommendation 2.3 included (Refer Appendix A for the complete response):

_Budget Paper No 3, the Budget Estimates, already includes performance measures. The Directions of the Minister for Finance in terms of Part 7 of the Financial Management Act 1994, require public bodies to provide a range of information on their operational and financial performance. (Those Directions were issued in January 1995)._
the Minister. This mechanism will be utilised to require reporting of further performance measures in the annual reports of departments and public bodies.

The Department's response addresses two issues. Firstly it states that Budget Paper No. 3, the Budget Estimates, already includes performance measures, and secondly it states that the Directions of the Minister of Finance in terms of Part 7 of the Financial Management Act 1994 requires public bodies to provide a range of information on their operational and financial performance in their annual reports.

The thrust of recommendation 2.3, is not concerned with whether Budget Papers included performance measures as highlighted in the Department's response, but rather that the inclusion of such performance measures in annual reports and Budget Papers be made mandatory through legislative provision in the Financial Management Act 1994.

Secondly, while the Directions of the Minister of Finance under the Financial Management Act 1994, establishes a comprehensive framework for the form and content of annual reports and financial reports prepared by departments and public bodies, they do not apply to the issue of published performance measures in the Budget Papers.

Finally, a ministerial directive is one example of the many types of subordinate instruments of a legislative character which are not subject to Parliamentary scrutiny (refer section 2.4). A regulation made pursuant to the Financial Management Act 1994 on the other hand would be open to Parliamentary scrutiny. Section 59(4) of the Act states that:

Regulations made under this Act may be disallowed in whole or part by resolution of either House of Parliament in accordance with the requirements of section 6 (2) of the Subordinate Legislation Act 1962

The operation of this section therefore establishes Parliament's ability to examine and disallow a regulation issued under the Financial Management Act 1994 (refer
section 1.5.4). The Parliament cannot exercise the same power in respect of Ministerial Directions because they are not Statutory Rules.

In the Committee's opinion, implementation of recommendation 2.3 as proposed would effectively secure and promote public sector accountability to the Parliament. Consequently, the Committee maintains its original stance for the mandatory inclusion of performance measures in annual reports and the Budget Papers, through expressed legislative requirements in the Financial Management Act 1994.

2.3.3 Recommendation 2.4 of the Committees Ninth Report

Recommendation 2.4 of the Committee's Ninth Report to Parliament provided:

The Committee recommends that performance measures provided by public sector agencies in annual reports, pursuant to the proposed legislative requirements, should be certified by the respective Accountable Officers. In addition the Auditor-General should be required to express an opinion on the relevance and appropriateness of those performance measures.\(^8\)

The Department's response to recommendation 2.4 stated (Refer Appendix A for the complete response):

Performance information is in an early stage of development and is currently used as an internal management tool. Until further development has been undertaken, it is not proposed to include performance information in annual reports. Additionally it is not considered that inclusion in annual reports in the future would involve the Auditor-General in expressing an opinion on the relevance and appropriateness of the performance measures, as the users could make this assessment. This approach is in line with practice in the commercial sector where a company's external auditors do not express an opinion on the performance measures included in annual reports.

\(^8\) Ibid, page 34
The commentary leading up to recommendation 2.4 in the Committee's Ninth Report stated that:

The concept of performance measurement as a means of promoting public accountability is widely accepted and the Government of Western Australia has made it mandatory, through the Financial Administration and Audit Act 1985, for performance indicators to be:

- incorporated and certified by the Accountable Officer in Annual Reports; and
- audited by the Auditor-General, who will form an opinion as to whether or not the performance indicators are relevant and appropriate having regard to their purpose and fairly represent indicated performance.\(^9\)

The Committee's Ninth Report concurred with the West Australian position on this matter, and disagrees with the Government's response concerning the role of the Auditor-General for validating performance measures presented in annual reports of public sector agencies. The public in general, demands a considerably higher degree of accountability from Government (through the Parliament) than it does from commercial sector organisations. Consequently, in the Committee's view the analogy of the practice in the commercial sector, as referred to in the Department's response is largely irrelevant. The Committee stands by it's original recommendation.

2.4 Ministerial Directions

Recommendation 3.1 of the Committee's Ninth Report to Parliament provided:

The Committee recommends that regulations, similar to the former Audit (Financial Management) Regulations 1993 and consistent with the related Ministerial Directions issued by the Minister for Finance, be issued under the Financial Management Act 1994 to require adequate public sector internal

\(^9\) Ibid, page 31
control, audit committees and internal audit (including a periodic analysis of risks) in public bodies.10

The Department's response to recommendation 3.1 stated (Refer Appendix A for the complete response):

The recommendation is embodied within the current Directions of the Minister for Finance. Ministerial Directions are of no less importance than Regulations and are not perceived to be of less importance by parties external to the Department of Treasury and Finance.

In it's Ninth Report the Committee acknowledged the significance of Ministerial Directions, for the promotion of administrative efficiency within the public sector and the provision of guidance on various financial management and administrative issues.11 The Committee's recommendation for the issue of regulations under the Financial Management Act 1994 however, was based on the need for an appropriate level of parliamentary accountability.

In it's Ninth Report the Committee noted that using a Ministerial Direction, as opposed to a regulation could have a significant impact on parliamentary accountability in four key respects

• Parliamentary Scrutiny:– Ministerial directions, unlike regulations, are not subject to parliamentary scrutiny by the Scrutiny of Acts and Regulations Committee of the Parliament because they are not Statutory Rules. Regulations on the other hand, such as the former Audit (Financial Management) Regulations 1993, are subject to such scrutiny. In addition because they are tabled in the Parliament they are also open to review by any member of Parliament.

• Disallowance by the Parliament:– Section 59(4) of the Financial Management Act 1994 establishes Parliament's ability to examine and disallow a regulation issued under the Act. The Parliament cannot exercise the same power in respect of Ministerial Directions because they are not Statutory Rules.

10 Ibid, page 43
11 Ibid, page 40
• **Sanctions:**- Contravention of or non-compliance with a regulation issued pursuant to the Financial Management Act 1994 could result in the imposition of a monetary penalty not exceeding 5 penalty points. Non-compliance with ministerial directives however, is a matter between the Minister and the Department Head, and unlike a regulation, there is no specified sanction, monetary or otherwise.

• **Perceptions:**- The use of a Ministerial Direction, to impose an obligation may lead to the misconception that the matter in question may be of lesser importance than those deemed to warrant a regulation. This may be particularly so where a matter which was formerly included in a regulation is later included in a Ministerial Direction, as has occurred with internal audit. The risk of such a misinterpretation is that attention to such matters may be less than is desirable or intended.\(^\text{12}\)

The Committee stands by recommendation 3.1 in the interest of restoring an appropriate level of parliamentary accountability. This approach is commensurate with the critical nature of audit committees, internal audit and internal control.

**2.5 Audit Committees**

**2.5.1 Recommendation 3.2 of the Committee's Ninth Report**

Recommendation 3.2 of the Committee's Ninth Report to Parliament provided:

*The Committee recommends that public sector audit committees should include a majority of non-executive members of the agency's governing board (where existing) and persons external to the organisation.*\(^\text{13}\)

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\(^{12}\) Ibid, pages 40-42

\(^{13}\) Ibid, page 46
The Department's response to recommendation 3.2 states (Refer Appendix A for complete response):

*Direction 8.2 of the Minister of Finance indicates that it is the responsibility of the Accountable Officer (who the Financial Management Act 1994 designates to be the Department Secretary) to establish and maintain an audit function which has an independent status within the department.*

*The involvement of non-executive and external persons with expertise can be of benefit to an audit committee. This is recognised in the directions of the Minister.*

*Audit Committees are at a stage of independence but the extent of that independence is still being developed.*

*Ongoing extension of the participation of external parties to provide substantive independence of audit committees will be encouraged.*

The Committee's recommendation was made to enhance the effectiveness of audit committees through the inclusion of persons external to the organisation. External members can bring to an audit committee a variety of expertise and other skills which might not be otherwise available. Significantly, they also bring a level of independence by limiting management influence over the activities of audit committees.

The Department's response appears to accept the general principles of the Committee's recommendation, however there seems to be a lack of a clear commitment to ensuring it's implementation as intended, by the Committee. The Committee is convinced that implementation of this recommendation as a mechanism for improved accountability continues to be a matter of priority and further believes that this issue is of appropriate significance to warrant mandatory status either through inclusion in Ministerial Directions or through legislation.
2.5.2 Recommendation 3.3 of the Committee's Ninth Report

Recommendation 3.3 of the Committee's Ninth Report to Parliament provided:

_The Committee recommends that audit committees of public sector agencies which do not have a governing board should have an external person as chairman and could also include additional external persons as members._

The Department's response to the Committee's recommendation stated (Refer Appendix A for the complete response):

_The integrity of the Accountable Officer is better protected by the existence of an independent audit committee. If this is best achieved by an independent chair, this is encouraged. However, it is the responsibility of the Accountable Officer to determine this requirement._

_Progress in increasing external representation on audit committees will be encouraged. It is expected that following private sector disclosure requirements, membership of audit committees will be disclosed in the annual report._

A major consideration supporting the Committee's recommendation for the appointment of an independent chairman to audit committees, is the potential risk of undermining the independence, objectivity and effectiveness of the audit committee, if it were to be chaired by an executive of an organisation. Such an executive member of an organisation could exert undue or inappropriate influence over the work of the audit committee and/or internal audit.

Furthermore an executive of the organisation, in the role of chairman, could have his/her authority and independence compromised due to the potential for conflict of interest.

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14 Ibid, page 46
It is apparent from the Department's response that the Government is positive towards the general theme of the Committee's recommendation. However it implies that the determination of whether the audit committee requires an independent chairman should be left to the discretion of the Accountable Officer. The Committee cannot agree with this view for the reasons discussed above and stands by its original recommendation.

Finding 2.1

The Committee, having reviewed the Department's response to its Ninth Report to Parliament, finds that critical aspects of its recommendations concerning:

- supplementary budget estimates information for the Parliament;
- performance measurement data for the Parliament; and
- creation of regulations relating to internal control, audit committees and internal audit,

will not be adopted.
3.1 - 1994-95 Budget Outcome

It is not the Committee's intention to replicate the explanations and analysis of the 1994-95 budget outcome included in the 1994-95 Statement of Financial Operations, the Auditor-General's Report on the 1994-95 Statement of Financial Operations, the 1995-96 Budget Papers, and the 1995 Autumn Economic Statement. Rather, it will focus on those select areas of interest where additional reporting may assist public understanding of financial performance and budget management.

3.1.1 Overview of the 1994-95 Budget Outcome

The 1994-95 Budget outcome as presented in the 1995-96 Budget papers, is a surplus of $214.6 million compared with an estimated budget deficit of $23.8 million\(^1\) (1994-95 Budget Papers). Table 3.1 discloses that this result was due to a surplus of $931.9 million in the current account ($539.7 million above the estimated surplus), offset by a deficit of $717.4 million in the capital account (which exceeded the estimated deficit by $301.4 million).

<table>
<thead>
<tr>
<th>Table 3.1</th>
<th>Budget Outcome 1994-95</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1994-95 Estimate</td>
<td>1994-95 Actual</td>
</tr>
<tr>
<td>Current Account</td>
<td>Surplus</td>
<td>392.2</td>
</tr>
<tr>
<td>Capital Account</td>
<td>(Deficit)</td>
<td>(416.0)</td>
</tr>
<tr>
<td>Total</td>
<td>Surplus/(Deficit)</td>
<td>(23.8)</td>
</tr>
</tbody>
</table>

\(^2\) Refer Table 3.2
\(^3\) Refer Table 3.3
The major variances contributing to the favourable variance on the Current Account of $539.7 million are highlighted in Table 3.2.

