PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

SEVENTH REPORT TO PARLIAMENT

INTERIM REPORT ON
THE STATE'S BUDGET AND FINANCIAL
MANAGEMENT FRAMEWORK

MAY 1994

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PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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INTERIM REPORT ON THE STATE'S BUDGET AND FINANCIAL MANAGEMENT FRAMEWORK

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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.
PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

CHAIRMAN'S INTRODUCTION

This inquiry will maximise the benefits arising from the Report of the Victorian Commission of Audit. It is now one year after that Report was tabled in the Parliament and it is timely and very important to review the progress of the implementation of the Commission of Audit's many recommendations in respect of the State's budget and financial management framework.

The Inquiry is being conducted in two parts. This interim report provides an assessment of progress to date while the final report, to be issued at a later date, will assess progress against action recommended in this report.

This report highlights the Government's major reforms and achievements in the State's budget and financial management framework. These include enhanced information provision in the Budget Papers, the Management Improvement Initiative and reforms to the State's financial management legislation. Initiatives include a robust and credible system of forward estimates; an integrated budget sector management cycle which incorporates planning, budgeting, delivery, review and reporting; a program to introduce accrual accounting in all departments; and a focus on funding outputs/outcomes and not inputs.

Naturally the magnitude of the reforms proposed by the Commission of Audit mean that full implementation is not possible within one year. Consequently the Committee has highlighted some key remaining issues in the areas of accrual budgeting, whole of government financial statements, departmental accrual accounting, information systems and timing of the budget.

I thank the other members of the Committee for the constructive time and effort spent on the Committee's bipartisan endeavours.

On the Committee's behalf, I thank the Committee's consultant, Ms Penelope Hutchinson of BDO Consulting Pty Ltd, for her advice, analysis and reports. I also thank Mr Craig Burke, Director of Research for his briefing of the Committee, advice and drafting of the report and Mrs Helena Cyrulo for administrative support.

Hon. G. Graeme Weideman, MP, JP
Chairman
EXECUTIVE SUMMARY

The State's Budget and Financial Management Framework

- The Report of the Victorian Commission of Audit made several recommendations to improve the State's budget and financial management framework. This interim report, the first arising from a two part inquiry, assesses the implementation of those recommendations.

- The Government has taken major strides in the implementation of the Commission of Audit's recommendations through:

  (i) the many reforms to the Budget, including a robust and credible system of forward estimates and a focus on funding outputs/outcomes and not inputs;

  (ii) the Management Improvement Initiative, incorporating an integrated budget sector management cycle which incorporates planning, budgeting, delivery, review and reporting;

  (iii) a program for the introduction of accrual accounting into all departments and implementation of a new central (computer-based) financial management system. These two elements are critical to the successful implementation of the Commission of Audit's recommendations; and

  (iv) reforms to the State's financial management legislation, primarily through the Audit Act 1994 and Financial Management Act 1994, which for example remove the need to balance the Consolidated Fund.

- Key remaining issues include:

  (i) the need for clear policy commitment to accrual based budgets and whole of government financial statements;

  (ii) continued emphasis on the development of meaningful, consumer focused output measures;

  (iii) the need to expedite the introduction of accrual accounting in departments;

  (iv) the successful implementation of information systems improvements and development of a comprehensive information technology strategy;

  (v) advancement of the timing of the delivery of the budget so it is presented to Parliament prior to the year to which it relates; and

  (vi) publication of sensitivity analyses in the Budget Papers.
FINDINGS AND RECOMMENDATIONS

Finding 1 (Appendix page 23)

Full implementation of Commission of Audit recommendation 5.1 with respect to the integration of forward estimates with the accounting and budget system is dependent on the successful introduction of a new central (computer-based) financial management system. This project, which is being initiated by the Department of Finance is due to be completed in 1994-95.

Finding 2 (Appendix page 24)

Implementation of Commission of Audit recommendation 5.2 is partly dependent on the Management Improvement Initiative project which is monitoring implementation of guidelines for works proposals.

Finding 3 (Appendix page 25)

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 the 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.

Recommendation 1 (Appendix page 25)

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

Finding 4 (Appendix page 26)

The Financial Management Act 1994 contemplates 'one-line' appropriations rather than the more detailed appropriations in the Government Finance Statistics format contemplated by Commission of Audit recommendation 5.5. However, Budget Paper No. 4 presents information in the Government Finance Statistics format by program. It is also understood that Departmental Performance Estimates will contain information at a sub-program level.
Reporting back to Parliament via the Niemeyer Statement is in the Government Finance Statistics format whilst the Finance Statement is based on Consolidated Fund information. Thus, the issue of inconsistency between the format of budget information and subsequent reporting is still to be formally addressed (refer recommendation 8).

Finding 5 (Appendix page 26)

There is as yet no clear commitment or timetable for the introduction of accrual based budgets as recommended in Commission of Audit recommendation 5.5 although this recommendation has been accepted in principle by the Department of the Treasury. The Department of the Treasury has further acknowledged that by 1995-96, we will have "all the pieces of the jigsaw available to us to complete the accrual budgeting arrangement." If this is not done in the next two years, a situation will arise whereby annual reports will all be on an accruals basis but the budget will be on a cash basis. It is important that resource usage be managed effectively and economically and that performance in this regard be transparent. It is however recognised that some cash based reports will still be required for comparative purposes. It would seem logical to introduce an accrual based budget to precede or coincide with the completion of the accrual accounting project being carried out by the Department of Finance.

Recommendation 2 (Appendix page 26)

It is recommended that the Government make a policy commitment to the introduction of an accrual based budget by 1995-96. A timetable should be drawn up as a matter of urgency which sets out the steps necessary to achieve this objective. The timetable should encompass (inter alia):

- the issue of a discussion paper by the Department of the Treasury relating to options for the structure of the budget;
- an appropriate process for consultation and problem solving, and
- pilot projects to be carried out by those departments who are in the vanguard of developing accrual based financial statements.

Finding 6 (Appendix page 32)

The introduction of the Autumn Economic Statement along with Appropriation Bills for the first four months of the year greatly enhances the capability of departments for financial planning with a degree of certainty. The Department of the Treasury does not as yet have a timetable to bring down the budget earlier in the year. Financial planning processes both centrally and within departments would be further enhanced if this was initiated.
Recommendation 3 (Appendix page 32)

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.

Finding 7 (Appendix page 33)

Full implementation of Commission of Audit recommendation 5.14 relating to attributing full costs to relevant services is dependent on the progress of the introduction of capital, rental and superannuation charging to departments. The recently published Autumn Economic Statement states that departments are now required to pay rent and that capital and superannuation charges will be introduced in 1994-95. (Refer also to Findings 4 and 5 relating to Commission of Audit recommendation 5.5).

Finding 8 (Appendix page 33)

The Government has demonstrated a clear commitment to the introduction of accrual accounting by departments by initiating a staged introduction process being managed by the Department of Finance. Whilst we note the conceptual, resourcing and systems issues involved, the Department of Finance should consider advancing the timetable so that there are accrual accounts for all departments by 1994-95. The possibility of advancing the timetable was acknowledged by the Department of Finance at their meeting with the Public Accounts and Estimates Committee on 13 April 1994.

Finding 9 (Appendix page 37)

As yet the Government has not made a commitment or set a timetable for the introduction of whole of government general purpose financial reports.

Recommendation 4 (Appendix page 37)

It is recommended that the Government make a commitment to the introduction of whole of government reporting at the earliest possible practical opportunity which should be no later than 1995-96. A detailed timetable should be drawn up to include all implementation issues which need to be worked through, including a 'pilot' whole of government financial statement by 1994-95.
and the 'parent entity' issue as discussed in Commission of Audit recommendation 6.13.

Finding 10 (Appendix page 37)

Monthly reporting by agencies and the State on a full financial reporting basis requires the implementation of accrual accounting by relevant agencies. A project for this purpose has been initiated by the Department of Finance.

Finding 11 (Appendix page 38)

Implementation of Commission of Audit recommendation 6.2 is dependent to some extent on the introduction of accrual accounting, since the monthly reports referred to are to include depreciation and expenses related to employee entitlements. Monthly reporting of financial assets and liabilities would also be useful so that liquidity and solvency measures could be monitored.

Recommendation 5 (Appendix page 38)

It is recommended that Commission of Audit recommendation 6.2 relating to monthly reporting of cash flows and accrual based measurement of operating performance should be implemented in line with the overall implementation of accrual accounting. Monthly monitoring of financial assets and liabilities should also be considered.

Finding 12 (Appendix page 39)

The focus on output based reporting is a major theme throughout the Commission of Audit report. Whilst output measures were published in Budget Paper No. 4 at the program level, more detailed estimates were prepared by agencies in late 1993 but have not been published. The various departments which took part in this Inquiry are at differing stages of implementing this and related recommendations. In some areas such as public hospitals and public transport, it is relatively easy to design output based performance measures. In others, such as the Arts it is more difficult. This matter is also closely linked with projects 2 and 3 of the Management Improvement Initiative. There is however, a strong commitment to the thrust of this recommendation on the part of the Government and within agencies.
Recommendation 6 (Appendix page 39)

It is recommended that the development of meaningful, consumer focussed output measures and reporting thereon be pursued as a matter of urgency by all relevant agencies.

Finding 13 (Appendix page 42)

At this stage, it is not planned to produce General Purpose Financial Reports on a half yearly basis. Preparation of half yearly General Purpose Financial Reports is dependent upon a commitment to whole of government General Purpose Financial Reports as dealt with in relation to Commission of Audit recommendation 6.1.

Recommendation 7 (Appendix page 42)

It is recommended that the Government make a commitment to the preparation of summary half yearly General Purpose Financial Reports, to be introduced in the same year as whole of government financial statements.

Finding 14 (Appendix page 43)

If whole of government reporting is introduced in accordance with Australian Accounting Standard 29 ‘Financial Reporting by Government Departments’, it is likely that the requirements of the Constitution Act 1975 in relation to accountability for the discharge of public moneys from the Consolidated Fund would not be met. Thus, the Constitution Act 1975, would require amendment if the Finance Statement was to be discontinued.

Recommendation 8 (Appendix page 43)

It is recommended that once whole of government reporting and accrual based budgets are introduced, the Government consider the further need for the Finance Statement within the context of overall information requirements for Parliament. In this context the issue of consistency between the format of budget information and subsequent reporting should also be addressed as noted in Finding 4.
Finding 15 (Appendix page 45)

In relation to both the Department of the Treasury and other departments, it has been found that there is considerable work to be done on information systems to meet the needs identified by the Commission of Audit and the agencies themselves. Several consultancies of significant value are involved. Successful implementation of information systems improvements will enable the implementation of other recommendations to take place.

Recommendation 9 (Appendix page 45)

It is recommended that the Department of Finance develop a comprehensive Information Technology strategy as soon as possible for implementation by all departments.

Finding 16 (Appendix page 50)

Whilst it could be argued that the current format of the statement required by the certification provisions of regulations made under the Annual Reporting Act 1983 implies effectiveness of internal controls, this could be made more explicit by incorporating the specific requirement in regulations to be made under the Financial Management Act 1994.

Recommendation 10 (Appendix page 50)

It is recommended that the Minister for Finance include a specific reference to internal controls in the certification statement expected to be required under the new regulations to be made under the Financial Management Act 1994. At the time of writing the relevant regulations had not been made.

Finding 17 (Appendix page 51)

Commission of Audit recommendation 6.17 refers specifically to a review of internal controls by the Auditor-General. Departments have, in general, engaged other parties for this purpose as part of their internal audit, although in theory there is no impediment to the Auditor-General acting on this recommendation. A review as envisaged would not be carried out by the Auditor-General as a matter of course on each audit because of the risk-based approach adopted. It is likely that an amendment would be needed to the Audit Act 1994 to require the Auditor-General to carry out this function.
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. Theophanus 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 (Benambra), 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.
LIST OF PERSONS OR ORGANISATIONS PROVIDING SUBMISSIONS/EVIDENCE

- Prof. R. R. Officer, Chairman and Mr S. R. Eslake, Executive Officer of the Victorian Commission of Audit.

- The Hon A. Stockdale, MLA, Treasurer of Victoria, Dr M. Vertigan, Secretary, Mr R. Reeves, Deputy Secretary, Mr T. Martin, Director Budget Management and other representatives of the Department of the Treasury.

- The Hon I. Smith, MLA, Minister for Finance, Mr F. King, Acting Secretary, Mr R. Paice, Comptroller-General and other representatives of the Department of Finance.

- Mr C. A. Baragwanath, Auditor-General of Victoria.

- Department of Transport.

- Department of Education.

- Department of Health and Community Services.

- Department of Premier and Cabinet.

- Department of the Arts, Sport and Tourism.
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THE STATE'S BUDGET AND FINANCIAL MANAGEMENT FRAMEWORK

Overall Objective of the Inquiry

The overall objective of the Inquiry is to assess the implementation of the recommendations of the Victorian Commission of Audit in respect of the State's budget and financial management framework. Those recommendations are set out in chapters 5 and 6 of the Commission's Report. This Inquiry did not consider recommendations concerning the funding and mandate of the Auditor-General (included in Chapter 6 of the Commission's Report) as these were addressed in the Committee's report on *The Performance Audit of the Auditor-General of Victoria* (November 1993).

Approach to the Inquiry

The Committee elected to conduct the Inquiry in two parts. The results of phase 1 are detailed in this interim report and involved:

- an assessment of the State's budget and financial management framework, including reforms currently underway and planned, in the light of the Commission of Audit's recommendations;

- acknowledgment of actual and planned achievements; and

- identification of key issues to be addressed in the reform of the State's budget and financial management framework including suggested modifications to existing reforms.

Phase 2, which will be conducted after a suitable time interval, is intended to:

- monitor progress against recommended action included in this interim report; and

- report to Parliament on achievements made and issues outstanding.

The Committee held meetings with members of the former Commission of Audit and senior representatives of the Department of Finance and the Department of the Treasury. Key matters discussed included the Commission of Audit's recommendations concerning the introduction of accrual accounting, whole of government financial statements and accrual based budgeting. Implementation issues such as those related to information systems and training were also discussed.

The Committee appointed Ms Penelope Hutchinson of BDO Consulting Pty Ltd as consultant to assist the Committee in carrying out the Inquiry, after conducting an open tender process. The Committee provided its consultant with a detailed brief. The brief required the consultant, among other matters, to:

- familiarise herself with related aspects of the Report of the Victorian Commission of Audit (particularly chapters 5 and 6) and evidence received by the Committee;

- establish the current status of the State's budget and financial management framework;

- assess reforms currently underway and planned, noting in particular the proposed timing of planned reforms (this required discussions with representatives at differing levels of the Departments of the Treasury, Finance, Premier and Cabinet, Health and Community Services, Transport, Education and Arts, Sport and Tourism);

- identify any key elements of the Commission of Audit's recommendations related to the State's budget and financial management framework that have not been adequately addressed; and
• provide progress reports to the Committee.

The Committee's Findings and Recommendations

Draft interim and final reports were received from the consultant and considered by the Committee at several meetings. The consultant's final report is included as an appendix to this report. The Committee has adopted all of the consultant's findings and recommendations (refer appendix and the listing at page xi). A summary of the progress made in implementing the Commission of Audit's recommendations is included in attachment 7 of the appendix.

Legislative Requirements

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."

COMMITTEE ROOM
18 May, 1994
APPENDIX

REPORT BY BDO CONSULTING PTY LTD
PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into the State’s Budget and Financial Management Framework

BDO Consulting Pty Ltd

May 1994
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ABBREVIATIONS

AAS  Australian Accounting Standard
ANTA  Australian National Training Authority
BDO  BDO Consulting Pty Ltd
BERC  Budget Estimates Review Committee
COA  Commission of Audit
COSO  Committee of Sponsoring Organisations of the Treadway Commission
DAST  Department of Arts, Sport and Tourism
DH&CS  Department of Health and Community Services
DOE  Department of Education
DOF  Department of Finance
DOT  Department of Transport
DOTT  Department of the Treasury
DPC  Department of the Premier and Cabinet
DSE  Directorate of School Education
GFS  Government Finance Statistics
GPFR  General Purpose Financial Report
IMC  Integrated Management Cycle
MII  Management Improvement Initiative
OPSM  Office of Public Sector Management
OTFE  Office of Training & Further Education
PAEC  Public Accounts and Estimates Committee
PTC  Public Transport Corporation
SOR  Statement of Responsibility
EXECUTIVE SUMMARY

The primary purpose of this Inquiry is to focus on the implementation of recommendations from Chapters 5 and 6 of the report of the Commission of Audit tabled in the Legislative Assembly in May 1993. The Victorian Government has already made significant progress in implementing these recommendations. Important initiatives are encompassed in:

- the *Financial Management Act* 1994;
- the *Audit Act* 1994;
- the Management Improvement Initiative; and
- enhanced information provision in the Budget Papers.

Of the approximately forty relevant recommendations, several have been completed. These relate to adjustments to the budget structure such as borrowing from future appropriations and allowing the limited carry over of year end balances.

Varying degrees of progress have been made on the majority of recommendations. More detail is provided on these in the body of this report. Attachment 7 comprises a table which summarises, in simplified terms, the progress made by the relevant departments in relation to individual recommendations.

There are two major areas where little progress has been made. These are described briefly below:

- there is as yet no clear commitment or timetable for the introduction of an accrual-based budget for the State of Victoria; and

- no commitment has been made or firm date has been set by the Government in relation to the preparation of whole of government financial statements.

Several other recommendations are dependent on the implementation of these two initiatives. Given the emphasis by the COA on a shift towards accrual-based planning and reporting, this raises issues of resourcing the implementation of those recommendations. Although the Inquiry did not focus on staffing implications of the COA’s recommendations, there is some concern as to whether there are sufficient qualified accounting resources within DOF, DOTT and other departments to meet this need. We understand that an extensive training program is being co-ordinated by DOF.
BDO

The implementation of some recommendations is heavily dependent on having adequate information systems available. All relevant departments have recognised this and are involved in projects to improve their information technology capabilities accordingly. DOF has also recognised the need for a comprehensive IT strategy which will ensure that consistent standards are adopted by all departments.

A major theme in the COA report is a focus on output-based performance measurement and the linking of this with related corporate planning processes. Progress on these issues varies considerably.

