

A seminar on 'Financial Management
and Electronic Government',

Kuala Lumpur

**Financial Management in the
Electronic Era: The Australian
Experience**

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Pat Barrett
Auditor-General for Australia

I. Introduction

I have been asked to talk to you today about financial management, in particular what is happening in Australia in the electronic era. For managers, these are rapidly changing times. When we started with public sector reform fourteen years ago it was difficult to foresee the opportunities that are available to us today. We now have the ability to access and disseminate information from databases around the world through the Internet and intranets. We have the power of personal computing at our fingertips. We organise tendering, ordering and payments through electronic commerce. We have data kiosks/telecentres. We have all types of new capabilities that we can take advantage of but importantly, we have the ability to take better control over the operation of our business with the assistance of sophisticated financial management and support systems to produce better program outcomes including quality service delivery. However, the challenge is still to have the right information in the right place, at the right time and at the right price.

We are also continuing to experience some demands that seem endemic to the challenges facing modern management. These include the need to adapt to the rapidly changing technology, understanding our information needs, maintaining the balance between the costs of these opportunities and the benefits that they may provide and deciding the right time to abandon existing technologies and grasp those that are moving forward. And there is the impact on our people of such change that we, as managers, must deal proactively and sensitively with. As well, we continue to have the frustration of technology that often does not deliver what is promised and an international industry that seems determined to be proprietary based and providing technical interfaces with disparate systems rather than looking to agree basic, open international standards. Despite the support for 'open' computing in the 1980s, particularly at government levels in many countries, proprietary solutions have prevailed, often creating problems for seamless interface with similar and related systems.

The overriding challenge is a changing work environment and differing expectations of our elected representatives as they look to better manage the cost of government and redefining the roles and the perceptions of what is undertaken in the public sector. Increasingly, governments are depending on the private sector to provide public services, sometimes even those that have traditionally been regarded as 'core'.

In sharing our experience in dealing with these challenges I would like to:

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- set the scene by providing a brief outline of the structure of public administration in Australia and the reform agenda we are working to achieve;
- provide some background on how our centrally-orientated financial management arrangements have developed and our current directions;
- deal specifically with a range of systems relationships between central and line agencies including details of particular systems being pursued in the electronic area;
- briefly identify some of the broader management and audit implications of this evolving framework of public administration; and
- provide some comparative comment on financial management approaches across selected public sectors.

Let me now examine some background which may assist you to understand better the current developments in financial management in Australia. This also reflects a view that financial management is not simply the responsibility of Chief Finance Officers (CFOs) and is narrowly confined only to accounting and financial reporting. It is the responsibility of all managers as part of their accountability for the efficient, effective and ethical use of resources and achieving value for money program outcomes.

II. Setting the scene

Structure of Government

The Commonwealth of Australia is a federation of six self-governing States, (New South Wales, Victoria, Queensland, South Australia, Western Australia and Tasmania) in which legislative powers are shared between a Federal Parliament in Canberra and the six State Parliaments.

In addition, Australia has two self-governing territories, the Northern Territory and the Australian Capital Territory which have their own Governments and Legislative Assemblies. Australia also administers seven external territories.

Finally, a further level of administration is provided by about 900 local government bodies at the city, town, municipal and shire level. Financial management is important at all of these levels of government which includes revenue raising and expenditure by elected representatives with administrative support.

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Our parliamentary system is based on the Westminster-style of government, with a strict division of powers between the three branches of Government, that is the Parliament, the Executive and the Judiciary.¹ In addition, we have a written constitution which was, and continues to be, agreed by plebiscite. As with many other Western democracies, the nature and style of government are changing as a result of political and social reform and through advances in modern communications and information technology. Both of these latter factors have a significant impact on the subject matter of this address.

Public Sector Reform Agenda

As you may be aware, Australia had a change of federal government almost two years ago. The new Government has a highly visible reform agenda which is oriented towards a greater role for the private sector. While it is not appropriate for me to canvass that agenda, it is important you understand some of the pressures and challenges it creates for the Australian Public Service (APS). The following is a brief outline of a number of the significant reform initiatives which are bearing heavily on what we do and how we do it.

A more competitive environment

The Government has a high priority to transform an underlying budget deficit into a surplus in the short to medium term. This is to be achieved to a large extent through heavy cuts in spending on Government programs and administration and not, at least for the moment, through the broadening of the government income base. However, a group has now been established to consider the whole tax regime including possibly lowering income tax rates and implementing a broadly-based goods and services tax.

Program cuts have led to a close examination of the way the APS operates. The Service is facing a number of significant challenges in meeting the Government's more private sector oriented approach in the provision (delivery) of public sector services. This connotes a somewhat different public service, although arguably one that had been steadily evolving in just such a way over the last decade or so. It can be asserted that recent governments have been focussing more on achieving a better performing public sector. This has not only involved adapting or adopting private sector methods and techniques but also direct participation by that sector in providing public services, even those traditionally regarded as 'core' services such as policy advice and determination of welfare entitlements. As with many other Western democracies, governments have been put under greater pressure by their constituents to be more accountable and

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less costly to taxpayers. Value for money has become an imperative or driver, not just a catchcry.

Immediately on taking office the current Government initiated a 'National Commission of Audit' whose primary term of reference was to examine the Commonwealth government's finances. The report of the findings of the Commission² was wide ranging, covering the government's role in the provision of many specific public services. Of relevance to this address is its focus on the actual delivery of government services and the need for an improved accounting framework for the public sector.

Contestability has become the watchword. In short, the public sector no longer has a protected mandate to deliver public services. We are ever increasingly finding ourselves being compared to, and benchmarked against the private sector. Public servants are now having to make themselves personally accountable, not just for the dollars they manage but also for the effectiveness and efficiency of the programs for which they are responsible. Also, in meeting the challenge of outsourcing, as well as looking to compete, it is necessary to define and justify the services we deliver and the manner in which we deliver them.

The issue of managing the delivery of public services by the private sector needs to be looked at carefully as there are lessons and new behaviours to be learnt on both sides. For instance, we are already seeing criticism by the private sector of accountability provisions built into contracts which are alleged to render those contracts non-commercial. For example, the Chairman and interim Chief Executive Officer (CEO) of the Public Employment Placement Enterprise (PEPE) is reported as recently commenting that:

I see the contract as being over-protected boiler-plating. It is trying to protect the purchaser (the Employment Department) from every conceivable possibility.³

Thus there is an apparent tension between public sector accountability and commercially-oriented service delivery. Privatisation has also brought its own challenges in the ways in which asset sales have been managed, for example in determining the appropriate regulatory environment; valuing the asset; determining how it will be sold; in what period; possible impacts on the financial markets; and likely investor response.

A more flexible labour market

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The *Workplace Relations Act 1996* passed by the Commonwealth Parliament on 25 November last, reflects the Government's determination to reform the Australian labour market which is to be achieved primarily through changes in the industrial relations system. The new framework supports a more direct relationship between employers and employees, with a much reduced role for third party intervention (such as the Unions) and greater labour market flexibility. There will be a foundation of minimum conditions established by awards that act as a safety net. The aim is to encourage productivity and efficiency gains at the enterprise and workplace levels and to address the issue of unemployment through the creation of more jobs as a result.⁴

From the public sector perspective the Government has begun the process of replacing existing legislation dealing with the employment of federal public servants with the *Public Service Bill 1997*. This Bill was introduced to the Parliament on 26 June 1997 and was described on 11 July by Melbourne Age writer Alan Kohler as:

...the most uncompromising deregulation of the Public Service anywhere in the world – including Jeff Kennett's revolution in Victoria, the Tory Government in Britain and the reform in New Zealand.. [and is] ...one of the great pieces of government employee relations legislation – simple, clear and powerful...⁵

Not surprisingly, this is not a universally shared view, not least of all by the union movement.

The new Public Service Act is one of the main vehicles that will be used to reshape the responsibilities of the APS. The Act will significantly influence the environment in which all public servants operate. The decision to replace the old Public Service Act was announced by the then Government in May 1995 following consideration of recommendations made by the McLeod Review.⁶ The main features of the proposed legislation were to include:

- a statement of general principles of public administration, in particular that the Australian Public Service (APS) should be politically independent, merit-based and cohesive;
- the provision of a clear statement of the Government's and Parliament's expectations of the APS; and
- consistency with changes that have occurred in the management of the APS, offering a more flexible employment framework in keeping with the operating environment of the 1990s and beyond.⁷

The present Government's intentions appear to be broadly similar. In the words of the then Minister for Industrial Relations and Minister Assisting the

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Prime Minister for the Public Service, the legislation will 'remove its regulatory prescription' and be 'much simplified and streamlined'⁸. There has been general agreement about a more 'principles-based' Act that supports a more flexible working environment. To a greater extent this will be determined as part of any workplace agreements which are intended to be more reflective of similar arrangements being generated in the private sector based on the Workplace Relations Act 1996. The following comments by the Minister are instructive:

...the Act will articulate the key ethical values, standards and principles of public service, such as accountability, party-political impartiality and fairness in dealing with the public. The Act's use as a mechanism of control will cease. At the same time the employment arrangements for Commonwealth public servants will be brought more into line with those which apply in the wider Australian workforce.⁹

In short, while recognising a number of key differences between the public and private sectors, the Government considers that the APS should, as far as possible, operate under the same industrial arrangements as the rest of the community. It is envisaged that improvements in pay and conditions under agency-based agreements will generally be offset by productivity gains achieved by each agency in the context of its own circumstances. There has already been a move to individual contracts of employment for a range of senior executive officers, some of which prescribe tenure.

Quality Service Delivery in a more Contestable Environment

The APS is facing a number of difficult challenges in meeting the current Government's requirements of a more private sector oriented public service. Commonwealth agencies have been required to market test all the services they provide. As previously stated, the services being examined include those which have traditionally been regarded as core services such as policy advice and determination of welfare entitlements. The new approaches to service delivery being introduced include outsourcing (particularly in the area of information technology services), direct competition, and the separation of the purchaser of services from their provider.

An example of the new purchaser/provider arrangements is the establishment of so-called 'One Stop Shops', for example the Commonwealth Service Delivery Agency (CSDA) to be known as Centrelink which is initially planned to deliver Department of Social Security (DSS) and some Department of Employment, Education, Training and Youth Affairs (DEETYA) services. In the future, it is expected the CSDA will also deliver services currently provided by the Department of Health

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and Family Services and the Department of Veterans' Affairs. The notion is to bring the services to the consumer in one location rather than the consumer having to 'shop around' and find out what services are actually available. In another area of DEETYA, the case management services previously provided by the Department to the unemployed will now be delivered by a Public Employment Placement Enterprise (PEPE) in direct competition with private sector employment placement organisations.

It is important to note that in these arrangements the customer/client is at least one step removed from the responsible Commonwealth department but the department remains accountable for the service delivery. As well, in such arrangements policy advising and administration usually reside in different entities. In all these cases special care needs to be taken to ensure satisfactory links and feedback loops are maintained not only to maintain program efficiency but also its appropriateness in a changing world. Shared responsibility, particularly in policy development, could enhance effectiveness if the notion of partnership is accepted with joint accountability for the results.

Moves to outsource service provision require good performance information to support, for example, the development of tenders, assessment of proposals and monitoring of contractual commitments including ongoing performance by third party service providers. For this reason I consider it is important to require, as part of the contractual arrangement, the provider to supply the purchaser with outcome information against which the provider's performance can be assessed. In this way, even if the client is one or more steps removed from the responsible department, it will still be possible to ensure clients are receiving the appropriate level and quality of service. The introduction of new ways of delivering public services does not obviate or limit the need for accountability. Less direct relationships and greater decision-making flexibility strengthen that need. However, we also need to have a sound appreciation of the commercial realities and nature of such agreements in the interests of both parties. I referred to this particular aspect in my earlier remarks.

In addition to introducing different models for the delivery of Government services, the Government in March 1997 also announced its decision to introduce Service Charters to promote a more open and customer-focused Commonwealth Public Service. All Commonwealth Departments, agencies and Government Business Enterprises which have an impact on the public will need to develop a Service Charter. These Charters will represent a public commitment by each agency to deliver high quality services to their customers. Where relevant, the charters will guarantee specific standards for service delivery. Again, the notion is to make the public sector more accountable to the general Australian community and more outcomes focused.

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Financial Management Reform

In 1983 the then Government initiated an extensive reform process to improve the management and performance of the public sector. In budget-dependent agencies the primary vehicle for change was the Financial Management Improvement Program (FMIP). Launched in 1984, the FMIP sought to establish a clear link between the resources appropriated by Parliament and the results achieved by programs. Its sphere of influence has been far-reaching, embracing the budgetary and regulatory framework; program management and budgeting; commercial practices such as user charging; incentives such as devolution of authority and resource agreements; and improved reporting mechanisms for performance accountability.

Devolution of authority, from both central coordinating agencies and within agencies (including their regional offices), was integral to this reform process. By better aligning authority and responsibility, such devolution was expected to improve program performance. In return for the transfer of control for decision-making to those best placed to do so, agencies and individuals were required to be more accountable to the Parliament. In short, greater management flexibility was provided for commensurate accountability. Enhanced accountability, not only for improved outcomes but also in the more traditional sense of ensuring adherence to due process, probity and propriety, has been a cornerstone of the reforms.

Accountability for performance, both internal and external, is dependent on adequate information systems, reporting on the performance of agencies and their managers. Information systems capable of providing accrual based management and financial information and reports are a vital link in the move to improved accountability. Therefore, the Government decided in 1992 that all budget-funded agencies would report financially on an accrual basis starting in 1994-95. About the same time there was particular interest being generated in activity-based costing with the greater focus by managers on cost and performance of their program outputs and outcomes.

As we move towards the year 2000, accountability will be achieved by a two tier system of reporting and budgeting across the Commonwealth Government. At the first level, individual agencies will be appropriated moneys and will be required to report and account for these on an accrual basis. The accruals appropriation system will generally enhance traditional cash based accounting by making management accountable for the management of all costs and resources, not just those with an immediate cash impact. The second level involves accountability at the whole-of-government level. From 1996-97, the Government will be presenting audited financial statements consolidating the financial results of all entities

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controlled by the Government The Government has announced that the accrual framework will be progressed according to the following timetable:

- audited consolidated financial statements of the Commonwealth from 1996-97;
- trial accrual budgeting arrangements for selected agencies in 1998-99; and
- full accrual framework, including an accrual Budget and quarterly accrual reports from 1999-2000.¹⁰

You may be interested in a study that is currently being undertaken under the auspices of the Management Advisory Board (the top level advisory group to the Prime Minister on the public service chaired by the Secretary of the Department of the Prime Minister and Cabinet). The study is entitled 'Effective Financial Management in the APS - 1998 and Beyond'. Phase I of the study is a survey which has covered over two hundred organisations, both public and private, at the Commonwealth, State and Local Government levels as well as in New Zealand, the United Kingdom, Canada and the United States of America. Phase II will build upon the survey information and develop a best practice model or models of financial management for use across the APS. The results will be published.

A new legislative framework

The Government intends to underpin the various financial management reforms by providing a legislative framework which places emphasis on performance, propriety and accountability. It is planned to repeal the *Audit Act 1901* and replace it with three new acts which reflect the distinctly separate elements of the public sector financial framework. It is intended that the legislation will be in place by late this calendar year. The Bills proposed for these new Acts are the:

- **Auditor-General Bill (A-G)** which provides for the appointment, independence, status, powers and responsibilities of the Auditor-General; the establishment of the ANAO, and for the audit of the ANAO by the Independent Auditor. Together with the other two Acts, provides the mandate for the Auditor-General to be the external Auditor of all Commonwealth-controlled bodies;
- **Financial Management and Accountability Bill (FMA)** which sets down the financial regulatory/accountability/accounting (accrual based) framework for Commonwealth bodies (described as agencies) that have no separate legal existence of their own; they are, financially, simply agents of the legal entity, that is the Commonwealth; and

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· **Commonwealth Authorities and Companies Bill (CAC)** will provides standardised accountability, ethical and reporting provisions for Commonwealth bodies (described as entities) that have a separate legal existence of their own (even though they may derive some or all of their funding from the Commonwealth Budget). Such bodies comprise Commonwealth controlled companies and their subsidiaries and those statutory authorities whose enabling legislation gives them legal power to own money and assets.