### TABLE 3.2

1994-95 Budget Variance—Current Account

<table>
<thead>
<tr>
<th>Description</th>
<th>$m</th>
<th>$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95 Current Account Budget Estimate (surplus) as presented to Parliament in September 1994</td>
<td>392.2</td>
<td></td>
</tr>
<tr>
<td><strong>Add</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increases in Estimated Revenues and Current Grants:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Authority Contribution (a)</td>
<td>109.7</td>
<td></td>
</tr>
<tr>
<td>Commonwealth Grants (b)</td>
<td>95.8</td>
<td></td>
</tr>
<tr>
<td>Taxes, fees and fines (c)</td>
<td>60.8</td>
<td></td>
</tr>
<tr>
<td>Other Revenue (d)</td>
<td>16.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>282.9</td>
<td></td>
</tr>
<tr>
<td>Decrease in Estimated Outlays</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in interest payments (e)</td>
<td>174.1</td>
<td></td>
</tr>
<tr>
<td>Under expenditure in Health and Community Services programs (f)</td>
<td>108.9</td>
<td></td>
</tr>
<tr>
<td>Reduction in flexible tariff subsidies (g)</td>
<td>47.8</td>
<td></td>
</tr>
<tr>
<td>Revisions under the Commonwealth-State</td>
<td>32.4</td>
<td></td>
</tr>
<tr>
<td>Housing Agreement (h)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Superannuation-Reduction in employer contributions (i)</td>
<td>29.0</td>
<td></td>
</tr>
<tr>
<td>Deferred commitments of the Community Support Fund (j)</td>
<td>25.9</td>
<td></td>
</tr>
<tr>
<td>Under expenditure on legal fees and efficiency improvements (Department of Justice) (k)</td>
<td>21.8</td>
<td></td>
</tr>
<tr>
<td>Other Net Outlays (k)</td>
<td>244.4</td>
<td>967.2</td>
</tr>
<tr>
<td></td>
<td>684.3</td>
<td></td>
</tr>
<tr>
<td><strong>Less</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in Estimated Outlays</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hospital Superannuation Board (l)</td>
<td>129.0</td>
<td></td>
</tr>
<tr>
<td>Payment to Emergency Service superannuation scheme (m)</td>
<td>103.6</td>
<td></td>
</tr>
<tr>
<td>Expenditure on Heideberg Repatriation Hospital (n)</td>
<td>55.5</td>
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</tr>
<tr>
<td>Wage Increases (Health &amp; Community Services)</td>
<td>50.0</td>
<td></td>
</tr>
<tr>
<td>Shortfall in charges and reimbursements</td>
<td>32.8</td>
<td></td>
</tr>
<tr>
<td>Victorian Drought Relief Package</td>
<td>30.3</td>
<td></td>
</tr>
<tr>
<td>Higher Education Superannuation (o)</td>
<td>16.3</td>
<td></td>
</tr>
<tr>
<td>Other Outlays</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(427.5)</td>
</tr>
<tr>
<td>1994-95 Actual Current Account outcome(surplus) as presented to Parliament September 1995</td>
<td></td>
<td>931.9</td>
</tr>
<tr>
<td>Variance from 1994-95 Budget Estimate</td>
<td></td>
<td>539.7</td>
</tr>
</tbody>
</table>

22
(a) The $109.7 million increase in Public Authority income over budget estimates, is mainly due to increased dividend and tax equivalent payments from the Transport Accident Corporation of $92 million and $26.5 million from the Electricity Industry. Offsetting these increases was reduced property income receipts from the Rural Finance Corporation of $8.1 million and the Urban land Authority of $3.8 million.

(b) Mainly due to the receipt of a $55.5 million specific purpose contribution towards the cost of integration of the Heidelberg Repatriation Hospital into the State public health system as from January 1995 (Refer (m)) and $17.6 million for the payment of higher education superannuation to the Commonwealth (Refer (o)).

(c) Taxes fees and fines have increased by $60.8 million over budget estimates due to a number of offsetting movements in the individual tax items. The major contributors to revenue growth included, increases in payroll tax ($37.5 million), levies on statutory corporations ($19.4 million), gambling taxes ($42.9 million, of which electronic gaming machine contributed $32.1 million and the casino $12.2 million), offset by reductions in racing and other taxes, fees and fines ($11.5 million) and land tax ($8.3 million). The major tax items offsetting revenue growth included decreases in stamp duty on financial transactions ($25.6 million), taxes on insurance ($13.4 million), franchise fees (15.5 million) and motor vehicle taxes ($4.7 million).

(d) The increase of $16.6 million over budget in other revenue is due predominantly to an increase of $14.5 million in interest revenue.

(e) The $174.1 million reduction in interest payments were due to lower than anticipated interest rates and borrowing requirements in the year and the non-utilisation of funds provided to repay structured financing transactions.

(f) The under expenditure includes a carryover of $43 million of Commonwealth funds and $33 million of State funding to 1995-96 due to the late receipt of grants and delays in program implementation.

(g) Reduction in flexible electricity tariff payments relating to the operation of the Portland and Point Henry aluminium smelters, due to increased world aluminium prices and reduced electricity supply levels.

(h) $32.4 million of current outlays for the Department of Planning and Development transferred to capital as a result of a revision to the funding arrangements under the Commonwealth-State Housing Agreement.

(i) Contributions to the State Superannuation Fund reduced by $29 million, due to lower than anticipated growth in pension payments.

(j) Lower than expected approvals and expenditure for projects funded by the Community Support Fund (Department of Arts, Sport & Tourism).

(k) Includes ($19.9 million) savings on the subsidy to the Public Transport Corporation for superannuation payments, ($17.0 million) on the Tricontinental subsidy, and savings on payments under the previous workers compensation scheme ($17.4) and on privatisation expenses incurred (12.8 million).

(l) Payment of $129 million for the purpose of discharging the Government's unfunded superannuation liability to the Board in relation to the basic benefits accumulation scheme.

(m) Contribution of $103.6 million to repay prior year borrowings associated with financing the deferred contributions to the Emergency Service Superannuation Scheme.
(n) Department of Health & Community Services outlays for the integration of the Heidelberg Repatriation Hospital into the State public health system as from January 1995 (Refer (b)).

(o) Changed arrangements for the payment of higher education superannuation to the Commonwealth (Refer (b)).

The major variances contributing to the adverse variance on the Capital Account of $301.4 million are highlighted in Table 3.3.

### TABLE 3.3
1994-95 Budget Variance Capital Account

<table>
<thead>
<tr>
<th></th>
<th>$m</th>
<th>$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95 Capital Account deficit (budget) as presented to Parliament in September 1994</td>
<td></td>
<td>(416.0)</td>
</tr>
<tr>
<td><strong>Add</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased Revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous capital receipts</td>
<td>43.9</td>
<td></td>
</tr>
<tr>
<td>Higher receipts from fixed asset sales</td>
<td>36.2</td>
<td></td>
</tr>
<tr>
<td><strong>Decrease in Outlays:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under spending on separation payments (a)</td>
<td>106.5</td>
<td></td>
</tr>
<tr>
<td>Reduced spending on public infrastructure</td>
<td>75.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>262.5</td>
</tr>
<tr>
<td><strong>Less</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in Grants &amp; Revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non receipt of TAC capital payment (b)</td>
<td>300.0</td>
<td></td>
</tr>
<tr>
<td>Net decrease in Commonwealth grants</td>
<td>2.2</td>
<td></td>
</tr>
<tr>
<td><strong>Increase in Outlays</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accelerated Infrastructure Program (c)</td>
<td>199.9</td>
<td></td>
</tr>
<tr>
<td>Grain Elevators Board (d)</td>
<td>54.0</td>
<td></td>
</tr>
<tr>
<td>Other State grants and advances</td>
<td>7.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>563.9</td>
</tr>
<tr>
<td>1994-95 Capital Account deficit (actual) as presented to Parliament September 1995</td>
<td></td>
<td>(717.4)</td>
</tr>
<tr>
<td><strong>Variance from 1994-95 Budget Estimate</strong></td>
<td></td>
<td>301.4</td>
</tr>
</tbody>
</table>

(a) Spending on employee departure packages were lower due to lower than expected cost of departure packages and fewer than anticipated requests for packages.

(b) A $300 million special dividend from the Transport Accident Commission was not received.

(c) Amount transferred to the Treasury Corporation of Victoria to enable the repurchase of bonds previously issued to finance public sector projects undertaken under the Accelerated Infrastructure Program.
(d) Repayment of debt assumed by the State in the year from the Grain Elevators Board prior to the sale of its net assets.

Finding 3.1

The Committee finds that the:

- 1994-95 budget outcome was a surplus of $214.6 million compared with an estimated budget deficit of $23.8 million due to a Current Account surplus of $931.9 million offset by a deficit of $717.4 million in the Capital Account;

- the better than estimated Current Account outcome was mainly due to increased revenue from Public Authority contributions ($110 million) Commonwealth Grants ($96 million) and taxes fees and fines ($61 million), decreased current outlays on interest payments ($174 million) and Health and Community Services programs ($109 million) partially offset by additional payments to the Emergency Service Superannuation Scheme ($104 million) and the Hospital Superannuation Board ($129 million); and

- the greater than estimated deficit in the Capital Account was mainly due to the non receipt of a special dividend from the Transport Accident Commission ($300 million) and the cost of terminating the Accelerated Infrastructure Program ($200 million), partly offset by an under expenditure on separation packages ($107 million).
3.1.2 Significant 'one-off' Transactions

**Consolidated Fund**

The Auditor-General’s Report on the 1994-95 Statement of Financial Operations disclosed the 1994-95 Consolidated Fund outcome both before and after abnormal items (and borrowing repayments). The Auditor-General's Report defined abnormal items as major transactions that are not of an ongoing nature.\(^5\) Table 3.4 summarises the Auditor-General's findings.

**Table 3.4**

1994-95 Consolidated Fund Outcome

<table>
<thead>
<tr>
<th>Item</th>
<th>1994-95 Actual $ million</th>
<th>1993-94 Actual $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall surplus/(deficit)(^6)</td>
<td>(911)</td>
<td>(1,187)</td>
</tr>
<tr>
<td>Operating surplus/(deficit) prior to abnormal items(^7)</td>
<td>930</td>
<td>542</td>
</tr>
<tr>
<td>Capital surplus/(deficit) prior to abnormal items and borrowing repayments(^8)</td>
<td>(539)</td>
<td>256</td>
</tr>
<tr>
<td>Surplus/(deficit) prior to abnormal items and borrowing repayments.</td>
<td>391</td>
<td>798</td>
</tr>
</tbody>
</table>

Analysis of the restated results indicate that the overall outcome for the year prior to abnormal items and the repayment of borrowings was a surplus of $391 million (surplus of $798 million in 1993-94). The favourable financial outcomes in consecutive years, reflects the impact of the Government's financial reforms\(^9\).