It is proposed that Stage 2 of the Inquiry should focus particularly on areas where there is still considerable work to do such as those mentioned above. A detailed work plan and timetable for Stage 2 will be developed following acceptance of this report by the PAEC. However, it is expected to encompass at least the following elements:

- monitoring of the progress of several MII projects; (COA recommendations 5.2, 5.11, 6.4, 6.9, 6.11);
- a review of the timetable and progress of implementation of the new financial management system being implemented by DOF; (COA recommendation 5.1);
- monitoring of the progress in developing a system for tracking variances from forward estimates (COA recommendation 5.4);
- establishing a notification process whereby the PAEC can be regularly informed of further progress concerning those COA recommendations which relate to reform of service delivery (COA recommendations 5.9 and 5.10);
- a review of the first group of accrual-based financial statements to be prepared in 1993-94; (COA recommendation 5.14);
- a review of the regulations to be made under the Financial Management Act (COA recommendation 6.15); and
- monitoring of the implementation of recommendations arising out of this Inquiry.
LISTING OF FINDINGS AND RECOMMENDATIONS

Finding 1

Full implementation of COA recommendation 5.1 with respect to the integration of forward estimates with the accounting and budget system is dependent on the successful introduction of a new central (computer-based) financial management system. This project, which is being initiated by DOF is due to be completed in 1994-95.

Finding 2

Implementation of COA recommendation 5.2 is partly dependent on the MII project which is monitoring implementation of guidelines for works proposals.

Finding 3

Full implementation of COA recommendation 5.3 relating to the publication of sensitivity estimates and parameters is still under consideration by DOTT. 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.

Recommendation 1

It is recommended that DOTT publish sensitivity analysis and parameters as envisaged in COA recommendation 5.3 as soon as is feasible.

Finding 4

The Financial Management Act 1994 contemplates 'one-line' appropriations rather than the more detailed appropriations in GFS format contemplated by COA recommendation 5.5. However, Budget Paper No. 4 presents information in GFS format by program. It is also understood that Departmental Performance Estimates will contain information at a sub-program level. Reporting back to Parliament via the Niemeyer Statement is in GFS format whilst the Finance Statement is based on Consolidated Fund information. Thus, the issue of inconsistency between the format of budget information and subsequent reporting is still to be formally addressed (refer recommendation 8).

Finding 5

There is as yet no clear commitment or timetable for the introduction of accrual based budgets as recommended in COA recommendation 5.5 although this recommendation has been accepted in principle by DOTT. DOTT has further acknowledged that by 1995-96, we will have "all the pieces of the jigsaw
available to us to complete the accrual budgeting arrangement.* If this is not done in the next two years, a situation will arise whereby annual reports will all be on an accruals basis but the budget will be on a cash basis. It is important that resource usage be managed effectively and economically and that performance in this regard be transparent. It is however recognised that some cash based reports will still be required for comparative purposes. It would seem logical to introduce an accrual based budget to precede or coincide with the completion of the accrual accounting project being carried out by DOF.

Recommendation 2

It is recommended that the Government make a policy commitment to the introduction of an accrual based budget by 1995-96. A timetable should be drawn up as a matter of urgency which sets out the steps necessary to achieve this objective. The timetable should encompass (inter alia);

- the issue of a discussion paper by DOTT relating to options for the structure of the budget;
- an appropriate process for consultation and problem solving, and
- pilot projects to be carried out by those departments who are in the vanguard of developing accrual based financial statements.

Finding 6

The introduction of the Autumn Economic Statement along with Appropriation Bills for the first four months of the year greatly enhances the capability of departments for financial planning with a degree of certainty.

DOTT does not as yet have a timetable to bring down the actual budget earlier in the year. Financial planning processes both centrally and within departments would be further enhanced if this was initiated.

Recommendation 3

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.

Finding 7

Full implementation of COA recommendation 5.14 relating to attributing full costs to relevant services is dependent on the progress of the introduction of capital, rental and superannuation charging to departments. The recently published Autumn Economic Statement states that departments are now required to pay rent and that capital and superannuation charges will be
introduced in 1994-95. (Refer also to Findings 4 and 5 relating to COA recommendation 5.5).

Finding 8

The Government has demonstrated a clear commitment to the introduction of accrual accounting by departments by initiating a staged introduction process being managed by DOF. Whilst we note the conceptual, resourcing and systems issues involved, DOF should consider advancing the timetable so that there are accrual accounts for all departments by 1994-95. The possibility of advancing the timetable was acknowledged by DOF at their meeting with the PAEC on 13 April 1994.

Finding 9

As yet the Government has not made a commitment or set a timetable for the introduction of whole of government general purpose financial reports.

Recommendation 4

It is recommended that the Government make a commitment to the introduction of whole of government reporting at the earliest possible practical opportunity which should be no later than 1995-96. A detailed timetable should be drawn up to include all implementation issues which need to be worked through, including a 'pilot' whole of government financial statement by 1994-95 and the 'parent entity' issue as discussed in COA recommendation 6.13.

Finding 10

Monthly reporting by agencies and the State on a full financial reporting basis requires the implementation of accrual accounting by relevant agencies. A project for this purpose has been initiated by DOF.

Finding 11

Implementation of COA recommendation 6.2 is dependent to some extent on the introduction of accrual accounting, since the monthly reports referred to are to include depreciation and expenses related to employee entitlements. Monthly reporting of financial assets and liabilities would also be useful so that liquidity and solvency measures could be monitored.

Recommendation 5

It is recommended that COA recommendation 6.2 relating to monthly reporting of cash flows and accrual based measurement of operating performance should be implemented in line with the overall implementation of accrual accounting. Monthly monitoring of financial assets and liabilities should also be considered.
Finding 12

The focus on output based reporting is a major theme throughout the COA report. Whilst output measures were published in Budget Paper No. 4 at the program level, more detailed estimates were prepared by agencies in late 1993 but have not been published. The various departments which took part in this Inquiry are at differing stages of implementing this and related recommendations. In some areas such as public hospitals and public transport, it is relatively easy to design output based performance measures. In others, such as the Arts it is more difficult. This matter is also closely linked with projects 2 and 3 of the MII. There is however, a strong commitment to the thrust of this recommendation on the part of the Government and within agencies.

Recommendation 6

It is recommended that the development of meaningful, consumer focussed output measures and reporting thereon be pursued as a matter of urgency by all relevant agencies.

Finding 13

At this stage, it is not planned to produce GPFRs on a half yearly basis. Preparation of half yearly GPFRs is dependent upon a commitment to whole of government GPFRs as dealt with in relation to COA recommendation 6.1.

Recommendation 7

It is recommended that the Government make a commitment to the preparation of summary half yearly GPFRs, to be introduced in the same year as whole of government financial statements.

Finding 14

If whole of government reporting is introduced in accordance with AAS 29 'Financial Reporting by Government Departments', it is likely that the requirements of the Constitution Act 1975 in relation to accountability for the discharge of public monies from the Consolidated Fund would not be met. Thus, the Constitution Act 1975, would require amendment if the Finance Statement was to be discontinued.

Recommendation 8

It is recommended that once whole of government reporting and accrual based budgets are introduced, the Government consider the further need for the Finance Statement within the context of overall information requirements for Parliament. In this context the issue of consistency between the format of
budget information and subsequent reporting should also be addressed as noted in Finding 4.

Finding 15

In relation to both DOIT and other departments, it has been found that there is considerable work to be done on information systems to meet the needs identified by the COA and the agencies themselves. Several consultancies of significant value are involved. Successful implementation of information systems improvements will enable the implementation of other recommendations to take place.

Recommendation 9

It is recommended that DOF develop a comprehensive IT strategy as soon as possible for implementation by all departments.

Finding 16

Whilst it could be argued that the current format of the statement required by the certification provisions of regulations made under Annual Reporting Act 1983 implies effectiveness of internal controls, this could be made more explicit by incorporating the specific requirement in regulations to be made under the Financial Management Act 1994.

Recommendation 10

It is recommended that the Minister for Finance include a specific reference to internal controls in the certification statement expected to be required under the new regulations to be made under the Financial Management Act 1994. At the time of writing the relevant regulations had not been made.

Finding 17

COA recommendation 6.17 refers specifically to a review of internal controls by the Auditor-General. Departments have, in general, engaged other parties for this purpose as part of their internal audit, although in theory there is no impediment to the Auditor-General acting on this recommendation. A review as envisaged would not be carried out by the Auditor General as a matter of course on each audit because of the risk-based approach adopted. It is likely that an amendment would be needed to the Audit Act 1994 to require the Auditor-General to carry out this function.
CHAPTER ONE: INTRODUCTION

1.1 Background

In December 1993, the Public Accounts and Estimates Committee ('PAEC') commenced an inquiry into the State's Budget and Financial Management Framework ('the Inquiry').

A key objective of the Inquiry is to examine the progress made in implementing particular recommendations of the Victorian Commission of Audit ('COA') which reported to Parliament in May of 1993. The principal themes underpinning those recommendations are:

- strategic financial planning emphasising risk management and program outputs and outcomes;
- consistently documented application of budgetary policies over time;
- clear, concise accountability to the Parliament for appropriations;
- comprehensive and integrated financial information systems for -
  - general-purpose financial reporting to the Parliament; and
  - budgetary control and performance monitoring;
- distinguishing service funding from costing to facilitate benchmarking and project evaluation on a program basis;
- timely passage of the Budget to maximise certainty in the capital formation process and in the wider community; and
- an internal review program to evaluate the efficiency and effectiveness of budget sector programs.

The PAEC commissioned Penelope Hutchinson of BDO Consulting Pty Ltd to carry out this Inquiry.

The purpose of this report is to document the findings and recommendations of Stage 1 of this Inquiry. Subsequently, Stage 2 of the Inquiry will involve further monitoring of issues raised in this report.

1.2 Terms of reference

The primary objective of this project is to assess the progress made on the implementation of the recommendations of Chapters 5 and 6 of the Report of the Victorian Commission of Audit ('COA') excluding recommendations 6.20-6.22 which relate specifically to the Auditor-General and to make
recommendations as to where further progress is required and broadly what form that progress should take. The project identifies reforms currently underway and planned and, where possible, notes the proposed timing of those reforms. Elements of Victoria's budgetary and financial management framework proposed for improvement by the COA which at the time of writing have not yet been addressed are also noted.

In order to reach conclusions on the above matters, the terms of reference for the Inquiry specified various departments with whom consultation should take place.

These are:

- the Department of the Treasury;
- the Department of Finance;
- the Department of Health & Community Services;
- the Department of Education; and
- the Department of Transport.

Following the commencement of the project, the Department of Arts, Sport and Tourism was added to the list as an example of a smaller but diverse service delivery department. Since the Premier's Management Improvement Initiative ('MII') program encompasses several projects relevant to the implementation of COA recommendations, discussions were also held with officers of the Department of the Premier and Cabinet.

A full list of persons with whom meetings were held is detailed in Attachment 1 to this report.

1.3 Summary of initiatives undertaken

Since the publication of the COA report in May 1993, a number of significant financial management reforms have been proposed or implemented. Some of these address the issues raised in Chapters 5 and 6 of the COA report.

Those reforms include:

- the Financial Management Act 1994;
- the Audit Act 1994;
- the Management Improvement Initiative (MII); and
- changes to information included in the Budget Papers.

Financial Management Act 1994
This Act removes the need to balance the Consolidated Fund as recommended in Chapter 5 of the COA report. The Act effectively implements COA recommendation 5.18 by providing the basis for the borrowing of funds from future appropriations. It also provides for an Annual Statement of Financial Operations which would replace the current Finance Statement with a less detailed document. Unspent amounts of budget allocations are now allowed to be carried forward to the next financial year. This was in fact implemented in 1992-93 by administrative arrangements.

Audit Act 1994

The Audit Act 1958 contained many provisions relating to financial administration as well as audit matters. The 'machinery' provisions are part of the Financial Management Act 1994. The Audit Act 1994 thus focuses on issues relating to the Auditor-General and his office.

Management Improvement Initiative

The MII framework document was published in October 1993. Since then seven project teams have been established as follows:

Project 1: Integration and Communication;
Project 2: Financial Management Improvement;
Project 3: Improving Planning and Performance Control and Management Reporting;
Project 4: The Service Commitment;
Project 5: Human Resources Management Improvement;
Project 6: Structure of Government Project; and
Project 7: Capital Expenditure and Asset Management.

Several projects encompass issues raised in Chapters 5 and 6 of the COA report. Key issues to be addressed by Project 2 include:

- the adoption of output planning, monitoring and reporting by departments; and
- the relationship of budget planning to departmental corporate planning.

Key issues in Project 3 include:

- establishment of consistent, performance-based corporate and business planning across the budget sector;
- resolution of the financial and non-financial management information reporting needs of service delivery agencies, central agencies, BERC and the Parliament; and
the development of integrated management information systems that provide effective support for planning and decision-making.

Key issues in Project 7 are:

- clear definition of the roles and responsibilities of central and service delivery agencies for capital planning and expenditure and asset management; and

- ensuring that procedures and standards for capital expenditure and asset management by agencies are consistent with the Government's principles and capable of practical medium-term implementation within the IMC framework.

All of these themes are addressed directly or indirectly in Chapters 5 and 6 of the COA report. Thus it will be important to monitor progress of these projects as part of Stage 2 of this Inquiry.

Budget Papers

In 1993-94, Budget Paper No. 4 presented three-year forward estimates in GFS format for departments. Output measures and targets were also published at the program level.

1.4 Consultation

Attachment 1 provides a list of officers from various departments with whom meetings were held as part of the Inquiry. Some departments (including divisions of DOE) also chose to provide written responses to issues raised by the Inquiry.

On 13 April 1994, the PAEC held meetings with officers from both DOTT and DOF to raise further questions with senior officers in relation to several issues which had arisen at the time an interim report was submitted by BDO to the PAEC in mid-March. Where relevant, replies have been noted in the report.
CHAPTER TWO: RELEVANT RECOMMENDATIONS OF THE COMMISSION OF AUDIT

2.1 Introduction

The purpose of this chapter is to set out the recommendations of the COA relevant to the review and the department(s) responsible for their implementation. The headings used are taken from the COA report.

2.2 Recommendations from COA Chapter 5

'Improving the Victorian Budget Management System'

- Co-ordination and management
- Forward estimates

5.1 A rigorous and valid forward estimates system should be developed incorporating a four-year horizon, full integration with the accounting and budget management system, soundly based revenue and expenditure forecasts, and ongoing review to determine the level of resources required to deliver government services on a best-practice basis.

DOTT/DOF

5.2 All budgetary proposals should have an agreed costing extending over the timeframe of the forward estimates.

DOTT

5.3 The budget papers should include sensitivity estimates of revenue and expenditures to defined parameter variations.

DOTT

5.4 The budget papers should include a reconciliation between previously published forward estimates and the budget outcome, identifying the extent to which variances are due to post budget decisions; variations in parameters, such as inflation and wages; or inability to implement policy decisions.

DOTT
5.5 Appropriations and subsequent reporting back to Parliament should be in the same form (the GFS format) as the presentation in the budget documentation. This should be on a full financial reporting basis.

5.6 The artificial requirement for a positive or balanced year end result for the Consolidated Fund should be removed.

5.7 The definitions of current and capital items should be consistent and relate to economic substance.

5.8 Information contained in the Budget Papers should be in a consistent format each year. Where the format has been changed, time series data should be presented in the new format.

• Output focus

5.9 There should be clear separation between the regulatory and policy functions, and service delivery functions of government.

5.10 Competition should be promoted among public and private service providers, based on the most efficient and effective means of providing services.

• Budget cycle

5.11 The budget development process should be adequately documented. A budget manual should be prepared which sets out a timetable and guidelines for agencies to prepare estimates.

5.12 Departmental allocations should be approved and announced before the start of the financial year to which they apply.
• Internal review and evaluation

5.13 A program of ongoing internal review and evaluation of the efficiency and effectiveness of government programs should be established. This should be linked to both departmental corporate plans and senior executives' published performance indicators. The review should consider the need for a program, as well as cost effectiveness. Reviews should be conducted by agency management as part of their regular management and internal control procedures. The central agencies should also conduct reviews for the purpose of broader government management.

• Financial information and systems

5.14 A system of full financial accounting should be introduced, with all the costs for service provision attributed to each service. Appropriation and financial reporting should also be in this format.

• Management flexibility and accountability

5.15 Budget papers should disclose the full cost ..... of (funding) a defined set of outputs. Reporting and accountability should be assessed against these budgeted outputs. A necessary prerequisite for this is the flexibility to manage the appropriate mix of inputs.

5.16 Funding of programs should be on a net appropriations basis. Agencies should be able to retain receipts from authorised trading activities.

5.17 The Budget should allow capability for limited carry-over of unexpended funds to the next financial year.
5.18 The appropriation process should allow the possibility of limited borrowings from future years' appropriations, with subsequent Parliamentary sanction.

Responsibility
DOTT

CONCLUSIONS

5.19 The government should establish a comprehensive and coherent financial management reform program.

DOTT

2.3 Recommendations from COA Chapter 6

'Financial Reporting in Victoria

- The Finance Statement

6.1 The State of Victoria should produce a consolidated 'whole of government' general purpose financial report (GPFR) embracing all entities which it controls (in accordance with the existing accounting standards on consolidations). This should be accompanied by separate sub-consolidations of budget and non-budget sector entities.

DOF

6.2 Operating performance (on a full financial reporting basis) and cash flows should be reported on by the State and by individual agencies (in statements prepared in accordance with the existing accounting standards), for monthly management accounting purposes, and as an important measure of performance by the State against the Budget.

DOTT/DOF

6.3 A reconciliation between statements in GPFR and Government Finance Statistics format reports should be included in the half-yearly and yearly GPFRs prepared by the State for the whole of government. The reconciliation should include a clear explanation of the difference in purpose and classification of the two sets of information.

DOTT/DOF
• Budget Reporting

6.4 There should be a coherent framework of reporting which integrates and includes the State's corporate planning (at both the statewide level and the individual agency level) and the Budget.

6.5 The Budget should be prepared on a full financial accounting basis and reporting against the budget should be on the same basis.

• Reform of general purpose financial reports (GPFRs)

6.6 All departments should prepare and publish GPFRs which bring to account all the elements of financial reporting (assets, liabilities, revenues and expenses) and which comprise a balance sheet, operating statement, cash flow statement, appropriate notes and a statement of responsibility. This is in addition to the whole of government GPFR referred to in recommendation 6.1.

6.7 GPFRs, including those prepared for the whole of government, should be published on both a yearly and half-yearly basis, and be available to the Parliament and public on a timely basis (within 3 months of balance date).

6.8 When the whole of government financial consolidated statements are prepared by the State on a routine basis, the Finance Statement should be discontinued. In the interim, the Finance Statement should report Consolidated Fund results only at an aggregate level leaving detailed program information to be reported in agencies' annual reports.
• **Integrated approach**

6.9 Central agencies should be provided with monthly financial reports which relate to the Budget and agency corporate plans and which bring all elements to account.