The new legislation will allow developments in accounting, auditing and information technology to be more easily integrated in the financial and regularity budget and accounting framework.

The proposed Financial Management and Accountability Act in particular aims to:

- achieve efficient, effective and ethical management of the resources of the Commonwealth; and
- provide an accounting and reporting framework for the provision and the use of the resources of the Commonwealth to meet the needs of Parliament and the Executive Government for greater visibility, accountability and control in relation to these resources.

Broadly speaking, the new Act will cover the 'core' government sector. The operational part of this Act will place the onus squarely on CEOs to ensure government objectives are met efficiently, effectively and ethically. By doing so, the Act will lock in the Government's financial management reforms to the legislative framework. In addition to meeting the present financial management and reporting obligations, the Act will permit the Minister of Finance to require financial reports from any agency more frequently than annually, in keeping with trends in private enterprise. The Department of Finance will remain responsible for preparing the aggregate financial statements for the Australian Public sector.

The package of legislation will also make explicit provisions for accountability of entity Heads and Members of Boards. I have mentioned that the FMA Bill explicitly requires CEOs to promote efficient, effective and ethical use of Commonwealth resources. The CAC Bill specifies standards including acting honestly, exercising a degree of care and diligence, disclosing pecuniary interests, the use of insider information and other relevant matters. These provisions have important implications for the way in which corporate governance principles are applied in the public sector.

A particular point to note is that both Bills place an onus on individuals to promote ethical behaviour. In the case of the FMA Bill, the individual is the Chief Executive. For incorporated bodies, there is a requirement for each

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Board member to operate within specified ethical standards. In the reform process, the emphasis is on the promotion of ethical behaviour and the key to ethical behaviour is ensuring that all decisions reflect public service values and are transparent to the extent that proper confidentiality/privacy concerns are met.

The new *Public Service Bill 1997* which I spoke of earlier, further reinforces the accountability of the Chief Executive of agencies as follows:

The Act will both strengthen and enhance the role of ‘...[Chief Executives]...’ and ensure their accountability for the considerable powers they will exercise. ... it is proposed not only to provide ‘...[Chief Executives]...’ with far greater flexibility in their departments, but at the same time to improve parliamentary scrutiny of the manner in which they exercise that power¹¹

The proposed framework should encourage the Commonwealth public sector to at least address the fundamental issue of what is core and non-core business and the apparently different requirements for dealing with such a dichotomy. This is an issue which, in the future, if not already, has the potential to result in further challenges for the Australian public sector generally and indeed for the Parliament and others interested in public administration. There would be considerable advantage if the Government and Parliament were prepared to deal directly with what is considered to be ‘Core Government’.

My organisation, the Australian National Audit Office (ANAO), will have an important influence on, and will contribute to, the efficient and effective implementation of the Acts when they are finally passed. Our emphasis will be on facilitation as well as on compliance in a more accountable environment. Audit staff must fully comprehend the intent and contribution of the Acts to the overall public management and policy environment if we are to add real value to their implementation. This is an important element of our understanding of the ‘business of government’ which includes familiarity with both the functions and operations of public sector entities, individually and collectively. A particular challenge is audit access to third parties such as with the delivery of public services by the private sector. Under the new legislation the ANAO will have access to information but not to private sector premises. The latter is being addressed by suggested standard access clauses in contracts but will also be subject to the type of criticism I mentioned earlier in relation to ‘commercial concerns’. The way in which this is perceived will largely dictate the outcome.

Whole-of-Government Financial Reporting

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The production of whole-of-government financial statements is part of the evolution of fiscal responsibilities for the Commonwealth that has been strongly advocated by the Joint Committee of Public Accounts (JCPA) and various other interested areas of both the public and private sectors. For example, the JCPA in its recent review of the *Charter of Honesty Bill 1996* (discussion following) remarked that:

*Fiscal accountability will be greatly enhanced when the Commonwealth moves to accrual accounting and whole-of-government fiscal reporting.*¹²

The Committee went on to express its pleasure that fiscal reports being legislated by the Bill provide an approximation of whole-of-government reporting. The JCPA in the Executive Summary of an earlier report also noted that:

*Whole-of-Government reports promise enhanced scrutiny of public finances and also offer other benefits for financial planning and fiscal policy development.*¹³

Indeed, the whole-of-government accounts are the cornerstone of the move for greater financial transparency and accountability of Government which the Government, the Parliament, the JCPA, the ANAO and others are striving to achieve.

Whole-of-government financial statements will for the first time provide an overview of the Commonwealth's financial position, its assets and liabilities and cash flows. It will provide credible information upon which informed decisions can be made on the government's overall objectives and in respect of choices that the Government is considering in the allocation of scarce resources to its various priorities and commitments. The statements will also provide only one 'deficit' figure which will better reflect the underlying deficit as opposed to the so-called 'headline' figure. This should minimise any public confusion caused by multiple deficit outcomes.

In addition the statements will enable the reader to make an assessment of the degree to which the Commonwealth is building up or running down its asset or liabilities. Indeed in the forward to the JCPA's report 351 the point is made that the whole-of-government financial report:

would make immediately apparent any government attempts to run down the asset base of the Commonwealth to fund

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*recurrent spending to the detriment of future generations of Australians.*¹⁴

The latter sentiment has been referred to as an issue of 'intergenerational equity'. This is basically the proposition that taxes collected in any period of time should be at a level necessary to deliver the services and/or benefits made available in that period. It is simply the notion of paying no more or less than what you get in return. A classic example has been the payment of long-life infrastructure assets by direct taxation instead of by long term debt where the cost is spread over time. This is most evident in periods of low budget deficits or where Governments are attempting to balance their budgets or even achieve surpluses, as is the current policy. The Treasurer in his second reading speech on the Charter of Budget Honesty Bill 1996 announced that:

*...an intergenerational report will be produced every five years to report on the long-term sustainability of current fiscal policies.*¹⁵

He went on to say that:

*We want to get economic policy to a point where it is fair (my underlining) as between generations.*¹⁶

The statements will show the Government's financial performance over the year (Statement of Revenues and Expenses); its financial position at the end of the period (Statement of Assets and Liabilities); and how it has financed its activities (Statement of Cash Flows). In particular, the statements will indicate how the Government is funding expenditure, either capital or recurrent, and changes to the revenue base that reflect a complete picture rather than the limited interpretation provided by traditional cash statements and reporting systems. With this information the reader can at least identify the overall financial impacts of decisions and opportunities taken by the Government in the budget context. The sector statement shows, for example, the rate of return to the Commonwealth on its investment in Government Business Enterprises (GBEs).

The statements will also facilitate financial analysis of the Commonwealth's policy and operations on different sectors of the economy which had not been previously possible. For example, the statements will show the extent to which Public Trading and Public Financial enterprises are contributing taxation and other revenues to the Commonwealth and the value and form of their assets.

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In short, the aim of the statements is to provide financial information in a form that is understood by the general public and is more comparable with that available in the private sector. As indicated earlier, the Government has announced that a full accrual framework, including an accruals Budget and quarterly reports, will be in place from 1999-2000. Under this framework, accrual information will be required for a range of purposes, including:

- financial estimates for the budget year and the forward estimates;
- budget decision-making;
- budget documentation;
- specifying outputs (goods and services produced such as administration of welfare payments);
- the development of output performance measures; and
- specifying links between outputs and outcomes.

The level of detail required should be no greater than that provided for current whole-of-government financial reporting and in the cash based estimates system.

Another important time line factor is the recent Government decision to bring Australia's accounting standards into line with those set by the International Accounting Standards Committee (IASC) by January 1999.¹⁷ Of course, a number of countries such as the United Kingdom and the United States are yet to adopt IASC standards. The Commonwealth Treasurer also announced reforms which include the amalgamation of the two existing national accounting standards boards into a new Australian Accounting Standards Council, which will include non-accountant representatives, as well as a Financial Reporting Council which will review that body's decisions.¹⁸

Charter of budget honesty

A Charter of Budget Honesty was an election promise of the current Government and recommended by the National Commission of Audit in June 1996.¹⁹ In December, the *Charter of Budget Honesty Bill: 1996* was introduced into the Parliament. The aim of the Bill is to improve the accountability and transparency of Government fiscal policy objectives, strategies and outcomes. The legal requirements bind all future federal governments to publicly outline twice a year the actual Government fiscal position. It extends the public disclosure of economic and fiscal policies beyond the current discretionary practice by legislating for:

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- external reporting standards;
- a statement of the government's fiscal strategy and objectives;
- a statement of the economic and fiscal outlook;
- a statement of specific key fiscal measures and their expected outcomes for the budget and the next three years;
- increased reporting of the outcomes for the general government sector;
- the inclusion of information on tax expenditures (that is, concessions for specific activities such as research and development), including three-year projections;
- an explanation of how the government's fiscal strategy meets the principles of responsible fiscal management as set out in the Bill;
- an explanation of how the government will moderate cyclical economic and fiscal fluctuations;
- a mid-year economic and fiscal outlook report;
- intergenerational reports every five years covering the next 40 years; and
- pre-election economic and fiscal outlook reports.

The Bill places an important discipline on federal governments. It has the potential to provide a very public means of enhancing the accountability of the Government to the Parliament and consequently to the wider community, through better and more frequent disclosure of relevant and timely economic and financial information. The JCPA considered that the whole reporting cycle envisaged by the Bill should be reviewed by an independent auditor, such as the Auditor-General, after the next election and take no longer than three months.²⁰

Reform Agenda - Broad Overview

Basically, all of the reforms discussed are aimed at improving governance in the public sector including, in particular, making the APS more responsive to client needs and more efficient, effective and accountable. Since 1983 there has been a progressive devolution of authority to individual agencies and this has changed the whole financial management structure from a largely centralised to a more decentralised framework.

Reduction in controls from central agencies, an increased focus on results and improved accountability has required a marked strengthening of financial reporting, risk management processes and performance information. The new financial management package of legislation underpins this restructuring by clearly placing the responsibility for

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corporate governance with the CEO of each agency and Board Members of business oriented entities. Other legislation and initiatives provide the Chief Executives with the management flexibility and frameworks to take on the new responsibilities and focus more on program outcomes including quality service delivery.

I have spoken only of the reform agenda of the Australian Public Service. Similar reforms are also occurring in our State and Local Government public services and of course throughout the business community in a more internationally contestable environment.

III. Centrally Oriented Financial Management Systems

There is no doubt that technology is driving many of the changes we are experiencing as part of the implementation of the various government reforms. Most managers would agree that, without some of the most recent advances, a lot of what is happening would not be possible. The introduction of personal computing not only provided computing to the individual for the first time, it provided a challenge to the remainder of the computer industry to move forward from just providing a faster and bigger filing system. Not only has the technology become more robust and cheaper, it has also become more flexible in its use. However, the main advantages these have provided have been to the now growing area of applications programming including interfaces with users. We now have computer systems that can provide information, and direction, on the way in which we manage our business. The reality is that information technology is now often a core business input and endemic to our service delivery. I make a distinction between information technology (IT) strategy, including applications used widely in the agency, and computer processing in this respect.

What follows is an explanation of the impact technology is having on the financial management in the public sector in Australia. The Department of Finance has provided government with a centralised finance and budgetary function for all of the electronic era. This has grown from the period when agencies provided the department with paper based cash commitment and expenditure details along with claims for payment to be keyed into the central computer to update records and to provide cheque printing. The department provided agencies with literally trolley loads of printed reports. This system has evolved to where agencies operate their own computers and financial management systems and the computers interoperate in real time. But we still have the central record of government expenditure. As well, we have had a central payroll system where the main problems have been in the manual and semi-automatic input of data to the system. The central system itself has been robust, effective and relatively inexpensive, particularly as we have moved to direct bank payments.

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Background to Finance's Central Ledger System

The Federal Department of Finance, initially as part of the Treasury Department, has provided centralised accounting and budget systems to Commonwealth agencies for over thirty years. The Department operated three systems to support financial management and processing, commonly known as the Finance Ledger System as follows:

- **Payment system**

- consisted of a number of mini-computers located in regional offices in Australia and overseas which passed resource data to the Canberra mainframe central ledger system for funds checking (commitment) and recording;
- input of payment information provided in paper form by agencies into the mini-computers using an 'army' of data entry operators;
- the only form of payment was cheques printed by the central computer, drawn on the public account, and mailed the same day; and
- there was no recognition of due date for payment or effective cash management controls.

- **Central ledger**

- resource information and funds control based on the designated authorising officer, who was provided with the delegation to authorise the expenditure of monies; and
- a twelve level chart of accounts structure which allowed agencies to use the system as a management information tool as well as being the Government's official ledger. The system was complemented by manual journal entry processes as required.

- **Budget management**

- used by Department of Finance officers to prepare the Budget for the government of the day, basically an 'estimates' system; and
- information about 'actual' resource usage was uploaded to the system each month requiring extensive reconciliations between the central ledger and the budget systems and significant resources to ensure both systems' reporting structures were synchronised.

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In their time they were effective systems and provided the Government with good control over its budget and financial commitments as well as timely information on its status and the impact of any decisions taken.

Current Department of Finance systems

These systems have been progressively replaced by the next generation of central financial management systems over the last five years. The new systems have been designed to support centralised appropriation management and reporting and to support the government of the day's reform agenda in providing interfaces to agency financial management systems. Today, the Department of Finance provides five systems to agencies as follows:

- **The Finance Information on Resource Management System (FIRM)** is the core component of the Central Accounting Systems. Its operation is central to the Commonwealth's accounting and reporting arrangements in that:

- apart from special purpose payments by the Departments of Social Security and Veterans' Affairs and the Australian Taxation office, FIRM processes all payments and receipts on behalf of agencies;
- FIRM provides much of the financial information used to formulate and document the annual budget of the Government of Australia; and
- FIRM maintains the Commonwealth's forward estimates of outlays and provides much of the financial information the Minister of Finance reports to the Parliament.

- The **Pay** system provides a repetitive payment service for over 350,000 payees, including public servants salaries, superannuation pensions to retired public servants and allowance payments to members of parliament and Federal judges. The Pay system also provides a collection point for the Continuous Record of Personnel system that is used for statistical publication and analysis. Pay information is passed onto FIRM. It is a long lived and very successful system. However, a more flexible and user-oriented pay system is in the final stages of completion.

- Cheque reconciliation and information system (**CHRIS**) provides two main services to agencies:

- daily reconciliation and management of the agencies' drawing accounts; and
- cheque status, enquires and lodgement of stop payment requests.

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CHRIS is updated each day with bank statement and cheque presentation information from the Reserve Bank and drawing account agencies. This includes the cheques issued for special purposes by agencies.

- Two, system independent, applications that manage and control interfaces are provided for agencies' financial management systems. **EPIC** supports the input of transactions through direct mainframe to mainframe link, dial up access using a packet switching network and a X.400 gateway for overseas payments input via Email. **EPOC** controls the distribution of output (reports and datafiles) to agencies.

Finance Information on Resource Management System (FIRM)

As noted, this is the core current central accounting system. The following is the business environment in which the system operates:

- agencies' spending limits are established through Parliamentary appropriations;
- all money flowing into, and out of, the budget sector is recorded in the one consolidated cash book, and transacted through one bank account, the Commonwealth Public Account (CPA)²¹;
- the CPA has subsidiary Drawing Accounts from which all payments are made;
- agencies operate their own financial management systems, which meet their day-to-day accounting and management information needs. However, apart from special purpose payments such as social security payments, taxation refunds, agencies do not operate their own Drawing Accounts but request the Department of Finance to process their payments and receipts;
- the Department of Finance, through the FIRM system, ensures that payments are cleared for funds, and brought to account in the Commonwealth's ledger as an integral part of the payment process;
- to simplify the reconciliation of the CPA to the Commonwealth's ledger, Drawing Accounts are reimbursed on the same day as the payments are brought to account in the ledger; and
- FIRM supports the maintenance of government accounts in accordance with IMF conventions for Government Financial Statistics.

FIRM comprises two main subsystems - Financial Exchange and Resource Management:

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- **Financial Exchange** processes agencies' payments and receipts transactions against the CPA, including the daily reimbursement of the special purpose Drawing Accounts. The system simultaneously updates the CPA and the FIRM Cash Book by passing resource variation information to Resource Management. FIRM offers agencies a number of payment options; cheque, direct entry and Financial Electronic Data Interchange (EDI)²². To process receipts each agency must operate at least one Receipts Account at the Reserve Bank. These accounts are 'swept' daily by FIRM or agencies for the purpose of determining the Commonwealth's cash position and calculation of interest payments.