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\(^6\) Ibid. page 25
\(^7\) Ibid. page 28. The Auditor-General's abnormal items include employee departure program payments ($293 million), the reversal of prior year expenditure deferral arrangements ($40 million) and a payment to the State Superannuation Fund under revised funding arrangements.
\(^8\) Ibid. page 28. The Auditor-General's abnormal items include deferred employer superannuation contributions ($232 million), a receipt from the Crown Casino ($26 million) and receipt from the sale of the Totalizer Agency Board and the Grain Elevators Board ($656 million).
The capital outcome on the Consolidated Fund prior to debt repayment transactions and abnormal items, was a deficit of $539 million (surplus of $256 million in 1993-94). The variance between years is attributed to a reduced levels of capital grants from the Commonwealth Government and increased capital works expenditure by departments consistent with the Government’s objective for improving the State's infrastructure. In addition, the 1993-94 result was significantly influenced by receipts from public bodies relating to the wind-up of the Victorian Equity Trust.\(^\text{10}\)

Other factors influencing the 1994-95 capital outcome included abnormal transactions, including receipts from the sale of the Totalizator Agency Board of Victoria ($609 million) and the Grain Elevators Board ($47 million) and payments made on account of deferred employer superannuation payments ($232 million).\(^\text{11}\)

**Government Finance Statistics**

The Budget is prepared under the Government Finance Statistics format, (which is based on the national accounting format). The national accounting format includes the transactions of the Consolidated Fund, the transactions of the Trust Fund and the transactions of those public bodies that are subject to substantial central budgetary control.\(^\text{12}\)

Table 3.5 shows the impact on the 1994-95 budget outcome of significant ‘one-off’ transactions (termed abnormal in the Auditor-General’s Report on the 1994-95 Statement of Financial Operations). The Committee has categorised those transactions as significant ‘one-off’ because of their magnitude and that they are not ongoing.

\(^{10}\) Ibid. page 29  
\(^{11}\) Ibid. page 29  
\(^{12}\) Ibid. page 25
### Table 3.5
1994-95 Budget Outcome

<table>
<thead>
<tr>
<th>Item</th>
<th>1994-95 Actual $ million</th>
<th>1994-95 Estimate $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall surplus(^{14})</td>
<td>215</td>
<td>(24)</td>
</tr>
<tr>
<td>Notional Current Account surplus/(deficit) prior to significant 'one-off' transactions(^{15})</td>
<td>1204</td>
<td>432</td>
</tr>
<tr>
<td>Notional Capital Account deficit prior to significant 'one-off' transactions(^{16})</td>
<td>(1105)</td>
<td>(951)</td>
</tr>
<tr>
<td>Notional surplus/(deficit) prior to significant 'one-off' transactions</td>
<td>99</td>
<td>(519)</td>
</tr>
</tbody>
</table>

Table 3.5 identifies a notional surplus on the 1994-95 budget outcome, on the basis that several significant 'one-off' transactions\(^{17}\) did not occur. This however is not the case.

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\(^{13}\) The Budget is prepared under the Government Finance Statistics format (which is based on the national accounting format). That format takes into account the transactions of the Consolidated Fund, Trust Fund and those public bodies subject to substantial central budgetary control.


\(^{15}\) Significant 'one off' transactions include deferred employer superannuation obligations (actual $232 million, estimate $Nil), and the reversal of prior year expenditure deferral arrangements (actual $40 million, estimate $40 million)

\(^{16}\) Significant 'one off' transactions include employee departure program payments (actual $294 million, estimate $400 million), the receipt from the Crown Casino (actual $26 million, estimate $26 million) non receipt from the Transport Accident Commission (actual $Nil, estimate $300 million)

\(^{17}\) Significant 'one off' transactions include employee departure program payments (actual $294 million, estimate $400 million), the reversal of prior year expenditure deferral arrangements (actual $40 million, estimate $40 million), non receipt of payment from the Transport Accident Commission (actual $Nil, estimate $300 million), deferred employer superannuation obligations (actual $232 million, estimate $Nil) and the receipt from the Crown Casino (actual $26 million, estimate $26 million)
Finding 3.2

The Committee finds that the overall 1994-95 budget outcome was a surplus of $215 million (estimate - deficit $24 million). Had several significant 'one-off' transactions not occurred during 1994-95 a notional budget surplus of $99 million (estimate - deficit $519 million) would have resulted.

3.1.3 Changes in Budget Sector Debt

The overall budget outcome and the outcome on the current and capital accounts are important points of focus for the Parliament and the public. The budget outcome has a direct impact and link to the level of budget sector debt. The level of budget sector debt is also a key financial indicator which cannot be understated.

Chart 3.6 shows the estimated increase in budget sector net debt from 1993-94 to 1994-95 and provides an overview of the key changes leading to actual budget sector debt for 1994-95.
Chart 3.6 Changes to 1994-95 Budget Sector Net Debt

Underexpenditure On:
- Interest Payments $174.1m
- Health & Community Services $108.9m
- Flexible Tariff Subsidy $47.8m
- Other Net Reductions
  In Current Outlay $353.5m

Underexpenditure On:
- Separation Packages $106.5m
- Public Infrastructure $75.9m
- Net Increase in Capital Revenue $60.1m

Non receipt of Repatriation
payment from the Transport
Accident Commission $300m
Vic. Accelerated Infrastructure
Program $199.9m
Grain Elevators Board Debt $54m
Other net increases in capital $10m

Increase in:
- Public Authority Income $109.7m
- Commonwealth Grants $95.8m
- Taxes, Fees & Fines $60.8m
- Other Revenue $16.6m

Increase in Current Outlays:
- Hospital Superannuation Board $129.0m
- Emergency Service Super Scheme $103.6m
- Heidelberg Repatriation Hospital $59.5m
- Wage Increases (Health & Community Services) $50.0m
- Other net increases in Current Outlays $89.4m

Revision to estimated
debt (opening balance) $56.0m
- Assumed debt of
  Bayside Development
  Project $34.0m
  Tricontinental
  Debt variance from budget estimate ($50.0m)
- Other net decreases
  in debt ($135.0m)

Data Source: 1994-95 and 1995-96 Budget Papers
3.1.4 Trust Accounts

In its 1994-95 standard questionnaire (refer Chapter 1) the Committee included a question requiring departments to provide a detailed listing of all trust accounts administered, along with a brief summary of the purpose of each trust account and the account balance as at 30 June 1994. The Committee was of the opinion that there was significant scope for rationalisation of trust accounts managed by Departments.

Responses to the Committee's questionnaire indicate that departments had independently taken steps to review their trust accounts to ensure that only currently operational accounts remained on their books, consequently a number of trust accounts that were no longer required had been closed. Furthermore it was the intention across all departments to periodically review all trust accounts with a view to further rationalisation.

The Committee commends the initiative of departments, and encourages continued vigilance for the rationalisation of trust accounts no longer required by departments.
4.1 Budget Sensitivity Analyses

In its inquiry into the State's Budget and Financial Management Framework (Seventh Report to the Parliament, May 1994), the Committee reviewed the progress made by Government in implementing the many recommendations of the Victorian Commission of Audit (COA). The COA reviewed the forward estimates system prevalent at that time of its report (May 1993) and concluded that:

*The Government's capacity to make efficient medium and long-term budget decisions has been fundamentally restricted by the lack of an effective forward estimates system...*\(^1\)

The COA made several recommendations for the implementation of a robust and credible forward estimates system, which among others included:

**Recommendation 5.3: Sensitivity estimates:**

*The budget papers should include sensitivity estimates of revenue and expenditures to defined parameter variations (such as inflation and wages, interest rates, and growth in real GSP).*\(^2\)

The Committee noted (in its Seventh Report), that while sensitivity estimates were used extensively within the former Department of the Treasury, publication of such sensitivity analysis and parameter variations had yet to be included in the Budget papers. The Committee found that:

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2. Ibid. page 167

33
Full implementation of Commission of Audit recommendation 5.3 relating to the publication of sensitivity estimates and parameters is still under consideration by the Department of Treasury. Sensitivity analysis of the kind envisaged in the recommendation is a standard procedure in financial planning. Publication in the Budget Papers of sensitivity estimates and parameters would provide useful information to analysts and readers in general.3

In it’s recommendation the Committee reinforced the view of the COA:

It is recommended that the Department of Treasury publish sensitivity analysis and parameters as envisaged in Commission of Audit recommendation 5.3 as soon as is feasible.4

During October 1995 the Government’s response to the Committee’s Seventh Report was received by the Committee. In it’s response to the above recommendation (refer Appendix B), the Government noted:

Action Taken To Date

A table was published in the Autumn Economic Statement which provides an indication of the sensitivity of various components of revenue and outlays to changes in economic conditions (Table 4.7, page 4-18).

Further Action Planned

There is to be further development of sensitivity estimates for budget modelling and analysis and to improve the quality of published Budget information.

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4 Ibid. page xi

34
In accordance with the Government's response, the Autumn Economic Statement (May 1995) included a section on the sensitivity of the budget outlook (revenues and outlays) to economic conditions, for the first time.

The section commenced with a high level analysis of the effects of a one percentage point variation on economic indicators such as, nominal Gross State Product, average weekly earnings and interest rates on various components of revenues and outlays.\(^5\)

More complex sensitivity analysis also followed, acknowledging that in practice economic indicator variations do not occur independently, and that many combinations were in fact possible. Scenario analysis was used to illustrate the impact of alternative economic environments on the budget outcomes.

The 1995 Autumn Economic Statement provided the following scenario by way of example to illustrate the impact of demand and inflationary pressures on the economy in general and its effect on the Budget in particular:

> For example, some commentators have suggested that as demand starts to press against available production capacity, inflationary pressure may build up in both goods and labour markets, resulting in higher price and wage inflation. These commentators suggest that tighter macroeconomic policies are needed to slow down the economy to a more sustainable growth path.\(^6\)

The analysis of the above "Slowdown Scenario" on the 1995-96 and 1996-97 budget estimates (revenues, outlays and current account balance), demonstrated that the State budgetary position is relatively robust to a more accentuated economic cycle than that forecast in the Autumn Economic Statement.

Presented as a combination of narrative and analytical tables, this section in the Autumn Economic Statement provides the reader with an enhanced understanding of the main economic assumptions underpinning the budgetary estimates and a greater appreciation of their sensitivity to variation.

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\(^5\) Autumn Economic Statement, May 1995, page 4-18 to 20

\(^6\) Autumn Economic Statement, May 1995, page 4-19
The Committee commends this initiative, and finds that economic models such as this present the reader with a significantly greater understanding of the impact on the budget of variations to key economic assumptions.

The Governments proposed action for the further development of sensitivity estimates, should enhance the quality of published budget information.

4.2 Timing of the Budget

The COA reviewed the annual budget cycle and concluded that:

_The annual budget cycle in Victoria has suffered from considerable uncertainty in recent years; indeed there has not been a 'normal cycle' for some time. Changes in official leadership and the pressing economic issues faced by Victoria have been important causes of instability._

In relation to the timing of the budget the COA found:

_The timing of the budget cycle means that agencies do not know their final allocations until well into the financial year to which they apply. The preliminary departmental allocations given in the Treasurer's April 1993 mini-Budget are a significant improvement._

The COA recognised that the timing of the budget process was vital, to allow maximum time for agencies to plan to meet their expenditure targets. Accordingly it recommended that:

_Departmental allocations should be approved and announced before the start of the financial year to which they apply._

In the Committee's subsequent inquiry (the Seventh Report) into the implementation of the recommendations of the COA report, it noted that the former Department of Treasury (DOTT) recognised some benefit in tabling the budget in Parliament before 30 June each year:

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8 Ibid. page 173
9 Ibid. page 174

36
DOTT sees some benefit in tabling the budget in Parliament before 30 June each year. Through the April Statement and provision of forward estimates, departments are now able to plan with more certainty prior to the beginning of the financial year. The timing of the actual budget is somewhat dependent on the timing of the Premiers' Conference and the meeting of Loan Council.¹⁰

The Committee recommended:

Subject to the timing of the Premiers' Conference and Loan Council, it is recommended that the Treasurer establish a process so that the budget can be brought down prior to the beginning of the financial year to which it relates.¹¹

The Government's response to this recommendation stated in part (See Appendix B):

The early provisions of planning allocations to departments commenced with the 1993-94 Budget. This continued with the Treasurer's Autumn Economic Statement 1994 when Interim Appropriation Bills were introduced to enable new capital works to commence on 1 July 1994 instead of being delayed until after passage of the September Budget. Departmental capital expenditure behaviour now reflects the new appropriation process.