6.10 Each reporting entity should maintain integrated full financial reporting and managerial accounting systems. These should be supported by an effective central reporting mechanism.

6.11 Each agency should develop a set of performance measures which relate to its published corporate plan.

• **Structural issues**

6.12 One agency, (DOTT) should be responsible for the central managerial processes (i.e. planning, budgeting, reporting and control) of the Victorian Government.

6.13 The parent entity should be managed by (DOTT) under contract from the government and should prepare GPFRs for itself and for the whole of government.

6.14 The government should appoint a Chief Accountant to:

- be responsible for the preparation of the whole of government GPFR;

- provide guidance to individual agencies on the preparation of their GPFRs;

- be responsible for the system of internal controls for the State; and

- provide advice to agencies on their internal controls.
The position should participate in the early adoption of full financial reporting and comprehensive internal control systems.

- **Internal control**

6.15 The chief executives of agencies should be charged with developing systems of internal control which:

- accord with the objectives specified in the agencies' corporate plans;

- are based on the COSO framework;

- are integral to the executives' management approach;

- involve formal assessment and analysis of the risks faced by agencies in achieving their operational objectives, in discharging financial accountability and in complying with regulations, requirements and policy;

- relate control activities and procedures to risks identified, and ensure that information concerning the effectiveness of those activities is provided to the appropriate levels of management on a timely basis; and

- include a monitoring process to ensure the internal control is kept relevant to the objectives of the agencies.

Ministers should also apply the principles of internal control to their own relationships with government agencies.

- **Reporting on internal controls**

6.16 GPF Rs should contain a statement of responsibility signed by the chief executive responsible for each agency. The SOR should contain confirmation...
that the statements have been presented fairly in accordance with Statements of Accounting Concepts and Accounting Standards. If this is not the case, the statements should be qualified. They should also contain a representation that the internal controls relevant to the preparation of the agency’s GPFRs have been effective throughout the reporting period.

6.17 The Auditor-General should review (as opposed to audit) the systems of internal control. More detailed investigations into performance would, as in the past, be at the discretion of the Auditor-General.

• Internal Audit and Audit Committees

6.18 Effective internal audit functions and audit committees should be required as standard features of the system of internal control.

6.19 Elements of internal audit should be contracted out if the required resources are not available and it is the most cost-effective option.

Recommendations relating to the Auditor-General (6.20-6.22) were not part of this review.
CHAPTER THREE: PROGRESS ON RECOMMENDATIONS FROM COA
CHAPTER 5

3.1 Introduction

Chapters three and four of this report set out the progress made by the various departments. Each recommendation is dealt with separately for all relevant departments.

3.2 The Departments

DOTT, as a central financial agency, is a major stakeholder in the implementation of the recommendations of the COA. Significant initiatives have been introduced (sometimes working in conjunction with DOF) and these are documented in a written response which is included as Attachment 3. Chapters 3 and 4 include a summary of that document.

DOF is responsible for developing strategies and processes to improve the management of the State's resources by establishing guidelines and standards in the financial and resource management programs of agencies. Like DOTT, as a central financial agency, DOF has a major interest in the implementation of the recommendations of the COA and has responsibility for some significant initiatives which relate to financial management reform. DOF provided a written response to the PAEC relating to the COA report in November 1993. At this stage that document has not been updated and relevant extracts are included as Attachment 4. DOF will update the document as further progress is made.

The Minister for Public Transport, Minister for Roads and Ports and DOT have introduced many significant reforms since the election of the current government. A ‘business plan’ for public transport was issued on 6 January 1993 called ‘Public Transport Reform - Victoria’. Similar planning procedures have been undertaken in VicRoads, though a business plan has not been published. The port authorities are the subject of a major review process which is considering options for restructuring. This might involve corporatisation or privatisation.

DOE comprises the Office of the Secretary and two major service delivery divisions, the Directorate of School Education (DSE) and Office of Training and Further Education (OTFE). In addition there are several advisory boards which report to one of the two Ministers, being the Minister for Education and the Minister for Tertiary Education and Training. In the course of this Inquiry discussions were held with members of senior management in the three main areas identified above. DOE provided a detailed written response on the recommendations where requested. This is included as Attachment 5a.

DSE also provided a written response which is included as Attachment 5b.
DH&CS has responsibility for all State funded health and hospital services, aged persons' services, hostels and home care, physical and sensory disability services, maternal and child health services, child protection and placement support, juvenile justice, psychiatric services and Aboriginal health.

As such it is a large and complex department which runs a variety of programs. In the past the department has been directly involved in service delivery, eg. in relation to psychiatric services, but has also funded service delivery through a range of models, eg. through grants to public hospitals and non-government (community-based) organisations. Since the 1992 election, DH&CS has implemented a number of major reforms both in terms of the way in which services are funded and delivered and in the structure of the department itself.

DH&CS provided a written response which is included at Attachment 6.

DAST is an amalgamation of several previously separate agencies with very diverse responsibilities. Together they present substantial opportunities for concerted economic and community benefit through the co-ordination of the Arts, Sport, Gaming, Racing and Tourism areas of responsibility.

3.3 Progress on recommendations

**COA Recommendation 5.1: Forward estimates system: DOTT**

The Autumn Economic Statement of April 1993 included preliminary forward allocations for two future years. In addition, forward estimates which encompass the budget year and three future years were published for the first time in the 1993-94 Budget Papers, specifically in Budget Paper No. 4. Full integration of forward estimates with the accounting and budget management system has not yet been achieved but will form part of the new financial management system, a project which is being managed by DOF. There will be continuing assessment of the levels of resources required to provide government services. Resource reductions were partially documented in Tables 6.6 and 6.7 of Budget Paper No. 2 for 1993-94.

**Finding 1**

Full implementation of COA recommendation 5.1 with respect to the integration of forward estimates with the accounting and budget system is dependent on the successful introduction of a new central (computer-based) financial management system. This project, which is being initiated by DOF, is due to be completed in 1994-95.
COA Recommendation 5.1: Forward estimates system: DOF

This recommendation relates to DOF in so far as it mentions the integration of accounting and Budget management systems. DOF has responsibility for the development of a new financial management system which will incorporate the public ledger system and Budget management systems. Implementation is due to be completed in the 1994-95 financial year. [Refer finding 1 above].

* * * *

COA Recommendation 5.2: Agreed costing of budget proposals: DOTT

Project appraisal guidelines for works proposals were issued in 1993. The Management Improvement Initiative is examining implementation of those guidelines. New recurrent spending proposals are expected to be costed for the forward estimates timeframe.

Finding 2

Implementation of COA recommendation 5.2 is partly dependent on the MII project which is monitoring implementation of guidelines for works proposals.

* * * *

COA Recommendation 5.3: Sensitivity estimates: DOTT

These are used extensively within DOTT, however publication of sensitivity analysis and parameter variations has not yet been included in the Budget papers. This issue is under further consideration.
Finding 3
Full implementation of COA recommendation 5.3 relating to the publication of sensitivity estimates and parameters is still under consideration by DOTT. 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.

Recommendation 1
It is recommended that DOTT publish sensitivity analysis and parameters as envisaged in COA recommendation 5.3 as soon as is feasible.

* * * *

COA Recommendation 5.4: Reconciliation of estimates (between previously published estimates and budget outcome): DOTT

Explanation of major variances is included in Budget Paper No. 2, Appendices A and B. A facility for monitoring all variances to forward estimates is to be implemented during 1993-94.

There is general commitment to the implementation of this recommendation. This will be monitored as part of Stage 2.

* * * *

COA Recommendation 5.5: Appropriation structure: DOTT

The appropriation bills are presented in Consolidated Fund format, whereas Budget Paper No. 4 contains comprehensive information on both appropriation and GFS estimates. Reporting back to Parliament via the Finance Statement is still in Consolidated Fund format. All of the above are prepared substantially on a cash basis.
Finding 4

The Financial Management Act 1994 contemplates 'one-line' appropriations rather than the more detailed appropriations in GFS format contemplated by COA recommendation 5.5. However, Budget Paper No.4 presents information in GFS format by program. It is also understood that Departmental Performance Estimates will contain information at a sub-program level. Reporting back to Parliament via the Niemeyer Statement is in GFS format whilst the Finance Statement is based on Consolidated Fund information. Thus, the issue of inconsistency between the format of budget information and subsequent reporting is still to be formally addressed (refer recommendation 8).

Finding 5

There is as yet no clear commitment or timetable for the introduction of accrual based budgets as recommended in COA recommendation 5.5 although this recommendation has been accepted in principle by DOTT. DOTT has further acknowledged that by 1995-96, we will have "all the pieces of the jigsaw available to us to complete the accrual budgeting arrangement." If this is not done in the next two years, a situation will arise whereby annual reports will all be on an accruals basis but the budget will be on a cash basis. It is important that resource usage be managed effectively and economically and that performance in this regard be transparent. It is however recognised that some cash based reports will still be required for comparative purposes. It would seem logical to introduce an accrual based budget to precede or coincide with the completion of the accrual accounting project being carried out by DOF.

Recommendation 2

It is recommended that the Government make a policy commitment to the introduction of an accrual based budget by 1995-96. A timetable should be drawn up as a matter of urgency which sets out the steps necessary to achieve this objective. The timetable should encompass (inter alia);

- the issue of a discussion paper by DOTT relating to options for the structure of the budget;

- an appropriate process for consultation and problem solving, and

- pilot projects to be carried out by those departments who are in the vanguard of developing accrual based financial statements.
COA Recommendation 5.6: Consolidated fund balance: DOTT

The Financial Management Act 1994 eliminates the requirement for a positive or balanced year-end result for the Consolidated Fund.

This recommendation has been implemented.

COA Recommendation 5.7: Classification of budget items: DOTT

This was substantially completed during 1993-94 and will be completed in 1994-95.

This recommendation has been implemented.

COA Recommendation 5.8: Budget paper information: DOTT

DOTT believes that information is now presented consistently or, where changes do occur, appropriate explanations are provided.

This recommendation has been substantially implemented.

COA Recommendation 5.9: Separation of policy and service delivery: DOTT

DOTT does not provide services as such. This recommendation is more the responsibility of service delivery departments.

COA Recommendation 5.9: Separation of policy and service delivery: DOT

In general all policy and regulatory functions now rest with the DOT whilst service delivery is the responsibility of the PTC and VicRoads. Recently implemented reforms and reforms proposed in this area include:

- the transfer of taxi and bus regulation from the PTC to DOT;
- the establishment of service contracts between the DOT and the PTC;
- the removal from the PTC of roles which involve contracting with private operators;
the amendment of relevant legislation to allow all strategic planning and regulation functions to move from the PTC and VicRoads into DOT; and

- reform of the port authorities through the Port Reform Steering Committee.

DOT has thus demonstrated considerable commitment to the separation of policy and service delivery.

**COA Recommendation 5.9: Separation of policy and service delivery: DOE**

There has always been considerable separation between the policy functions and service delivery functions within the Education portfolio. This is being enhanced by major restructuring in DSE and OTFE and redefinition of information needs for all interested parties.

The emphasis in these reforms is on increased departmental responsibility for planning and performance and setting a framework of output-based performance measures for service delivery agencies.

**COA Recommendation 5.9: Separation of policy and service delivery: OTFE**

Policy functions rest with OTFE with input from DEET and DOE. Service delivery is the responsibility of the TAFE colleges and private providers.

**COA Recommendation 5.9: Separation of policy and service delivery: DSE**

Whilst service delivery has always been separate from policy functions, the Schools of the Future program will ensure that all operational functions will be carried out within schools. A much smaller DSE will retain responsibility for policy setting and regulation.

**COA Recommendation 5.9: Separation of policy and service delivery: DH&CS**

The structure of DH&CS provides for a clear separation between policy and service delivery both in relation to services which are still delivered by the department and in terms of those which are delivered by external agencies.

**COA Recommendation 5.9: Separation of policy and service delivery: DAST**

This has been implemented to a degree within the department, however agencies retain some policy making functions. For instance, the National Gallery of Victoria determines its own works of art purchasing policy within broad policy guidelines from the department.
There is general commitment to the implementation of this recommendation, although some departments have made more progress than others at this stage.

COA Recommendation 5.10: Promotion of competition in service delivery: DOTT

DOTT has some responsibilities in this respect, particularly in relation to the State Owned Enterprises Division which is dealing with reforms relating to large statutory authorities. The work of SOE has not been reviewed in detail as part of this Inquiry. However, the Division has responsibility for the reform of energy, water and port authorities, one aim of which is to promote competition. The Division developed the Government’s Contracting Out Guidelines.

COA Recommendation 5.10: Promotion of competition in service delivery: DOF

DOF has responsibility for some direct service delivery functions such as the Valuer-General, Surveyor-General, the Government Printer and Commercial Services. The intention is to review these areas and contract out services where this is both possible and appropriate. A review of the Surveyor-General’s Office has been completed, a review of the Valuer-General’s Office is proposed in the near future and the Government Printer has reduced activities carried out which are of a non-core nature. The Government Computing Service is for sale and this is expected to be completed by the end of March 1994.

DOF is thus demonstrating considerable commitment to this recommendation.

COA Recommendation 5.10: Promotion of competition in service delivery: DOT

Public transport is not deregulated; however, many areas have been or are to be contracted out through competitive tenders for services within both the PTC and VicRoads.

These include:

- Country rail corridors;
- Metropolitan area buses;
- Internal audit;
- Printing;
- Information technology;
- Legal services;
- Maintenance; and
- Ticketing systems.
Within VicRoads approximately 80% of road building work is outsourced to the private sector.

DOT has thus made considerable progress in subjecting its core and non-core services to competition.

**COA Recommendation 5.10: Promotion of competition in service delivery: DOE**

There are many examples of this within the portfolio;

- accreditation and registration of private training providers in the OTFE area;

- core services such as fleet management, cleaning, secretarial and correspondence functions are being examined for rationalisation into single service delivery;

- in-house services such as payroll, audit and information systems support are being evaluated with a view to contracting out; and

- school cleaning has been contracted out.

**COA Recommendation 5.10: Promotion of competition in service delivery: OTFE**

OTFE has introduced private sector providers who compete with established TAFE colleges to sell their training places.

**COA Recommendation 5.10: Promotion of competition in service delivery: DSE**

Funding will be based on a unit cost model known as the Student Resource Index, providing an incentive for schools to offer programs attractive to consumers. Thus a degree of competition will exist in areas where there is access to more than one school.

**COA Recommendations 5.10: Promotion of competition in service delivery: DH&CS**

There have been several initiatives in this regard:

- the transfer of services which were previously run by the department to the non-government sector and public hospitals;

- the trends within public hospitals to privatised or corporatised non-core medical and support services, for example, laundry and pathology services; and
the trend to provide funding to agencies via service agreements using unit costing models.

**COA Recommendation 5.10: Promotion of competition in service delivery: DAST**

In many areas there where the department has areas of activity there is competition from the private sector, for instance in relation to art galleries and tourism operators. Within agencies there have been initiatives relating to the outsourcing of non-core services such as library cleaning. Some agencies, for instance the TAB and Bass Ticketing Agency, are being considered for privatisation.

There is general commitment to the implementation of this recommendation, although some departments have made more progress than others at this stage.

**COA Recommendation 5.11: Documentation of the Budget process: DOTT**

A budget manual is being developed as a component of the MII and is expected to be completed in 1994-95.

There is a commitment to the implementation of this recommendation.

**COA Recommendation 5.12: Timing of the Budget: DOTT**

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.
Finding 6
The introduction of the Autumn Economic Statement along with Appropriation Bills for the first four months of the year greatly enhances the capability of departments for financial planning with a degree of certainty. DOTT does not as yet have a timetable to bring down the budget earlier in the year. Financial planning processes both centrally and within departments would be further enhanced if this was initiated.

Recommendation 3
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.

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COA Recommendation 5.13: Internal review and evaluation: DOTT

The Integrated Management Cycle provides for regular evaluation and review of programs. DOTT has developed a framework of program evaluation as part of the Department Performance Estimates request process. Each program is to be reviewed every five years encompassing appropriateness, efficiency and effectiveness issues.

Program Evaluation Guidelines have also been issued. These initiatives are in accordance with COA recommendation 5.13.

This recommendation has been substantially implemented.

***

COA Recommendation 5.14: Full financial accounting: DOTT

In relation to departments, this recommendation is the subject of a major project being carried out by DOF.
Finding 7
Full implementation of COA recommendation 5.14 relating to attributing full costs to relevant services is dependent on the progress of the introduction of capital, rental and superannuation charging to departments. The recently published Autumn Economic Statement states that departments are now required to pay rent and that capital and superannuation charges will be introduced in 1994-95. (Refer also to Findings 4 and 5 relating to COA recommendation 5.5).

COA Recommendation 5.14: Full financial accounting: DOF

DOF has responsibility for a major project to implement accrual accounting in the departments throughout the budget sector. This is a three-year project which will result in all departments producing accrual-based financial statements by 1995-96. All accrual-based financial statements will audited by 1996-97. This time-frame is similar to that adopted by NSW for the introduction of accrual accounting.

DOF acknowledged, when meeting with the PAEC, that there were several implementation issues which are still to be fully resolved, particularly relating to asset valuations. It was pointed out that one of the benefits of the three year process involving groups of departments, is that those departments in the later groups can learn from the experience of departments who develop their accrual accounting frameworks earlier. On the subject of the timetable, DOF assured the PAEC that "we will press as quickly as we can to advance it. If there is any opportunity to advance it a year then we will certainly do so."

Finding 8
The Government has demonstrated a clear commitment to the introduction of accrual accounting by departments by initiating a staged introduction process being managed by DOF. Whilst we note the conceptual, resourcing and systems issues involved, DOF should consider advancing the timetable so that there are accrual accounts for all departments by 1994-95. The possibility of advancing the timetable was acknowledged by DOF at their meeting with the PAEC on 13 April 1994.

COA Recommendation 5.14: Full financial accounting: DOT

Statutory authorities already comply with the relevant provisions of the Annual Reporting Act 1983. The DOT is taking part in DOF's accrual
accounting project and will produce accrual-based financial statements in 1994-95.

**COA Recommendation 5.14: Full financial accounting: DOE**

DOE will produce a consolidated statement of financial position and associated notes as supplementary unaudited information in 1993-94. Most agencies (other than schools) produce accrual-based financial statements pursuant to relevant provisions of the *Annual Reporting Act 1983*. DOE has established an Accrual Accounting Implementation Project Group chaired by Mr Fred Brennan, Assistant Director, Performance Monitoring and Review.