- **Resource Management** supports the Government's management of the budget sector resources. The system maintains information on the actual and estimated use of resources, and records information on resource levels in a way that supports resource management from both an accounting and economic perspective, for example outlays, revenue and financing transactions.

A major advantage of the FIRM system is the ability for the Government sector to provide timely and accurate reporting of budget sector resourcing. This is due largely to:

- operating a central bank account system;
- centralised processing of the ledger function for aggregate reporting;
- agencies' payments and receipts are brought to account at the same time as the associated banking transactions are processed; and
- agencies operate their own financial management information systems, but those systems must interface with FIRM.

To get to this point it has taken thirty years and has involved a considerable up-front investment which would not have been possible without the availability of technology and the expertise associated with its implementation in what has been a highly successful system. It is essential that FIRM, or its accrual based replacement, be adapted to meet the changing financial and management requirements of the public sector that I discussed earlier.

IV. Systems Relationships between Central and other Agencies

As with FIRM, the majority of the agency financial management systems and agency business accounting systems are essentially cash based. While they typically have the functional ledgers, for example,

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debtors/creditors ledgers and asset registers, the latter are generally not integrated in such a way as to enable them to support going forward into an accrual environment to cope with the move to accrual accounting and budgeting. However, as agencies have installed their own FMIS, they have largely purchased computer packages with an accrual accounting capability. More about that in the next section. As well, the Department of Finance has a project currently underway to provide recommendations on the replacement for FIRM. This will be a central accrual information system. Finance has already sent the user requirements for this system to potential vendors. A software package will be selected by the end of November. The new system is intended to be installed and operating by October next year.²³ The first guidance material will be circulated this month covering the specification of outputs, outcomes and performance information. The next guidance is expected to be on costing of outputs in February 1998.

As you would appreciate, the timetable for the FIRM replacement will be extremely tight if the Government's agenda for the implementation of accrual budgeting and reporting of 1999-2000 is to be achieved. One of the issues this project will have to canvass is the continuing need for a centralised general ledger as currently provided by FIRM and whether to continue to have the single centralised banking arrangements or whether agencies should have their own bank accounts or at least subsets of the central account which, to all intents and purposes, would operate as separate bank accounts.

Decisions about the use of technology are increasingly taking place in a whole-of-government context. Successive governments have been giving increasing attention to the use of information technology over the past few years. The focus of this attention has been on the cost of the technology and also on how the public sector can benefit from an increased whole-of-government approach to this technology. The previous Government had established a committee of senior IT management, the *Information Exchange Steering Committee (IESC)*, to provide advice on strategic policy and direction. The committee was formed from senior public sector IT managers who operated on very much a part-time basis with virtually no resources and no authority to compel agencies to take whole-of-government initiatives.

The previous Government became concerned that information technology should be a more efficient and effective measure of achieving the Government's objectives. The then Minister for Finance set up an Information Technology Review Group mainly comprising private sector experts with the support of the IESC and its small secretariat to look at possible future directions for IT management in the APS. In particular, the Committee was asked to look at any initiatives to secure economics of scale by adopting a 'whole-of-government' approach. Acceptance of the

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subsequent report resulted in a decision to establish an Office of Government Information Technology.²⁴

Office of Government Information Technology (OGIT)

The Office of Government Information Technology (OGIT) was established in July 1995. The Office now has a staff of approximately 60 (and a budget of \$15 million for running costs), many of whom are providing their expertise by secondment from other Commonwealth and State departments as well as from the private sector. Other funding comes from a resource agreement with the Department of Finance whereby a small percentage of savings from telecommunications and outsourcing initiatives with agencies are made available to the Office. OGIT's role in the APS includes:

- development of an information technology strategic plan which supports the Government's present and future service delivery strategies;
- advising government on whole-of-government policies and practices in information technology and telecommunications;
- consulting with agencies on policy developments and implementation of information management, technology and communications;
- supporting IT&T pilot projects which have whole-of-government benefits;
- establishing whole-of-government purchasing arrangements for telecommunications services; and
- supporting the commonwealth's industry development policies for its activities affecting the IT industry.

The IT review group also recommended a reduction in the diversity of administrative systems across agencies. The current Government subsequently endorsed a strategy to rationalise the number of Human Resource Management Systems (HRMS), Financial Management Information Systems (FMIS), and Records Management Systems (RMS) currently in place across the public service, to a small number of 'best of breed' systems. The approach has been called the Shared Systems Suite.

The key objectives of this initiative are to substantially improve on the process of acquisition of administrative systems by Government agencies; to ensure that organisations select systems that best meet agency needs now and going forward in time; and to ensure a high degree of interconnectivity within the suite and interface to other systems, including central accounting and pay systems.

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The main aims of the Shared Systems Suite are to achieve:

- greater efficiencies through the reduction in the diversity of administrative systems that have to be maintained and enhanced;
- savings from economies of scale during acquisition and development phases;
- savings from staff training and mobility;
- inter-operability between, and integration of administrative functions within, agencies; and
- improved information quality and availability at operational and management levels.

All budget funded agencies are required to select from the Shared Systems Suite when they next replace or undertake major enhancements to existing systems. OGIT completed the selection processes for the financial management information systems (FMIS) and the human resource management systems (HRMS) last October and for the record management systems (RMS) in June 1997. The Minister for Finance announced a final list of six FMIS systems for selection by agencies. All of these systems are reported to be Year 2000 compliant. However, none involves a suitable integrated time recording system at this time which is essential as a basis for costing products or services in a more contestable environment. I understand work is proceeding on one system to produce an outcome satisfactory to the public sector in this respect

Improved longer term returns are also expected from redesign of business processes associated with the introduction of these new systems. For many agencies this will be the major source of any productivity gains.

Earlier, I touched on the need now for the public service to be contestable in the delivery of services. This contestability is not restricted to just the services that agencies deliver to the public but internally to their own business. For example, building maintenance, corporate services, training and professional development, are some of the services being looked at. It has been estimated that the information technology and telecommunications area offers potential outsourcing opportunities up to \$A2 billion per annum. Returning to the point about the scope for improved productivity through business process re-engineering (BPR), agencies need to be careful that outsourcing decisions take this factor into consideration when comparing internal and external costings. While a number would be reluctant to incur the expenditure involved to undertake BPR, and then subsequently outsource, some see the encouragement of an in-house bid as overcoming this problem to a great extent.

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As a result of work undertaken by OGIT and the Department of Finance, in April 1997 the Government announced in principle agreement to the outsourcing of IT infrastructure covering mainframe through desktop for budget funded agencies subject to a competitive tendering process. OGIT sought detailed information from agencies about the costs and structure of their IT Infrastructure. Industry were then asked to provide indicative costs for the provision of IT to the agencies. To provide advantages of size agencies were placed in clusters, that is, four mainframe clusters and one mid-range cluster. The work by OGIT and Department of Finance showed that savings could be made by outsourcing such agency IT services to the private sector.

Outsourcing would proceed where the market can demonstrate a sound business advantage for government agencies. This decision is in the hands of the agencies concerned which they would have to defend both to the Government and to Parliament.

Communications is another area where economies of scale, in restricted access to the whole-of-government offer significant savings to the Commonwealth over what could be obtained by individual agencies. In particular, a whole-of-government approach allows small agencies to reap the same benefits of scale as the larger agencies. OGIT initiatives in this area include:

- whole-of-government business arrangements for telecommunications services (voice, mobiles, data) with annual savings of \$16 million;
- a Commonwealth voice network;
- a single window to Australian Government services, including State Governments; and
- provision of whole-of-government Internet Access Services from a range of service providers.

Other initiatives currently being pursued by OGIT include:

- a 'blueprint' for better management and control of government information;
- Electronic Service delivery (including the implementation of Electronic Commerce);
- Year 2000 project;
- various Internet initiatives;
- IT security; and

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- a single head contract agreement for telecommunications with major suppliers.

Current agency financial and accounting systems

Having put the whole-of-government approach in perspective I will now discuss the nature of IT systems that agencies currently employ. Commonwealth agencies fall into three main categories:

- major departments with significant program responsibility, for example the Departments of Social Security and Defence and the Australian Taxation Office;
- policy departments and departments with responsibility for small or non complex (from a financial management viewpoint) programs, for example the Departments of Transport and Regional Development and Communications and the Arts; and
- entities that have a separate legal identity from the Commonwealth; deal extensively with the private sector; have their own bank accounts; and do not interface with FIRM, for example the Commonwealth Scientific Industrial Research Organisation and Defence Housing Authority.

Of course some agencies fall between these categories. But they all have one thing in common. They have a finance management information system (FMIS), through which they manage their finances. Such systems normally provide a general ledger with an integrated accounts payable, budget management and expenditure reporting, interface to the FIRM system and receivables modules. Some also have travel and credit card modules and integrated asset management systems. Most agencies do not maintain a payroll function as this is provided by the Department of Finance. Agencies provide transactions for commencements and terminations and for pay variations, often through their own IT based human resource management system.

For most of the agencies that fall into the first two categories the financial management requirements supported by their FMIS are relatively simple. These systems support the large programs such as taxation receipts or social security pensions by recording financial information in aggregate. Major programs aside, these agencies' finances consist mainly of salaries and salary related expenditures, which contribute between 50 and 70 per cent of total expenditure; office rent and expenses; travel and purchase of capital items, mainly computing equipment, comprise most of the

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remainder. There may also be a small amounts of receivables. For the most part these do not involve any complexity.

It is interesting to note that agencies are soon to move to their 4th generation of FMIS. Initially, departments replaced manual accounting systems with systems built in-house up to twenty-five years ago. These systems were subsequently often replaced by vendor supplied packages aimed primarily at the private sector which were highly modified by the agency to meet their own and central public sector accounting requirements. Agencies progressively found their ability and the cost of supporting these systems were creating greater management difficulties. Also the computing industry had started to produce more flexible systems that could be adapted to meet agency requirements. There was only minimal modification to meet local needs and the systems tended to be vendor supported albeit with well developed user groups. However, these systems still only supported cash accounting. Most agencies will need to move to a new system over the next year or so to meet accrual based management and reporting requirements. In many agencies financial statements are now prepared using spreadsheets based on cash based information provided by their FMIS and they calculate the accrual aspects manually. This is the situation in my Office.

The complex systems tend to be the cash based administrative systems that support services-oriented government programs administered by agencies such as Centrelink. It is these systems that have tended to take on the new technologies and are looking for more effective and cost competitive ways of dealing with their clients. It is here that we encounter most of the early electronic commerce initiatives taken, which I will outline under some specific systems in which you might be interested: A number have direct implications for financial management; others have indirect but nonetheless important ramifications for how we manage our resources and achieve greater efficiencies.

Business systems and initiatives oriented to client service

The view in Australia, as in other countries, is that technology has and will continue to play a significant part in achieving improved service delivery and fundamentally changing the way in which, individually and increasingly collectively, agencies will do business or perform their functions. An important challenge lies in developing an across the service environment which not only leads to improved client service but will also produce significant cost savings. It almost goes without saying that the drive to do more at less cost is as much an imperative in Australia as it is in many other public sectors around the world. As in some other countries, we are working towards a 'shared access' information model with a 'single window' to government as part of this imperative. A high level official group, the Information Management Steering Committee, recently recommended that

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OGIT coordinate the development of an appropriate framework.²⁵ The Committee also reiterated the importance of standards for information management particularly as they impact on interoperability.²⁶

I earlier spoke of the advantage being taken by the Department of Finance (DoF) to centralise agency payments and cost savings being made by DoF and other agencies through electronic payment. You will be well aware of the technology initiatives now on offer for financial management, initiatives such as electronic funds transfer through Electronic Data Interchange (EDI) and Electronic Funds Transfer (EFT) systems, the Internet, touch screens, electronic trading and information matching. The definition of electronic commerce is as narrow or as wide as you might wish to make it. We are increasingly using the wider concept as agency initiatives discussed will indicate. It is interesting to note that while the Department of Finance has had the capability to provide EDI for a number of years, it was not used until more recently, when advances in technology made it a more cost effective option than cheque payment. A seemingly endless list of opportunities appear to be open for us to take advantage of, which puts additional pressure on our IT strategies as part of our corporate planning.

Successive Governments have recognised the importance of electronic commerce to government administration. The current Government re-issued a Statement of Direction on electronic commerce in July 1997. This Statement refers to the following national objective for electronic commerce:

... affirms the Commonwealth Government's commitment to expanding its electronic capabilities for the benefit of the Australian community, and to working with other tiers of government towards a whole-of-government approach to electronic commerce.

And indicates that:

the Commonwealth Government will:

- (a) set strategic directions for the continued expansion of electronic commerce activities in its program delivery and program support functions especially Commonwealth Government purchasing; and*
- (b) work through the Online Government Council for consistency in inter-governmental efforts, encouraging collaboration where appropriate, and avoiding duplication wherever possible.²⁷*

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The Statement of Direction covers the range of opportunities available from such technology; reinforces the understanding that standards are fundamental to the national and international applications; supports the role of electronic commerce in purchasing and other areas of administration; and, importantly, assigns Ministerial responsibility for electronic commerce.

I would also like to share with you an important observation from the Preface to the Statement of Direction:

*Widespread adoption of electronic commerce will have positive consequences for private and public sector efficiency and competitiveness. Industry and government will use it to improve the efficiency of their operations, reduce paperwork and improve communications with other organisations. Electronic commerce will transform the ways government and industry do business.*²⁸

While similar views have been expressed in the private sector there have also been warnings about the strategic risks of jumping too quickly into electronic commerce. Companies have been advised to undertake rigorous cost-benefit analysis taking into account expenses such as monitoring, legal and insurance costs before embarking on electronic trade as a corporate policy. Security risks rank as the biggest barrier to using the medium for mission-critical activities. The following observation is also relevant to the public sector:

*Electronic commerce puts pressure on existing working practices and ways of dealing with the public which many organisations did not have the infrastructure to support.*²⁹

An essential forum for furthering the objectives of the Government's Statement of Direction is the online government council, comprising representation from the Commonwealth, State and Territory and Local Governments. A significant outcome from the second meeting of this Council on 2 September 1997 was to:

*... initiate a national authentication framework and single gateway for electronic government services.*³⁰

The Ministers also agreed to establish:

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- a working party, working in conjunction with the federal privacy commissioner, to develop underlying principles of a data protection regime for the Online economy; and
- a national approach to address the year 2000 issue (which I will discuss later).

Most recently the Government announced the formation of a National Council for the Information Economy as a separate Office within the Communications and Arts portfolio. The Office will have an overview/coordination/broad policy development role which will encompass 'facilitating electronic commerce'.

Internet/Intranet

Along with most public sectors we are discovering the world of the Internet. The ready access to information world wide and communication facilities available from the Internet vary across government agencies and often within agencies. The larger agencies, with responsibility for collecting government revenues or with responsibility for the major expenditure programs are understandably cautious in relation to the security of their information facilities. Others, including research organisations and those with policy responsibility have a significant investment, not just in the facilities to provide the connection, but in the dependence that their staff now have on the Internet facilities to carry out their functions.

To date Australia, and especially Government, has made limited commitment to the Internet to provide financial services although I am aware of the use of the internet to provide electronic purchasing, including payments by local government in NSW. I would suggest that the internet will soon be a growth industry for financial transactions in this country as is already happening in the United States.

Electronic Funds Transfer (EFT)

All payments made by the Department of Social Security (DSS) and Department of Veterans' Affairs (DVA) in respect of pensions and social security benefits have for a number of years been required to be paid directly into the recipient's bank account. The same applies to public service salaries and pensions. The savings are significant, for it is less costly to make payments through direct entry to bank accounts rather than preparing and posting cheques and the money does not have to be transferred until the actual due date with subsequent interest benefits to the Commonwealth.