The Autumn Economic Statement (AES), in April is now the vehicle for policy release, with the September Budget papers supporting the expenditure details. In the AES of 1995, fiscal targets to 1998-99 were outlined.

The Committee acknowledges that initiatives such as Interim Appropriation Bills have enabled departments to plan their capital expenditure with greater assurance than was previously the case. However it is the Committee's opinion that the Parliament should receive the Budget before the start of each financial year, to enable improved departmental/agency planning for the meeting of all expenditure targets. This is consistent with practice in the Commonwealth Government of Australia, where the Budget Papers for the 1995-96 financial year were tabled in Parliament in May 1995.

The Autumn Economic Statement can continue to be the vehicle for announcing policy initiatives and the provision of a rigorous and effective forward estimates system.

¹¹ Ibid. page 32
Recommendation 4.1

The Committee recommends that the Budget be tabled in Parliament prior to the financial year to which it relates.

4.3 Parliamentary Performance Monitoring

4.3.1 Introduction

Performance evaluation is a critical component of budget and public sector resource management. Output and outcome measures are key performance indicators. An output is broadly defined as an identifiable good or service supplied to consumers outside an organisation. Outputs do not measure the effects on the community of the goods and services produced. These are outcomes. The Budget Papers currently include output measures. The development of outcome measures for presentation in the Budget Papers is critical to optimal performance evaluation.\textsuperscript{12}

Program evaluation is an issue that has been addressed in reports to the Parliament by the Committee, the former Economic and Budget Review Committee (EBRC) and the COA.

A central theme of the COA report, was the need to change the Government's financial management paradigm from a focus on inputs to an emphasis on outputs and outcomes.\textsuperscript{13} One of the major shortcomings in financial management identified by the COA concerned:

- the absence of a medium-term perspective or an output focus, resulting in poor quality decision-making and advice on resource management.\textsuperscript{14}

\textsuperscript{13} Report of the Victorian Commission of Audit, Volume One, Graphic Print Centre, May 1993, pages 151 and 152
\textsuperscript{14} A Management Improvement Initiative for Victoria, October 1993
In its Ninth Report to the Parliament the Committee addressed the issue of the adequacy of output measures in the Budget Papers, as a mechanism for facilitating performance evaluation and providing satisfactory accountability to Parliament. The Committee concluded, that the published output measures were more in the nature of statistics rather than true indicators of performance, and required further development before they could be used in the analysis of the efficiency and effectiveness of service delivery and for the identification of achievements from improved management practices.\textsuperscript{15}

4.3.2 Reforms to Victoria’s Accountability Framework

In the 1994-95 Budget Papers, the Victorian Government stated that management by outputs was a high priority on its management reform agenda.

\textit{During 1994-95 work will continue on the development of proposals for an output budgeting and management model for application across the budget sector.}

\textit{Work to date has been based on the notion of departments agreeing to produce or deliver outputs to achieve agreed Government policy objectives. This has been the basis for the inclusion of output targets in the 1993-94 and 1994-95 budget documentation.}\textsuperscript{16}

The 1995 Autumn Economic Statement reaffirms the Government’s commitment to management by outputs:

\ldots much of the effort in 1995-96 will be to make explicit and improve the processes and principles for specifying outputs. The initial step will be the production of a guidance manual on output specification to be used to improve the quality of output specification in business plans and budget documentation.

\textit{In the 1996-97 financial year a number of steps are proposed:}

\begin{itemize}
  \item an output based budget system that specifies outputs, quantifies cost and quantity and commences the difficult task of quality management;
  \item an accountability structure that measures the achievement of specified targets;
\end{itemize}


\textsuperscript{16} Budget Paper No. 2 (1994-95) September 1994, page 7-6
• full separation of policy, regulation, and contract management from operational services delivery units;
• the creation of organisation structures that encourage competition; and
• introduction of corporate monthly reporting requirements covering key information needed to manage individual departments.

Victoria's financial management reforms are proceeding according to two distinct themes:

• management by outputs and results which concentrates on improving the way that departments specify and use outputs, and evaluate outcomes, and
• balance sheet management which is intended to assist departments to improve the quality and use of accrual information.17

The issues concerning the full implementation of accrual accounting have been dealt with in the Committee's Final Report on the States Budget and Financial Management framework which was tabled in Parliament in October 1995.

Progress on Management by Outputs and Results

The Committee's inquiry into the current status of "management by outputs and results," notes that the Government's management accountability framework distinguishes between outputs and outcomes. The Government is responsible for outcomes, while departments and agencies are responsible for the provision of outputs, which will become the basis for performance measurement and accountability18.

Figure 4.1, indicates that output based information is to be incorporated into service agreements, budgets and individual performance agreements.

17 Public Sector-Looking After Your Money (address to CPA Congress) Dr. M Vertigan Secretary Department. of Treasury and Finance, Victoria (October 1995),page 3
18 Ibid. page 4
Service Agreements are intended to become a primary accountability tool between Government, departments and service providers, since departments can choose to either produce or deliver outputs in their own right, or contract with a service provider, in accordance with Government outsourcing policy\textsuperscript{19}.

Regardless of the means of service delivery adopted, service agreements will be designed to specify the required outputs, performance criteria and targets established in accordance with Government guidelines\textsuperscript{20}.

The Department of Treasury and Finance is currently developing proposals for the detailed workings of a new system of output budgeting. This system will replace traditional budgets which have been prepared and managed on the basis of inputs (principally cash). The Committee was advised that the principal objective of these

\textsuperscript{19} Ibid. page 6
\textsuperscript{20} Ibid. page 6
proposals is that consecutive annual budgets will commence from a zero base each year, and be determined on the basis of the type and quantity of desired outputs.

The elements of the outputs/outcomes model under consideration are shown in Figure 4.2.

Figure 4.2: The Elements of Outputs/Outcomes Model

- Government Strategic Priorities
- Policy Objectives (intended outcomes)
- Output Groups
- Agreed Outputs
- Output Performance Measures
- Activities/Resources/Processes
- Actual Outcomes
- Outcomes Evaluation

Source: Public Sector - Looking After Your Money, Dr M Vertigan

Under this model the Government will determine the desired outputs based on its strategic priorities (that is its intended outcomes), and incorporate them in the budgetary process along with performance measurement criteria, in conjunction with departments. Departments will be required to determine the mode of output/service delivery and also the method of evaluating the outcomes of their activities. 21

An output performance measurement framework (currently under consideration by the Department of Treasury and Finance), intends that performance evaluation is to be undertaken on the basis of four criteria:

- Quantity (not on its own);
- Quality;
- Cost; and
- Timeliness.

21 Ibid. pages 8 & 9
The Department of Treasury and Finance is also developing a system for the evaluation of outcomes which will require departments to include details of prospective evaluation studies and the results of past evaluations in their business plans.

The third use of output data is to facilitate individual performance management. Outputs will be specified in such a way that the responsibility for their achievement can be allocated to individuals.

Current Projects

To support the drive towards management by outputs, the Department of Treasury and Finance has instituted a series of projects for the preparation of management guides to communicate details of the new system to departments. Through discussions with the Department of Treasury and Finance (Management Improvement Branch) and a review of draft guidance manuals, the Committee has established that the first three titles in this series will be due for release in November 1995. These are:

- A Guide to Corporate and Business Planning;
- A Guide to Output Specification and Performance Measurement; and

These are planned to be followed by A Guide to Output Costing and A Guide to Output Budgeting which is anticipated to be released later in the 1995-96 financial year.

This series of guides, when released, will form an integral part of the public sector planning, budget and review reforms introduced by the Victorian Government.

4.3.3 The Increasing Need for Parliamentary Accountability

Under Management by Outputs and Results, Government will no longer fund programs, instead it will purchase specified outputs from departments that are needed to satisfy Government policy objectives. Departments in turn, may choose to provide these outputs in their own right or alternatively to purchase these outputs from external providers. Consequently it becomes imperative that departments understand the nature of the services it provides to customers, to assist in making choices about the provision of services and to allocate resources to provide those service.
As public sector managers are given more discretion for the manner in which scarce public resources are utilised, and as providers of outputs become progressively remote from Government the need for increased accountability through improved management reporting and performance evaluation is heightened.

Fundamental to effective management by outputs, is an effective output budgeting system which relies on the:

- existence of contracts between the purchaser and provider of the outputs;
- accurate costing of outputs to enable appropriate price setting; and
- specification of outputs in a manner which facilitates performance measurement.

The projects underway in the Department of Treasury and Finance clearly seeks to establish appropriate management and accountability frameworks for the implementation of management by outputs, including the establishment of contracts, output specification and costing and performance evaluation. However, since the series of guidance manuals as discussed in section 3.3.2 are yet to be released, the Committee is unable at this time to comment on the relevance of these documents or to assess their effectiveness.

The progress of these projects will be monitored by the Committee, and the relevance and effectiveness of the guidance manuals evaluated subsequent to their release and implementation by departments.

While it is anticipated, that the initiatives being undertaken by the Department of Treasury and Finance will lead to the better definition of outputs and performance criteria, and an overall improvement in performance evaluation within departments, it is less apparent whether these measures will necessarily result in greater Parliamentary accountability.

In it's Final Report on the 1993-94 Budget Estimates and Outcomes Report (the Ninth Report), the Committee raised several issues concerning the suitability of published output measures as a tool for measuring the efficiency and effectiveness of service delivery and providing adequate Parliamentary accountability. These matters still remain outstanding and Chapter Two of this Report addresses the concerns raised in the Committee's Ninth Report.

With the increased potential for the provision of goods and services (outputs) through outsourcing arrangements, the need for Parliamentary accountability is heightened. It becomes crucial therefore that public accountability is not

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compromised in any way as a consequence of outsourcing arrangements, and that government agencies continue to remain accountable for contracted services.

The Industry Commission in its Issues Paper on *Contracting Out by Public Sector Agencies*, January 1995 referred to the effect of contracting out on accountability as being a key issue. The Commission suggested that all agencies should address the following accountability issues during the contracting out process:

- What measures have government agencies used to ensure that they remain accountable for services which have been contracted out? What is the appropriate delegation of responsibility between Ministers, government agency and service provider where services are contracted out?

- What are the reporting requirements with respect to contracting out (eg. publication in annual reports or government gazettes)? Should the reporting requirements for contracted services differ from those required for services provide internally?

- What independent scrutiny of contracting out takes place (such as audit by the Auditor-General)?

- How does contracting out impact on consumer rights? For example, how will the agency handle privacy concerns (eg. where services involve collecting personal information)? Can rights of review and other protection (eg. recourse to Ombudsman, Administrative Appeals Tribunal, Freedom of Information Act) be safeguarded?

- What impact does contracting out have on government control over the provision of services? How does the contracting out of service delivery impact on the government's ability to plan and respond to changing needs in the community (eg. changing levels of unemployment, urban planning)?

In its Eleventh Report to the Parliament\(^\text{24}\), the Committee stated:

> The Committee strongly believes that in all cases where public money is utilised to provide public services, whether through outsourcing or by direct provision, there is a need to ensure that appropriate accountability mechanisms remain despite the delivery arrangements. In all circumstances it is an important responsibility of public sector agencies to ensure that their public accountability is not compromised as part of outsourcing arrangements for IT services.

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The Committee's review on the outsourcing of public sector information technology services, addressed the following accountability issues:

- Public sector agencies cannot hide behind confidentiality requirements that they have agreed to, or inserted into outsourcing arrangements to avoid accountability, nor can they outsource their very important responsibility to be accountable for public resources or legislative functions under their control.

- Outsourcing arrangements should not prejudice or adversely impact on the audit of an agency by the Auditor-General. Independent scrutiny of agency outsourcing arrangements by the Auditor-General is an important element of the accountability framework. Such scrutiny will ensure appropriate competitive tendering processes have been applied and a valid cost-benefit basis has been used for decision-making prior to outsourcing a service.