**COA Recommendation 5.14: Full financial accounting: OFTE**

TAFE colleges comply with the *Annual Reporting Act 1983*. The OTFE also prepares accrual-based financial statements.

**COA Recommendation 5.14: Full financial accounting: DSE**

Accrual accounting will be introduced in 1993-94 for DSE.

**COA Recommendation 5.14: Full financial accounting: DH&CS**

Service delivery agencies within the portfolio, in general, already prepare their accounts on an accrual basis, whether this is pursuant to the provisions of the *Annual Reporting Act 1983* or pursuant to other legislation such as the Corporations Law or *Associations Incorporation Act 1981*. The department is taking part in the DOF accrual accounting project and will prepare accrual-based financial statements in 1995-96.

**COA Recommendation 5.14: Full financial accounting: DAST**

Most agencies within the portfolio already comply with relevant provisions of the *Annual Reporting Act 1993*. The department itself is in the pilot group for the introduction of accrual accounting and as such its accrual-based financial statements will be audited for the first time in 1993-94.

*There is a clear commitment to the implementation of this recommendation, through the accrual accounting project being managed by DOF. In our view, it would be advantageous for the project to be completed sooner than 1995-96. It is intended that the first group of accrual based departmental financial statements be reviewed as part of stage 2 of this inquiry.*

**COA Recommendation 5.15: Management flexibility: DOTT**
Output measures were published in Budget Paper No. 4 for 1993-94. Guidelines for departments on specification of outputs are awaiting approval.

The whole question of output based performance is dealt with in more detail in relation to COA recommendations 6.4 and 6.9.

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COA Recommendation 5.16: Net appropriations: DOTT

The 1993-94 Budget provided for net appropriations including retention of receipts subject to annual agreement.

This recommendation has been implemented.

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COA Recommendation 5.17: Carry-over facility: DOTT

This was introduced in the 1993-94 budget.

This recommendation has been implemented.

* * * *

COA Recommendation 5.18: Borrowing from future appropriations: DOTT

The Financial Management Act 1994 provides a basis for limited borrowings of funds from future appropriations. COA recommendations 5.16 - 5.18 have been implemented.

This recommendation has been implemented.

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COA Recommendation 5.19: Financial management reform program: DOTT

Many initiatives are being implemented; refer other recommendations.

* * *
CHAPTER FOUR: PROGRESS ON RECOMMENDATIONS FROM COA
CHAPTER SIX

4.1 Introduction

This chapter deals with the recommendations included in chapter six of the COA report.

4.2 Progress on recommendations

COA Recommendation 6.1: Whole of government reporting: DOTT

This is primarily the responsibility of DOF. As yet no commitment has been made by the Government in relation to a whole of government general purpose financial report in the sense envisaged by the recommendation.

COA Recommendation 6.1: Whole of government reporting: DOF

This recommendation is still being considered by the Government.

It is the view of DOF that the completion of the accrual accounting project should precede the preparation of whole of government financial statements. The Australian Accounting Research Foundation has not yet finalised its discussion paper on ‘Financial Reporting by Governments’, however it should be noted that both New Zealand and New South Wales produce whole of government financial statements. The COA itself included at Appendix C of Volume One a consolidated financial report, whilst acknowledging some deficiencies in the information.

Whilst there is no timetable as yet for the introduction of whole of government reporting, DOF has acknowledged that "The policy framework within which we are working, is to have each of the departments report fully, thereby providing us with the opportunity of aggregating departmental reports into a whole of government report."

Whilst there are some conceptual and practical issues still to be resolved whole of government financial statements would better present the overall result and financial position than the currently available reporting mechanisms. The fact that AARF has not yet finalised the discussion paper does not really constitute an impediment to further progress on this matter. Once whole of government financial reports are prepared, the reconciliation contemplated in COA recommendation 6.3 could then be implemented.
Finding 9
As yet the Government has not made a commitment or set a timetable for the introduction of whole of government general purpose financial reports.

Recommendation 4
It is recommended that the Government make a commitment to the introduction of whole of government reporting at the earliest possible practical opportunity which should be no later than 1995-96. A detailed timetable should be drawn up to include all implementation issues which need to be worked through, including a 'pilot' whole of government financial statement by 1994-95 and the 'parent entity' issue as discussed in COA recommendation 6.13.

There is as yet no commitment or timetable for the introduction of whole of government reporting. Recommendations to further progress this issue are noted above.

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COA Recommendation 6.2: Operating and cash flow reporting: DOTT

Full implementation of this recommendation will not be possible until all agencies have fully implemented accrual accounting. At present operating performance for the State is monitored monthly via the Niemeyer reports on a GFS basis. Monthly cash flow statements for departments are provided to BERC.

Finding 10
Monthly reporting by agencies and the State on a full financial reporting basis requires the implementation of accrual accounting by relevant agencies. A project for this purpose has been initiated by DOF.

COA Recommendation 6.2: Operating and cash-flow reporting: DOF

Full implementation of this recommendation is dependent on the implementation of accrual accounting.
Finding 11
Implementation of COA recommendation 6.2 is dependent to some extent on the introduction of accrual accounting, since the monthly reports referred to are to include depreciation and expenses related to employee entitlements. Monthly reporting of financial assets and liabilities would also be useful so that liquidity and solvency measures could be monitored.

Recommendation 5
It is recommended that COA recommendation 6.2 relating to monthly reporting of cash flows and accrual based measurement of operating performance should be implemented in line with the overall implementation of accrual accounting. Monthly monitoring of financial assets and liabilities should also be considered.

Implementation of this recommendation is dependent on the introduction of accrual accounting.

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COA Recommendation 6.3: Reconciliation of differing displays of performance: DOTT

Currently a reconciliation is provided of GFS format information to Consolidated Fund information in Budget Paper No 2, Appendix B.

This recommendation is dependent on the implementation of COA recommendation 6.1.

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COA Recommendation 6.4: Reporting of corporate planning: DOTT

Broad strategies and output targets were published in Budget Paper No. 4 for 1993-94. Departmental performance estimates have been provided but not yet published. Further developments in this regard are expected to take place as part of the MII.
Finding 12
The focus on output based reporting is a major theme throughout the COA report. Whilst output measures were published in Budget Paper No. 4 at the program level, more detailed estimates were prepared by agencies in late 1993 but have not been published. The various departments which took part in this inquiry are at differing stages of implementing this and related recommendations. In some areas such as public hospitals and public transport, it is relatively easy to design output based performance measures. In others, such as the Arts it is more difficult. This matter is also closely linked with projects 2 and 3 of the MII. There is however, a strong commitment to the thrust of this recommendation on the part of the Government and within agencies.

Recommendation 6
It is recommended that the development of meaningful, consumer focussed output measures and reporting thereon be pursued as a matter of urgency by all relevant agencies.

COA Recommendation 6.4: Reporting of corporate planning: DOT

An update of departmental business plans is to be completed by the end of March 1994. DOT published estimates of outputs in Budget Paper No 4 for 1993-94 in relation to each program. DOT reports quarterly to BERG on an agreed framework of reforms based on the reform program published in 1993.

COA Recommendation 6.4: Reporting of corporate planning: DOE

In addition to involvement in five of the MII projects, DOE is addressing the issue of corporate planning and reporting as follows:

- through a program of major organisational review and restructuring;
- executive office performance contracts;
- inter-agency management committees; and
- regular planning seminars.

The Office of the Secretary developed several policy documents during 1992-93 which outline the direction of education and training in Victoria. A strategic plan for 1994-96 has been developed within the Office of the Secretary.
COA Recommendation 6.4: Reporting of corporate planning: OTFE

A corporate plan for the TAFE sector was developed in 1991 and has been updated in 1994 in a document called 'The Training Profile for Victoria'. The planning process feeds directly into the Budget as priorities from industry drive the number of contact hours in particular disciplines which are negotiated with TAFE colleges.

TAFE colleges report back to OTFE quarterly. A new monitoring area within OTFE will monitor actual outputs to budgeted outputs.

COA Recommendation 6.4 Reporting of corporate planning: DSE

Reporting of achievement of outputs will occur in conjunction with the DSE business plan. The business plan is not yet completed.

COA Recommendation 6.4: Reporting of corporate planning: DH&CS

Strategic plans have been developed for the major programs within DH&CS and corporate reporting is based on the monitoring of performance against these strategies. DH&CS reports to BERC quarterly within an agreed format which includes performance against output indicators.

COA Recommendation 6.4: Reporting of corporate planning: DAST

DAST has produced a corporate plan for the department as a whole. Each program is to provide a business plan, due by the end of March 1994. Below that planning level each executive officer in each program is to set performance plans which reflect the business plan and corporate plan. There is a clear focus on the development of output-based performance measures.

There is a general commitment to the implementation of this recommendation, although some departments have made more progress than others at this stage. It is intended that further developments in relation to this and related recommendations be followed up as part of stage 2 of the Inquiry.

* * *

COA Recommendation 6.5: Budget reporting: DOTT

The department has accepted the recommendation to prepare the Budget on a full financial accounting basis but as yet there is no timetable for implementation.

Refer COA recommendation 5.5.
COA Recommendation 6.6: General purpose financial reporting: DOT

This relates to the project to introduce accrual based accounting into all departments over three years. The project is primarily the responsibility of DOF. Refer COA recommendation 5.14.

COA Recommendation 6.6: General purpose financial reporting: DOF

DOF has responsibility for a major project to implement accrual accounting in all departments as noted in relation to COA recommendation 5.14.

COA Recommendation 6.6: General purpose financial reporting: DOT

Refer recommendation 5.14.

COA Recommendation 6.6: General purpose financial reporting: DOE

In addition to the comments made in relation to recommendation 5.14 it should be noted that, the DOE is represented on:

- the Assets Audit Taskforce;
- the Accrual Accounting Implementation Committee of DOF;
- the Steering Committee of the Capital Charging Regime project; and
- the Financial Management Improvement and Performance Management and Improvement projects of the MII.

COA Recommendation 6.6: General purpose financial reporting: OTFE

Refer COA recommendation 5.14

COA Recommendation 6.6: General purpose financial reporting: DSE

Refer COA recommendation 5.14

COA Recommendation 6.6: General purpose financial reporting: DH&CS

The 1992-93 annual report for DH&CS includes a supplementary accrual-based report for the first time. It is anticipated that during 1993-94, public hospitals will finalise the valuation of land and buildings which has in the past caused them to receive qualified audit reports from the Auditor-General.
COA Recommendation 6.6: General purpose financial reporting: DAST

This is now done annually by the department however, there are still some areas where further work is required, for instance, the valuation of heritage assets.

In general, this recommendation is encompassed within the accrual accounting project which is being managed by DOF. Refer further discussion in relation to COA recommendation 5.14.

* * * *

COA Recommendation 6.7: Timeliness of general purpose financial reporting: DOTT

This recommendation is again somewhat dependent on the implementation of COA recommendation 6.1 in relation to GPFRs for the whole of government. At this stage DOTT is committed to reporting financial flows on a quarterly basis and stocks on an annual basis.

Finding 13
At this stage, it is not planned to produce GPFRs on a half yearly basis. Preparation of half yearly GPFRs is dependent upon a commitment to whole of government GPFRs as dealt with in relation to COA recommendation 6.1.

Recommendation 7
It is recommended that the Government make a commitment to the preparation of summary half yearly GPFRs, to be introduced in the same year as whole of government financial statements.

COA Recommendation 6.7: Timeliness of general purpose financial reporting: DOF

DOF considers that this issue will be included as part of the strategy to be developed for whole of government reporting (refer also comments made by DOTT).

This recommendation is dependent upon the implementation of COA recommendations 5.14 & 6.1. In our view half yearly reports should be introduced in the same year as whole of government reports.

* * * *
COA Recommendation 6.8: Discontinuance of the Finance Statement: DOTT

The Financial Management Act 1994 provides for a statement similar to the Finance Statement to be prepared into the future. This recommendation will rest with DOF.

COA Recommendation 6.8: Discontinuance of the Finance Statement: DOF

DOF does not envisage that the Finance Statement would be discontinued completely; however, the level of detail may be reduced considerably.

Finding 14
If whole of government reporting is introduced in accordance with AAS 29 'Financial Reporting by Government Departments', it is likely that the requirements of the Constitution Act 1975 in relation to accountability for the discharge of public monies from the Consolidated Fund would not be met. Thus, the Constitution Act 1975, would require amendment if the Finance Statement was to be discontinued.

Recommendation 8
It is recommended that once whole of government reporting and accrual based budgets are introduced, the Government consider the further need for the Finance Statement within the context of overall information requirements for Parliament. In this context the issue of consistency between the format of budget information and subsequent reporting should also be addressed as noted in Finding 4.

This issue should be considered at a later stage, once there is a firm timetable for the introduction of whole of government financial statements.

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COA Recommendation 6.9: Management accounting: DOTT

Financial reports for departments are prepared for BERC in a form which is linked to financial strategies and output targets. Refer also COA recommendation 6.4.

COA Recommendation 6.9: Management accounting: DOT

Major departments including DOT report to BERC in a form which is linked to financial strategies and output targets.

COA Recommendation 6.9: Management accounting: DOE
DOE provides consolidated budget management and performance reports to BERC in a form linked to financial strategies and output targets. Monthly reports were also submitted to DPC and DOTT during 1992-93.

**COA Recommendation 6.9: Management accounting: OTFE**

Refer comments in paragraph regarding DOE

**COA Recommendation 6.9: Management accounting: DSE**

The introduction of CASES 1 (Computerised Administrative Systems Environment for Schools) will facilitate provision of management information from Schools to DSE and hence by DSE into the DOE reporting system.

**COA Recommendation 6.9: Management accounting: DH&CS**

DH&CS refers to the reporting requirements for BERC in this regard and to the initiatives which will result from the MII.

**COA Recommendation 6.9: Management accounting: DAST**

The management accounting framework within DAST at present comprises reporting by each program against output targets and the budget. DAST is to implement a link between these three areas and benchmark performance and overall objectives during the next twelve months.

This recommendation has close linkages with COA recommendation 6.4 (Reporting of Corporate Planning) since both relate to the theme of measurement of output based performance. There is a general commitment to this recommendation, although some departments have made more progress than others at this stage. Stage 2 of the Inquiry will further monitor developments in this regard.

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**COA Recommendation 6.10: Information systems: DOTT**

There are several key consultancies taking place in relation to information systems. The centralised financial management system is the responsibility of DOF. Other departments are entering into individual contracts.
Finding 15
In relation to both DOT and other departments, it has been found that there is considerable work to be done on information systems to meet the needs identified by the COA and the agencies themselves. Several consultancies of significant value are involved. Successful implementation of information systems improvements will enable the implementation of other recommendations to take place.

Recommendation 9
It is recommended that DOF develop a comprehensive IT strategy as soon as possible for implementation by all departments.

COA Recommendation 6.10: Information systems: DOF

Whilst financial and accounting systems are the responsibility of individual departments, DOF has the responsibility for a major project to implement a new centralised financial management system. It is understood that a project manager for this project is about to be appointed and should be in place during April 1994. It is envisaged that the new central financial management system will be operational in approximately twelve months' time. DOF has acknowledged the need for a comprehensive IT strategy within the departments. A primary purpose of this will be to set out appropriate standards to ensure that compatibility and communication between and within departments is optimised.

COA Recommendation 6.10: Information systems: DOT

Information systems within DOT and the statutory authorities are complex and diverse. This is partly as a result of the fact that both the PTC and VicRoads comprise several previously separate authorities. At present information systems are not integrated in the way envisaged in the recommendation. DOT acknowledges that there is much work still to be done in this area. However the department itself will not retain a dedicated IT function but will 'piggyback' on developments within the PTC.

COA Recommendation 6.10: Information systems: DOE

DOE comprises several previously separate agencies and the two major service delivery divisions have very different information system requirements. DOE recognises deficiencies in its current systems and has produced a detailed IT Strategic Plan. Much work remains to be done in this area.

COA Recommendation 6.10: Information systems: OTFE
OTFE has commenced a major project to upgrade its information systems particularly a relational database system for financial management. It is expected that this will be implemented by the beginning of 1994-95.

A further project exists to build a database on output statistics based on the National Management Information and Statistics System. This will enable output based information in relation to the TAFE sector to be compared nationally.

**COA Recommendation 6.10: Information Systems: DSE**

CASES 1 is being introduced as part of the Schools of the Future program. DSE is about to let a contract for a new central financial management system.

**COA Recommendation 6.10: Information systems: DH&CS**

This has been a major area of resource usage for DH&CS since the amalgamation. DH&CS has opted to implement the system 48 requires further enhancement to comply with all anticipated needs.

**COA Recommendation 6.10: Information systems: DAST**

The issue of information systems with DAST is intrinsically linked to its current number of locations. At present the department has fourteen locations in the city area and has plans to rationalise its use of accommodation. The department recognises that information systems are in an area which require major planning.

The improvement of information systems is a major issue for both central agencies and service delivery departments. The implementation of several COA recommendations is dependent on the availability of appropriate IT resources which require significant financial investment and comprehensive programs for implementation. It is important that systems are compatible and that standards are consistent. Thus, it is important that DOF develop the envisaged IT strategy as soon as possible. It is envisaged that monitoring of developments in the area of IT will be a key component of stage 2 of the Inquiry.

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**COA Recommendation 6.11: Performance reporting: DOTT**

Refer COA recommendation 6.4.

**COA Recommendation 6.11: Performance reporting: DOT**

Refer recommendation 6.4.
COA Recommendation 6.11: Performance reporting: DOE

Output-based performance measures were published in Budget Paper No 4 for 1993-94. DOE also refers to the MII in this regard, in particular the Communication and Integration Project and Performance Management and Improvement Project.

A Corporate Plan has been developed and the performance measures aspects of the Business Plan are being finalised. The Performance Monitoring and Review Unit of DOE has a responsibility to monitor and review performance against defined output targets. The program is being developed.

COA Recommendation 6.11: Performance reporting: OTFE

Much work has been done in this area, particularly with respect to reporting on student contact hours by TAFE colleges to OTFE and using these as a basis for funding and service agreements. In May 1993 the Committee on TAFE and Training Statistics ('COTTIS') recommended a framework of eight performance measures to be used as national indicators. These measures are yet to be accepted by the ANTA Ministerial Council.

COA Recommendation 6.11: Performance reporting: DSE

DSE is modifying its performance reporting, which will eventually result in a revised method taking into account initiatives arising out of the MII.

COA Recommendation 6.11: Performance reporting: DH&CS

DH&CS has developed defined performance measures at program and sub-program level. Important initiatives include case-mix funding for public hospitals, CAM:SAM funding for aged care institutions, both of which focus on service outputs.