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Cash management and revenue collection

Agencies are paying increasing attention to their cash management strategies not least the Australian Taxation Office (ATO). To encourage timely remittance of tax liabilities and in a push for better client service, the ATO has increased the number of payment options. Currently there are five methods for lodging tax payments. These include:

- Mailpay system - payment by cheque but automation by the ATO provides for presentation and clearance on the day of receiving the cheque;
- ATO counter service - cash or cheque payments at an ATO office with banking and cheque clearance on the same day;
- Billpay - payment at any one of the hundreds of post offices around Australia. Australia Post have contracted obligations regarding banking to ensure effective cash management practices;
- Direct debit - where the taxpayer authorises the ATO to direct debit the client's bank account; and
- Electronic Funds Transfer (EFT) - direct to clients, primarily companies, and transfer payments to the ATO bank accounts.

The ATO is seeking to increase the number of remittance services available and is considering payment options such as:

- credit cards;
- phone banking;
- smart cards; and
- expansion of computer-based payroll systems.

Technological advancements in cash management such as EFT have provided revenue agencies with the opportunity to both improve the economy of the handling of cash (eg fewer cashiers) enhance the efficiency of cash management in terms of the timing and monitoring of the banking of cash. This provides an interest benefit to the Commonwealth by either directly reducing the Government's Public Debt Interest or increasing revenue by interest receipts.

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Similarly, the availability of such payment alternatives assist compliance management by reducing the cost of complying with payment schedules, simplifying the processes and encouraging voluntary compliance. In a number of instances taxpayers have avoided using electronic means of paying taxes so as to gain the benefits associated with time-delays in processing cheques. Improvements in cheque handling, banking and clearance procedures have reduced the delays as well as any potential related benefits to the taxpayer. As a result, taxpayers have had to look to their own efficiencies and cost savings in using electronic payments.

The ATO has established a project to examine the use of the Internet and its possible impact on revenue collection. The electronic commerce environment presents both opportunities and challenges for the ATO revenue collection strategies. These opportunities and challenges broadly apply to revenue agencies world-wide including the following:

- Volume of transactions - the Internet opens international trading to a larger number of businesses than has ever been the case in the past. This is beneficial to the economy but means the ATO will have to administer an increasing number of new transactions in an unfamiliar environment.
- Clarification of the law - taxation of businesses using the Internet has not been clarified. This leads to uncertainty regarding the monitoring and collection of potential sources of taxation revenue.
- Compliance strategies - tax compliance strategies will be very different. As a result, revenue collectors will need to adapt collection techniques to suit this changing environment.

It is essential that agencies such as the ATO continue to monitor the development of the new technologies and position themselves to maximise their advantages and provide government with timely advice regarding emerging issues impacting on the taxation base.

The President of the United States of America has indicated that he wishes the Internet to be declared a tax free zone. This has potentially significant repercussions for Australia and other countries. Taxing electronic commerce would encourage business to conduct transactions offshore and has the potential to stifle existing and emerging industries, not least the IT industry itself.

It is argued that a way of tackling the problems associated with the taxation of electronic commerce transactions is to change the structure of the

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present taxation system to adapt to the changing environment. Rather than applying taxes to electronic commerce, the recent Goldsworthy report³¹ encourages system wide tax reform which in turn encourages business to use the Internet and other possible providers. The report notes that:

*Australia is in a period of major change - a societal revolution based around information and communication technologies. These technologies are becoming crucial to the competitiveness, even survival, of almost every business in every industry. The transformation to electronic commerce and the information economy makes information and communication technologies, and the industries that produce them, amongst the most important in both economic and strategic terms.*³²

Agencies are paying increasing attention to their cash management strategies. The due date on invoices is taken into account to prevent early payments. More attention is being paid to cash receipts to ensure that maximum interest on balances is obtained. For example the Australian Taxation Office (ATO) collects some \$100 billion per year, that is greater than \$400 million per working day. Every effort is taken to get this money into the ATO bank accounts on the day of collection. Even at the relatively low interest rate of 5 per cent, the annual gain to the Budget is in the order of \$20 million. Current computing technology supports these objectives through the use of EDI and EFT.

Electronic banking

By way of example of how an individual department's business can be substantially altered, the DSS is set to begin a trial of its own electronic banking card which eventually could independently process the Department's multi-billion dollar annual welfare payments. I should mention in this context that Australians have shown themselves to be early adopters of information technology based banking services as they have been in many other areas of technology over the years. However, we clearly have to get better at how we use that technology for greater productivity and comparative advantage in international trading.

DSS has joined an electronic banking network that processes transactions for banks and other financial institutions and runs more than a third of Australia's automatic teller machines. The electronic banking card would allow DSS clients to access funds through cash card ATMs without the need for separate bank accounts (welfare payments have increasingly been directly credited to beneficiaries' bank accounts through the Government's Direct Entry Payment System). If the trials are successful, client service could be significantly improved.

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Data centres and kiosks

Generating considerable interest is the new Automated Job Selection (AJS) project of the Department of Employment, Education and Training (DEET). Touch screen technology is being provided in all Commonwealth Employment Service (CES) Offices throughout Australia (over 2000 touchscreens) to enable jobseekers to search interactively for jobs. The screens enable jobseekers to access all jobs in the national job database, not just in the local area. It is likely to be a catalyst for change in how government information services are delivered. This development may well change not only the nature of service delivery but also of the organisation itself.

Perhaps of even greater impact will be the new Education Network Australia (EdNA) linking schools, universities, other tertiary institutions and education and training providers across Australia as well as internationally. Initiated by the Commonwealth in 1995, EdNA is a national process for cooperation and collaboration between all sectors of the Australian education and training community, focussing on information technology. Its aim is to maximise the benefits of information technology for Australian education and training, and to avoid duplication of cost and effort between various sectors and systems. Completion of the network will take some time but the networks proposed features are as follows:

- offer national coverage;
- fully accessible by individuals for the cost of a local telephone call;
- provide a vehicle for convergence of the full range of current networking initiatives, including Open NET, educational use of AARNet and the Internet;
- affordable rates should be provided for institutional users regardless of location;
- support access by IBM compatible and Macintosh personal computers;
- offer secure communications and enable users such as schools to control access by individuals to particular categories of information;
- provide services such as electronic mail, bulletin boards and real time chat sessions;
- provide full access to the Internet; and
- support emerging technologies.

I came across another example just the other day at my local shopping centre. There was a touch screen installed by the Australian Capital

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Territory (ACT) Government, called AUSTOUCH. Not only did this facility provide the capability of a data kiosk with information on public transport, ACT services, and what to see and do for the tourist, but it also provided bill payment facilities where I could pay my rates, land tax, electricity and water accounts and other local charges through EFT from my personal bank account. The advantage of such technology is that it is readily available to the general community unlike access to the Internet which many people cannot afford. Moreover, our major telecommunications supplier, Telstra, will be introducing to Australia public Internet kiosks which will permit paid access to the Internet from public locations.

Electronic trading

The Commonwealth Government is working together with Telstra, to deliver 'Transigo', an Internet-based service that provides the benefits of electronic trading to industry and government. Transigo can be accessed via commonly used world wide web browsers and is designed for government-to-business and business-to-business trading to gain efficiencies in their procurement processes by taking advantage of the technology to redesign existing processes. Services to be provided by Transigo will cover all elements of the procurement process, ranging from identification of goods and services, tendering and quoting processes, to ordering, through to electronic payment. For industry and government Transigo will:

- improve the way industry and government purchase goods and services;
- make it easier for suppliers to do business with government and other private sector firms and to access government procurement information; and
- facilitate simplified and, as necessary, re-engineered procurement processes for greater efficiency.

Agencies connecting to Transigo will pay a fee to the service provider, Telstra, based on the number of users within that agency. Traders will also have to pay Telstra to connect to the system. Their fee will vary depending on the level of services they wish to participate in. The services initially will include:

- registration of buyers and suppliers;
- tender advertisements and the ability to download tender documents;
- a supplier directory;
- messaging;

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- government procurement information;
- subscribers' home pages;
- a customer assistance centre;
- an electronic tender box, with sophisticated security facilities;
- Common Use Arrangements information for government buyers;
- a business opportunities matching service;
- order placement; and
- invoicing and payments.

Australian Government Credit Card (AGCC)

About seven years ago, the then Government decided to allow the Australian Public Service to enter into an agreement with a credit card provider for the Government Corporate Credit Card. This was an important indicator of the devolution of authority and risk management approaches being taken as part of the public sector reforms. Credit cards were initially provided to officers within agencies with purchasing responsibilities (for example, Purchasing Officers or officers with regular travel responsibilities) to purchase goods and services.

The credit card was introduced as an alternative method of payment for goods and services. Prior to its introduction, the only options available were cheque payments via a central agency or petty cash for small purchases. The use of cheque payments meant delays for providers and was relatively expensive. The credit card was seen as being more cost effective, especially for low value high usage items and was endorsed as the Government's preferred method of payment in these cases. However, some years after its introduction the use of this facility was reviewed by the Government (Bevis Report³³). The result of that review was that the credit card was no longer endorsed as the Government's preferred method of payment with suggestions that the card not be used for internal travel and for purchases over \$2000. These restrictions were introduced because of perceived inefficiencies in the use of the card.

The credit card is still widely used for purchasing, as an alternative method of payment. It is generally used to pay for high volume low cost purchasing. This is particularly relevant now that procurement is moving to 'just in time' purchasing involving the increased use of electronic commerce. With more effective financial management systems and streamlined administrative systems some of the perceived inefficiencies highlighted in the review of the credit cards have been addressed. This method of payment is increasing, with larger Departments now using the facility to pay for high value items as well as the low value high volume terms. Important advantages of the card are its built-in audit trail, virtual

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elimination of the need for petty cash, improved cash management and simplicity. There have been a few credit card frauds which have resulted in a tightening of procedures and an element of prevention with the Court sentences on those involved.

Electronic lodgement of import information

The Australian Customs Service has been a world leader in the use of technology to expedite import processing. Throughout Australia, customs brokers/importers are linked by computer terminals in their own offices to the Customs commercial computer systems in Canberra. They use these terminals to create Declarations of Importation of Goods from their commercial invoices. These declarations are inputs to the Customs computer which:

- edits and validates the data, reporting any errors for immediate on-line correction;
- handles currency and quantity conversions;
- determines the customs value of the goods and calculates the customs duty and sales tax payable;
- adjusts any remaining quota/import credit balances; and
- checks for prohibited or restricted imports.

The system then makes a decision on the entry and assigns a *green line* status or a *red line* status. Green line indicates that the entry is free from any impediments and goods will be released upon payment of fees. For red line status, entry/documents are required to be presented to Customs for thorough checking. As with the lodgement of taxation returns by agents, reliance is placed on customs agents to enter the correct information for the imports involved. The red line status represents one element of the Customs Service compliance program. Some 97.5 per cent of all customs entries are processed in this way.

The same Customs system also supports Electronic Funds Transfer (EFT) of fees. On receipt of a green line status the agent can immediately authorise the Customs system to process the payment through EFT from the agent's bank account to the Customs account. A release authorisation for the goods is then processed at this time

Pharmaceutical benefits system

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The Pharmaceutical Benefits Scheme (PBS) commenced in 1954 with the aim of providing Australians with affordable access to medicines. Under the scheme Australian citizens are entitled to the supply of medication at subsidised prices. The subsidy varies according to the patients eligibility. Patients in receipt of Social Security or Veterans Affairs' payments (that is, those holding a concession card) are entitled to receive PBS medicines at a maximum patient contribution of \$3.20. General patients who do not hold a concession card make a maximum payment of \$20.00 on PBS medicines. In addition to these concessions the PBS safety nets provides additional benefits to general and concessional patients. Where a individual or family accumulated \$612.60 worth, or 37 prescriptions, in a calendar year they are entitled to medicines at \$3.20 for the remainder of the year. An individual or family entitled to concessional benefits are able to receive free prescriptions after they have accumulated \$166.40 worth or 52 prescriptions in a calendar year.

The pharmacist supplying the PBS medicines is reimbursed by the Health Insurance Commission (HIC) for the difference between the cost of the medication and the amount paid by the patient. Generally, most pharmacists lodge a monthly claim with the HIC. However some pharmacists lodge claims twice a month. The HIC process in excess of \$2500 million worth of claims each year, or approximately 132 million prescriptions. There are currently 5046 eligible suppliers of PBS medicines.

Since 1986-87 pharmacists have been lodging claims with the HIC in an electronic format stored on disk. Current legislation requires pharmacists to forward hard copies of the prescriptions with their claim. The prescriptions are checked against the claim made by the pharmacist. Once the claim is verified payment is made to the pharmacist via electronic funds transfer. A statement detailing the amount paid is then forwarded to the pharmacist.

A trial of EDI was conducted among a number of pharmacists in Victoria in 1996. The HIC is currently in negotiation with several software companies to provide EDI services to interested pharmacists. The HIC has received favourable feedback from pharmacists about the introduction of electronic, interactive claiming. The introduction of EDI will allow the HIC to cost effectively confirm receipt of claims from pharmacists, a process not currently performed. It will also allow the HIC to forward details of payments to pharmacists in a timely manner. Pharmacists will be able to manipulate the information forwarded by the HIC into a format that best suits their requirements. The HIC envisages cost savings in the processing and mailing of payments to Pharmacists through the introduction of electronic interactive claiming.

Electronic lodgement of taxation returns

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Until only a few years ago the Australian Taxation Office (ATO) received more than 10 million paper taxation returns each year, along with supporting information. These returns were checked and manually entered into a computer system which referred the information provided against strict business rules and assessed taxation liability. The result was a refund cheque or payment demand being issued to the taxpayer or, as often was the case, a query raised regarding the information provided on the return. The costs to check and input these returns were excessive and there were significant time delays and costs involved in querying taxpayer supplied information.

More recently, the ATO has introduced three fundamental changes to the manner in which they conduct their business. These changes are electronic lodgement of returns, direct debit/credit and self assessment. Now greater than 70 per cent of all taxation returns are received by the ATO in electronic form. The ATO has worked with software providers to make available PC based software packages that support the input of taxation returns in a form capable of direct input to the ATO tax assessment systems with a minimum of preprocessing. This allows tax agents or individual taxpayers to prepare taxation returns on computers and use EDI to transfer the information to the ATO.

For returns and return information received in paper form the ATO has commenced an imaging pilot which provides for the direct data capture of these returns, and in the future will remove the need for any keyed input of data. For a large number of the returns processed by the ATO there has been no involvement by ATO staff, for, as a result of direct debit/credit capability, outstanding assessment amounts can be electronically debited from the taxpayer's bank account or a credit processed to the bank account. Paper assessments and cheques are printed and dispatched through the mail to the taxpayer.

The ATO has a target taxation return processing time of fourteen days. This target would not have been achievable without the adoption of a self assessment regime or, for that matter, the technology to support it. Taxpayers document their incomes and gross rebates and deductions and assess their own taxation liability. The ATO assesses this information against their general business rules and process the assessment. Very few returns are queried at this point. However, the ATO has a extensive compliance program which looks at a selected sample of returns after the event. The penalties for incorrect completion of the returns are harsh and include not only financial penalties but can include criminal charges being laid for taxation evasion.

Income Matching System

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Current taxation legislation requires that financial institutions, banks, investment bodies, brokerages and the like, provide a return in electronic form to the Australian Taxation Office (ATO) regarding income earned by taxpayers. This information is linked to taxpayers unique Tax File Number (TFN). Where a TFN has not been provided the financial institution is required to deduct taxation at the top marginal tax rate and remit this to the ATO.

Taxpayers are required in their annual statement of income to the ATO to disclose all monies earned through investments. The ATO has implemented an Income Matching System (IMS) that compares the information provided by the taxpayer against the return provided by financial institutions. Discrepancies are reported and followed up by the ATO. This process results in significant additional revenue through payment of additional taxation and penalties. Data matching systems are also used between the ATO and the Department of Social Security (in the future with the new Centerlink organisation). I should mention that there have been Parliamentary concerns and examinations, particularly by Senate Committees, on data matching systems.

Some technology-based and other management concerns with the use of IT systems

I alluded in my introduction to some of the challenges that we face in taking control of the new technology and leveraging it to maximise returns. I would like to touch on these now.