- The Financial Management Act 1994, should require public sector agencies to include details of outsourcing arrangements above a certain value, in their annual report to Parliament. Required details should include particulars of the service provided, the total fees incurred and future commitments in relation to each outsourcing arrangement.25

The Committee's observations in relation to it's report on the outsourcing of Information Technology in the public sector, are equally pertinent to the Government's current program for management by outputs.

Finding 4.2

The Committee finds that Department of Treasury and Finance, has instituted several projects for the preparation of a series of guidance manuals to assist departments with the implementation of output management and budgeting and to facilitate outcomes evaluation.

This series of guidance manuals when released, will form an integral part of the public sector planning, budget and review reforms introduced by the Victorian Government.

It is the Committee's intention to monitor the progress of these initiatives within the Department of Treasury and Finance, and assess the relevance and effectiveness of the guidance manuals upon their release and implementation within departments.

25 Ibid. pages 88-90
Finding 4.3

The Committee finds that the introduction of management by outputs is accompanied by increasing potential for the purchase of public sector goods and services from external providers and through outsourcing arrangements. This heightens the need for an accountability framework which ensures that:

- agencies do not compromise their public and parliamentary accountability as a result of service/outsourcing agreements;

- public sector agencies cannot hide behind confidentiality requirements that they have agreed to, or inserted into service/outsourcing agreements to avoid accountability.

- public sector agencies cannot outsource their responsibility for public resources or legislative functions under their control.

- the accountability framework under which the vendor must operate is clearly set out in service/outsourcing agreements.

Recommendation 4.2

The Committee recommends that enhanced parliamentary accountability is mandatory due to the increased potential for public sector goods and services (outputs) to be purchased from external providers and through outsourcing arrangements. Greater parliamentary accountability may be achieved through:

- the independent scrutiny of agency outsourcing arrangements and service agreements by the Auditor-General; and

- the issue of ministerial directions by the Minister for Finance, pursuant to the Financial Management Act 1994, requiring public sector entities to include details of outsourcing arrangements above a specified value in their annual reports to Parliament. Required details should include a schedule listing the vendor engaged, summary particulars of the service provided, the total fees incurred and future commitments in relation to each outsourcing arrangement.
CHAPTER FIVE: PARLIAMENT'S BUDGET

5.1 Funding of the Victorian Auditor-General's Office

The Victorian Auditor-General's Office is funded through the same budgetary processes that apply to all budget sector agencies. Prior to the Audit Act 1994, and for administrative purposes, the entire budget of the Victorian Auditor-General's Office (the Audit Office) and certain other statutory office holders (for example the Office of the Ombudsman) was incorporated within the budget of the Department of Premier and Cabinet. Consequently the Audit Office's budget was submitted, as part of the Department of Premier and Cabinet's budget, to the Budget and Expenditure Review (BERC) Subcommittee of Cabinet for review and recommendation to Cabinet. Cabinet determines the overall allocations to individual departments based on the recommendations of BERC.¹

In the Committee's second report to the Parliament,² it identified two potential limitations on the Auditor-General's capacity to operate effectively under these funding arrangements. These were:

- the involvement of the Executive Government in the process of the review and approval of the Audit Office's budget is inconsistent with the Auditor-General's role in holding the Executive Government accountable to the Parliament. The effectiveness of the Auditor-General could be constrained by an Executive Government which chooses to deny adequate funding and resources to the Auditor-General to carry out his functions; and

- as the Audit Office's budget is incorporated within that of the Department of Premier and Cabinet, the Auditor-General may not have the same opportunity as other departmental heads to justify proposed expenditures to BERC. This arrangement could leave the Department of the Premier and Cabinet vulnerable

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¹ Public Hearing with Treasurer -Minutes of Evidence 17 September 1993, page 8 (The Committee confirmed that this process is still current with Department of Premier & Cabinet).
² Public Accounts and Estimates Committee, The Performance Audit of the Auditor-General of Victoria, November 1993, pages 65 & 67
to criticism, including that it may attempt to increase its funding at the expense of the Auditor-General and other statutory office holders.

The Committee's second report to the Parliament commented on the need for introducing a funding mechanism independent of Executive Government control. Accordingly, it was proposed to establish an independent Parliamentary Committee, charged with the responsibility for reviewing the expenditure proposals of the Auditor-General, and determining and making recommendations to the Parliament concerning the Audit Office's budget. A corollary recommendation of the Committee concerned the need to fund the Auditor-General's performance audit program from a special Parliamentary appropriation.

This recommendation was consistent with the views of the Fergus Ryan Report and those of the Victorian Commission of Audit.

Fergus Ryan Report:

In order to ensure that the Auditor-General is able to meet effectively the needs and expectations of Parliament, I consider that Parliament should be responsible for approving the budget of the Office, and should fund it directly by way of specific appropriation. Such an arrangement should in no way be seen as diminishing the pressures on the Office to operate efficiently and to justify its use of public funds.

Victorian Commission of Audit:

... The Office should be funded by a Special Appropriation under the control of the Parliamentary committee. Fees should be recovered from auditees for financial audits, but the Parliament should fund all performance audits.

The Government did not accept the Committee's recommendation for the establishment of an independent Parliamentary Committee to review the budget.

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3 Ibid, page 70
4 Ibid, page 92
5 Fergus Ryan, *Performance Audit of the Auditor General of Victoria*, October, 1992
6 Ibid, page 15
proposals of the Audit Office and recommend a budget to the Parliament stating that:

...Any separate process for determining a budget for the Audit Office would be inconsistent with the Government's need and responsibility to determine expenditure priorities across the public sector.\(^8\)

Through the enactment of the Audit Act 1994 however, the Government provided for the funding of performance audits conducted by the Auditor-General to be paid from appropriations to the Parliament.\(^9\) Funding of the Auditor-General's 'Performance Audit Program' is discussed in section 5.2.

5.2 The Auditor-General's Performance Audit Program-An Output Based Funding Model

5.2.1 Overview

The Fergus Ryan report, arising from the first performance audit of the Victorian Auditor-General's Office (see paragraph 4.3), made three significant recommendations for strengthening the accountability of the Auditor-General to the Parliament.

One recommendation concerned the funding of the Audit Office (see paragraph 5.1), while the other two dealt with improving the accountability relationships and communication links between the Auditor-General and the Parliament, and enhancing the understanding of risk management in the public sector. Mr Ryan was of the opinion that the Economic and Budget Review Committee (the predecessor of the Public Accounts and Estimates Committee) was well placed to contribute to the Auditor General's risk assessment process and provide the appropriate mechanism to enhance accountability.

\(^9\) Audit Act 1994, Section 16(8)
Mr Ryan stated:

I believe the EBRC (or another designee of Parliament) should:

- approve the budget of the Auditor-General's office;
- endorse the Auditor General's objectives (currently expressed in both the Office's Annual Plan and Corporate Plan); and, as is discussed later in this report,
- participate in the development of the Office's Annual performance audit plan.¹⁰

In the Committee's second report to the Parliament¹¹ (which inquired into the Fergus Ryan report) the Committee made the following recommendations relating to the funding of the Auditor-General's Office, and the Committee's proposed role in the endorsement of the Auditor-General's performance audit plan:

Recommendation 3.4

The Auditor-General should provide a copy of his performance audit plan to the Public Accounts and Estimates Committee on an annual basis and the Committee given the opportunity to discuss this plan with the Auditor-General and suggest but not dictate subjects for performance audits.

Recommendation 5.3

It is recommended that:
(a) seven member Parliamentary committee be established to review the Audit Office's budget proposals and make a recommendation to the Parliament;

¹⁰ Fergus Ryan, Performance Audit of the Auditor General of Victoria, October, 1992, page 16
¹¹ Public Accounts and Estimates Committee, The Performance Audit of the Auditor-General of Victoria, November 1993
(b) this committee should comprise the Speaker of the Legislative Assembly or President of the Legislative Council who should alternate on an annual basis;

(c) the composition of the remainder of the committee should ensure an equal representation of Government and Opposition members and should include the Treasurer (or his Parliamentary representative) and the Chairman and one other member of the Public Accounts and Estimates Committee; and

(d) the Speaker and President should alternate as Chairperson on an annual basis.

Recommendation 5.4

The proposed committee's role (sic) in setting the Auditor-General's budget should, in no way, impact upon the Auditor General's ability to determine the application of audit resources or lead to a review of the merit, or otherwise, of particular performance audit proposals. Performance audits should therefore be funded on a total, annual basis rather than on an individual basis.

Recommendation 8.1

Given that the Parliament is the Auditor-General's client, it is recommended that performance audits be funded by the Parliament rather than by auditees.12

In its response to the Committee's report (its second report to the Parliament) the Government agreed with recommendations 3.4 and 8.1 but rejected recommendations 5.3 and 5.4 on the premise that the recommended process was too cumbersome and inconsistent with the Government's need and responsibility to determine expenditure priorities across the breadth of the public sector. Appendix C provides the Government's response to the Committee's recommendations.

12 Ibid, pages 31,70 &92
The Committee had specifically designed its recommendations with two main aims. Firstly to shift control of the Audit Office's budget from the Executive Government to the Parliament and secondly to separate two potentially incompatible functions, namely

- reviewing and recommending the Audit Office's budget to the Parliament; and

- discussing the Auditor-General's performance audit plan and suggesting, but not dictating, subjects for performance audits.

The Committee sought to segregate these functions by proposing that they be undertaken by different Parliamentary Committees, which however had some common membership. This approach was chosen to ensure that the Auditor-General's independence and sole right and responsibility to determine the application of audit resources and selection of performance audits was not in anyway impeded. Recommendation 5.4 emphasised that the proposed new Committee's role of recommending the Audit Office's budget should in no way restrain the Auditor-General from determining his performance audit program, and consequently proposed that performance audits should be funded on a total annual basis rather than on an individual basis.

Under the Audit Act 1994 this Committee now has the function of discussing the Auditor-General's performance audit plan and suggesting, but not dictating, subjects for performance audits. Section 16(7) of the Act states:

> The intervals at which audits under this section of a particular authority, and the number of audits of departments to be conducted under this section each financial year, shall be determined by the Auditor General in consultation with the Public Accounts and Estimates Committee of the Parliament.

The Committee reserves the right to review and publicly comment on the Auditor-General's performance audit program and make recommendations based on its assessment of risk. It is equally important for the Committee to comment as it sees fit on the Auditor-General's performance audits or performance audit program, as it is for the Auditor-General to conduct performance audits as he sees fit. It is not the intention of the Committee however, to compromise the Auditor-General's
independence or undermine his ability to determine the composition of his audit program.

Consistent with the Committee's recommendations section 16(8) of the Audit Act 1994 provided:

*The reasonable costs and expenses of the Auditor-General in conducting an audit of a department under this section must be paid from money appropriated to the Parliament.*

The Financial Management and Audit Acts (Amendment) Act 1995 extended the changes to the funding of the Auditor-General's performance audits, by amendment to the Audit Act 1994, to include public authorities. Consequently funding for all performance audits, and not just departmental performance audits, will be made from money appropriated to the Parliament (previously public authorities other than departments were required to meet the cost of performance audits from their own resources).

### 5.2.2 Changes to funding arrangements


In 1994-95 the allocation of costs of the Auditor-General's performance audit program to Parliament's Budget was effected via an adjustment to Parliament's Budget, initiated by the Audit Office, at the end of the financial year. The Audit Office had continued to draw down funds from its appropriations within the Department of Premier and Cabinet's budget for its activities throughout the year, however the year end adjustment had ensured that the cost of departmental performance audits was recorded against Parliament's budget. This arrangement
ensured administrative efficiency and had the support of the Department of Treasury and Finance.

