



14 April 2021

Ms Lizzie Blandthorn MP
Chair
Public Accounts and Estimates Committee (PAEC)
Parliament of Victoria
Parliament House
Spring Street
EAST MELBOURNE VIC 3002

Victorian Auditor-General's Office

Level 31 / 35 Collins Street
Melbourne Vic 3000

T 03 8601 7000

enquiries@audit.vic.gov.au
www.audit.vic.gov.au

File No: O21/95

Dear Ms Blandthorn

Parliamentary Inquiry into the Parliamentary Budget Officer

Thank you for your invitation to provide a submission to the Public Accounts and Estimates Committee's Inquiry into the Parliamentary Budget Officer (PBO).

My submission focuses on the following terms of reference:

- review the operational and resourcing arrangements for the PBO and in particular the framework for the PBO as an independent officer of Parliament
- review reports of PBO operations and annual reports and in particular audit arrangements.

This submission does not cover:

- review and assess how well the PBO's functions are being performed.

Operational and resourcing arrangements for the PBO

The PBO is an independent officer of Parliament and its legislative and operational framework should reflect this. As part of the Inquiry you may wish to consider the following:

- identification of an appropriate independence framework for PBO, for example INTOSAI (International Organization of Supreme Audit Institutions) have documented eight principles of Independence for audit offices¹
- benchmarking the PBO against the framework (both from a legislative and practice perspective) and against comparable jurisdictions, for example ACAG (Australasian Council of Auditors General) recently commissioned Dr Gordon Robertson to undertake a 2020 update of the legislative analysis of the independence of Australian and New Zealand Auditors General².

¹ https://www.intosai.org/fileadmin/downloads/documents/open_access/INT_P_1_u_P_10/issai_1_en.pdf

² <https://www.acag.org.au/files/Final%20Report%20on%20Independence%20of%20Auditors%20General.pdf>

One of the key tenets of independence is managerial autonomy and resourcing. Currently the PBO, the Parliament and other independent officers of Parliament are subject to executive government decision-making in relation to their budget appropriations.

In 2006 PAEC undertook an inquiry into the legislative framework of independent officers of Parliament which included the following recommendation³:

The legislation relating to each officer of Parliament be amended to provide:

- a. that the appropriate parliamentary committee has a role in reviewing and advising Parliament of the budget estimates for particular officer of Parliament; and
- b. the appropriate parliamentary committee table in Parliament its report on the forthcoming appropriation for the relevant officers of Parliament and forward a copy to the Treasurer.

This recommendation has yet to be implemented for any independent officer of Parliament with appropriation requests to be considered by executive government.

A step forward has been the introduction of a separate parliamentary appropriation bill covering Parliament's and independent officers' appropriations; however Victoria is falling behind other jurisdictions in other regards.

In March 2020 and February 2021, the New South Wales (NSW) Public Accountability Committee, tabled their first and final reports, *Budget process for independent oversight bodies and the Parliament of New South Wales*⁴⁵. Noting contemporary case examples of budget independence in New Zealand, the United Kingdom and the Australian Capital Territory, the report recommended:

- parliamentary oversight committee to review annual budget submissions and make recommendations to government on funding priorities
- inclusion of a contingency fund in annual budgets to address unbudgeted financial demands
- agencies be directly allocated their funding.

Released in October 2020 the NSW Auditor-General's report, *The effectiveness of financial arrangements and management practices in four integrity agencies*, included a recommendation that the NSW Treasury and DPC implement a funding model for integrity agencies that address potential threats to their independence while ensuring they remain accountable to the Parliament⁶. The Auditor-General said that this model should be based on the following principles:

- the integrity agencies must be required to demonstrate their accountability as prudent managers of their financial resources
- Parliament's role in the budget process should be expanded to ensure Cabinet is provided with more independent advice on the funding requirements for the integrity agencies
- there should be transparency to Parliament and the relevant agency for decisions made about funding for the integrity agencies
- there should be structured oversight by Parliament of the performance and financial management of the integrity agencies.

³ https://www.parliament.vic.gov.au/archive/paec/inquiries/statutory-independent-officers/PAEC-Report_IndependentOfficers_07-02-06.pdf

⁴ <https://www.parliament.nsw.gov.au/lcdocs/inquiries/2558/Report%20No%205%20-%20First%20report%20-%20PAC%20-%20Budget%20Process.pdf>

⁵ <https://www.parliament.nsw.gov.au/tp/files/79120/Report%20No%207%20-%20Final%20Report%20-%20PAC%20-%20Budget%20Process.pdf>

⁶ <https://www.audit.nsw.gov.au/our-work/reports/the-effectiveness-of-the-financial-arrangements-and-management-practices-in-four-integrity-agencies>

As you may be aware, the Victorian Ombudsman and IBAC alongside VAGO are considering options to put to government to strengthen our independence in line with the reports mentioned above. As part of your inquiry you may wish to consider an appropriate legislative and operational framework for the PBO as an independent officer of Parliament and in particular, independence of the budget process for the PBO.

Reports of PBO operations and annual reports - audit arrangements

As flagged in the PBO's *Annual Report 2019-20*, for that financial year PBO's financial information was included with the Parliament of Victoria's financial statement and audited⁷. In 2020-21, the office will be subject to separate audit arrangements due to the transition of corporate services. The PBO have requested that VAGO undertake future audits of PBO's financial statements under a public purpose audit arrangement and I have responded that I am favourable to doing this audit as an audit by arrangement.

Thank you for inviting me to appear before the Public Accounts and Estimates Committee's inquiry on 26 April at 10.50 am, where I will be pleased to elaborate on any of the above matters. In the interim any comments, questions or points for clarification should be directed in the first instance to Lucy Smith, Executive Officer by email at lucy.smith@audit.vic.gov.au.

Yours sincerely



ANDREW GREAVES
Auditor-General

⁷ https://pbo.vic.gov.au/files/PBO_Annual_Report_2019-20.pdf