Technology availability

Some aspects of the technology to support new initiatives are lagging behind demand. This includes not only the financial software supporting specific requirements of government accounting and financial management but also the tools that provide efficient interconnection including robust protocols for the transfer of documents and financial transactions. Technology has provided us with the ability to collect, file and access vast amounts of data on the ever increasing broad range of our activity. It is somewhat slower in providing us with the tools to effectively assemble this data in a form that provides us with meaningful information to support our business decision making despite the initiatives that have been taken under concepts such as 'data warehousing'. However, balanced against this management demand must be the realisation that we cannot expect that technology alone will provide us with required information. Managers must be involved in the adoption of new technologies but must also look to how we can make our information sources work for us. We must learn to use

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the new tools, become practitioners and not just rely on glossy presentations about management supports systems for our ideas.

Organisations have also found the rapidly changing technology has resulted in a wide range of new computer software, or new enhanced releases of existing products. This is placing an increasing strain on the computer industry as a whole to effectively support the implementation and continued operation of these products. There clearly has to be a more effective partnership between suppliers and users to determine what best meets the needs of the latter rather than simply developing a virtual smorgasbord of offerings that might just do so.

Privacy

The issues of privacy and security of information have become more relevant as government and the private sector increase the level of information that they collect and maintain. To quote Moira Scollay, the Privacy Commissioner of Australia:

*Consumers want to know how the information they give to business will be used, and they want to be confident that their personal information will be protected against misuse. Businesses want to build loyalty and trust with their customers by assuring them that their information will be handled fairly. They also want to be certain that their competitors will not either undermine the image of their industry, or put them at a commercial disadvantage, by misusing personal information.*³⁴

The Privacy Commissioner reinforced this sentiment in a presentation to the Chartered Institute to Company Secretaries when observing that '...we're living in an age where personal information about customers has inordinate value in the marketplace'.³⁵ However, the right to privacy goes both ways. One of the issues that the electronic trading system, Transigo, which I spoke of earlier, had to address was the need to ensure confidentiality of supplier information, such as pricing and product performance, provided in responses to electronic tenders. Quoting the Privacy Commission again:

*It (privacy) is an essential element in a policy strategy aimed at promoting electronic commerce, electronic service delivery and the expansion of information technology industries. So privacy ... can enhance the level of trust in the overall business relationship.*³⁶

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The responsibilities for ensuring the privacy of client information is even more onerous for the public sector. Individuals have a right to privacy over such things as their health records and financial details. Only about ten years ago the government of the day had to move away from the concept of an Australia Card containing an personal identification number of each and every Australian, due to public concern over its possible misuse not only within government.

I spoke earlier of purchaser/provider relationships and the responsibilities of both parties especially where the provider is a private sector organisation. Outsourcing of the computer processing of organisations such as the Departments of Social Security, Veterans Affairs and agencies such as the Australian Taxation Office means that often the custodianship of information on individuals will shift. In some cases it may be necessary to introduce specific legislation to the Parliament to change existing Acts and laws to ensure continuing privacy of this information, if contractual conditions prove to be insufficient. This leaves some interesting questions that will need to be answered. If, for example, the organisation were to move the processing off-shore, what jurisdiction does Australian law have? Without reciprocal legislation, for example, the answer would seem to be none.

Drawing on the recent observations of the Privacy Commissioner, I would like to put to you some basic standards for the handling of personal information:

- the range of purposes for which information is being collected should be clear to the individual from whom it is being collected;
- information should either be collected directly from the individual, or its accuracy verified by the individual;
- information should only be used for the purposes for which it was collected, or for directly related purposes;
- personal information should be held in a secure and confidential way and not be capable of access by staff or others who have no reasonable interest in that information;
- individuals should have a right of access to information and be able to correct factual inaccuracies;
- individuals should be informed of any new uses proposed after the initial collection, and given the opportunity to opt-out;
- the procedures for access to personal information and the responsibility (and accountability) for its safe-keeping must be clearly specified;
- at any stage, individuals should be able, within reason, to change preferences about the uses of the information to which they have consented; and

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· desirably, particularly sensitive data should be used or disclosed with the specific consent of the individual given at the time at which the use or disclosure is proposed.³⁷

These standards are obviously being addressed in the private sector. However, they also are applicable to the public sector. While the need to collect the information is often not discretionary but mandated by legislation, agencies are restricted in their use of the information very much as described by these standards.

Year 2000 problem

The Year 2000 computing problem confronts all of us who use computers in our business. The problem cannot be ignored or 'got rid of'. It is a business risk and it needs to be squarely and effectively addressed as such. It is incumbent, therefore, on senior public sector managers to become informed about the problem and to take a direct and active interest in the progress of Year 2000 planning and implementation activities in their agencies even if they think their activities are not affected. They must be accountable for taking all necessary action to protect their business critical systems in particular. As I am sure you will recognise, saying after the fact that 'I was not aware of the problem', or 'I was not sufficiently advised of the possible risks', or 'responsibility for resolution of the problem was delegated to the IT functional area', will not provide a sufficient defence in the event of any Year 2000-related failures which lead to adverse financial, stakeholder or community impacts. It is simply a case of 'forewarned is forearmed'.

The key to taking a wider perspective on the Year 2000 problem is to embrace it as a corporate governance problem. The Australian Government has recently announced a national strategy to increase community and business awareness of the problem.³⁸ Organisations which have in place an integrated suite of governance structures which cascade upwards to support informed strategic management should be well placed to deal with the complexities of the Year 2000 problem. These are the kinds of organisations which are most likely to have a holistic appreciation of their operating and business environments. They are better able to exercise timely strategic thinking and effectively harness all elements of their organisations to tackle business problems in a coherent way.

I would like to share with you a number of key 'take home' messages that I provided to senior managers of Commonwealth agencies at a recent conference³⁹ on the Year 2000 issue:

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- the Year 2000 date field changeover is predominantly a business problem with potentially significant adverse implications for Commonwealth agencies and their stakeholders;
- the problem is not just about information technology (IT), or computers, or software (although all of these are business inputs which are 'at risk' of Year 2000 related failure and are basically the thrust of this conference);
- as with most other business problems, the issues involved are fundamentally about **corporate governance** including the application of **risk management** disciplines and client service delivery - in other words, the question is primarily about how organisations act to ensure business continuity and protect the interests of all their stakeholders (these matters will be amplified later in the address);
- safeguarding business continuity will require the identification, in a broad risk management context, of the organisation's 'business critical systems' and an assessment of the extent of the Year 2000 exposure of these systems and its likely impact on the achievement of core business outcomes, and possibly even on the continued viability of the organisation;
- we are running out of time - the longer organisations delay, the more they will be trapped into 'band-aid' solutions and risks for their functions, staff, other stakeholders and clients;
- the Year 2000 problems can be resolved satisfactorily provided they are accepted as issues to be addressed by the whole organisation as a matter of urgency. As well, it could be possible that such a focus will provide agencies with options to turn a survival imperative into business opportunities by coupling Year 2000 compliance activity with business process re-design to achieve better outcomes with more efficient and effective management processes; and finally,
- managers are primarily responsible for solving the problem.

Replacement programs

We need to continually enhance and update the technology that we use. My own office has found that the life span of a personal computer is now around two years. By way of example, the ANAO is now on the 6th generation of personal computers. Recently, the Australian Taxation Office over several months, replaced all of its existing 386/486 devices with Pentiums, some 17,000 computers in total. Such replacement programs, particularly over a short time period, require careful management not only

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to ensure that productivity improvements are actually achieved but that our cash flows are capable of dealing with such demands and the full costs are brought home to program managers.

Management will have to walk a narrow path. We need to adapt to rapidly changing technology, understanding our information needs, maintaining the balance between the cost of these opportunities and the benefits that they will provide and deciding the right time to abandon existing technologies and grasp those that are moving forward. If we move too late we run the risk of others establishing a competitive advantage. If we move too quickly we run the risk of using untested technology and being at the 'bleeding edge', often a costly experience.

V. Some management and audit issues

Decisions about the use of IT systems range across issues dealing with management, accountability and risk as we move to take advantage of the benefits on offer from technology to our financial management. Gone are the days when we can maintain 'in house' custodianship of all processes. We are now using outside providers extensively. We are using global networks shared with any number of other users and because of technology we have been able to adopt strategies and regimes such as client self assessment.

While some of the new management approaches we need to implement have been used by the private sector for some years, many are new to both sectors as we both strive to come to grips with the requirements of a modern society and also take advantage of the benefits of new technology. Basically, the imperative is for organisations to ensure the implementation of appropriate control structures to ensure they can properly manage within the new technology. The establishment of any control structure must include consideration of the wide range of risks and threats to their business and be developed as a result of effective risk management strategies.

The introduction of new ways of delivering public services does not obviate or limit the need for accountability because of, for example, the market discipline induced by competition. To the contrary, less direct relationships and greater decision-making flexibility strengthen that need. This may be frustrating to those expecting a 'purely private sector' approach with little or no public sector disciplines or constraints, as are applied by Parliament and its Committees. We are being asked to be responsible at all levels of the organisation, including at the individual level, for the outcomes identified by the Government. To do this effectively requires us to consider the risks involved for required results and the efficiency of the processes by which we achieve these outcomes, and to manage on that basis, including the

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development and use of sound performance information. These imperatives can be handled most effectively in an interrelated corporate governance framework which addresses both our relations with our stakeholders and the accountability/performance requirements of the public sector.⁴⁰

Corporate Governance Framework

Elements of good corporate governance should:

- demonstrate that required managerial disciplines are in place;
- assist with planning and decision making for management;
- complement any review and evaluation of program management;
- identify best private (and public) sector practices;
- establish credibility with external parties; and
- provide a defence against internal/external criticism.

In the private sector there is a clearly defined relationship structure between the main parties connected with a corporation. The actual relationship is often expressed in a contractual form either on an individual or collective basis. The generic private sector governing structure consists of a board of directors including the chairperson of the board and a CEO responsible for the ongoing management of the agency. However, this model is not readily transferable to the non-corporate public sector because of the different relationship between the CEO and the Minister. As well, the Australian citizens (shareholders) have no choice as to their investment. Many public sector agencies are, however, developing a Board of Management to assist the CEO in the running of the agency, at least at the strategic policy setting level.

Activities of existing boards, executive committees and other committee structures within the entity ideally should be better integrated to become part of an internally consistent overall framework for exercising corporate governance principles. In most cases this would entail reconstitution and redesign to ensure that the core focus is on meeting agreed governance requirements flowing from those principles and the discipline that goes with such a commitment. Experience to date indicates that a lot of effort can be non-productive, including some at cross purposes, because the various organisational and other elements often pursue their own agendas with little or no consultation, let alone coordination of related activities and decisions.

A sound governance framework would, for example, assist an entity to:

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- achieve its corporate objectives;
 - identify, prioritise and manage risk;
 - promote high ethical standards;
 - ensure various management roles and accountabilities are clear;
 - provide relevant and timely information to the appropriate people;
- and
- meet emerging benchmarks for internal control and information reporting on results.

The framework would impact on entities in varying ways reflecting their nature and structure, for example departmental, statutory authority or GBE. While the last category would be the most likely to reflect private sector governance approaches, their public sector responsibilities would require some variations to those approaches. The latter need to be identified and tested to achieve an acceptable balance between results achieved and the responsibility to accord with basic public sector principles and ideals.

And this leads me to the important issue of how we can ensure our staff have the capability to contribute to such outcomes, particularly in the area of financial management.

Risk management

Risk management is an integral element of corporate governance to which it contributes greatly and is supported by the robustness of the framework established. The recent MAB/MIAC Guidelines for Managing Risk in the Australian Public Service (APS) state that:

Risk arises out of uncertainty. It is the exposure to the possibility of such things as economic or financial loss or gain, physical damage, injury or delay, as a consequence of pursuing a particular course of action. The concept of risk has two elements, the likelihood of something happening and the consequence if it happens.⁴¹

As with any other aspect of public sector administration, risk management has to be considered in the context of the changing culture and framework of the public service. While this is clearly a broad view of risk, I should note that successive governments have tended to support the notion of the Commonwealth government carrying its own insurance risk. Particularly with the advent of user pays there have been moves to cost this risk by

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reference to the private sector. In some cases, agencies/entities have also taken out commercial risk insurance. Consideration has been given, at the bureaucratic level, to an across-the-service 'managed fund' arrangement. Such a fund is becoming more common at other levels of government and in the private sector.

Risk management has different and more complex dimensions in the public sector compared to the private sector where, there is arguably a more straight-forward trade off between risk and return. This means that more, rather than less, attention should be devoted to 'getting the balance right'. One of the dimensions we do need to have regard to in the APS is the legislative environment and its integral role to our system of government.

The risk management guidelines make the point that:

*All officers in the public service are required to act in accordance with relevant statutory requirements and government policies, and are also obliged to act in ways which are consistent with APS ethics and values. Management of risk involves making decisions that accord with their statutory requirements and are consistent with APS values and ethics.*⁴²

This requires public servants to be aware of the legislative and policy framework affecting the program they are administering; and agencies to ensure staff receive appropriate training for their level of responsibility. It also means that public servants should not knowingly take decisions which are in breach of legislation or government policy. Further, systems of administration should be designed to provide a high level of assurance with respect to legislative compliance, and compliance with decisions of Government.

It is also important to observe that those with responsibilities for policy development generally have, and are expected to have, a strong interest in risk management - not only in term of policy sensitivities but also in terms of administrative arrangements required to implement new policy. That is, in the same way that ex ante evaluation is encouraged, ex ante risk management should also be undertaken.

One of the very positive developments in public sector administration in recent years has been the recognition by the Government and the Parliament of the value of not enshrining the detail of public administration into legislation - the stand out example of this is the legislation to replace the Audit Act. The thick rule books are on the way out; contemporary administrative frameworks focus on strategic controls, allowing agencies to

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tailor their own operational arrangements - a balance between regulation and internal discipline. This approach allows improvements in administration to be effected within the agency resource management and accountability arrangements; the quid pro quo being stronger external accountability. It does, however, also place increasing responsibility on individual agency heads to ensure they have in place effective control regimes tailored to their own organisation.

Current financial management reforms provide an ideal opportunity for governing bodies to reassess operational structures and frameworks which support program deliver and effective governance. In a recent address the Minister for Finance noted:

There are many areas of the Commonwealth public sector which are still imbued with the outmoded notions of accountability and process simply for the sake of it. There is often little or no focus on what should be the number one priority - better outcomes for the community.⁴³

And this leads me to the important issue of how we can ensure our people have the capability to contribute to such outcomes, particularly in the area of financial management.

Our people - training

In my introduction, I referred to the challenge we must deal with relating to the impact on our people. We must recognise that our investment in new technology and approaches must not be at a cost to our other major asset - our people. We must ensure that the strategies, which we employ to manage the changes created by the various public service reforms, including the adoption of new technology to assist our management, both financial and business, to consider specifically and minimise the latter's impact on our people as far as possible. More specifically, those strategies should aim to facilitate the adjustments that staff have to make to encourage their commitment and contribution. As well, we need to ensure that staff know what is expected of them including the skills required. Increasingly, agencies are better defining individual job competencies which are also important for performance assessment and the design of credible personal development programs.

From the viewpoint of financial management, a priority that we need to address is the provision of appropriate training of staff to ensure the effective adoption of accrual accounting and budgeting frameworks. A number of opportunities exist for agencies to obtain such training for staff. These include seminars and workshops provided by professional

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accounting bodies, formal courses offered by academic and other training institutions and a range of courses organised by Public Service and Merit Protection Commission on a user-pays basis. As well, many agencies conduct related internal seminars, workshops and conferences. My organisation, the Australian National Audit Office, provides regular client service seminars and workshops on various aspects of the financial management framework.

This brings me to a particular area of personal interest which is the examination of some of the important management and audit imperatives in dealing effectively with IT not only as a valuable management tool but also in delivering client services, which is what public administration is basically about. For instance, an early challenge for the ANAO was how it could support the changes that are taking place within our client base. Of course, many opportunities exist in our normal audit work to provide assistance to our clients. This is especially the case with our performance audit program but now becoming increasingly more relevant as part of the financial statement part of our business where we are developing a more client service culture and looking more and more to add value. This requires our staff to take a leadership approach and acquire the skills necessary to deal effectively with all our stakeholders. Our leadership and personal development programs will assist in these regards.