The process for funding the Audit Office is to change for the 1995-96 financial year, requiring the Auditor-General to progressively draw down funds from monies appropriated for performance audits within Parliament's budget throughout the year.

5.2.3 Accountability Mechanism

Having consulted with the Committee, as required by the Audit Act 1994, the Auditor-General then advises the Committee of the cost of each year's performance audit program for inclusion in Parliament's budget. The Audit Act clearly provides a role for the Committee prior to the Auditor-General setting each year's performance audit program, however, the Act does not express prescribe a role for the Committee once that appropriation has been set. The Committee can, and does, scrutinise the performance audit reports of the Audit Office. Nevertheless an expressed role for the monitoring of the Auditor-General's progress in meeting his performance audit plan is not prescribed in legislation. In common with all budget sector bodies the Audit Office undertakes as part of the budget process to deliver certain outputs, that is performance audits, at an estimated total cost. The monitoring of the achievement of that set of outputs and their total cost therefore is important to the accountability of the Audit Office, as it is for all budget sector agencies.

The Committee proposes to introduce an accountability mechanism to compliment the periodic reimbursement of the cost of performance audits, from Parliamentary appropriations. The Committee views its proposed process as a model for the progressive funding of outputs for all budget sector bodies. It is hoped that this process will form part of the provisions of the Audit Act 1994 and that the principle will be extended across the budget sector.

The Committee's mechanism for the reimbursement of the Auditor-General's performance audit costs comprises:
• the submission of quarterly invoices by the Auditor-General to the Committee (on behalf of the Parliament); with

• quarterly reports to the Committee (on behalf of the Parliament) indicating the stage of progress of each performance audit (for example planning, implementation or reporting) on the annual performance audit program (previously advised to the Committee and having been set by the Auditor-General after consultation with the Committee in accordance with the Audit Act 1994).

The Auditor-General’s quarterly invoices would become payable from money appropriated to the Parliament if they are accompanied by quarterly progress reports for the Committee (or its successors). Importantly, the trigger for payment is not dependent upon the Committee deeming the quarterly progress report satisfactory or otherwise. In this way the Auditor-General’s independence to conduct performance audits as he sees fit is maintained while the Committee’s right to comment publicly is also protected and accountability is improved. Furthermore, should the members of the Committee cease to be members, for example due to a dissolution of the Parliament or the Committee itself ceases to exist, this mechanism will ensure that the work of the Audit Office is not put in doubt or hindered in the interim period.

Amendments to the Audit Act 1994 would be necessary to effect the introduction of this process.

The accountability processes, as described, will ensure that the Auditor-General is meeting his stated outputs in accordance with the performance audit program. In proposing this accountability mechanism or output based funding model for the Audit Office, its relevance for extension to other public sector agencies is significant for two reasons:

• the imposition of a unique accountability/funding model on a single public sector agency would be inequitable and inconsistent with the Government’s need for greater accountability across the breadth of the public sector; and
there is an ever increasing need to make all public sector agencies accountable for funding on the basis of desired and agreed outputs and outcomes.

Finding 5.1

The Committee finds that:

a) the presentation of progress reports by the Auditor-General upon his performance audits during each year, which accompany requests for reimbursement of the cost of those performance audits from Parliamentary appropriations, will enhance the accountability of the Victorian Auditor-General's Office.

It is important for the Victorian Auditor-General's Office, as it is for all budget sector authorities, to be accountable for the delivery of stated outputs and that accountability to the Parliament not just occur at year end but also occurs progressively throughout each year and has a clear linkage to fund flows;

b) the presentation of progress reports by the Auditor-General to the Committee will not impair the independence of the Victorian Auditor-General's Office. The Auditor-General must always maintain the sole right and responsibility to determine the application of audit resources and selection of performance audits. Equally the Committee reserves its right and responsibility to review and publicly comment on the Auditor-General's performance audit program as it sees fit.

The purpose of the progress reports are for the Auditor-General to account for funds expended on behalf of the Parliament and people of Victoria, and are not in any way to be used as a mechanism to control or influence the Auditor-General's exercise of his responsibilities; and

c) the presentation of similar high level progress reports by all budget sector authorities to the Parliament would promote timely accountability for the use of public funds.
Recommendation 5.1

The Committee recommends that:

a) the reimbursement of the Auditor-General's performance audit costs be made upon the following output based funding model:

- the submission of quarterly invoices by the Auditor-General to the Committee (on behalf of the Parliament); with

- quarterly reports to the Committee (on behalf of the Parliament) indicating the stage of progress of each performance audit (for example planning, implementation or reporting) on the annual performance audit program (previously advised to the Committee and having been set by the Auditor-General after consultation with the Committee in accordance with the Audit Act 1994).

Recommendation 5.2

The Committee recommends that section 16(8) of the Audit Act 1994 be amended to read:

The reasonable costs and expenses of the Auditor-General in conducting an audit of an authority under this section must be paid from money appropriated to the Parliament upon presentation of progressive invoices, if the Auditor-General has at the same time presented a progress report to the Public Accounts and Estimates Committee.
Recommendation 5.3

The Committee recommends that the introduction of the output based funding model for funding the Auditor-General’s performance audits be viewed as a precursor for implementation across the breadth of the public sector. The success or otherwise of this initiative be should be monitored, for possible extension to all public sector authorities.

5.3 Performance Audits of the Victorian Auditor-General’s Office

5.3.1 Overview

A performance audit of the Auditor General is required under the Audit Act 1994 (the Act) every three years. Section 19(1) of the Act states:

An audit shall be conducted under this section at least once every three years to determine whether the Auditor-General is achieving his or her objectives and doing so economically and efficiently and in compliance with the Act.

The first of these audits was conducted by Mr Fergus Ryan of Arthur Andersen in 1992. Mr Ryan found that the Auditor-General was meeting his objectives effectively, economically and efficiently and that the direction and momentum of his office was positive and constructive.13 The second triennial performance audit of the Victorian Auditor-General’s Office has since been completed by Mr Alan Talbot of Price Waterhouse and the report was tabled in Parliament in October 1995. Mr Talbot also concluded:

In my opinion, during the three years ended 30 June 1995, the Auditor General has achieved his objectives effectively and done so economically and effectively and in compliance with the Audit Acts 1958 (as amended) and 1994 respectively.14

13 Fergus Ryan, Performance Audit of the Auditor General of Victoria, October, 1992, page 6
14 Price Waterhouse Performance Audit of the Auditor General of Victoria, September 1995 page 1
The Auditor-General is well placed to meet the challenges of the next few years after two years of restructuring. The Corporate Plan and Business Plans are adequate and appropriate to the stage of development of the Office. The people are highly motivated, and methodologies are basically sound and the management processes satisfactory. Significant improvements have occurred over the three years since the previous performance audit...\textsuperscript{15}

5.3.2 Frequency of Independent Performance Audits of the Auditor General

In March 1992, the Parliament on the recommendation of the Economic and Budget Review Committee (the predecessor of the Public Accounts and Estimates Committee), appointed Mr Fergus Ryan of Arthur Andersen, to conduct the first performance audit of the Victorian Auditor General's Office pursuant to section 48B of the Audit Act 1958 (now section 19(1) of the Audit Act 1994). The final report (popularly known as the Fergus Ryan report) was issued in August 1992, and was subsequently tabled in Parliament on 27 October 1992.

With the change in government (following the State elections) the Public Accounts and Estimates Committee's was established. The majority of the members on the new committee had not previously served on a Public Accounts Committee, neither had they (with the exception of one member) been involved in commissioning this performance review. The Committee nevertheless inherited the task of conducting an independent investigation into the issues, observations and recommendations of the Fergus Ryan report.

Due to the practical ramifications of a change in government, and the establishment of a new committee, the Public Accounts and Estimate Committee's independent inquiry only commenced in earnest around June 1993. The Committee reported its findings and recommendations to Parliament in November 1993.\textsuperscript{16}

Under the provisions of the \textit{Parliamentary Committees Act 1968} (Section 40(2)), the Government is required to respond to the recommendations of the Committee in

\textsuperscript{15} Ibid. page 4

\textsuperscript{16} Public Accounts and Estimates Committee, \textit{The Performance Audit of the Auditor-General of Victoria}, November 1993
the Parliament within six months of the Committee's reports. The response to the Committee's report on the performance audit of the Auditor-General's operations was not tabled in Parliament until December 1994. Furthermore it is noted that the Premier's response to this Report was only tabled in the Legislative Assembly on 28 February 1995.

As outlined in the preceding paragraphs the process to finalise the first performance review of the operations of the Auditor General's Office had taken approximately three years since its inception in March 1992.

As indicated in section 5.3.1 the Second performance audit of the Auditor General's Office has been completed with the report tabled in October 1995. It is conceivable then that the Committee may again be required to undertake an in-depth inquiry into the issues observations and recommendations raised in this report for the purpose of reporting to the Parliament. In the event of such an inquiry occurring the process described above would follow.

As discussed earlier (section 5.3.1) the performance audits conducted by Mr Fergus Ryan of Arthur Andersen and Mr Alan Talbot concluded that the Auditor-General was meeting his objectives effectively, economically and efficiently and that the direction and momentum of the Audit Office was positive and constructive. Given the positive findings of these two reports the Committee proposes a review of the current maximum period (stipulated in the Audit Act 1994) for the conduct of performance audits of the Auditor-General.

In an address to the Legislative Assembly of the Parliament on 11 May 1995 the Chairman of the Committee stated:

After three years we have reached the stage of appointing Price Waterhouse to conduct audits. The Minister of Finance should examine that report and perhaps decide whether the Audit Act should extend for more than the three year period. It is difficult in only three years to digest the information from a performance audit and to enact its recommendations.17

17 Parliamentary Debates (Hansard), No 7,9,10 &11, May-1995, page 1489

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The matter I raised a few minutes ago referred to when the next performance audit of the Auditor General is to be started. We expect that audit to be in our hands at the end of this year. I reiterate that the minister and his colleagues should examine the necessity of having the audit within the three-year period. I would suggest that 3.4 or 5 years may be a better time frame.

The Audit Act should be amended to allow for three year minimum with a maximum of five years because it is very hard for the committee, which is the watchdog for Parliament, to finalise its in-depth study and give advice to government while still allowing the government the opportunity to report back within the current time frames. If there is a need for the Auditor-General to have an audit every three years, that would be possible by having a minimum time, but if it is deemed that the Auditor-General is doing his job in a proficient manner, then within the Audit Act a five-year period may be an acceptable and sensible way to approach this matter.18

The Committee's proposal for a review of the current legislative requirements of the Audit Act 1994 are premised on the following factors:

- Past reviews of the operations of the Auditor General's operations have been favourable.

- The three year time frame for the conduct of performance audit reviews is extremely stringent, given the responsibilities of the Committee for the investigation and conduct of inquiries into the substance of these reports, and its subsequent report to Parliament. In addition, the statutory requirement for Government to respond to the Parliament concerning the Committee's reports within 6 months of tabling (under the Parliamentary Committees Act 1968), adds further to the time required to finalise a performance audit report. The Government took more than 12 months to respond to the Committee's report on the first performance audit of the Auditor-General.

- The stringency of the time frames is further exacerbated in the event of an election, as was experienced when the first performance audit report was tabled.

18 Ibid. page 1490
This could result in a dissolution of the present Committee, with a possible change in membership of the succeeding Committee. In the event of a change of government the membership of a succeeding Committee could undergo a major overhaul, resulting in the Committee responsible for initiating the performance audit being unable to see it through to its natural conclusion. This was the experience of the Economic and Budget Review Committee which was superseded by the present Committee.

A change in membership may also represent a steep learning curve for new members who have had no prior experience in serving on such committees.