COA Recommendation 6.11: Performance reporting: DAST

DAST has developed detailed departmental performance estimates which include targets and benchmarks for each program. These have not yet been published.

This recommendation is closely linked to COA recommendations 6.4 and 6.9. Again, it is the case that there is general commitment to the recommendation, although some departments have made more progress than others at this stage.

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COA Recommendation 6.12: Structural considerations
DOTT believes this matter should be considered by the government in the context of overall machinery of government arrangements.

At present, the responsibilities referred to are allocated between DOF & DOTT. This recommendation contemplates a partial merger of the two departments, which would be akin to the situation which existed prior to 1990. One option would be to merge the departments but retain two ministers, each with clearly defined responsibilities.

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COA Recommendation 6.13: Parent entity: DOTT

DOTT considers that this recommendation is the responsibility of the Financial Controller in DOF.

DOF did not respond to this issue in their response to the Inquiry, although there is an implicit acknowledgment that the parent entity question will be dealt with as part of whole of government reporting.

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COA Recommendation 6.14: Appointment of a Chief Accountant: DOTT

DOTT suggests that this role is split between the Secretary of Treasury and the Financial Controller in DOF. However, DOF has recently appointed a new Comptroller-General.

COA Recommendation 6.14: Appointment of a Chief Accountant: DOF

A new Comptroller-General has recently been appointed and his position description covers the activities mentioned in the recommendation. The internal control aspects of the recommendation were dealt with in amendments made to the Audit (Financial Management) Regulations which became effective in June 1993.

This recommendation has been substantially implemented.

COA Recommendation 6.15: Internal control: DOTT

The Audit (Financial Management) Regulations provide a framework for internal control broadly in line with this recommendation. However these Regulations will be superseded by new Regulations to be made under the Financial Management Act.
**COA Recommendation 6.15: Internal control: DOF**

DOF refers to the Audit (Financial Management) Regulations 1993 which substantially implement this recommendation.

**COA Recommendation 6.15: Internal control: DOT**

The DOT and statutory authorities rely partly on the Audit (Financial Management) Regulations and partly on internally developed procedures manuals.

The internal audit of DOT, PTC and VicRoads have all been contracted out in the last twelve months. The terms of reference for the internal audit contractors include providing advice on improvements which could be made to internal control systems and procedures not only relating to financial matters but also operational matters.

**COA Recommendation 6.15: Internal control: DOE**

A program of risk management assessment has been initiated by the Office of the Secretary. Following completion of DOE's corporate plan, internal audit review programs will be redrafted to focus on performance against strategic objectives. The Performance Monitoring and Review Unit has several key responsibilities relating to internal control. Both DSE and OTFE have internal audit committees and internal audit programs.

**COA Recommendation 6.15: Internal control: OTFE**

OTFE complies with the Audit (Financial Management) Regulations 1993 and will comply with new internal control standards being developed by the Performance Monitoring and Review Branch of DOE.

**COA Recommendation 6.15: Internal Control; COA Recommendation 6.18: Assurance on control;**

**COA Recommendation 6.19: Resources for Internal control: DSE**

The Office of School Review has been set up with responsibility for the review and audit of schools and DSE. Internal audit within DSE is currently carried out by internal staff. Schools audits will be outsourced.

**COA Recommendation 6.15: Internal control: DH&CS**

The department has in place a monthly budget sub-committee process which involves the full executive of the department supported by the Financial Services Branch.
COA Recommendation 6.15: Internal control;
COA recommendation 6.18: Assurance on control
COA recommendation 6.19: Resources for internal control: DAST

Some internal control issues are managed internally. A risk analysis program is being carried out by Steve Lumley Insurance Brokers. Several agencies contract out their internal audits. There are also two internal audit staff within the department who are a resource available to Audit Committees of agencies. The department is rationalising its Audit Committee structures so that all agencies will have Finance and Audit Committees with similar terms of reference.

At this stage, it is assumed that the regulations to be made under the Financial Management Act will continue the current policy framework. This should be followed up as part of Stage 2 of the Inquiry.

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COA Recommendation 6.16: Statement of responsibility: DOTT

This is partly in place under the Annual Reporting Act 1983 which is replaced by the Financial Management Act 1994. The internal control aspect of this recommendation is yet to be considered.

COA Recommendation 6.16: Statement of responsibility: DOF

Consideration is being given to expanding the statement currently included under the Annual Reporting Act 1983 in financial statements, although there is no timetable for this at present.

Finding 16

Whilst it could be argued that the current format of the statement required by the certification provisions of regulations made under Annual Reporting Act 1983 implies effectiveness of internal controls, this could be made more explicit by incorporating the specific requirement in regulations to be made under the Financial Management Act 1994.

Recommendation 10

It is recommended that the Minister for Finance include a specific reference to internal controls in the certification statement expected to be required under the new regulations to be made under the Financial Management Act 1994. At the time of writing the relevant regulation had not been made.

It is intended that the new regulations be reviewed as part of Stage 2 of the inquiry.
COA Recommendation 6.17: Review of internal control systems: DOTT

DOTT has engaged an external firm to carry out its internal audit function which includes a review of internal control systems.

COA Recommendation 6.17: Review of internal control systems: DOF

DOF has contracted out its internal audit during the last twelve months. The terms of reference for this audit review include a review of internal control systems.

Finding 17

COA recommendation 6.17 refers specifically to a review of internal controls by the Auditor-General. Departments have, in general, engaged other parties for this purpose as part of their internal audit although in theory there is no impediment to the Auditor-General acting on this recommendation. A review as envisaged would not be carried out by the Auditor General as a matter of course on each audit because of the risk-based approach adopted. It is likely that an amendment would be needed to the Audit Act 1994 to require the Auditor-General to carry out this function.

At this stage this recommendation has not been strictly implemented in that the review referred to has not been conducted by the Auditor-General.

COA Recommendation 6.18: Assurance on control: DOF

DOF has an audit committee which meets regularly.

COA Recommendation 6.18: Assurance on control: DOTT

Audit committees are required under the Audit (Financial Management) Regulations and one exists at DOTT.

COA Recommendation 6.18: Assurance on control: DOT

Internal audit committees exist in both the PTC and VicRoads.

COA Recommendation 6.18: Assurance on control: DH&CS

DH&CS has an Internal Audit Committee reporting to the Secretary. The internal audit includes both the department and non-government agencies where these are assessed as requiring review. Other agencies are audited by the Auditor-General’s office as external auditor and some have in place
an internal audit function which may be carried out internally or in some cases are contracted out to the private sector.

**COA Recommendation 6.18: Assurance on control: OTFE**

TAFE colleges contract with private sector accounting firms for their continuous audit functions. OTFE has also contracted with a private sector firm for its own internal audit which reports to an OTFE internal audit committee. This includes external representation.

**COA Recommendation 6.18: Assurance on control: DOE**

Composition of audit committees provides additional assurance through non-executive and external representation.

*This recommendation has been substantially implemented.*

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**COA Recommendation 6.19: Resources for internal control: DOTT**

DOTT has contracted out its internal audit function.

**COA Recommendation 6.19: Resources for internal control: DOF**

DOF has contracted out its internal audit function.

**COA Recommendation 6.19: Resources for internal control: DOE**

Refer COA recommendation 6.15.

**COA Recommendation 6.19: Resources for internal controls: DAST**

Refer COA recommendation 6.15

**COA Recommendation 6.19: Resources for internal control: DH&CS**

The department has a team of nine staff in the Internal Audit Branch which reports to the Audit Committee. At this stage DH&CS is not considering contracting out this function.

*The option of contracting out internal audit has been considered by most departments which took part in the Inquiry.*
ATTACHMENTS

1. LIST OF OFFICERS WITH WHOM MEETINGS WERE HELD

2. VICTORIA'S FINANCIAL MANAGEMENT FRAMEWORK - CURRENT AND PROPOSED LEGISLATION

3. RESPONSE FROM DOTT

4. RESPONSE FROM DOF

5a. RESPONSE FROM DOE
5b. RESPONSE FROM DSE

6. RESPONSE FROM DH&CS

7. SUMMARY OF PROGRESS ON RECOMMENDATIONS
ATTACHMENT 1

LIST OF OFFICERS WITH WHOM MEETINGS WERE HELD AS PART OF THIS INQUIRY
LIST OF OFFICERS WITH WHOM MEETINGS WERE HELD AS PART OF THIS INQUIRY

This attachment lists officers with whom meetings were held as part of this inquiry. Position titles were correct at the time meetings were held, although some officers have now transferred to new positions or have resigned from the Victorian Public Service.

Department of the Premier & Cabinet

Dr Peter Frost, Secretary, Office of Public Sector Management
Mr Terry Healey, Manager, Management Improvement Division

Department of the Treasury

Mr Robert Reeves, Deputy Secretary, Budget & Resource Management
Mr Tom Martin, Director, Budget Management Division
Mr Neville Wendt, Director, Management Improvement Division

Department of Finance

Mr Tim Daly, Acting Secretary
Mr Frank King, Deputy Secretary
Mr Ron Pace, Comptroller-General (from 14/2/94)
Ms Phyllis Kailis, General Manager, Policy Development & Implementation
Mr Joe Norman, Financial Controller

Department of Education

Mr Peter Kirby, Secretary
Mr Fred Brennan, Assistant Director, Performance Monitoring & Review
Mr Geoff Drury, General Manager, Financial and Administrative Services, DSE
Mr Paul White, Manager, Resource Analysis Section, DSE
Mr Tony Linton, Senior Resource Analyst, DSE
Mr Jeff Rosewarne, Assistant General Manager, Finance Services Branch, DSE
Mr Dermot Lambe, Finance Manager, OTFE
Mr John Cott, Manager Accounting OTFE

Department of Health & Community Services

Dr John Paterson, Secretary
Ms Gaby Levine, Office of the Secretary
Mr John Hayes, Finance Manager
Department of Transport

Mr Steven Stanko, Deputy Secretary
Mr Steven Gregory, Acting Deputy Secretary

Department of the Arts, Sport & Tourism

Mr Bernie Stewart, Acting Secretary
Mr Les Mengoni, Manager, Finance

Office of the Auditor-General

Mr Ches Baragwanath, Auditor-General
Mr Russell Walker, Chief Director of Audit
Mr Steven Mitzas, Director of Audit
ATTACHMENT 2

FINANCIAL MANAGEMENT FRAMEWORK

FORMER AND NEW LEGISLATION
FINANCIAL MANAGEMENT FRAMEWORK
FORMER AND NEW LEGISLATION

The law relating to the finances of the State of Victoria is contained in the

The Constitution Act creates the Consolidated Revenue and makes its
appropriation the prerogative of Parliament. It also establishes the requirement
that any money bill must be preceded by a message from the Governor, and
that expenditure may be incurred only on warrants from the Governor.

The Audit Act relates to the financial administration of moneys coming into the
hands of the Government; the collection, management and expenditure of, and
the subsequent accounting for, these moneys, public property and other
property. The Act provides for the audit of the public accounts, including
departmental accounts, the reporting to Parliament by the Auditor-General on
the Finance Statement.

The Public Account Act defines the scope of the Consolidated Fund and the
Trust Fund, the balances of which are held in the Government's bank account -
the Public Account. The Trust Fund includes the Works and Services Account,
the Cash Management Account and the State Development Account. The Cash
Management Account and the State Development Account form the Victorian
Development Fund. The Public Account Act also permits the use of the Public
Account for temporary advances for a number of purposes related to the needs
of the Government and provides for investment of the Public Account in trustee
securities. Provision is also made for temporary borrowings should the balance
in the Consolidated Fund be insufficient to meet commitments during a
financial year.

These provisions are changed through the implementation of the Financial
Management Act 1994 and the Audit Act 1994. These repeal the Audit Act 1958,
the former and new framework is set out in the following table:
<table>
<thead>
<tr>
<th>FORMER LEGISLATION</th>
<th>NEW LEGISLATION</th>
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</thead>
<tbody>
<tr>
<td><strong>Constitution Act:</strong></td>
<td></td>
</tr>
<tr>
<td>s62-68 Provisions relating to Appropriation Bills</td>
<td></td>
</tr>
<tr>
<td>s89-93 Consolidated revenue</td>
<td></td>
</tr>
<tr>
<td><strong>Annual Reporting Act:</strong></td>
<td></td>
</tr>
<tr>
<td>s7 Keeping of Accounts</td>
<td></td>
</tr>
<tr>
<td>s8 Reports and financial statements of administrative units</td>
<td></td>
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<tr>
<td>s9 Annual report of public body</td>
<td></td>
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<tr>
<td>s10 Report of Operations</td>
<td></td>
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<tr>
<td>s11 Financial Statements</td>
<td></td>
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<td>s12 Audit</td>
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<tr>
<td><strong>Public Account Act:</strong></td>
<td></td>
</tr>
<tr>
<td>s4 The Consolidated Fund</td>
<td></td>
</tr>
<tr>
<td>s5&amp;6 Works and Services Account</td>
<td></td>
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<tr>
<td>s7 The Cash Management Account</td>
<td></td>
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<tr>
<td>s7D The State Development Account</td>
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<tr>
<td>s8-12 The Trust Fund</td>
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<tr>
<td>s13-21 Special Applications from Public Account</td>
<td></td>
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<tr>
<td>s21A Bona Vacantia</td>
<td></td>
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<tr>
<td>s22-24 Miscellaneous Matters</td>
<td></td>
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<tr>
<td><strong>Audit Act:</strong></td>
<td></td>
</tr>
<tr>
<td>s4-6 Appointment and tenure of Auditor-General</td>
<td></td>
</tr>
<tr>
<td>s7-10 Establishment of receivers of revenue, collectors, paymasters etc.</td>
<td></td>
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<tr>
<td>s11-20 Collection of Public &amp; Other Moneys.</td>
<td></td>
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<tr>
<td>s21-26 Payment of Public Moneys.</td>
<td></td>
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<tr>
<td>s27-48B Audit and Inspection (relating to audit of public account management procedures and including provisions relating to performance audits).</td>
<td></td>
</tr>
<tr>
<td><strong>Constitution Act:</strong></td>
<td></td>
</tr>
<tr>
<td>No change</td>
<td></td>
</tr>
<tr>
<td><strong>Financial Management Act:</strong></td>
<td></td>
</tr>
<tr>
<td>This repeals the Public Account Act and Annual Reporting Act. It is divided into the following parts:</td>
<td></td>
</tr>
<tr>
<td>Part 2: The Consolidated Fund</td>
<td></td>
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<td>Part 3: Public Account</td>
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<td>Part 4: The Trust Fund</td>
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<tr>
<td>Part 5: Annual Statement of Financial Operations</td>
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<td>Part 6: Budget Management</td>
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<td>Part 7: Accountability and Reporting</td>
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<tr>
<td>Part 8: General</td>
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<tr>
<td>Part 9: Transitional and Consequential</td>
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<tr>
<td><strong>Audit Act:</strong></td>
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<tr>
<td>Repeals Audit Act 1958. The primary purpose is to provide for the office of Auditor General and the audit of public accounts.</td>
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<tr>
<td>Part 2: The Auditor General</td>
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<tr>
<td>Part 3: Audit of Authorities</td>
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<tr>
<td>Part 4: Audit of Victorian Auditor General’s Office</td>
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<tr>
<td>Part 5: General</td>
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ATTACHMENT 3

RESPONSE FROM DOTT
DEPARTMENT OF THE TREASURY  
BUDGET AND RESOURCE MANAGEMENT GROUP  
WORKPLAN FOR VICTORIAN COMMISSION OF AUDIT RECOMMENDATIONS  
CHAPTERS 5 & 6  
AS AT 7 MARCH 1994

Readers Guide:  
This report is in the following format:

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<th>Victorian Commission of Audit</th>
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<td>(3)</td>
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<td>(5)</td>
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</table>

Column 1 contains a verbatim quote of the Commission's Recommendations as published in its report of April 1993.
Column 2 indicates the status of the recommendation within the Department of Treasury, where applicable.
Column 3 indicates the actions relevant to the implementation of the recommendation that have been taken since the publication of the Commission's report.
Column 4 indicates the additional actions that are planned that are relevant to implement the recommendation, together with a timeline for the actions, where possible, and/or an explanation of the Department's position concerning the recommendation.
Column 5 provides the initials for the Department or Officer(s) primarily responsible for further actions. A glossary of abbreviations is at the end of the document.
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<tbody>
<tr>
<td>Recommendation 5.1 - Forward estimates system: A rigorous and valid forward estimates system should be developed with the following features:</td>
<td>Accept</td>
<td>Treasury maintains a forward estimate system with estimates which are now more rigorous and valid in that they are compiled in conjunction with each of the 13 Departments and Parliament. The estimates encompass a 4-year horizon (budget + 3 years). To further the rigour and validity of the estimates a module for tracking changes to the estimates has been developed. Full integration with the accounting and budget management systems has not yet been achieved, however for Budget monitoring purposes automatic integration between the budget monitoring and accounting system has been achieved. At the present time estimates of revenue and expenditure are more soundly based and include the outcome of discussions with and references to all relevant sources. They also incorporate ongoing productivity and specific saving targets, and the new carryover arrangements. They are based upon the available macroeconomic forecasts together with program specific information. Complete in that the estimates were published for the first time in the 1993-94 Budget Papers (BP4) in September 1993 and will continue to be published. This will be introduced on a trial basis in 1993-94. A new Financial Management System is being specified in 1993-94 for introduction in 1994-95. This is planned to integrate all accounting and budget systems. Ongoing review of process.</td>
<td>TM/DE/1F/ DOI/Depts/ REV</td>
<td></td>
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**DRAFT**