More recently, in an attempt to provide greater assistance to our clients, I have undertaken specific audit programs that provide a commentary on across-agency matters, such as risk management, the year 2000 problem and on accrual reporting as well as in better practice guides on subjects such as asset and cash management and on connecting to the Internet. These reports and guides are not being produced as 'directions' or to dictate how agencies must perform, but rather to provide them with guidance and suitable benchmarks against which to check, or assess, their own performance. It is important that our staff understand the work being done and are competent to discuss it with their colleagues in other agencies. These initiatives are covered in more detail in the following section.

Auditing into the future

Having outlined major aspects of the emerging public sector environment and the changing accountability framework, I come to the role of the ANAO. The ANAO's effectiveness is directly related to the extent to which we understand the environment in which we work. The ANAO does not stand outside the APS as some kind of interested on-looker. We are an integral part of the Service and of the changes and reforms which are occurring. We understand that we must not only take account of the changes to public sector operations in the conduct of our own work but we must also, as the

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agency with a key role in bringing about improvements to administration, work hard at promoting and facilitating required and desirable change.

Any discussion of the role of the Auditor-General and therefore the Audit Office must consider two themes. These are accountability and independence. In the same way that other agencies are held accountable for the outcomes achieved and the methods and resources used to achieve them, so too is the ANAO. At the same time, in order to provide credible assurance to the Parliament on governmental performance the Audit Office needs to be independent. This does not preclude having a close working relationship between the auditor and the client entity for mutual advantage without undermining the independence of the auditor. Indeed, such a relationship should facilitate overall improvements to public administration. However, it is necessary to point out that our main client is Parliament and our purview is the Commonwealth Public Sector as a whole.

As a first step in ensuring that we will be able to meet the challenges of the remainder of the 1990s and into the twenty-first century, we have closely examined our own business and our own performance. The legislative framework discussed earlier is very relevant, particularly in clarifying concepts and relationships. We welcome the separate Auditor-General's Bill. We think the basic distinction between core agencies of government and non-core bodies controlled by government in the FMA and CAC Bills will prove to be increasingly useful. The split reflects, inter alia, a general acceptance that some activities should only be performed under the close and direct control of the Executive, whereas others by their very nature require a degree of independence from the Executive. Where then, do the activities of the ANAO rest in such a debate?

The ANAO delivers its audit products (and more on these later) through two business units, although both types of audits are viewed from the perspective of the overall (one Office) framework of accountability for performance. We have been confronting directly the issue of private sector involvement in public audit in recent years. About 25 per cent of our running costs are now applied to contractors, much of which relates to the use of private firms that conduct financial audits as our agents. These latter audits remain our responsibility and we therefore retain a strong project management and oversight role over their conduct. A similar relationship applies for other specialist and consultancy services.

Apart from the obvious professional and statutory requirements of both the Auditor-General and the ANAO, there are other important accountability obligations to the Parliament that demand our direct involvement in any audit activity conducted within the Commonwealth Public Sector. This is also evident in the replacement legislation for the Audit Act 1901, discussed earlier. In other words, there are quite significant differences in the audit business, in particular responsibilities, and in the exercise of independence

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between the public and private sectors. As well, the functions, operations and performance assessments are also quite different, notably in the core public sector.

As in the private sector, knowledge and understanding of the client's business are essential to successful auditing and represent a marked comparative advantage. Such an advantage is even more evident in across-entity audits and whole-of-government accountability issues. While I consider that some inter-sectoral comparisons are useful for benchmarking particular elements of performance, it is clear that simple overall cost comparisons of public and private sector auditing generally are likely to be misleading. These are difficult issues for both Auditors-General and Parliament.

The ANAO regards performance auditing as core business, and as such, these audits will be delivered primarily using ANAO resources. They tend to dominate the Parliament's interest in our activities, particularly with the Joint Committee of Public Accounts (JCPA) with which we have an almost day-to-day relationship. Importantly, it should be appreciated that ANAO resources are and will continue to be supplemented on a needs basis, by private sector people who have particular skills and experience. Over the years, the ANAO has engaged a wide range of expertise from the private sector, including medical practitioners, taxation specialists, construction industry consultants, statisticians and engineers, to assist in particular audits. As well, we will be looking for agency representation on our performance audits not only as a source of intelligence and understanding of an agency's programs and structure but also as a means of personal development for all concerned. Knowledge and expertise can transfer both ways with mutual benefits.

While I am on the subject of the types of products we deliver, it is probably the appropriate time to outline what we have done to ensure their relevance with an eye on current and future changes. One area in which we can learn from the private sector is in being aware of the prime necessity of providing a quality service to clients (or our various stakeholders). The ANAO's primary client, as I have said, is the Parliament. We have a strong focus on providing quality services and products to the institution itself, its committees and to individual Members. As well, other stakeholders, including auditees, are also clients. The culture of further developing a client service orientation is something that we in the ANAO are working on steadily.

It must be agreed that, for many public sector entities, a culture of client service has not yet been nurtured. There is no doubt that the ANAO has been trying hard to work more closely and supportively with entity staff and managers for some time. Many internal audit units have been doing likewise. This does not mean providing automatically unqualified audit

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reports on financial statements, or uncritical congratulatory performance audit reports. While few of us really like criticism, there is general acceptance that constructively critical reports can help us do our job better and that recognition of good performance can both reinforce and lift the confidence and morale of those involved. As part of this more client focussed approach, we have come to the view that the ANAO must supply a broad range of audit and audit-related products to be considered really useful to the various entities and stakeholders with whom we are involved.

Developing an Appropriate Product Range

Any influence the ANAO has, particularly on performance and accountability, will be largely through its individual products. It is important for our credibility, and highly cost effective for us, to gain the maximum advantage from the close working relationship and knowledge that we have with all public sector entities through the audit processes. The following is a list of our range of products and services:

- financial statement audits;
- performance audits;
- financial control and administration audits (FCAs);
- assurance and control assessment audits (ACAs);
- direct assistance to the Parliament and its Committees;
- seminars on topics relevant to public sector entities;
- better practice guides and other guidance material on various topics, such as:
 - model financial statements (AMODEL Accounts) for different types of entities;
 - financial statement preparation;
 - the control environment, particularly as it impacts on financial reporting;
 - financial management;
 - managing APS staff reduction; and
 - performance information principles; and
- direct assistance to entities on many of the foregoing topics.

While I am not going to describe each of these in detail I thought it would be useful to discuss briefly our major products, particularly the sort of changes we envisage to performance auditing as a result of the reform process. As well, I want to draw your attention to our two more recently developed products, FCAs and ACAs; our Better Practice Guides; and our

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role in Whole-of-Government financial reporting; all of which bear particularly on the topic under discussion. The inter-related nature of the ANAO's product range is recognised as a central part of our overall business strategy.

Financial Statement Audits

In conducting financial statement audits the ANAO faces difficult decisions about how to cover particular audit clients. From a cost perspective, it would often be very expensive to maintain in-house the expertise needed to audit such entities, particularly where there is a strong identification and/or relationship with the private sector. That is, where the entities are not part of the recognised core of public sector activity. Perhaps more importantly, from an audit effectiveness viewpoint, it would be very difficult to obtain and maintain the necessary experience to conduct such audits well, with a full knowledge and understanding of the industry in which they operate. Private sector firms with the appropriate connections are often able to call on the necessary expertise and background knowledge nationally and internationally as well as being able to maintain that expertise because of their broader client base in particular areas.

Using the private sector in this way does, moreover, provide us with the opportunity to concentrate our own resources on what we see as our core business. Broadly, this is all entities wholly or mainly budget funded. Here we have our own specialist skills, knowledge, understanding and experience of public sector functions and activities. At the same time, we are providing a better service in conjunction with private sector firms to the more specialised entities, often with limited or no additional budget funding, than we could do using solely our own resources. Such a strategic approach ensures that we are not only able to provide the Federal Parliament with the required assurance about overall public service accountability but we also have the necessary degree of involvement to do so credibly. The issue is basically about achieving the right balance of such involvement to be cost effective.

As our audit clients move to adopt more widely IT systems and facilities (often of some complexity) to support their financial and business activities my Office has needed to ensure that we have the capability to audit these systems. Our audit approach and methodologies are under constant review to ensure that we have the capability to meet the challenges provided by technology and take on the opportunities of new audit methodologies and tools. We must also ensure that we ourselves use the capability of technology to provide a better and more cost efficient audit product. Currently more than ten percent of my financial audit staff are specialist IT auditors and an increasing number of the other staff have IT audit training and backgrounds. More recently, over the past three years, we have made a significant investment in IT audit tools that support the

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actual conduct of the audit, for example planning, controls testing and documentation and electronic working papers. We have acquired software tools that, when loaded on to a client computer, assist us to review the control environment. We have also invested in information data bases that provide my staff with better access to information on emerging IT and audit issues.

The issues that we must deal with in our audits are also changing due to technology. In the past we always had a paper trail to rely upon and the record of involvement of a number of staff to provide confidence in the control environment and as a basis for testing. Now we often face the situation where financial transactions arrive electronically; are often dealt with by the computer systems only; and any record of staff activity is only recorded on a computer. As a result, we are now in the situation where we are confirming the 'certification' of the computer application to processes, such as record management and pay as well as of the computer controls to limit access and to provide effective separation of duties and an audit trail. There is also the challenge provided by communications networking over which many transactions occur.

Our clients are increasingly connecting to external networks and opening up their business applications to people outside their organisations, placing even greater reliance on systems to control access and to record activity. Most probably the greatest change that we are having to deal with is the pressure for our clients to react to the reform agendas that I have spoken of which have resulted in the development of risk management strategies and business decisions regarding the right amount of control that they must exercise over business and financial risks. It is no longer sufficient for the public sector to adopt management and control procedures that prevent all errors in processing but they must adopt a balance between cost and vulnerability. My Office is now facing the situation where a significant component of our audit is taken up with accessing and testing the implementation of agencies' risk management practices to support our opinion, for example, the completeness of taxation and customs revenue/receipts (estimates) and the validity of social security payments.

Performance Auditing

Performance auditing can probably be said to be an increasingly significant element of the audit mandate in most Western countries. Moreover, even in New Zealand, where a separate Audit Commission bids for financial statement audits in competition with accounting firms for business in both the public and private sectors, the performance audit function is conducted by the Office of Auditor-General. The public demands for governments to achieve better value for money, to 'reinvent' and improve service provision, combined with the time being given to improving and reporting reliable

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performance information, increase the potential value added by an effective external performance or value-for-money audit function.

This is an area which traditionally has received much greater prominence in the media and elsewhere. Performance audits, by their very nature, generate greater debate and controversy than do financial statement audits. This does not mean that performance audits are in any way better or worse than financial statement audits. I would contend that any consolation/affirmation provided by the 'green tick' for performance is just as important for managers as it is in financial audits. In my view, they both play an essential role in the accountability framework within our system of Government and both aim to provide assurance to both the Executive and the Parliament about the efficient and effective administration of public sector agencies.

The main problem seems to be the sensitivity associated with performance audits as they often go to the heart of management practices. However, as we all appreciate, management is not an exact science. This is a shorthand way of saying that there are, legitimately, often differing points of view on the way in which programs can be managed. Because of these views it is incumbent on the ANAO, with the assistance of management, to ensure performance auditors have a clear understanding of the goals, objectives and priorities of any area subject to audit and that performance criteria/measures are, as far as practicable, agreed 'up-front'. This should be a reasonable expectation in the program evaluation climate that has been built up, particularly over the last five years or so.

The need in the future is to ensure closer cooperation and communication between the ANAO and agencies on performance audits. There is considerable mutual interest in the outcomes. Confidence needs to be promoted in those outcomes for all stakeholders including, importantly, the Parliament.

Careful presentation may ameliorate the more sensational style of media reporting we have sometimes witnessed which can engender friction and legitimate concern for positive outcomes. We will be focussed on producing 'balanced' reports which add value by identifying good or best practice and indicating improvements that can be made from experiences elsewhere.

Audits of Financial Control and Administration (FCAs)

FCA audits are concerned with improving the quality of the public sector administration by assisting and encouraging agencies to achieve better

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practices, in areas such as asset management, accounts processing, audit committees, the use of accrual information and debt management.

These audits are intended to assist public sector managers in meeting their responsibilities and to inform the Parliament about aspects of public administration which are not likely to be covered by the financial statement and performance audit products basically because they are not likely to be significant or 'material', or have too narrow a focus, in a single entity context. On the other hand, they can have service-wide ramifications which are of considerable interest.

FCA audits were introduced as a result of a review by the ANAO of the scope and targeting of its audit activities. This review was done in the context of the changing public sector environment, particularly with the increasing devolution of authority, adoption of strategies for the management of risk, changes in financial reporting and enhanced accountability.

However, the decision to undertake these audits was also based on an apparent Parliamentary perception that devolution of management authority under the Public Sector Reforms had not been matched by commensurate evidence of accountability by public service managers. The FCA audit was designed to go some way in filling this 'expectation gap'.

Specifically, the objectives of FCA audits are to:

- provide independent assurance to the Parliament, the Executive Boards, auditee management and to the public on aspects of public administration and control of public funds; and
- identify, develop and report better practice.

Consistent with the objective of providing assurance, these audits adopt an empathetic approach to improving public administration rather than simply identifying shortcomings or minor matters dealing with administrative processes. The latter is certainly not consistent with the risk management approach being urged by MAB/MIAC44. The concern is more about whether appropriate platforms and mechanisms for control have been properly implemented.

As noted earlier, the types of activities this program addresses, while individually not 'material' in many agencies, collectively represent a significant element of public sector administration and account for a significant level of expenditure each year. Essentially, these audits focus on those core, or good housekeeping, activities that are considered vital for

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good management. These include guidelines, instructions, monitoring practices, systems development, integrity and ethical checklists and audit trails.

These audits are usually undertaken across a selection of agencies, between twelve and fifteen entities. The results form the basis for an across-the-board view of the Australian Public Service. The results are therefore useful to all agencies: not just those included in the audit. In keeping with this holistic approach, all reporting is generic in nature. However, we do promote individual entity examples of 'better practice'. The approach encourages entities, which might not be at the better practice end of the spectrum, to be involved so that a better appreciation can be gained of what might be involved in moving to that end and the associated benefits and costs. These aspects would be examined in subsequent audits of the individual entities.

While the results of these audits are reported in the normal way to Ministers, departments and agencies, reports to the Parliament are generic in nature in order to provide Members with a good perspective of areas of best or better practice, as well as areas where improvement is warranted. Reports mention by name only those organisations which have demonstrated approaches and practices that might be able to be applied elsewhere.

The tangible outputs at the end of a FCA audit are the publication of a report to the Parliament and a better practice guide. The approach provides a benchmark against which government agencies, service-wide, are able to compare their respective performances and to implement improvements, where considered necessary. Such an indicative benchmark is also useful in later audits to ascertain what, if any, action should have been taken in individual entities. Less than adequate performance would be reported in such audits in the normal way. Such follow-up also alleviates the Parliamentary concern expressed about the generic nature of the FCA audits.

Three FCA audits have been completed and reported including the concurrent release of a companion better practice guide with each audit report. They are:

- Asset Management - Audit Report No 27 1995-96;
- Payment of Accounts - Audit Report No 16 1996-97; and
- Audit Committees - Audit Report No 39 1996-97.

The output of these audits has been enthusiastically received.

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The FCA on Audit Committees followed a benchmarking survey of all types of Commonwealth Government agency except GBEs. The results of the benchmarking study were forwarded to all agencies in December 1996. Hopefully this will enable each agency to examine the function and operation of its audit committee in advance of the expected application of the package of legislation to replace the *Audit Act 1901*. (Under the FMA legislation agencies will be required to establish and maintain an audit committee). The survey should also facilitate the creation of an audit committee in those agencies that do not presently have one.

Assurance and Control Assessment Audits (ACAs)

As noted earlier, we have also developed a related program of audits described as assurance and control assessment audits or, simply, ACA audits. The ACA audits examine basic administrative processes to provide a positive assurance that agencies are meeting their obligations under the legislative framework. They are concerned only with the financial framework established to support and assist in the delivery of the products and services provided by the public sector. These audits do not assess compliance with legislative provisions governing specific programs. However, they are focussed on the common or core activities of a corporate nature, for example personnel practices, travel and accommodation, minor expenditure, procurement and use of official vehicles. From time to time the coverage of FCA audits is likely to be highly complementary to ACA audits.