- The Victorian Auditor-General's Office along with New South Wales are the only two Audit Offices in Australia to be subjected to a triennial performance audit review under their respective audit acts. The first performance audit (peer review) of the New South Wales Auditor-General was commissioned in 1995. There is no legislative requirement for the conduct of performance audits of the Auditor-General in any other jurisdiction although the financial auditor of the Commonwealth Auditor-General's Office may look at performance or operational issues if he deems it to be appropriate. This however is purely an optional arrangement.

- The Victorian Auditor-General's Office is the only public sector authority that is subjected to a performance audit of its entire operations on a triennial basis. While other government departments (eg. Transport, Health and Education) are frequently reviewed by the Auditor-General, these performance reviews are only directed at certain components or programs of the department's operations.

In essence performance audits of the Auditor General are more regular than performance audits of any other department/public authority.

- In addition to the triennial performance audits, the Auditor-General's financial statements and annual report are subjected to audit by private sector auditors every year.

- The majority of the Committee's research staff, are employed through secondments from Government Departments and the Victorian Auditor
General's Office (on a limited tenure). Private consultants are also used to assist in projects requiring specialist or technical skills.

Mr Alan Talbot, when commenting on the frequency of performance audits of the Auditor-General stated:

There has been debate in the Parliament recently (11 May 1995) which questioned whether the three year period is appropriate. In my view it is appropriate to have a review of the performance of the Auditor-General each three years. This is in line with best practice followed by large private sector accounting practices in Australia and overseas.

The Auditor-General is appointed under the Audit Act 1994 for a seven year period and is currently eligible for re-appointment. If the performance audit was extended to once each five years, an incumbent might have only one audit during his term of office. In my view this would not be satisfactory. The professional practice of both financial and performance audits is one of constantly evolving change to the demands of Parliament, auditees, technology and the community generally. To extend the performance audit period longer than three years presents, in my opinion, an unacceptable risk that the Auditor-General, inadvertently or otherwise, could ignore the forces of change without being held accountable. ¹⁹

Notwithstanding Mr Talbot's comments the task of undertaking a post performance audit inquiry have significant practical implications for the Committee (as discussed previously).

The Committee currently has significant responsibility for maintaining the accountability of the Auditor-General through the provisions of Audit Act 1994,²⁰ which would be further enhanced if recommendation 5.1 and 5.2 of this report are adopted. In addition the Committee reviews all performance audit reports tabled by the Auditor-General and may discuss the findings of these reports with the Auditor-General through informal hearings (by invitation), if it is deemed necessary. The

¹⁹ Price Waterhouse Performance Audit of the Auditor General of Victoria, September 1995 page 60
²⁰ Audit Act 1994, Section 16(7), 17(1) & 19.
Committee also maintains other informal communication links with the Auditor General.

The Committee is able to monitor the ongoing performance of the Auditor-General through both its formal and informal channels and is therefore well placed to make recommendations regarding the frequency of performance audits of the Auditor-General. An amendment to the Audit Act 1994 for a three year minimum with a maximum five year period will provide the flexibility for the Committee to recommend performance audits of the Auditor-General based on its assessment of whether or not the Auditor General is discharging his responsibilities in a proficient manner. This proposal also addresses the concerns raised by Mr Alan Talbot since the number of performance audits conducted during the seven year term of each incumbent Auditor-General can be determined and varied at the discretion of Parliament.

Finding 5.2

Given the positive conclusions regarding the operations of the Auditor-General detailed in the Fergus Ryan report and the Price Waterhouse report, the Committee recommends that the maximum three year time frame for subsequent performance audits of the Auditor-General be reviewed to five years, with a provision for a three year minimum term.

The three year minimum term will sanction more frequent performance reviews of the Auditor-General to be conducted if it is deemed necessary at the discretion of the Parliament.
Recommendation 5.4

The Committee recommends that section 19(1) of the Audit Act 1994 be amended to read;

An audit shall be conducted at least once every 3 to 5 years to determine whether the Auditor-General is achieving his or her objectives effectively and doing so economically and efficiently and in compliance with this Act.

5.4 Inconsistency in the Funding of Performance Related Audits of the Victorian Auditor-General’s Office

The Auditor-General’s mandate for the audit of public sector authorities is legislated under the Audit Act 1994 (as amended) and the Financial Management Act 1994. Under these acts the Auditor General is required to conduct four distinctly different types of audits, namely:

1) Financial Statements Audits;
2) Section 15 Audits;
3) Section 16-Performance Audits; and

The cost of Section 16 performance audits are funded from monies appropriated to the Parliament, while section 15 audits and the Annual Statement of Financial Operations Audit are paid for by ‘auditees’.
Financial Statements Audits

Financial statements audits, pursuant to section 8 of the Audit Act 1994 are:

(1) The financial statements of each authority must from time to time and at least once in each year be audited by the Auditor-General or a person authorised by the Auditor-General.

Under section 10(1) of the Audit Act 1994 the costs and expenses of such financial audits are to be defrayed by the respective auditees.

Section 15 Audits

Section 15 audits, pursuant to the Audit Act 1994 which states:

(1) The Auditor-General may make a report on any audit undertaken by the Auditor-General, or person authorised by the Auditor-General, under this or any other Act.

(2) A report under sub-section (1) may include such information and such recommendations as the Auditor-General thinks fit for the more effective, efficient and economic operation of the authority to which the report relates.

The cost of these audits are met by the respective auditees under section 10(1) of the Audit Act 1994.

Section 16 Performance Audits

Section 16 performance audits, pursuant to section 16 of the Audit Act 1994, which states:

(1) Subject to sub-section (7), the Auditor General may conduct any audit he or she considers necessary to determine whether an authority is achieving its
objectives effectively and doing so economically and efficiently and in compliance with all relevant Acts.

As indicated in section 5.2 of this report the cost of these audits are met from money appropriated to Parliament.

Annual Statement of Financial Operations Audit

The Annual Statement of Financial Operations audit, pursuant to section 26 of the Financial Management Act 1994 which states:

(1) The Minister must cause a copy of the annual statement of financial operations to be given to the Auditor-General on or before 15 September next following the year to which it relates.

(2) The Auditor-General must make a report on the annual statement and may include in the report recommendations-

   (a) for the more effective and efficient management of public money; and

   (b) for the keeping of proper accounts and records of the transactions relating to public money.

The cost of the Annual Statement of Financial Operations audit is paid for by the Department of Treasury an Finance in it's capacity as auditee under section 10(1) of the Audit Act 1994.

It is evident from the sections cited from the respective Acts, that with the exception of Financial Statement Audits of public sector authorities conducted under section 8 of the Audit Act 1994, the other three types of audit contain (at least in part) a requirement for the Auditor-General to provide an opinion on the economy, efficiency and effectiveness of management practices and operations of an authority.
Audits of the Annual Statement of Financial Operations conducted under section 26 of the Financial Management Act 1994 requires the Auditor-General to provide an opinion on:

- the financial transactions of the Public Account (that is the Consolidated Fund and the Trust Fund); and

- the liabilities and financial assets of the of the State.

Consequently a component of the Auditor-General's responsibilities under this section deals with an assessment of effectiveness, efficiency and economy issues. The audit of the Annual Statement of Financial Operations is conducted by the Auditor-General on behalf of the Parliament (Section 27 of the Financial Management Act 1994).

The distinction between audits conducted under section 15 and performance audits conducted under section 16 of the Audit Act 1994, is described in the foreword to the Auditor-General's Report on Ministerial Portfolios. The Auditor-General states:

Following on amendments to the Audit Act in 1994, a new form of reporting regime was required by my Office. The Act, as amended, now basically provides for 2 forms of reports:

- reports under section 15 of the Act containing such information and recommendations arising from financial audits, as I think fit for the more effective, efficient and economic operations of government authorities: and

- reports outlining the results of audits provided for by section 16 of the Act which have been undertaken to determine whether government authorities are achieving their objectives effectively and doing so economically and efficiently, and in compliance with relevant legislation.

In future, the Report on Ministerial Portfolios will mainly contain matters arising from financial audits of my Office. Reports on section 16 performance audits will be generally reported to Parliament in individual Special Reports.
The fundamental differences between audits conducted under section 15 and performance audits as described by the Auditor-General are:

- issues identified for review under section 15 originate from financial audits. Consequently these audits consider matters that have financial/economic impacts. These matters are reported in the Auditor-General's report on Ministerial Portfolios.

- the magnitude of performance audits is far greater than section 15 audits in terms of the nature of topics covered, and the breadth and depth of issues considered, and may include aspects of public interest (for example environmental, health and safety issues etc.) These matters are reported to Parliament by way of a special report.

Section 15 audits are currently conducted as an extension of the financial audits of public authorities and may occasionally add a significant cost to the audit fees payable by a public authority. These authorities generally view audits conducted under section 15 as performance audits due to their focus on issues concerning the economy, effectiveness and efficiency of an organisation's operations and management. This has become a contentious issue for authorities, specifically with regard to the onus for payment.

The Committee also notes that the payment for the audit of the Annual Statement of Financial Operations, is more appropriately funded from Parliamentary appropriations since these audits are conducted by the Auditor General on behalf of the Parliament under the provisions of Part 5 of the *Financial Management Act 1994.*
Finding 5.3

The Committee finds that:

- audits conducted under section 15 of the Audit Act 1994, and performance audits conducted under section 16 of the Act focus on economy, effectiveness and efficiency issues.

- the audit of the Annual Statement of Financial Operations also has some focus on effectiveness and efficiency.

- section 15 audits are conducted as an extension of the financial audits of public authorities and on occasion could add significantly to the cost of audit fees payable by these agencies.

- public authorities generally regard audits conducted under section 15 of the Act as performance audits due to their focus on issues concerning the economy, efficiency and effectiveness of an organisations operations and management. This has become a contentious issue for these authorities particularly with regard to the onus for payment for such audits.

- because the audit of the Annual Statement of Financial Operations, is conducted by the Auditor-General for the Parliament under the provisions of Part 5 of the Financial Management Act 1994 it is more appropriate that these audits are funded from Parliamentary appropriations.
Recommendation 5.5

The Committee recommends that the cost associated with the conduct of section 15 audits of the Auditor-General be defrayed from Parliamentary appropriations akin to that of performance audits since they both deal with economy, efficiency and effectiveness issues and moreover could add significantly to the cost of the financial audits payable by public authorities.

Recommendation 5.6

The Committee recommends the inclusion of a sub-section to section 15 of the Audit Act 1994, which reads:

The reasonable costs and expenses of the Auditor-General in conducting an audit of an authority under this section must be paid from money appropriated to the Parliament.

Recommendation 5.7

The Committee recommends that because the audit of the Annual Statement of Financial Operations is conducted by the Auditor General for the Parliament under Part 5 of the Financial Management Act 1994, the cost of these audits should be defrayed from Parliamentary appropriations.
5.5 The Committee's Report on the 1992-93 Budget

As part of it's inquiry into the 1993-94 budget estimates, the Committee reviewed the budget of the Parliament under section 4EB of the Parliamentary Committees Act 1968. Following this review, the Committee made the following recommendations in respect of the operations of the Parliament, in its sixth report:21

Recommendation 3.1

It is recommended that the Parliament determine whether its budget estimates should be subject to the same Parliamentary estimates scrutiny as are all budget estimates, and if appropriate, who should have responsibility for such scrutiny.

Recommendation 3.2

The Committee recommends that the Parliament establish its own audit committee and internal audit function.

The first of these recommendations has been reiterated in Chapter 1 of this Report. The second recommendation advocated the need for the Parliament to comply with Part 5 of the former Audit (Financial Management) Regulations 1993, which promulgated the former legislative mandatory requirements with respect to the establishment and maintenance of internal control standards, audit committees and internal audit functions in departments. These regulations have now been replaced by Ministerial Directions.