**BRM DIVISION - WORKPLAN FOR VICTORIAN COMMISSION OF AUDIT RECOMMENDATIONS - AS AT 7 MARCH 1994**

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<tr>
<td>Ongoing review to determine the level of resources required to deliver government services on a best-practice basis.</td>
<td></td>
<td>As part of the development of the 1992-93 and 1993-94 Budgets a major review of departmental services was undertaken under the auspices of BERC. As a result of this review a major reduction in the level of resources has been achieved (Refer Tables 6.6 and 6.7 in Budget paper No 2, 1993-94).</td>
<td>Ongoing assessment of the services provided by Government with a view to contracting out where appropriate.</td>
<td></td>
</tr>
<tr>
<td>Recommendation 5.2 - Agreed costing of budget proposals: All budgetary proposals should have an agreed costing extending over the timeframe of the forward estimates.</td>
<td>Accept</td>
<td>Project Appraisal Guidelines for works proposals were circulated to departments in 1993. The guidelines require full cost analysis. New recurrent proposals are expected to be costed for the forward estimates timeframe.</td>
<td>Proposals will be assessed for compliance with guidelines when received. A component of the Management Improvement Initiative (MII) is examining implementation of the guidelines. The outcome of that project will determine further action.</td>
<td>TM</td>
</tr>
<tr>
<td>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).</td>
<td>Accept in part</td>
<td>Sensitivity analysis continues to be used extensively within Treasury to assess different Budget scenarios for management purposes. This is continuously refined. Outlooks for major macro-economic assumptions are published (see BP2, Chp 2) as are the reasons for key trends in the forward estimates (see BP2, Chp 4) but specific assumptions behind each published estimates have not been published to date.</td>
<td>Improved publication of Budget information is part of Treasury management agenda. Publication of major parameter assumptions for the forward estimates is being considered for future Budget Papers.</td>
<td>CT/TM</td>
</tr>
<tr>
<td>Recommendation 5.4 - Reconciliation of estimates: The budget papers should include a reconciliation between previously published forward estimates and the budget outcome, identifying the extent to which variances are due to:</td>
<td>Accept</td>
<td>Explanation of major variations from Budget is current practice (see BP2 Table 1.2, Appendices A &amp; B). This incorporates, where applicable, variances due to: • post-budget decisions; • variations in parameters such as inflation and wages; and • inability to implement policy decisions.</td>
<td>A facility for tracking reasons for all changes to the forward estimates is to be implemented during 1993-94. This will enhance the capacity for comparisons to be made between Budget estimates and outcome.</td>
<td>TM/PF/CT</td>
</tr>
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<tr>
<td>Recommendation 5.5 - Appropriation structure: Appropriations and subsequent reporting back to Parliament should be in the same form (the GFS format) as the presentation in the budget documentation. This should be on a full financial reporting basis.</td>
<td>Accept in part</td>
<td>While Budget information is now generally presented in the GFS format it is not currently envisaged that appropriations will be presented in this format. Budget Paper No 4 contains comprehensive information on both appropriation and GFS estimates. The move to &quot;one line&quot; appropriations, which is confirmed in the provisions of the Financial Management Bill, is one technical issue which would prevent the GFS presentation of appropriations. The Financial Management Bill provides for a statement similar to Finance to be produced. Work has commenced on the introduction of accrual accounting (full financial reporting) in the Budget sector (see recommendation 5.14).</td>
<td>Assessment of the reporting requirements of Parliament is ongoing. The introduction of accrual accounting will continue and the requirements for reporting on this basis will be examined when technical systems are available.</td>
<td>DOF/TM/PF</td>
</tr>
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<tr>
<td>Recommendation 5.6 - Consolidated Fund balance: The artificial requirement for a positive or balanced year-end result for the Consolidated Fund should be removed.</td>
<td>Accept</td>
<td>Clause 9 of the Financial Management Bill eliminates this requirement.</td>
<td>The Bill is expected to pass in the 1994 Autumn session. Investigation of means of ensuring that Trust Fund balances are not used to meet cash requirements will continue.</td>
<td>TM/DOF/SM</td>
</tr>
<tr>
<td>Recommendation 5.7 - Classification of budget items: The definitions of current and capital items should be consistent and relate to economic substance.</td>
<td>Accept</td>
<td>Substantially completed in 1993-94 Budget.</td>
<td>Completion of assessment of relevant items for 1994-95 Budget.</td>
<td>Budget Management Officers</td>
</tr>
<tr>
<td>Recommendation 5.8 - Budget paper information: Information contained in the budget papers should be in a consistent format each year. Where the format has been changed, time series data should be presented in the new format.</td>
<td>Accept</td>
<td>The Budget has been presented in GFS format for some years, which ensures some consistency between years. Where the format of other presentations changes time series are placed in the new format wherever possible.</td>
<td>Already the practice - complete.</td>
<td>TM/PF</td>
</tr>
<tr>
<td>Recommendation 5.9 - Separation of policy and service delivery: There should be clear separation between the regulatory and policy functions, and service delivery functions of government.</td>
<td>Accept</td>
<td>Proposals for separation of functions are being assessed individually. Limited separation of functions has occurred in some agencies and has resulted in better management.</td>
<td>Major policy matter for the Government to consider, provisional Treasury support likely where savings can be clearly demonstrated and financial management of either regulatory or policy functions is not at risk.</td>
<td>Dept's/TM</td>
</tr>
<tr>
<td>Recommendation 5.10 - Promotion of competition in service delivery: Competition should be promoted among public and private service providers, based on the most efficient and effective means of providing services.</td>
<td>Accept</td>
<td>Implementation commenced in 1992-93. Details of the reform program are reported in chapter 8 of Budget Paper No. 2 - Budget Strategy and Review 1993-94. See SOE policy statements, and revised fees and charges and contracting-out guidelines.</td>
<td>Ongoing implementation.</td>
<td>DE/SE</td>
</tr>
</tbody>
</table>

For information on this schedule contact: N. Coen, Budget Management Division, Ph 631 5341

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<td>Recommendation 5.11 - Documentation of the budget process: The budget development process should be adequately documented. A budget manual should be prepared which sets out a timetable and guidelines for agencies to prepare estimates.</td>
<td>Accept</td>
<td>Work has commenced on the development of a Budget Manual as a component of the Management Improvement Initiative.</td>
<td>Further refinement to occur with a view to distribution in mid 1994-95.</td>
<td>DE/DPC</td>
</tr>
<tr>
<td>Recommendation 5.12 - Timing of the budget: Departmental allocations should be approved and announced before the start of the financial year to which they apply.</td>
<td>Accept</td>
<td>The early provision of planning allocations to Departments commenced with the 1993-94 Budget (released in April 1993).</td>
<td>Timing of the Budget process is reviewed by BERC on an ongoing basis.</td>
<td>TM</td>
</tr>
<tr>
<td>Recommendation 5.13 - Internal review and evaluation: a program of ongoing internal review and evaluation of the efficiency and effectiveness of government programs should be established. This should be linked to both departmental corporate plans and senior executives' published performance indicators. The review should consider the need for a program, as well as cost effectiveness. Reviews should be conducted by agency management as part of their regular management and internal control procedures. The central agencies should also conduct reviews for the purposes of broader government management.</td>
<td>Accept</td>
<td>At the program level this is encompassed by Treasury FMID evaluation proposals and at the broader level by the Management Improvement Initiative and organisational management reviews (commenced 1993-94).</td>
<td>Proposals for a system of program evaluation are to be approved. Ongoing implementation.</td>
<td>DPC/DE</td>
</tr>
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<tr>
<td>Recommendation 5.14 - Full financial accounting: A system of full financial accounting should be introduced, which attributes all the costs of delivering a service. Appropriations and financial reporting should be in this format.</td>
<td>Accept</td>
<td>Implementation of accrual accounting is proceeding in all Budget sector agencies with a view to the production of annual operating and cashflow statements and balance sheets by all agencies by 1995-96. The introduction of the capital charge and allocation of rental charges to Departments will facilitate further cost attribution to services. Allocation of superannuation costs is under consideration.</td>
<td>See Recommendation 5.5.</td>
<td>DOF/DE</td>
</tr>
<tr>
<td>Recommendation 5.15 - Management flexibility: Budget papers should disclose the full cost (of) funding of a defined set of outputs. Reporting and accountability should be assessed against these budgeted outputs. A necessary prerequisite for this is the flexibility to manage the appropriate mix of inputs.</td>
<td>Accept</td>
<td>Output measures were defined and published in the 1993-94 Budget papers. Guidelines for departments on specification of outputs are awaiting approval. Departments have flexibility to manage inputs through the use of global appropriations with net appropriation and carry-over arrangements.</td>
<td>Ongoing implementation. Agreed in principle as a goal to aim at. Budget plan proposal encapsulates this as a broad goal when all costs can be allocated across departments. (see also recommendation 5.14)</td>
<td>DE/TM</td>
</tr>
<tr>
<td>Recommendation 5.16 - Net appropriations: Funding of programs should be on a net appropriations basis. Agencies should be able to retain receipts from authorised trading activities.</td>
<td>Accept</td>
<td>The Appropriation structure introduced for the 1993-94 Budget provided for net appropriations; retention of receipts occurs subject to annual agreements. 6 Departments opted for net appropriations in 1993-94; it is envisaged that significantly more will utilise the facility in 1994-95.</td>
<td>Complete in that mechanism for net appropriations has been introduced. The specific application of net appropriations and guidelines for agencies will be monitored and refined on an ongoing basis.</td>
<td>TM</td>
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<tr>
<td>Recommendation 5.17 - Carry-over facility: The budget should allow a capability for limited carryover of unexpended funds to the next financial year.</td>
<td>Accept</td>
<td>A Carryover facility was introduced in the 1993-94 Budget, subject to certain criteria managed at a central level.</td>
<td>Guidelines for the application of carryovers will be reviewed on the basis of experience.</td>
<td>TM</td>
</tr>
<tr>
<td>Recommendation 5.18 - Borrowing from future appropriations: The appropriation process should allow the possibility of limited borrowings from future years' appropriations, with subsequent Parliamentary sanction.</td>
<td>Accept</td>
<td>The Financial Management Bill (Clause 28) provides the basis for the borrowing of funds from future Appropriations.</td>
<td>Subject to the passage of the necessary legislation, consideration will be given to the requirements for central control of the process.</td>
<td>TM/ PF</td>
</tr>
<tr>
<td>Recommendation 5.19 - Financial management reform program: A comprehensive financial management reform program should be developed and implemented as a matter of priority.</td>
<td>Accept</td>
<td>A number of initiatives either implemented or in progress (see recommendations above), constitute elements of the reform program. Treasury's FMIP was incorporated into MII in late 1993.</td>
<td>Ongoing implementation and review.</td>
<td>TM/ DF</td>
</tr>
<tr>
<td>Recommendation 6.1 - Whole of government reporting: The State of Victoria should produce a consolidated 'whole of government' general purpose financial report (GPFR) embracing all entities which it controls (in accordance with the existing accounting standards on consolidations). This should be accompanied by separate sub-consolidations of budget and non-budget sector entities.</td>
<td>Accept in part</td>
<td>Limited reporting of whole of government (with sub-consolidations into budget and non-budget sector) financial data occurs in the Budget Papers. Under Loan Council guidelines whole of government reports are produced on a GFS basis (these will indicate accrual adjustments). Other than this it is not currently intended that a GPFR for whole of government will be prepared.</td>
<td>Ongoing review. Any future reports will need to reconcile to GFS.</td>
<td>PF/DOF</td>
</tr>
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<td>Recommendation 6.2 - Operating and cash-flow reporting: Operating performance (on a full financial reporting basis), and cash flows should be reported on by the State and by individual agencies (in statements prepared in accordance with the existing accounting standards), for monthly management accounting purposes, and as an important measure of performance by the State against the budget.</td>
<td>Accept</td>
<td>Development of appropriate accounting standards and financial information systems to capture accrual as well as cash reporting at central agency level has commenced (see also recommendations 5.14 and 6.10). Monthly cash flow statements for Departments are provided to BERC. Niemeyer reports of budget-sector cash flows on a GFS basis are made monthly.</td>
<td>GFS reports will be maintained to conform with Loan Council guidelines. Further reporting on an accruals basis will be considered when the necessary systems are available. Operating performance reporting will be further addressed.</td>
<td>DOF/TM/ PF</td>
</tr>
<tr>
<td>Recommendation 6.3 - Reconciliation of differing displays of performance: A reconciliation between statements in GPFR and Government Finance Statistics format reports should be included in the half-yearly and yearly GPFRs prepared by the State for the whole-of-government. The reconciliation should include a clear explanation of the difference in purpose and classification of the two sets of information.</td>
<td>Accept in part</td>
<td>Is currently done on an annual, aggregate basis.</td>
<td>See recommendations 6.1, 6.2.</td>
<td>DOF/TM/ PF</td>
</tr>
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** DRAFT **

BRM DIVISION - WORKPLAN FOR VICTORIAN COMMISSION OF AUDIT RECOMMENDATIONS - AS AT 7 MARCH 1994

<table>
<thead>
<tr>
<th>Victorian Commission of Audit Recommendations</th>
<th>Accept/Reject</th>
<th>Progress to date</th>
<th>Further Action Planned</th>
<th>Resp'sibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation 6.4 - Reporting of corporate planning: There should be a coherent framework of reporting which integrates and includes the State's corporate planning (at both the state-wide level and the individual agency level) and the budget.</td>
<td>Accept</td>
<td>The monitoring of departmental performance will increasingly focus on the achievement of agreed outputs within a given level of funding. Broad corporate strategies and output targets were published in Budget Paper No. 4 - Budget Estimates 1993–94. As well as reporting to Parliament on outputs achieved at the end of each year, major departments are being required to report quarterly to the BERC on progress during the year. Departmental Performance estimates at sub-program level were provided by all Departments in late 1993. The MII incorporates a major focus on corporate reporting.</td>
<td>All Departments are to report their Business Plans to BERC in March 1994. Further refinement of output measures at both Program and sub-program level will occur as the reporting process continues.</td>
<td>DPC/TM/DE</td>
</tr>
<tr>
<td>Recommendation 6.5 - Budget reporting: The budget should be prepared on a full financial accounting basis, and reporting against the budget should be on the same basis.</td>
<td>Accept</td>
<td>See recommendation 5.14.</td>
<td>Consideration of preparation of the Budget on an accruals basis will continue to be considered.</td>
<td>TM/PF/DOF</td>
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BRM DIVISION - WORKPLAN FOR VICTORIAN COMMISSION OF AUDIT RECOMMENDATIONS - AS AT 7 MARCH 1994

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<tr>
<th>Recommendation</th>
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<tr>
<td>Recommendation 6.6 - General purpose financial reporting. All departments should prepare and publish general purpose financial reports (GPFR) which bring to account all the elements of financial reporting (assets, liabilities, revenues and expenses) and which comprise a balance sheet, operating statement, cash-flow statement, appropriate notes and a statement of responsibility. This is in addition to the whole of government GPFR referred to in recommendation 6.1.</td>
<td>Accept</td>
<td>A program to introduce accrual based financial systems commenced in 1991-92. All departments and related agencies are on a 3 year program to produce reports disclosing assets, liabilities and expenses and comprising a balance sheet, operating statement and cash flow statement. These are to be published in Annual Reports.</td>
<td>Progress dependent upon moves to accrual reporting and other developments in reporting. Encompassed by Mit, Project 3.</td>
<td>DOF/DIE</td>
</tr>
<tr>
<td>Recommendation 6.7 - Timeliness of general purpose financial reporting. GPFRs, including those prepared for the whole of government, should be published on both a yearly and half-yearly basis, and be available to the Parliament and public on a timely basis (within three months of balance date).</td>
<td>Accept in part</td>
<td>Preparation for the implementation of annual reporting (see recommendation 6.6).</td>
<td>Treasury is committed to move to reporting financial flows on a quarterly basis and financial stocks on an annual basis for the public sector as a whole. This commitment is in the context of uniform and regular reporting of State finances for purpose of Loan Council monitoring and the annual preparation of the National Fiscal Outlook.</td>
<td>PF/TM/DOF</td>
</tr>
<tr>
<td>Recommendation 6.8 - Discontinuance of the Finance Statement:</td>
<td>Accept/Reject</td>
<td>Progress to date</td>
<td>Further Action Planned</td>
<td>Responsibility</td>
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<td>When the whole-of-government consolidated financial statements are prepared by the State on a routine basis the Finance Statement should be discontinued. In the interim, the Finance Statement should report Consolidated Fund results only at an aggregate level, leaving detailed program information to be reported in agencies' annual reports.</td>
<td>Refer/DOF</td>
<td>The Financial Management Bill provides for the production and auditing of a statement similar to Finance.</td>
<td>Progress dependent upon moves to accrual reporting and other developments in reporting. Consideration of the need for and/or form of the statement will be given at that time.</td>
<td>DOF</td>
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</table>

| Recommendation 6.9 - Management accounting: Central agencies should be provided with monthly financial reports which relate to the budget and agency corporate plans, and which bring all elements to account. | Accept | Monthly financial reports for departments are produced and major departments report to BERC in a form linked to financial strategies, including approved output targets and performance benchmarks. | Refinement of process will be ongoing. | TM |

| Recommendation 6.10 - Information systems: Each reporting entity should maintain integrated full financial reporting and managerial accounting systems. These should be supported by an effective central reporting mechanism. | Accept | 3 key consultancies are being initiated: Information Technology Strategic Plan (ITSP), Financial Management Systems (FMS) and Business Process Re-engineering (BPR). DOF has identified systems appropriate to Departments' needs. | Adoption of ITSP, BPR to start March 1994. FMS is ongoing. | DOF/PF/DE/Dept's |

| Recommendation 6.11 - Performance reporting: Each agency should develop a set of performance measures which relate to its published corporate plan | Accept | See Recommendation 6.4. | | DPC/DE |
| Recommendation 6.12 - Structural considerations: One agency, the Treasury, should be responsible for the central managerial processes (i.e. planning, budgeting, reporting and control) of the Victorian Government |
| Recommendation 6.13 - Parent entity: The parent entity should be managed by Treasury under contract from the Government and should prepare GPFRs for itself and for the whole-of-government. |
| Recommendation 6.14 - Appointment of a Chief Accountant: The Government should appoint a Chief Accountant to: |
  - be responsible for the preparation of the whole-of-government GPFR; |
  - provide guidance to individual agencies on the preparation of their GPFRs; |
  - be responsible for the system of internal controls for the State; and |
  - provide advice to agencies on their internal controls. |
  The position should participate in the early adoption of full financial reporting and comprehensive internal control systems. |

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<tr>
<td></td>
<td></td>
<td>The Government will consider these recommendations further in the context of its overall machinery of Government arrangements.</td>
<td>DPC</td>
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<td></td>
<td>The preparation of GPFRs for whole of Government, including non-departmental items will be a matter for the Financial Controller. See Recommendations 6.12 and 6.14.</td>
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<tr>
<td></td>
<td></td>
<td>This role is currently split between the secretary of Treasury and the Financial Controller, DOF. Change is dependent upon implementation of recommendation 6.12.</td>
<td>DPC</td>
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For information on this schedule contact: N Letton, Budget Management Division, Ph 651 5341
**DRAFT**