The ACA audits are aimed at providing to the Parliament, and to the entities involved, an assessment of the level of control applied to a range of basic activities in public sector entities. Parliamentarians have regularly expressed concern on such 'housekeeping' matters. But, in most instances, reporting on them does not sit well with reporting on the overall financial position of an entity, nor would most of the activities have a material effect (as conceived of by accountants and auditors generally) on the financial report.

The ACA audits are a direct reaction to the above concerns, since work of this type has increasingly been excluded from the scope of our basic financial statement audits. They are basically about providing assurance of key controls, not necessarily all controls, in individual entities rather than about identifying better practice across entities as do the FCA audits.

Reporting on these audits will be in association with my annual report to the Parliament on financial audits. The reporting style will be similar to that of FCA reports in that it will be at a generic level to provide a service-wide

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perspective. However, our management letters will advise entities of any specific matters which may need to be addressed. The concerns are most likely to be about whether the control environment is effective or not, rather than about any relative position against other entities, as is more likely to be the case with FCA audits.

Better Practice Guides

One audit related product, where additional effort has produced widespread benefit, is the series of Better Practice Guides. Performance audit reports have previously included better practice guides where lessons learned from an audit of a particular entity have relevance to the wider public sector. Guides separate to the reports are now often produced arising from both financial and performance audits. An integral product of the Financial Control and Administration audit of Asset Management was the distribution of a better practice guide and accompanying 'practical' handbook to all entities. Other financial guides released last year were on Financial Statement Preparation and Illustrative Financial Statements. Two Better Practice Guides, one on Administration of Grants and the other on Corporate Sponsorship in the performance audit area were also released in 1996-97.

A better practice guide on Managing APS Staff Reductions was produced in advance of a performance audit as it was considered to be of more timely assistance in the current context. More recently we have jointly developed a better practice guide on the principles for good performance information with the Department of Finance. Other Better Practice Guides currently being developed include:

- Control Structures in the Public Sector;
- Office of Government Information Technology - Major Acquisitions;
- Customer/Client Service;
- Information Technology Outsourcing and Contract Management;
- Protective Security;
- Accounts Receivable;
- Internet Security; and
- Travel

A full listing of better practice guides/principles published by the ANAO is set out in Attachment A.

Whole-of-Government Financial Reporting

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A key initiative in public sector accounting is the Whole-of-Government reporting which has followed a recommendation from the Joint Committee of Public Accounts. In a paper I presented to the 1996 CPA Congress in Melbourne in October 1996,⁴⁵ I went into some detail in discussing the development of accrual statements and their consolidation into whole-of-government statements. I also raised some conceptual issues and outlined some opportunities for the future. That paper is readily available for those interested in this subject.

Many of you would be aware that whole-of-government financial reporting involves preparation of general purpose financial reports consolidating the financial results of all departments, authorities and companies controlled by a government. In the late 1980s, government departments were first required to prepare cash-based financial statements and to incorporate these into annual reports which were tabled in the Parliament. In the early 1990s, accrual reporting was first introduced in Commonwealth government departments and, by 1994-95, all departments had fully implemented accrual reporting even though this was only achieved by processing end of year accrual adjustments.

In 1995 the Commonwealth Joint Committee of Public Accounts issued two important reports. In the first, *Accrual Accounting - A Cultural Change*,⁴⁶ the Committee examined the use of accrual reporting and accounting within the Commonwealth and made a number of recommendations aimed at increasing the use of such information.

In the second, *Financial Reporting for the Commonwealth: Towards Greater Transparency and Accountability*,⁴⁷ the Committee recommended that the Commonwealth Department of Finance and the ANAO embark upon a series of three trial whole-of-government financial statements commencing with the 1994-95 financial year, with a view to full adoption of whole-of-government reporting in 1997-98. The Government subsequently decided to have audited statements for the 1996-97 year.

In line with recommendations of the JCPA, the Department of Finance and my Office prepared a trial set of financial statements based on 1994-95 financial information of Commonwealth entities. The emphasis of the trial was on determining an appropriate form for the financial statements and identifying the best means to obtain the information required for the financial statements from the 200 or so entities to be covered within the Commonwealth. My objective in participating in this, and in later trials, was to ensure that all issues which could result in an eventual qualification of the financial statements were resolved at the trial stage before audited statements were required to be produced.

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The first trial statements were published, together with an invitation to comment, by 30 September 1996⁴⁸. With slight amendment, they were also incorporated into the report prepared by the National Commission of Audit. The National Commission of Audit strongly supported whole-of-government reporting, recommending that fully audited statements be available for the 1996-97 financial year. A key finding of the Commission was that:

*'A full accrual accounting framework is an essential complement to the structural and cultural change the Government is seeking by way of a more competitive, efficient public sector. It is also essential if the accountability requirements of the Parliament and the taxpayer, and the Government's commitment to a Charter of Budget Honesty, are to be met.'*⁴⁹

My Office has recently completed work with the Department of Finance on the preparation of a second trial set of whole-of-government financial statements.⁵⁰ The Government has agreed to a phased implementation of an integrated accrual budgeting, managing and financial reporting framework by the year 2000. The first phase will involve the tabling in Parliament of audited consolidated financial statements of the Commonwealth public sector for 1996-97 based on the two trials. This will be a major step forward in financial accountability. The 1995-96 financial statements are modelled on accounting standards AAS 31 Financial Reporting by Governments issued by the Public Sector Accounting Standards Board in December 1995 and, in effect, provide a trial of that standard.

I hope our involvement in assisting in the development and preparation of whole-of-government financial reporting is properly seen for what it is: - an obligation to assist in the reform processes in areas of our expertise.

VI. Financial Management in Other Public Sectors

I have spoken today in some detail about the reform agenda that is driving where we are going with financial management in the Commonwealth public sector, aimed at achieving smaller government while at the same time ensuring the delivery of high quality, accountable, cost effective, public services to the community. A major emphasis has been on micro-economic reform involving greater contestability with the private sector and the provision of public services by that sector. Similar forces are at work across all of the Australian states and Territories and particularly across the Tasman where the New Zealand public sector is well advanced with the implementation of a 'competitive' environment.

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Over the past 30 years all levels of government in Australia and New Zealand have seen a significant growth in the delivery of public services, especially in the areas of education, social security and health. This growth has been accompanied by increases in expenditure in real terms. In the same way as the Australian government has placed a high priority on transforming an underlying budget deficit into a surplus, primarily through cuts in spending on government programs and administration, so have other governments. In more recent years the focus has been primarily on privatisation in its widest sense. But there has also been a concerted effort to improve the performance of public sector managers particularly in their use of resources and in client service delivery. Not surprisingly, such effort has included the application of information technology and telecommunications (IT&T) to business problems to achieve more cost effective outcomes or results.

At least some public servants at State and Commonwealth levels see these changes as a real threat to a career public service and an undesirable emphasis on economic rationalism and managerialism. Others see advantages and greater job satisfaction in a more flexible outcomes-oriented management approach involving the adoption or adaptation of private sector approaches to the delivery of public services. Many welcome a greater partnership with the private sector, recognising the particular strengths and experiences that sector can provide. The notion of contestability is accepted but there are some reservations about the reality of competition, particularly in the area of 'core' government.

Nevertheless, there is generally at least a notion of market testing across the various public sectors which generates a more commercial orientation to financial management, including the use of accrual accounting and associated budgeting tools, and an interest in the 'cost' or 'price' of a service. Correspondingly, there is a concomitant focus on management information systems that deliver the means of efficient management on this basis. Moreover, there has been a growing realisation of the scope that electronic commerce - in the broad sense in which I discussed it earlier - has both for a more productive partnership with the private sector in the delivery of public services and in the public service managers' ability to show they are contestable.

The IT&T initiatives that I have spoken of in the Commonwealth sector are taking place in other public sectors. In many areas they have led the Commonwealth, for example New South Wales has been pursuing electronic trading options through electronic commerce for many years and South Australia moved to outsource the whole of its delivery of information technology facilities some three years ago. Budget and accounting reforms in New Zealand and New South Wales commenced earlier this decade and

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as a consequence are further advanced in a number of areas than other governments.

As with Australia, it is necessary to have an appreciation of the governance environment in which public sector financial management in New Zealand actually operates. New Zealand does not have a written constitution to specify the obligations of Ministers or their departments to Parliament. As you probably know, it is still a Westminster-style government. That means, inter alia, the Government is accountable to the Parliament. The financial management system focuses on the Government's accountability for its financial performance. This is done through the various agencies and entities. The role of the Audit Office is essentially to provide Parliament with an assurance that all expenditure of public money has been properly authorised and accounted for, and that the information presented to Parliament is fair and correct.

From a legislative viewpoint, the *State Sector Act 1989* establishes the accountability relationship between chief executives and their Ministers. The *Public Finance Act 1989* covers provision of appropriations, financial and non-financial reporting, and banking and financing arrangements. The *State-Owned Enterprises Act 1986* provides for State-owned enterprises to be established as Crown companies charged with achieving a commercial return on capital invested. In short, the Act allows the Government to conduct some of its commercial activities like private sector businesses. Finally, the *Fiscal Responsibility Act 1994* establishes the principles for formulating fiscal policy in New Zealand and requires the Government to publish regularly its short and long term fiscal intentions. The Act requires publication of fiscal strategy reports and economic and fiscal updates. Importantly, in terms of the subject of this address, the Act establishes five principles of responsible financial management as follows:

- reducing Crown debt to a prudent level;
- maintaining Crown debt at a prudent level;
- achieving and maintaining Crown net worth at a level that provides a buffer against adverse future events;
- prudent management of fiscal risk; and
- reasonably predictable tax rates

The Government is required to disclose any departures from these principles. As in Australia, the major thrust of reforms have a much wider purpose expressed by the New Zealand Treasury as follows:

*The Government's financial management system is concerned with public sector performance in all its forms*⁵¹

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Allen Schick in his report *THE SPIRIT OF REFORM: Managing the New Zealand State Sector in a Time of Change* presents an authoritative study on the results of reforms so far in that country. I will take the liberty of quoting fairly extensively from his report as it provides a useful basis of comparison with my earlier comments on the Australian situation:

....it has become evident that the reforms have lived up to most of the lofty expectations held for them. The organisation cocoon of the old State sector has been broken open and structures reshaped through the application of the reform's overriding principles. The State sector is more efficient, productive and responsive, and there generally has been significant improvement in the quality of services provided to New Zealanders...

In its emphasis on managerial discretion and accountability, New Zealand's approach resembles reforms introduced in Australia, the United Kingdom, Sweden, and several other OECD countries. But the more closely one examines New Zealand's progress, the more it becomes evident that it has ventured far beyond what has been tried elsewhere. The following are some of the major management innovations pioneered in the New Zealand State sector since the late 1980s:

- Financial statements, the budget, and appropriations are on an accrual basis. Commercial accounting standards are applied to all public entities.*
- Departments prepare monthly financial reports, quarterly performance reports on their purchase agreements, half yearly reports on their chief executive's performance agreement, and an annual report on the financial results and outputs. These reports and statements generally have been reliable and timely. The annual report is audited; in recent years, few have been qualified by the auditors. In addition to departmental reports, the government issues a combined financial statement.*
- Appropriations for operating expenses are made by output classes. The output classification is not a supplementary schedule but the main form of appropriation and the basis on which operating expenditure is controlled and accountability is maintained.*
- Departments (and certain other public entities) are headed by chief executives appointed under term contracts that set out conditions of employment. Public employees work under individual or collective employment contracts.*
- Management discretion is less constrained in New Zealand than in any other country that has reformed its State sector. Within budget limits*

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and law managers are free to select the mix of inputs to be used in producing agreed outputs. They have flexibility in hiring and paying staff, obtaining office accommodation, purchasing supplies and services, and spending on other inputs.

- Accountability for resources and results is maintained through contract-like arrangements within government. Performance agreements between Ministers and chief executives set forth standards and expectations for department heads; purchase agreements between Ministers and departments specify the outputs to be produced during the year.*

- A capital charge is levied on the value of each department's physical and financial assets, net of liabilities. Appropriations are struck to cover the cost of depreciation, thereby enabling departments to accumulate funds and repair or replace facilities without having to obtain a new appropriation of capital. Departments may request a capital contribution if cash in depreciation accounts is not sufficient to cover new investments.*

- Departments maintain their own bank accounts and are responsible for managing cash balances. They earn interest on these accounts; the rate earned depends on the extent to which the actual cash balances are above or below the balances forecast for the period.⁵²*

The New Zealand budget system is outputs based. In essence this should make it easier to cost government services as opposed to the often more qualitative, less definable notion of program outcomes. Nevertheless, to be useful, there has to be identification of the links between the two concepts in order to establish some measure, or at least indicative assessment, of the cost effectiveness of such outcomes. Clear identification of outputs does allow more direct cost comparisons of service delivery between the public and private sectors. However, one has to be careful that such comparisons are not simply done in isolation from the overall organisational impact, for example in spreading of overheads, the use of common expertise and the intelligence made available to other segments of the business/functions.

The New Zealanders have also recognised that government outputs are not simply an homogenous group for costing purposes. They have identified eight major groupings where there is commonality in performance measures as follows: customer oriented; transactions; professional/managerial; investigations; behavioural; control; emerging services; and contingent military capabilities. The first three, at least, would be considered reasonably common with the private sector as well as in the technology that is used to supply them. The next three categories concern traditionally regarded 'core' government activities with an emphasis on managing for due process and/or an outcomes type measures. The last two categories are about a 'readiness' capability and the cost structures and management approach vary as would the information required.⁵³ I would think that few of us would disagree with the following observation:

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One of the requirements of any system of financial management is that it should assist departments and agencies to operate efficiently and give decision-makers the right information to reallocate scarce resources from areas of relatively lower priority to areas of higher strategic importance.⁵⁴

As with all reforms, their effectiveness is very dependent on the way in which they have been implemented, as well as on the underlying concepts and frameworks.

Contracts and purchase agreements are central to the New Zealand system. These factors in themselves require a full cost approach to financial management and a critical focus on cost allocation. In turn, this puts a heavy emphasis on FMIS. A good example of the requirement for full cost accountability is the payment of a capital charge by departments each year. The charge also provides an incentive to manage assets efficiently. Despite this attention to costs and prices, a study undertaken for the New Zealand Treasury in August last year revealed many common problems with selecting, implementing and using an FMIS.

As in Australia, each department is accountable for its own financial management and is therefore responsible for developing and operating its own financial information system. However, there is not the same day-to-day involvement as there is between our Department of Finance and Commonwealth agencies. New Zealand Chief Executives usually report monthly to their responsible Ministers on financial performance, as noted earlier. In particular, they report monthly to the Treasury on financial performance by way of the Crown Financial Information System. I understand this can be a topic of discussion about Chief Executives' performance.

Common issues of concern in introducing accrual accounting for agencies as well as for whole-of-government financial reporting across all jurisdictions include the following:

- obtaining reliable valuations of non-current physical assets;
- establishing a proper basis for valuation of land under roads as well as for the valuation of the roads themselves;
- valuing defence force military equipment;
- valuing heritage assets and national parks;
- valuing art, archive and library collections; and

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- ensuring completeness of land registers and dealing with conservation areas.

As an example of a concern about potentially misleading valuations and their possible impact on government decision-making, the Western Australian Auditor-General recently commented on the difference between a Treasury estimate of land under that State's roads of \$426 million and one by the Main Roads' Department of more than \$3.5 billion.⁵⁵

You will notice a number of similarities between what has happened in New Zealand and what I have described as having occurred or under way in Australia. Common themes have been the move towards what the Australian Commonwealth Government has entitled budget honesty; accountability arrangements by both governments and by the public sector but with differing emphasis on outputs and outcomes and use of contracts; and the need to move more towards private sector delivery of services. These initiatives are reflected in the movement at all levels of government towards accrual reporting and accounting and output budgeting. Set out in Attachment B is a broad outline of status of these, and other, related initiatives by the Australian States and Territories with the exception of the Northern Territory (NT) where little progress has been made in these directions. For example, the relevant NT legislation does not require financial reporting of departments on an accrual basis. Nevertheless, there is a common focus on performance and the relationships between the government and business sectors to deliver more cost effective public services. Coordination of Federal and State activities takes place through the Council of Australian Governments (COAG) and other Ministerial Councils where there is common interest.