While a formal response to these recommendations remains outstanding, it is noted that the Parliament has appointed an internal auditor during 1995, as recommended by the Committee.

Finding 5.4

The Committee finds that the Parliament appointed an internal auditor during 1995, as recommended by the Committee in its sixth report. The Committee commends the presiding officers of the Parliament on this initiative.

Committee Room
23 November 1995
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*Report of the Victorian Commission of Audit*; Volume 1; May 1993; The Graphic Print Centre; Melbourne.


Pursuant to Section 40(2) of the Parliamentary Committees Act 1968, this paper provides the response of the Department of Treasury and Finance to those recommendations contained in the Public Accounts and Estimates Committee's Ninth Report.

Guide for Readers:
Following is an explanation of the format of this paper.

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<thead>
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Depts: Departments generally, meaning the 11 Departments and Parliament.
MIB: Management Improvement Branch, Department of Treasury and Finance.
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<tr>
<td><strong>Recommendation 2.1</strong></td>
<td>Accept in part</td>
<td>Budget Paper No. 3, the <em>Budget Estimates</em>, provides financial details for departmental programs and output and performance information at the sub-program level. Section 40 of the <em>Financial Management Act 1994</em> prescribes the format for the information which Ministers must prepare in association with the annual appropriation Bills.</td>
<td>There will be further enhancement of the reporting requirements defined by Section 40 of the <em>Financial Management Act</em>. As advised in the Government's response to the Committee's Sixth Report (refer recommendation 2.1 of that report), Ministers and departments may decide whether and in what way to publish detailed planning information. They could for instance, incorporate such information in their annual reports. The Department of Treasury and Finance is continuously monitoring the output data and benchmark activities of departments to encourage continuous improvement.</td>
<td>DMB, Departments.</td>
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<td>Recommendation 2.2</td>
<td>Accept in part</td>
<td>The main purpose of the Budget papers, and specifically Budget Paper No. 3, the <em>Budget Estimates</em>, is to provide information about plans for the year ahead. It is intended that it continue to focus on the future. Departmental annual reports, however, are required to provide information about the prior year's performance. (See also recommendation 2.3).</td>
<td>Progressive improvement in the quality of published budget information, including the development of qualitative output measures, is part of the Department of Treasury and Finance's management agenda. As mentioned in the response to recommendation 2.1 above, there will be further enhancement of the reporting requirements defined by Section 40 of the <em>Financial Management Act 1994</em>. As announced in the <em>Autumn Economic Statement 1995</em>, (pages 7-2 to 7-5), a results based financial and management system is to be established for Victoria's budget sector which focuses on outputs and outcomes and identifies the full cost of management decisions.</td>
<td>BMB, MfB.</td>
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Responses to PAEC Final Report on the 1993-94 Budget Estimates and Outcomes

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<td><strong>Recommendation 2.3</strong></td>
<td><strong>Accept</strong></td>
<td>Budget Paper No. 3, the <em>Budget Estimates</em>, already includes performance measures. The Directions of the Minister for Finance in terms of Part 7 of the <em>Financial Management Act 1994</em>, require public bodies to provide a range of information on their operational and financial performance. (Those Directions were issued in January 1995).</td>
<td>Sections 48 and 49 of the <em>Financial Management Act 1994</em> provide that the report of operations and financial statements contain such information as required by the Minister. This mechanism will be utilised to require reporting of further performance measures in the annual reports of departments and public bodies.</td>
<td>AFRD, BMB.</td>
</tr>
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<td><strong>Recommendation 2.4</strong></td>
<td><strong>Accept in part</strong></td>
<td>The current provisions of the <em>Financial Management Act 1994</em> do not require public sector agencies to include performance measures in their annual reports. However, the Management Improvement Initiative is seeking to improve the quality of information so far developed and reported.</td>
<td>Performance information is in an early stage of development and is currently used as an internal management tool. Until further development has been undertaken, it is not proposed to include performance information in annual reports. Additionally, it is not considered that inclusion in annual reports in the future would involve the Auditor-General in expressing an opinion on the relevance and appropriateness of the performance measures, as the users could make this assessment. This approach is in line with practice in the commercial sector where a company’s external auditors do not express an opinion on performance measures included in annual reports.</td>
<td>AFRD, MIB.</td>
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<td>Recommendation 3.1</td>
<td>Accept in part</td>
<td>The recommendation is embodied within the current Directions of the Minister for Finance. Ministerial Directions are of no less importance than Regulations and are not perceived to be of less importance by parties external to the Department of Treasury and Finance.</td>
<td>It is agreed, however, that Directions may need to be developed to require public sector bodies to exercise adequate internal control.</td>
<td>AFRD.</td>
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<td>The Committee recommends that regulations, similar to the former Audit (Financial Management) Regulations 1993 and consistent with the related ministerial directions issued by the Minister for Finance, be issued under the Financial Management Act 1994 to require adequate public sector internal control, audit committees and internal audit (including a periodic analysis of risks) to public sector bodies.</td>
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<td>Recommendation 3.2</td>
<td>Accept in part</td>
<td>Direction 8.2 of the Minister for Finance indicates that it is the responsibility of the Accountable Officer (who the Financial Management Act 1994 designates to be the Department Secretary) to establish and maintain an audit function which has an independent status within the department. The involvement of non-executive and external persons with expertise can be of benefit to an audit committee. This is recognised in the Directions of the Minister.</td>
<td>Audit committees are at a stage of independence but the extent of that independence is still being developed. Ongoing extension of the participation of external parties to provide substantive independence of audit committees will be encouraged.</td>
<td>AFRD.</td>
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<td>The Committee recommends that public sector audit committees should include a majority of non-executive members of the agency’s governing board (where existing) and persons external to the organisation.</td>
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<td>Recommendation 3.3</td>
<td>Accept in part</td>
<td>The integrity of the Accountable Officer position is better protected by the existence of an independent audit committee. If this is best achieved by an independent chair, this is encouraged. However, it is the responsibility of the Accountable Officer to determine this requirement.</td>
<td>Progress in increasing external representation on audit committees will be encouraged. It is expected that following private sector disclosure requirements, membership of audit committees will be disclosed in the annual report.</td>
<td>AFRD.</td>
</tr>
<tr>
<td>Recommendation 4.1</td>
<td>Accept in part</td>
<td>1994-95 Budget Paper No. 2, <em>Budget Performance and Outlook</em>, provided discussion of progress by departments with their savings strategies (Refer Chapter 4, Departmental Outlays). Further information is provided in departmental annual reports.</td>
<td>The provision of the information recommended by the Committee is considered when the structure and content of departmental information included in Budget papers is being determined. This information includes the impact of savings achieved by departments. The Budget papers will continue to be presented on a departmental basis rather than in ministerial portfolio form.</td>
<td>BMB.</td>
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DEPARTMENT OF TREASURY AND FINANCE

SUPPLEMENTARY RESPONSE TO THE
INTERIM REPORT ON THE STATE'S BUDGET AND FINANCIAL MANAGEMENT FRAMEWORK
BY THE PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE
(SEVENTH REPORT TO THE PARLIAMENT, MAY 1994)

Pursuant to Section 48(2) of the Parliamentary Committees Act 1968, this paper provides the supplementary response of the Department of Treasury and Finance to those recommendations contained in the Public Accounts and Estimates Committee’s Seventh Report.

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DPC  Department of Premier and Cabinet.
EPFSB  Economic Policy and Financial Strategy Branch, Department of Treasury and Finance.
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<td>Recommendation 1</td>
<td>Accept</td>
<td>A table was published in the Autumn Economic Statement 1995 which provides an indication of the sensitivity of various components of revenue and outlays to changes in economic conditions (Table 4.7, page 4.18).</td>
<td>There is to be further development of sensitivity estimates for budget modelling and analysis and to improve the quality of published Budget Information</td>
<td>EPFES, BMB</td>
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<tr>
<td><strong>Recommendation 1</strong></td>
<td>Accept</td>
<td>The early provision of planning allocations to departments commenced with the 1993-94 Budget. This continued with the Treasurer’s Autumn Economic Statement 1994 when interim Appropriation Bills were introduced to enable new capital works to commence on 1 July 1994 instead of being delayed until after passage of the September Budget. Departmental capital expenditure behaviour now reflects the new appropriation process. The Autumn Economic Statement (AES), in April, is now the vehicle for policy release, with the September Budget papers supporting the expenditure details. In the AES of 1995, fiscal targets to 1998-99 were outlined.</td>
<td>Now that the AES is a regular annual event, the emphasis in the September Budget papers has changed to one of disclosure of the prior year results and detailed agency information for the forthcoming year. The content, nature and timing of the AES and Budget papers is regularly reviewed.</td>
<td>BMM.</td>
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<td><strong>Recommendation 4</strong></td>
<td>Accept in part</td>
<td>In order to achieve Whole of Government reporting, it is essential that accrual reporting of the financial transactions of departments be put in place. The Accounting and Financial Reporting Division has developed the tools necessary for annual Whole of Government financial reporting on an accrual basis. (Refer also to response to recommendation 2)</td>
<td>Subject to the preparation of accrual-based financial statements by all departments and the determination of the scope of Whole of Government, a Whole of Government report will be prepared for the 1995-96 financial year on a trial basis. The resolution of all technical issues relating to the Australian Accounting Research Foundation’s Exposure Draft EDS2 (Financial Reporting by Governments) will enable the consolidated financial reports of Government to be published.</td>
<td>AFRD.</td>
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*Supplementary Response to PAEC Interim Report on the State’s Budget and Financial Management Framework*
RECOMMENDATION 3.4

The Auditor-General should provide a copy of his performance audit plan to the Public Accounts and Estimates Committee on an annual basis and the Committee given the opportunity to discuss this plan with the Auditor-General and suggest but not dictate subjects for performance audits.

GOVERNMENT RESPONSE:

Agree. However, see also response to Rec. 5.3.

RECOMMENDATION 5.3

It is recommended that:

(a) a seven member Parliamentary committee be established to review the Audit Office’s budget proposals and make a recommendation to the Parliament;

(b) this committee should comprise the Speaker of the Legislative Assembly or President of the Legislative Council who should alternate on an annual basis;

(c) the composition of the remainder of the committee should ensure an equal representation of Government and Opposition members and should include the Treasurer (or his Parliamentary representative) and the Chairman and one other member of the Public Accounts and Estimates Committee; and

(d) the Speaker and President should alternate as Chairperson on an annual basis.
GOVERNMENT RESPONSE:

The Government does not support the cumbersome process proposed. Any separate process for determining a budget for the Audit Office would be inconsistent with the Government's need and responsibility to determine expenditure priorities across the breadth of the public sector. The Government is accountable to the Parliament for the overall financial performance of the State, and for the allocation of scarce resources between alternative priorities. However, a specific role for the Parliament in developing the performance audit plan is envisaged - see Rec 3.4.

RECOMMENDATION 5.4

The proposed committee's role in setting the Auditor-General's budget should, in no way, impact upon the Auditor-General's ability to determine the application of audit resources or lead a review of merit, or otherwise, of particular performance audit proposals. Performance audits should therefore be funded on a total, annual basis rather than on an individual basis.

GOVERNMENT RESPONSE:

Within the budget approved for the Audit Office, the Auditor-General is responsible to the Parliament through the PAEC for determining the allocation of resources between the functional areas of the Office, with the regular detailed outside scrutiny through the AG's annual report and the triennial performance audit of the Auditor-General.

RECOMMENDATION 8.1

Given that the Parliament is the Auditor-General's client, it is recommended that performance audits be funded by the Parliament rather than by auditees.

GOVERNMENT RESPONSE:

Agree.

Section 16(8) of the Audit Act 1993 provides that

"the reasonable cost and expenses of the Auditor-General in conducting an audit of a department under this section must be paid from money appropriated to the Parliament."

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