BRM DIVISION - WORKPLAN FOR VICTORIAN COMMISSION OF AUDIT RECOMMENDATIONS - AS AT 7 MARCH 1994

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<tr>
<td>Recommendation 6.15 - Internal control: The chief executives of agencies should be charged with developing systems of internal control which: &lt;br&gt;- accord with the objectives specified in the agencies' corporate plans; &lt;br&gt;- are based on the COSO framework; &lt;br&gt;- are integral to the executives' management approach; &lt;br&gt;- involve formal assessment and analysis of the risks faced by agencies in achieving their operational objectives, in discharging financial accountability and in complying with regulations, requirements and policy; &lt;br&gt;- relate control activities and procedures to risks identified, and ensure that information concerning the effectiveness of those activities is provided to the appropriate levels of management on a timely basis; and &lt;br&gt;- include a monitoring process to ensure that internal control is kept relevant to the objectives of the agencies. Ministers should also apply the principles of internal control to their own relationships with government agencies.</td>
<td>Accept in part</td>
<td>The Audit (Financial Management) Regulations, effective 1/7/93, provide a framework for internal control which is the responsibility of a department head and incorporates risk analysis as a component of the audit process</td>
<td></td>
<td>DOF/Dept's</td>
</tr>
<tr>
<td>Recommendation 6.16 - Statement of Responsibility: GPFRs should contain a statement of responsibility (SOR) signed by the chief executive responsible for each agency. The SOR should contain a confirmation that the statements have been presented fairly in accordance with Statements of Accounting Concepts and Accounting Standards. If this is not the case, the statement should be qualified. They should also contain a representation that the internal controls relevant to the preparation of the agency's GPFRs have been effective throughout the reporting period.</td>
<td>Accept / Reject</td>
<td>Progress to date</td>
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<td>Accept in part</td>
<td>Already in place in different form under the Annual Reporting Act 1983 (to be replaced by Financial Management Bill, clauses 41 - 54).</td>
<td>Consideration of whether the existing statement should encompass internal control effectiveness.</td>
<td>DOF</td>
<td></td>
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</table>

| Recommendation 6.17 - Review of internal control systems: The Auditor-General should review (as opposed to audit) the systems of internal control. More detailed investigations into performance would, as in the past, be at the discretion of the Auditor-General. | Accept | The Treasury Audit Committee has engaged external resources for the internal audit function. The Auditor-General will be involved in monitoring this activity. (See also Recommendations 6.20 to 6.22.) | Ongoing review of process. | Depts/A-G |

| Recommendation 6.18 - Assurance on control: Effective internal audit functions and audit committees should be required as standard features of the system of internal control. | Accept | Audit Committees are required under the Audit (Financial Management) Regulations (See recommendation 6.15). | Complete. | Dept's |

<p>| Recommendation 6.19 - Resources for internal control: Elements of internal audit should be contracted out if the required resources are not available and it is the most cost-effective option. | Accept | A number of Departments have contracted out internal audit functions, or are considering doing so. | Complete. | Dept's |</p>
<table>
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<tr>
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</table>
| Recommendation 6.20 - External auditor: The Auditor-General should be responsible, on behalf of the Parliament, for the financial and performance audits of all public sector entities. The Auditor-General should be accountable for resource usage to a committee of the Parliament headed by the Speaker. | Accept in part | The Audit Bill is currently before Parliament and provides for:  
- The Auditor-General to be responsible for the financial audit of all public bodies  
- The Auditor-General to consult with the Public Account and Estimates Committee in relation to performance audits. | Passage of the Bill is expected in the Autumn session 1994. | DOF/DE |
| Recommendation 6.21 - Funding of the Auditor-General's office: The Auditor-General's office should be funded through a Special Appropriation under the control of a Parliamentary committee chaired by the Speaker. Auditees should be charged for financial audits, but the Parliament should fund all performance audits. | Accept in part | The Audit Bill provides for:  
- The cost of performance audits to meet from the Parliamentary (not special) appropriation, and  
- The cost of financial audits to be born by the auditee. | | DOF/DE |
| Recommendation 6.22 - Audit scope: The external audit, on behalf of the Parliament, of whole-of-government and all public sector agencies GIPFRs, including state-owned enterprises, and companies and joint ventures in which the Government has a controlling interest, should be the responsibility of the Auditor-General. | Accept in part | See recommendation 6.20. Ventures where the government is not the sole share holder are not encompassed by the definition of public body in the Bill. | | DOF/DE |
Glossary for responsibility codes:

<table>
<thead>
<tr>
<th>Code</th>
<th>Name</th>
<th>Position</th>
<th>Division</th>
<th>Contact Details</th>
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<tbody>
<tr>
<td>CT</td>
<td>Claire Thomas</td>
<td>Director, Economic Policy and Financial Strategy Division</td>
<td>651 6424.</td>
<td></td>
</tr>
<tr>
<td>DE</td>
<td>Dick Elting</td>
<td>A/Director, Management Improvement Division</td>
<td>651 5374.</td>
<td></td>
</tr>
<tr>
<td>DOF</td>
<td></td>
<td>Department of Finance.</td>
<td></td>
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<tr>
<td>DPC</td>
<td></td>
<td>Department of Premier and Cabinet.</td>
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<tr>
<td>OPSM</td>
<td></td>
<td>Office of Public Sector Management.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PF</td>
<td>Peter Fulhamann</td>
<td>A/Team Leader, Strategy Coordination and Budget Information Systems, Budget Management Division</td>
<td>651 5721.</td>
<td></td>
</tr>
<tr>
<td>REV</td>
<td></td>
<td>Revenue Division, Treasury.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SM</td>
<td>Stephen Mulher</td>
<td>Budget Officer, Budget Management Division</td>
<td>651 5368.</td>
<td></td>
</tr>
<tr>
<td>SOE</td>
<td></td>
<td>Office of State-Owned Enterprises, Department of the Treasury.</td>
<td>651 5344.</td>
<td></td>
</tr>
<tr>
<td>TMI</td>
<td>Tom Martin</td>
<td>Director, Budget Management Division.</td>
<td>651 5344.</td>
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ATTACHMENT 4

RESPONSE FROM DOF
ADDITIONAL QUESTION

VICTORIAN COMMISSION OF AUDIT REPORT

Request by the Public Accounts and Estimates Committee

(a) A list of those recommendations included in Chapters 5, 6, 11 and 12 of the Report which are the responsibility of the Department of Finance.

(b) A report on the implementation of those recommendations, including implementation dates.

(c) Details of those recommendations that are not proposed to be implemented or are still under consideration.

| CHAPTER 5 - Improving Budgetary Processes | (a) Recommendation 5.1 (Part only) - Integration of accounting and budget management system. | (b) Development of new FMS agreed with Treasury to incorporate new Public Ledger System and budget management systems. Implementation to be completed in 1994/95 financial year. | (c) |
| Recommendation 5.14 | Implementation of full financial accounting including Appropriations by Budget Sector Departments (Joint responsibility between Departments of Finance and Treasury) | Implementation of Accrual Reporting program by Department of Finance will facilitate financial accounting and full costing of services. (See Rec. 6.6) | |

<p>| CHAPTER 6 - Improving Accountability and Internal Control | (a) Recommendation 6.1 The State should produce a 'Whole of Government' general purpose financial report (G.P.F.R.) embracing all entities which it controls. | (b) Implementation of Whole of Government Reporting under consideration. Need to address practical and conceptual issues. AARP to publish discussion paper on Financial Reporting by Governments. | (c) |
| Recommendation 6.2 Operating Performance (on a full financial basis) and cash flows should be reported on an individual agency, for monthly management accounting purposes and as an important measure of performance by the State against budget. (Joint responsibility between Departments of Finance and Treasury) | Issue of budget monitoring is DOT matter. Implementation of Accrual Accounting will facilitate reporting of operating performance. | |</p>
<table>
<thead>
<tr>
<th>Recommendation 6.6</th>
<th>All Departments should prepare and publish general purpose financial reports which bring to account all the elements of financial reporting and which comprise a balance sheet, operating statement, cashflow statement, appropriate notes and a statement of responsibility.</th>
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<td>A program to implement accrual accounting commenced during 1992/93. All departments are on a three year staged program to produce full accrual financial statements. Implementation to be completed by 1995/96. Consistent with timing in the proposed Standard on Financial Reporting by Government Departments to be released by the Australian Accounting Research Foundation.</td>
</tr>
<tr>
<td>Recommendation 6.7</td>
<td>G.P.F.R.s should be published on a yearly and half-yearly basis.</td>
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<td>Issue will be considered as part of strategy to be developed for Whole of Government reporting. (See Rec. 6.1)</td>
</tr>
<tr>
<td>Recommendation 6.8</td>
<td>When the Whole of Government financial statements are prepared by the State on a routine basis, the Finance Statement should be discontinued. (Department of Finance/Treasury joint responsibility)</td>
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<tr>
<td></td>
<td>Appropriation Act is fundamental to Westminster system of Government; there is a need to report back how funds are spent. Finance statement would be limited to Consolidated and Trust Fund reporting. Other reporting issues in Whole of Government documentation.</td>
</tr>
<tr>
<td>Recommendation 6.10</td>
<td>Each reporting entity should maintain integrated full financial reporting and managerial accounting systems.</td>
</tr>
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<td>Financial and accounting systems are the responsibility of individual Departments. DOP has identified appropriate systems to assist agencies to implement systems to simultaneously report cash and accounts and new budget techniques.</td>
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</table>
| The Government should appoint a Chief Accountant to -  
- be responsible for the preparation of Whole of Government G.P.F.R.  
- provide guidance to agencies on the preparation of their G.P.F.R.s.  
- be responsible for the system of internal controls for the State.  
- provide advice to agencies on their internal controls. | The functions of the Comptroller-General, Department of Finance cover the activities outlined in the recommendation. The Division will, in collaboration with the Department of the Treasury, implement the necessary accounting and financial reforms. | Audit (Financial Management) Regulations 1993 implements this requirement, effective 30 June 1993. | Financial statements prepared under the Annual Reporting Act are certified by CEOs. | Consideration is being given to including a statement on internal control systems effectiveness and on issues related to Accounting Concepts and Standards. |
| **CHAPTER 11 - Superannuation** | **Recommendation 11.1** | **Recommendation 11.2** |
| Actuarial calculations for all schemes should be carried out using consistent assumptions. | The superannuation recommendations of the Victorian Commission of Audit, together with the results of the community wide consultation process, have been considered by Government when negotiating an agreement with the Victorian Trades Hall Council. | The funding of superannuation funds will be subject to ongoing consideration by Government as part of its financial management reform program. |  

|  |  |  |  |  |
ATTACHMENT 5a

RESPONSE FROM DOE
5.9 Separation of Policy and Service Delivery

The Victorian Commission of Audit recommended that "---There should be clear separation between the regulatory and policy functions, and service delivery functions of Government ----".

Response:

The Department has instituted major re-structuring in each of its principal agencies (the Office of Training and Further Education (OTFE) and the Directorate of School Education (DSE)) for the purpose of defining organisational profiles which best meet clearly defined strategic priorities client service delivery requirements and outputs performance objectives.

In addition, through the auspice of Governments new Integrated Management Cycle and concomitant Management Improvement Initiative projects, the relationships and information needs as between Government central agencies (Treasury, Finance and Premiers), operating Departments and clients, are being completely re-defined.

The focus here is also upon enhanced Departmental responsibility for planning and performance aimed at achievement of best practice in delivering required client service outcomes, within a framework of increased accountability.

5.10 Promotion of Competition in Service Deliveries

The Commission recommended that "--- Competition should be promoted among public and private service providers, based on the most efficient and effective means of providing services ----".

Response:

The Department has been progressively applying the principles of open competition and competitive neutrality in many ways, and which pre-date the report of the Victorian Commission of Audit. For example:-

- in the OTFE (TAFE) area, there has been a progressive process of both accrediting and registering of private training providers to deliver publicly funded vocational education and training programs.
- colleges have also been competing for some time in the private market, for consulting and training services directly to industry.

- similar processes are now being adapted for application in the tertiary sector, the provision of common (core) services (i.e. fleet management, cleaning, secretariat and correspondence functions) are being examined for rationalisation into single service delivery for the total Department.

- planning is also at an advanced stage for a number of previously in-house services to be outsourced, including payroll and information systems support and maintenance.

- school cleaning has also been contracted to the private sector.

- specialist skills support in schools is also subject to contracting out to the private sector.

- the process is ongoing.

5.14 Full Financial (Accrual) Accounting

_The Commission recommended "--- A system of full financial accounting should be introduced, with all the costs of service provision attributed to that service. Appropriations and financial reporting should also be in this format (i.e. accrual accounting) ----"._

**Response:**

The Victorian Government has introduced a policy of phased implementation by all Departments, into full accrual accounting, by 30 June 1995.

Departments have been grouped in 3 clusters dependant upon their level of advancement towards full accrual accounting.

The Department of Education is in the final group and for the 1993/94 financial year will be producing and publishing, as supplementary unaudited information, a consolidated statement of financial position and associated notes.

In addition, the Department of Finance - Accounting Policy Unit, has progressively been developing and distributing, in conjunction with Departments, _"Accrual Accounting Guidance Releases"_ for use as ready-reckoners.

Within the Department of Education, TAFE Colleges, Universities, the Office of Training and Further Education (OTFE) and the Core Department (Office of the Secretary) are "Contributed Income Sector Agencies" under the _Annual Reporting Act, 1983_ and attendant _Regulations_. As such they produce modified accrual accounting (general purpose) financial statements.
The Directorate of School Education is currently defined as an Administrative Unit under the Annual Reporting Act, 1983 and produces traditional cash-based financial statements focussed on annual funding appropriations reporting.

The Department has established an Accrual Accounting Implementation Project Group (led by myself) which has developed, and is working to a detailed implementation timetable with defined milestones for signing off at major completion points.

6.4 Reporting of Corporate Planning

The Commission recommended "--- There should be a coherent framework of reporting which integrates, and includes, the State's corporate planning (at both the state-wide level and the individual agency level) and the budget ----".

Responses:

Government via the Department of Premier and Cabinet has set about improving State corporate planning and reporting through establishment of a process referred to as the "Integrated Management Cycle (IMC)". This is an overall strategic timetable cycle, a key part of which incorporates the 7 major pillars of management deficiency arising from the findings of the Commission of Audit report and referred to as the "Management Improvement Initiatives".

Government has established 7 M.I.I. Project Groups charged with the responsibility for bringing about strategic structural reform of the public sector as it relates to the individual M.I.I. Project Assignments. The Department of Education has representatives involved in five of these projects, as team leaders and/or project team members.

At the Departmental level, this Department (Education) is addressing the key issue of integrated corporate planning and reporting in the following ways:-

(i) through a program of major organisational review and restructuring
(ii) executive office performance contracts
(iii) inter-agency management committees and
(iv) regular planning seminars.

6.6 General Purpose Financial Reporting

The Commission recommends "--- All Departments should prepare and publish general purpose financial reports (GPFR's) which bring to account all the elements of financial reporting (assets, liabilities, revenues and expenses) and which comprise a balance sheet, operating statement, cashflow statement, appropriate notes and a statement of responsibility. This is in addition to the whole of government GPFR referred to in recommendation 6.1 ----".

Response:

The issues here have substantially been dealt with above with the exceptions of the following additional initiatives implemented by Government.
1. Establishment of the Assets Audit Taskforce, with membership drawn from central agencies and Departmental representatives (I represent this Department). Its role is primarily to identify and accumulate asset data for purposes of Governments catastrophe insurance renewal program. However, the role has now been upgraded to address issues of asset register definition and expansion to incorporate future key information needs for Departmental corporate planning purposes (eg Market Value, Utilisation Rates, Condition Status, etc).

2. Establishment, within the Department of Finance, of the Accrual Accounting Implementation Committee, again in which I represent the Department. This committee addresses key policy definition development issues in progressing adoption of accrual accounting across Departments.

3. Establishment, by the Department of Treasury, of a consulting project, using Deloittes Touche Tohmatsu and Project Steering Committee (of which I am a member) charged with responsibility for implementing a Capital Charging Regime into Departmental cost structures and strategic planning and other recommendations of the Commission addressed in chapter 12. The objective is to ensure transparency in terms of reflecting the full cost of capital projects in the evaluation process.

4. Through the M.I.I. process, two particular projects (Financial Management Improvement and Performance Management & Improvement) also address the issues of GPFR’s as part of their terms of reference.

6. Management Accounting

The Commission recommended ——“Central agencies should be provided with monthly financial reports which relate to the budget and agency corporate plans, and which bring all elements to account ——“.

Response:

Under interim arrangements the Department is providing consolidated budget management and performance reports to the Budget Expenditure Review Committee of Cabinet (BERC).

Again, the two M.I.I. Projects referred to at 6.6 also address the issue of management accounting and reporting as part of their terms of reference.

Internally, agencies of the Department are submitting monthly financial and performance reports to the Secretary, which form the basis of the reports submitted to BERC.

(Note: Whilst this Department had been submitting monthly reports to Premier & Cabinet and to Treasury through 1992/93, no monthly reports have been sought to date from either agency).
6.10 Information Systems

The Commission recommended "--- Each reporting entity should maintain integrated full financial reporting and managerial accounting systems. These should be supported by an effective central agency reporting mechanism ---".

Response:

The Department recognises that many of its systems, particularly those in DSE, are manually intensive and that its major computerised information systems (GENIUS, FM-80, etc.) are "old technology" and at risk of collapse. This will be exacerbated by the proposed radical reduction in central office administrative staff (ie. from 1900 in June 1993 to 600 by June 1994).

In response to the computerised systems exposures, a detailed IT Strategic Plan has been developed by DSE and specifications have been finalised for:-

(i) a replacement financial management system
(ii) outsourcing of payroll
(iii) a new Information Technology platform to host major remaining systems.

Government is seeking expressions of interest for outsourcing its IT systems maintenance and is also finalising selection for a new Financial Management System (using RDBMS technology).

6.11 Performance Reporting

The Commission recommended "--- Each agency should develop a set of performance measures which relate to its published corporate plan ---"

Response:

The recently completed Departmental Performance Estimates (DPE's) submissions required Departments to undertake substantial analysis of available information and its desegregation downing Program and Sub-Program levels, with attendant output performance measures and indicators specified at the Sub-Program level.

(This was Treasury's attempt at central-agency led corporate planning).

In addition to this Governments I.M.C. (re Corporate Planning, Resourcing, Outcomes and Accountability) process, in terms of at least two of the associated M.I.I.I. Projects in addressing this issue on a whole-of-Government basis. The projects referred to are the Communication & Integration Project and the Performance Management & Improvement Project.

The Department of Education has developed a forward look (5-Year) Corporate Plan and is finalising the performance measures aspect of the associated Business Plan for the Department.
These Plans have been submitted to agencies of the Department which have been instructed to complete their Corporate Plans and Business Plans drawing upon, and linking with, the Department Plans.

Associated with this, the Performance Monitoring & Review Unit (of the Office of the Secretary) has a Charter responsibility to monitor and review performance to defined output targets through an ongoing program of review. The review program is in the process of being drafted.

6.15 Internal Control

The Commission recommended "The Chief Executives of agencies should be charged with developing systems of internal control which:

- accord with the objectives specified in the agencies corporate plans
- are based on the COSO framework
- are integral to the executives management approach
- involve formal assessment and analysis of the risks faced by agencies in achieving their operational objectives, in discharging financial accountability and in complying with regulations, requirements and policy.
- relate control activities and procedures to risks identified, and ensure that information concerning the effectiveness of those activities is provided to the appropriate levels of management, on a timely basis
- include a monitoring process to ensure that internal control is kept relevant to the objectives of the agencies

Minister’s should also apply the principles of internal control to their own relationship with government agencies.

Responses:

As progressive program of risk management assessment has been initiated by this office with the focus being upon identification of risks/threats and enabling impacting upon achievement if the Department’s corporate/strategic objectives. This process (risk management) was initiated under the auspice of the Department of Finance in conjunction with Arthur Anderson - Risk Management Services, and is continuing.

Consistent with the findings of the Commission of Audit report recommendations, Government policy and good business management practice the Department has developed its 5 year corporate plan and has now finalised its associated business plan with resourcing, outcomes and performance measures now locked in.

Commensurate with this, agencies of the Department are now establishing their own corporate plans and business plans focussed upon objectives and outcomes consistent with the Department’s planning requirements.

The next stage is to re-draft internal audit review programs to focus upon performance assessment and ongoing monitoring of systems, programs and performance to these strategic objectives.
At present the schools area informal audit plan is focussed upon risk in areas identified through a Fraud Exposure Evaluation with outcomes reported to the DSE Audit Committee.

In respect to TAFE, the OTFE Audit & Review Unit is working to a review program engineered from a detailed Risk Management Survey completed in 1991. The program is being met, in large part, by contracted internal audit services, reports of which are submitted to the OTFE Audit Committee.

At the main (Department) level, the Secretary has established a Performance Monitoring & Review Unit, the responsibilities of which includes:

- Undertake effectiveness/performance reviews of programs and/or agencies as required
- Identify strategic opportunities to improve productivity with the Department
- Prepare, negotiate and monitor performance agreements for key areas of administration within the portfolio, and monitor performance to targeted outcomes
- Review and monitor responses to internal and external audit reports
- Co-ordinate and manage the Department's monthly financial reporting and audit systems and process.

6.18 Assurance on Control

The Commission recommended "Effective internal audit functions and audit committees should be required as standard features of the system of internal control."

Response:

The issue of internal audit committees in the Department has been address "--- the response to 6.15.

It should also be noted that the audit committee of DSE has executive officer representation but is balanced by participating memberships from external chartered accountants, regional office chairpersons and Secretary to the Department of Education involvement.

In TAFE the audit committee is a sub-committee of the State Training Board (which by legislation is responsible for vocational education and training (TAFE) in Victoria). It has non-executive representations on its membership and a representative from the Secretary to the Department of Education.

6.19 Resources for Internal Controls

Elements of internal audit should be contracted out if the required resources are not available and it is the most cost-effective option.
Response:

Address in the response to 6.15

If you require any further information, please do not hesitate to contact me on telephone 628 2173.

Yours sincerely

FRED BRENNAN
Assistant Director
Performance Monitoring & Review
ATTACHMENT 5b

RESPONSE FROM DSE
DIRECTORATE OF SCHOOL EDUCATION
RESPONSE TO
VICTORIAN COMMISSION OF AUDIT RECOMMENDATIONS

Rec. 5.9 Separation of policy and service delivery

A major review of the total operations of the Directorate of School Education was conducted by Byrne Fleming Consulting Pty Ltd in 1993 together with a project team of Directorate personnel. Its overarching recommendation to increase devolution of operational decision making and resources to schools is now been implemented. Within the Head Office of the Directorate a Strategic Planning and Policy Division has been established to manage change within the school system. The Financial and Administrative Services Division, People Services Division and Quality Provision Division have responsibility for policy development as well as the delivery of a small range of functions that cannot be transferred to schools or be outsourced. An Office of Schools Review has been established to develop educational and financial accountability policies.

Ultimately, service delivery within the Directorate is the responsibility of schools. Under the new organisational arrangements, schools will develop an individual School Charter within Government and Directorate policy guidelines. The Schools of the Future initiative is the means by which the Directorate is developing the system of self-managing schools to ensure the efficient and effective delivery of services to students. Virtually all schools will have become Schools of the Future in 1995 and the non-school area of the Directorate will have considerably shrunk in size commensurate with divesting itself of the great majority of operational functions.

Rec. 5.10 Promotion of competition in service delivery

Schools of the Future will receive a Global Budget based on a Student Resource Index that combines a base element and an equity element. Because it is calculated on a per capita basis, schools which are able to attract increased numbers or categories of students will receive an increased level of funding. This will provide a direct incentive for schools to provide relevant and appropriate programs for their students, given that failure to do so could lead to students transferring to another Government school, thereby taking their funding with them. Conversely, schools which are perceived by parents and communities to be providing high quality programs will attract students to them from other places. It should be acknowledged that this is likely also to provide increased competition for non-government schools.

Rec. 5.14 Full financial (accrual) accounting

Accrual accounting is being introduced by the Directorate. Financial reporting for 1993–94 will be in full accrual format. Tenders will be let within the next 4 weeks to provide the necessary systems to support accrual accounting. This includes an accrual based replacement for the existing financial management system (FMS).
Rec. 6.4  Reporting of corporate planning

The Directorate, in conjunction with the Department of Education, is currently streamlining its corporate planning processes through the implementation of Government priorities such as Management Improvement Initiative (MII) and Integrated Management Cycle (IMC). Specific activities within the Department of Education and the Directorate include the development of a Directorate Management Book 1993-1995, Department of Education Business Plan 1994-96, and Strategic Directions 1994-96 (Corporate Plan). The Directorate is in the process of developing complementary processes to allow it to feed directly into the Departmental corporate and business planning processes.

Rec. 6.6  General purpose financial reporting

The change to full accrual accounting, including installation of an accrual based computerised financial management system, together with the introduction of CASES (Computerised Administrative Systems Environment for Schools) for schools of the Future, will facilitate the Directorate in meeting its general purpose financial reporting obligations. DSE will report in non-audited accrual format for 1993-94 and thereafter fully audited accrual based reports will be issued.

Asset valuation is a major issue for the Directorate given the number and diverse nature, type and age of school buildings.

Rec. 6.9  Management accounting

The Directorate has been reporting to central agencies on a cash basis against monthly targets for a number of years. This will continue, but in accrual format. Devolution of resource responsibility to schools will require the use of internal reporting processes that have been provided by CASES1. The implementation of CASES 1 will facilitate management reporting through the provision of Budget Control Reports and Cash Control Reports.

Rec. 6.10  Information systems

Improvements in Information Systems have been a major priority of the Directorate. CASES 1 Finance is being introduced as part of the Schools of the Future program and will become the primary accounting system installed and supported by the Directorate. The Directorate will let a tender in the next four weeks for a new accrual based package to replace its existing central finance management system. Both the school and the central system are intended to generate high quality management information.

Rec. 6.11  Performance reporting

Currently the Directorate is refining its performance reporting mechanisms through the Departmental Performance Estimates process that is linked to the
existing program budgeting structure. However, given the changes to strategic and business planning outlined in Recommendation 6.4 above, a revised method of reporting on performance will be developed that takes into account the requirements of Government and the Directorate in the context of the Management Improvement Initiative and the Integrated Management Cycle.

Rec. 6.15 Internal reporting; Rec. 6.18 Assurance on control; Rec. 6.19 Resources for internal control

The Directorate, in responding to the recommendations of the Byrne Fleming report, has very considerably increased the internal control structures it has in operation. A new Division, known as the Office of School Review has been put in place and charged with review and audit responsibility for schools and the Directorate. Existing control structures, including regional and central internal audit groups and an audit committee, have been incorporated into the new Division.

The Directorate has introduced financial planning manuals, CASES 1 finance and administration package for schools, and appropriate charts of accounts. In addition, schools will undertake formal review processes at regular intervals and will employ external auditors on an annual basis.
ATTACHMENT 6

RESPONSE FROM DH&CS
Public Accounts and Estimates Committee Investigations.
Progress report on the implementation of the recommendations under Chapters 5 and 6 of the Commission of Audit Report of May 1993.

Recommendation 5.9: Separation of Policy and Service Delivery. There should be clear separation between the regulatory and policy functions and service delivery functions of Government.

Progress Report: The Department of Health and Community Services is structured to provide for a clear separation between policy function and service delivery. The Department Executive consists of the Program Directors responsible for policy function and service delivery guidelines progressed through to the responsible Minister. Approved policy and service delivery guidelines have been publicly promulgated for each program and Regional Directors as Line Managers are responsible for the implementation and monitoring of the policies and guidelines.

Recommendation 5.10: Promotion of competition in service delivery; Competition should be promoted among public and private service providers, based on the most efficient means of providing services.

Progress Report: In respect to Departmental run services Health and Community Services has initiated service reviews with a view to changing the way that services are provided and may include transfers to the non government sector eg. Disability Services and to public hospitals eg. Psychiatric Services. Additionally non direct care services within the Government programs may be opened up for public tender.

In respect to public hospitals etc the laundry services have been restructured to increase competition. Similarly many hospitals have actively sought to “privatise” or “corporatise” pathology and other services. The budget framework for public hospitals involves hospitals etc. operating cafeterias, pathology, and diagnostic services as business units where expenditure has to be matched with income. The Government will not make direct contributions to these units.

It is the policy of the Department to only provide funding for service delivery to the non government sector linked to services agreements. Agencies will generally be funded on a unit cost basis where appropriate. This will encourage agencies to be more competitive as inefficient agencies will not be able to compete for funds and services. Standards of care and quality assurance will have to be maintained. Monitoring by the regional offices and program managers will identify poor performers resulting in funding withdrawals and reallocations.

Recommendation 5.14: Full financial accountability. A system of full financial accounting should be introduced, with all the costs to service provision attributed to that service. Appropriations and financial reporting also be in this format.
Progress Report:

Health and Community Services has amalgamated the financial services branches of the former two Departments and has adapted the one financial system. This system is under constant review to better provide for the needs of the Department.

Asset management, with a combined asset register, has been refined and includes relevant information across the total Department. Service Agreements with external agencies have been reviewed to include information on assets purchased from Government funds.

Public hospitals, aged care centres and ambulance services currently report under the Annual Reporting Act 1983. Additionally under Casemix funding the hospitals are required to report monthly using full accrual reporting and total entity activity reports.

The Department supports the need to have financial accounting upgraded to include total activities and to have appropriations reflect full accountability. However the introduction of accrual accounting should be based on agreed stages with comprehensive training made available to Departments and Agencies, including Central Agencies, to ensure that there are clear linkages established between the old and the new accounting approaches. Additionally that trend data should be retrospectively adjusted to ensure that the State is not disadvantaged and that efforts be made to adopt common standards across all States and the Commonwealth.

Recommendation 6.4: Reporting of corporate planning: There should be a coherent framework of reporting which integrates and includes the States corporate planning (at both the State-wide level and the individual agency level) and the budget.

Progress Report:

Since the amalgamation of the two Departments the primary focus of the Executive was to establish and implement a clear strategic plan for the provision of the two year budget savings. Program Directors developed and promulgated the strategies for each of the major programs and corporate reporting is based on the monitoring of performance against the strategies. The Department is required to report to the Budget and Expenditure Review Committee on a quarterly basis within an agreed monitoring format including performance against output indicators in some programs. Whilst the main focus of the Government for 1993-94 is to achieve expenditure and human resources reductions to live within budgets the Department on the other hand has concentrated on the development of service funding models which will support and give certainty to service provision.
**Recommendation 6.5:**  Budget Reporting: The budget should be prepared on a full financial accounting basis, and reporting against the budget should be on the same basis.

**Progress Report:** The Department supports the need to have the budget on a full accrual basis. Casemix funding for the public hospitals currently does not provide for the maintenance and replacement of assets and a major consultancy is underway to establish a data base to enable the Department to address capital funding within a casemix framework.

Substantial training needs to be conducted prior to Government adopting full accrual accounting - see progress report under Recommendation 5.14.

**Recommendation 6.6:** General purpose financial reporting. All Departments should prepare and publish general purpose financial reports (GPFR's) which bring to account all the elements of financial reporting.

**Progress Report:** The published Annual report for the Department included for the first time the Supplementary Accrual Report. This is in accordance with the three year strategy developed by the Department of Finance. This Statement enhances the level of information available and when fully developed will give greater depth to the linking of outputs with resource utilization. Public hospitals, during 1993-94 will finalise the valuation of land and buildings under a program acceptable to the Auditor General's Office and carried out by the Valuer General's Office. This will enable hospitals to meet in full the requirements of the Annual Reporting Act (Contributed Income Sector Regulations) 1983.

Internally the Department is refining and enhancing asset registers including those in the major residential and treatment centres run by the Department. This work will enable the Department to report in a fuller sense in the future.

**Recommendation 6.9:** Management accounting: Central Agencies should be provided with monthly financial reports which relate to budget and agency corporate plans, and which should bring all elements to account.

**Progress Report:** The relevance of monthly reports to Central Agencies is questionable. Treasury and Department of Finance are able to extract data on a monthly basis from the Public Ledger and this data can be compared with Departmental Cash Flows. For this Department the production of monthly reports as described above would involve a substantial input of resources. What benefit would be derived from such a report. Furthermore if Departments are given greater autonomy for the management of the Government agenda for service provision the need for monthly reports to Central Agencies would appear to be superfluous and an erosion of Departmental responsibility.
The current reporting requirements for the Budget and Expenditure Committee provides the avenue for Departments to account to Government during the year for the usage of funds and performance against the agreed agenda.

The Management improvement initiative process established by Government and including Health and Community Services representation includes a review of Central Agency reporting requirements and the level of detail required within the public ledger.

**Recommendation 6.10:** Information Systems: Each reporting entity should maintain integrated full financial reporting and managerial accounting systems. These should be supported by an effective central reporting mechanism.

**Progress Report:** The Department, to ensure a consistent approach across all services reviewed the two financial systems in operation on the amalgamation in 1992. The Department opted to implement the RFMS system, operated by the former Community Services Department, across the total Department from 1 July 1993. This system will require further enhancements to comply with full accrual accounting. The overall financial information requests will again be reviewed when the restructuring of service delivery is in place as the reporting needs will change with the relocation of services.

The Department, after amalgamation reviewed the information technology strategies of the two former Departments and is in the process of finalising an overall strategy.

The linkages with Central Agencies and in particular with the Public Ledger will need to be developed further to ensure greater control over cash management and asset utilization. The service agreements process implemented by the Department to monitor external agency performance involves the enhancement of existing financial systems to ensure proper managerial accountability.

**Recommendation 6.11:** Performance Reporting: Each agency should develop a set of performance measures which relate to its published corporate plan.

**Progress Report:** The Department has developed clearly defined performance measures at program and sub program. The budget reductions required for 1993-94 and 1994-95 have to be achieved by the refinement of resource allocations. The focus of the department is to ensure services are maintained and improved on. Casemix funding for public hospitals, CAM:SAM funding for aged care and unit based funding for Disability Services are examples of the focus placed by the Department on service outputs linked to funding inputs. Failure to meet agreed targets will result in reductions in funding and increased outputs will generally attract additional funding.
Recommendation 6.13: Internal Control: The Chief Executive of Agencies should be charged with developing systems of internal control.

Progress Report:
The 1993-94 Budget format places greater responsibility on Departments to control revenue and expenditure. The granting of the ability for Departments to carry over unspent funds allows Departments to plan expenditure without incurring penalties. Additionally, the enhanced flexibility available to Ministers to reallocate funds across programs enables greater focus to be placed on analysing program demands and to prioritise expenditure with Government objective.

The Department has in place a monthly budget sub committee process involving the full Executive supported by Financial Services Branch. Additionally, the Department conducts a mid-year review on achieving budget outcomes which allows the Executive to make decisions regarding the reallocation of resources to meet emerging priority demands.

Recommendation 6.18: Assurance on control: Effective internal audit functions and audit committees should be required as standard features of the system of internal control.

Progress Report:
The Department has in operation an internal audit committee reporting to the Secretary with representation from the Executive Directors and Regional Directors. The Committee approves the internal audit program for the year and reviews progress during the year. The role of internal audit extends across the total inner Department and under the Service Agreement process non-government agencies can be reviewed to assess performance against the usage of grants.

Public hospitals, Aged Care facilities and ambulance services are required to have their accounts audited by the Auditor General's Office. Additionally, the agencies are required to have in place internal audit functions and Audit Committees reporting to the Agency Board.

Recommendation 6.19: Resources for internal control: Elements of internal audit should be contracted out if the required resources are not available and it is the most cost-effective option.

The Department supports the recommendation and in the past has contracted out the internal audit of some psychiatric institutions with mixed results. Extensive review by the Internal Audit Branch of the Department was required to ensure that the conditions of the contract were met.
The Department has a team of nine staff in the Internal Audit Branch reporting direct to the Secretary of the Department and the Audit Committee. The Department is not considering options to contract out the internal audit function at this stage, but would consider the usage of contract auditors for specific reviews.

The Department is aware that certain internal audit functions have been contracted out by other Departments and will review the existing arrangement when an evaluation of the contracting out is available.

The Internal Audit function and annual program is reviewed by the Audit Committee and the Office of the Auditor General each year to ensure adequate coverage for departmental operations.
ATTACHMENT 7

SUMMARY OF PROGRESS ON RECOMMENDATIONS
The following table summarises the progress made by the various departments in relation to the recommendations under review.

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<td>Part</td>
<td>Part</td>
<td>Part</td>
<td>Part</td>
<td>Part</td>
<td>Part</td>
</tr>
<tr>
<td>6.16</td>
<td>Statement of responsibility</td>
<td>N/A</td>
<td>X</td>
<td>N/A</td>
<td>N/A</td>
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</tr>
<tr>
<td>6.17</td>
<td>Review of internal control systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Refer main text</td>
<td></td>
</tr>
<tr>
<td>6.18</td>
<td>Assurance on control</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>6.19</td>
<td>Resources for internal control</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>Part</td>
<td>Part</td>
<td>Part</td>
</tr>
</tbody>
</table>

**KEY**

✓ - means recommendation completely implemented or substantially so.

Part - means that some progress has been made and commitment demonstrated, however considerable further progress is required.

X - means that at this stage no decision to implement has been taken either by the Government or relevant Minister, or that no timetable for implementation as yet exists.

N/A - means recommendation is not the responsibility of the department specified.