VII. Concluding remarks

The Australian Government's Financial Management Improvement Program had its antecedents in the perceived lack of focus and attention to resource management by the Australian Public Service (APS). Up to that time (1983) at least some onus was placed on public service managers to justify the expenditure on their various functions and activities. This was normally in the budget context but otherwise expenditures might have been approved by Ministers and/or Cabinet outside that context if central agencies such as the Treasury and the then Public Service Board 'approved' or at least supported the case made. However, once the resources and the necessary cash appropriations were approved, there was very little accountability for the way in which they were used/spent. In particular, once the cash was spent for capital items, managers virtually regarded them as 'free goods'.

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The central accounting system provided by the then Department of Treasury was, virtually, most departments' means of accounting for expenditure and receipts. There were a few departments, such as the previous Works, Posts and Telegraphs and Civil Aviation that had, for those times, quite sophisticated costing systems. There were limited accounting skills, a situation that has not improved all that greatly over the years, particularly among managers at all levels. The ANAO undertook a survey of accounting skills in budget dependent agencies in 1993⁵⁶ with a subsequent follow-up study in 1994.⁵⁷ One of the ANAO's findings, based largely on the survey, indicated that:

*(staff) requirements included the short and long term need for accounting specialist expertise, appropriately trained support staff and the managers who possess the necessary knowledge/understanding of the issues involved.*⁵⁸

In their response to the Follow up Audit, the Department of Finance observed that:

*The successful implementation of accrual accounting systems for the day-to-day management and for managers to gain most benefit from the outputs of those systems, will require skills enhancement of all staff - not just those involved in the accounting function.*⁵⁹

The ongoing challenge has been to make it important for managers to consider the cost and financial implications of their decisions. The public sector reforms of the early 1980s were an important catalyst in this regard with their emphasis on devolution of authority, including greater flexibility in management decision-making, and commensurate accountability for results.

A major problem for this changed emphasis on financial management was inadequate information systems and the tools that went with such systems to ensure the provision of the required information in a readily useable format in the right place and at the right time. In my view, history will deal kindly with the central mainframe-based accounting, budgeting and pay systems in respect of their dependability, robustness, control and provision of timely, aggregate cash based functional information. As well, they were reasonably effective in cash management terms for the Commonwealth as a whole. But they did little for the individual management except for providing largely paper based detailed line by line appropriation information. Latterly, some of the larger departments, such as Social Security, were provided with mainframe links and were able to down-load central accounting information into their own systems, including viewing budget estimates data. The Department of Finance maintained strong control over

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the latter to ensure integrity and timeliness of information provided to relevant Cabinet Committees and to Budget Cabinet itself.

However, technology did come to the aid of the increasingly devolved financial management arrangements in the form of personal computers, the client/server environment and the development of agency based Human Resource Management Information Systems (HRMIS) and Financial Management Information Systems (FMIS). These developments occurred predominantly with the assistance of the private sector. One system (entitled NOMAD) was developed within the APS and run mainly as a bureau type arrangement by the Department of Administrative Services on a user-pays basis. These were still largely cash-based systems in agencies except for those implemented by the more business-oriented authorities which were moving relatively quickly to accrual-based management frameworks. However, some of the more commercial operations of particular departments, such as Administrative Services were also moving to the accrual approach.

These developments were virtual stepping stones in creating widespread awareness and even use of a range of relevant computing techniques and accrual concepts across the APS. They should assist in the more efficient and effective implementation of management information systems based on accrual data derived from both accounting and budgeting systems. The focus on program outputs will help in this regard. But the challenge will still be to ensure a credible link between those outputs and program outcomes, including the development of useful performance measures at both levels.

There will also continue to be a need for robust control environments to provide assurance to managers of the efficient and administratively effective use of resources (inputs) employing due process, fraud prevention and detection and having regard to ethical concerns as required under the replacement legislation for the *Audit Act 1901*. Such an environment should also be more conducive to requirements for market testing under competitive tendering and contracting arrangements and must support oversight of the greater involvement of the private sector in the provision of public services. Commercially-based accounting and financial reporting practices will be more directly relevant to 'non-core' public service activities, particularly in a directly contestable or competitive situation. However, these practices have a more limited direct application to most 'core' public services where non-commercial performance measures and other requirements, such as justice and equity, are of prime importance.

Regardless of the activity and level of commercial orientation, it has become clear that activity-based costing techniques will be very useful in establishing properly based cost effectiveness measures. The inability to capture credible and measurable cost information has been seen as a deficiency in APS performance assessments. However, it is becoming

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increasingly evident that managers require such information on a day-to-day basis to assist in determining business strategies, setting priorities, analysing risks, comparing alternative options and program impact determination.

A more business-like approach takes us into the area of electronic commerce. However, initiatives in this area should be seen in the context of a wide-ranging IT strategy. Initiatives to date have been taken on an opportunity basis, such as those relating to import clearances and electronic lodgement of tax returns. A whole-of-government approach has been used for the purchasing function which had been successfully introduced some years ago by the New South Wales State Government. More importantly, the scope for the use of electronic commerce has been seen by successive Governments to be much wider than simply for purchasing.

It is clear that the Internet (as well as Intranet or the so-called Extranet approaches) will be a source of a wide range of electronic commerce initiatives. Security, privacy and reliability are still issues to be resolved satisfactorily. What has been demonstrated is that communications technology is just as important as information technology in determining the services that can be conducted on the Internet. As well, the support of, and interaction with, the private sector are seen as essential if the opportunities offered are to be brought to a successful conclusion. The erosion of national boundaries, legal obligations and enforceability and the tax revenue/base are also issues to be resolved.

Most of the governments in the Australian States and Territories have a similar governance tradition, not surprisingly based on a similar approach to a predominantly cash-based financial management system which depended to a large extent on central control. The limitations, difficulties and lack of accounting expertise or understanding at managerial levels described in the Australian system generally applied. The New Zealand reforms were very highly integrated with the then Government's overall economic imperatives. Smaller government and a more private sector oriented competitive environment resulted. Considerable emphasis was placed on financial management and the use of accrual accounting, including for whole-of-government accounts. It is undoubtedly true that, until recently, such as in the State of Victoria, New Zealand had taken a competitive/contestable model for the public sector much further than just about any other country had.

As a consequence, we in Australia are generally witnessing a change in financial management at government level that both emulates and integrates with the private sector to a much greater degree than we have witnessed in the past. There are still tensions in a number of public sectors between central and devolved information systems. What is clearly

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required is seamless integration along with consistency in accounting and other data concepts as well as data sharing. The move to a reduction in the number of computer-based administrative packages such as FMIS, HRMIS and Records Management Systems is more a consequence of a lack of the foregoing facilities rather than simply a concern with the number of disparate packages. And it is not simply a question of implementing computer interfaces which have proven quite difficult and costly to achieve without a determined and disciplined effort on all sides.

One solution would be to have a predominant system which suits most needs and a relatively small number of systems which interface with the central system but meet the particular needs of the organisations concerned, for example, small or quite specialised agencies. Another is to have a few systems which meet specific well defined criteria that would be applicable to all agencies.

Whatever the systems installed and their interface centrally, say for whole-of-government financial management and reporting; and with the private sector, say for business purposes; the clear imperative is to create a culture that understands and uses those systems to improve the performance and accountability of the public sector generally and within agencies and entities in particular. This is a two-way street. Such systems need firstly to be user-friendly, particularly in providing screen-based information. Preferably, any changes that are required should be made within the system itself and not to the presentation of information, unless there is a distinct improvement which users would instantly recognise and accept. The graphical-user-interface

(GUI) facility has made a significant contribution in this respect. We are endeavouring to ensure any computing packages selected have this capacity.

Simply put, we want our people to use financial information for better performance and greater accountability to all stakeholders. This may occur with the use of executive information systems (EIS) or decision support systems (DSS) with 'drill-down' capabilities into their data base as necessary. Free-standing data warehouses (mainframes or servers) are usually corporately protected to ensure their consistency and credibility with the ability to 'replicate' the data either on a separate server or personal computer for everyday work. Authority is then provided corporately for any updated information to be passed back into the data warehouse for general access.

I therefore finish with an observation about our most important resource - our people. What we have learned, to our cost, is that we have not involved our people sufficiently in the development of our financial management approaches. We have not created a climate of expectation

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that financial accounting, reporting and costing are integral to the program management task. We have not ensured that the necessary skills and expertise are a central part of our personal development programs. We have not made the investment in screen technology to present such information in a consistent user-friendly manner. But we are learning.

It is our people who achieve real results. They are the ones who will innovate and take initiatives to adapt or adopt new technology to our functional obligations and business imperatives, particularly in our inter-relationships with the private sector. Our public service culture should encourage them to do so and recognise their personal achievements in these respects.

Given that I have talked so much about the move to 'privatising' (in its broadest sense) the public sector across a range of governments, the focus for the Parliaments and Audit Offices has increasingly been on what this move might mean for accountability. I will therefore leave the last words to my colleague, the Auditor-General for Canada, who summed up the problem earlier this year in an address in Canberra as follows:

A modern concept of accountability must also reflect the increasing involvement of other parties in the delivery of services by a government. In some cases, other parties may be involved in arrangements similar to partnership. In other cases, third parties may participate in service quality. These joint arrangements can bring benefits, with each party contributing its own expertise. But with a number of parties often involved under new service delivery arrangements, care must be taken to avoid diffusing accountability.⁶⁰

Thank you for the invitation to speak to you today on a topic that is of considerable interest to all of us.

ATTACHMENT A

BETTER PRACTICE GUIDES/PRINCIPLES

Audit Committees	1991
Management of Training (Audit Report No.37)	1991-92

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Auditing Program Evaluation	1992
Sale of Commonwealth Assets (Audit Report No.33)	1992-93
Public Sector Internal Auditing	1993
Performance Pay and Appraisal (Audit Report No.16)	1993-94
Administration of Grants	1994
Case Management Workers Compensation (Audit Report No.22)	1995-96
Implementation of Competition in Case Management (Audit Report No.30)	1995-96
Performance Information (Audit Report No.25)	1995-96
- Performance Information Principles	
A Framework and a Checklist for Financial Management (Audit Report No.7)	1995-96
Joint Commercial Arrangements (Audit Report No.33)	1995-96
Asset Management	1996
Managing Redundancies in the APS	1996
AMODEL Financial Statements - Department, Commercial and Non-commercial Authorities (updated annually)	1996
Financial Statement Preparation	1996
Payment of Accounts (Audit Report No.16)	1996-97
- Paying Accounts	
A Guide to Workers' Compensation Management	1996-97
Guarantees and Indemnities (Audit Report No.6)	1996-97
Telephone Call Centres	1996-97
Audit Committees	1996-97
Management of APS Staff Reductions	1996-97
Asset Management	1996-97
Management of Corporate Sponsorship	1996-97
Administration of Grants	1996-97
Corporate Governance	1997

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ATTACHMENT B

Status Outline of Progress in Implementing Accrual Reporting and Accounting and Output Budgeting in Australian State and Territory Governments The Outline also includes the state of progress on some related private sector practices/contestability in particular States or Territories.

Australian Capital Territory

- accrual accounting for departments implemented as part of a new government accounting system introduced during 1995-96;
- the 1996-97 budget papers presented on an accrual and output basis;
- appropriation is on an accrual basis;
- purchaser/provider regime implemented in 1996-97;
- all executive positions are on a contract basis; and
- Chief Executives are party to individual performance agreements with the relevant minister.

New South Wales

- moved to accrual accounting in the early 1990s;
- whole-of-government financial reporting but heavily qualified by the Audit Office;
- budget papers have presented accrual financial information since 1995-96;
- no decision at this stage on a move to accrual appropriation; and
- moving to implementation of a purchaser/provider framework for significant State infrastructure (for example in rail transport).

Queensland

- from April 1997, the Government has adopted a Strategic Management Framework which includes a range of financial management

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improvements and the introduction of accrual based budgeting from 1999-2000;

- whole-of-government financial reporting at an early stage;
- a trial of performance based resource agreements commenced in 1995-96 for three departments where the portfolio Minister enters into an agreement with Treasury aimed at linking resources to an agencies' specified outputs and outcomes; and
- accrual reporting has been in place since 1994-95.

South Australia

- accrual based output budgeting and accrual appropriations are to be implemented for the 1999-2000 budget (output information will be included in the 1998-99 budget);
- a pilot group of department is being established for 1997-98;
- accrual financial reports to be introduced for 1996-97;
- full implementation of accrual accounting by the end of 1997-98;
- adoption of purchaser/provider framework, with ownership and purchase agreements being incorporated in the 1999-2000 budget process; and
- all Chief Executives and Executive positions are on five yearly contracts; and
- Chief Executives have individual performance agreements with the Premier.

Victoria

- output definitions, performance measures and targets will be established in the 1997-98 budget;
- whole-of-government financial reporting expecting an audit certificate this year;
- full implementation of accrual based output budgeting in the 1998-99 budget;
- the purchaser/provider model has been used by a number of departments as part of outsourcing arrangements (although the framework has not been explicitly adopted by the Victorian Government);
- outsourcing is being aggressively pursued;
- Heads of Departments have performance agreements with the Premier;
- officers in the public service do not have security of tenure; and

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- the Victorian government plans to introduce privacy legislation to support its electronic commerce initiatives.

Tasmania

- all departments required to introduce accrual reporting with effect from the 1996-97 financial year;
- all departments are expected to implement accrual accounting by 30 June 1998 and to introduce accrual-based financial management by 30 June 1999;
- a review of the format of the Treasurer's Financial statements is proposed during 1997-98 when Tasmania will trial the preparation of Whole-of-Government Balance Sheet, linked with the development of systems and processes to enable presentation of data in accordance with the Uniform Presentation Framework approved by Loan Council, and endorsed by Heads of Treasuries;
- on 12 September 1997 the State Auditor-General issued an unqualified audit report on the Treasurer's Financial Statements for the 1996-97 financial year;
- further proposed reforms, many of which are in their preliminary stages, such as the requirement for assets controlled by departments and statutory authorities to be valued 'uniformly' using the 'deprival' method and for the adoption of accrual accounting by departments; and
- no firm commitment to whole-of-government financial reporting on an accrual basis.

Western Australia

- output definitions, performance measures and targets set as part of the 1997-98 budget;
- full accrual based output budgeting in the 1998-99 budget;
- announced consideration of moves to accrual appropriations and resource/purchase agreement in 1997-98 budget;
- accrual reporting has been in place since 1993-94;
- whole-of-government financial reporting expecting an audit certificate this year;

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- accrual accounting has not been fully embraced by departments (this should advance as a result of the implementation of the new, accrual based, government accounting system in July 1997); and
- Chief Executives have been under performance agreements from 1995-96.

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19. Op cit., National Commission of Audit, 1996, Executive Summary (page xxii)
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21. All Commonwealth Government accounting transactions are recorded in the Commonwealth Public Account (CPA). The CPA is made up of three separate funds, the Consolidated Revenue Fund (CRF), the Loan Fund and the Trust Fund. The CRF is the principal working fund of the Commonwealth as is mainly financed by taxation, fees and other non-tax receipts. Section 83 of the Constitution requires an appropriation of moneys by the Parliament before any payment can be made from the CRF. These follow two forms:
 - annual appropriations consisting of Appropriations Acts (Nos. 1-4) and the Appropriations (Parliamentary Departments) Acts (Nos. 1 and 2); and
 - special or standing appropriations.Authority for the establishment of the Loan Fund and Trust Fund comes from sections 55 and 60, respectively, of the *Audit Act 1901*. All moneys raised by loan on the public credit of the Commonwealth

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are paid to the Loan Fund. Payments from the Loan Fund are limited to the purpose or purposes for which the moneys are originally raised as specified in the Acts authorising the moneys to be borrowed.

The Trust Fund comprises 'trustee Funds', the 'working accounts' of certain government Agencies and other funds. Heads of the Trust Fund and the Trust Accounts comprising the Trust Fund are classified into three groups:

- moneys held in trust for persons and authorities other than the Commonwealth Government;
- working accounts covering certain quasi-commercial activities; and
- other moneys held in trust under the authority of the Parliament to meet future expenditure.

(This explanation of the CPA was taken from the Introduction to The Commonwealth Public Account 1997-98 Budget Paper No. 4 page 2)

22. FIRM payment options:

- Cheques. FIRM processes some three million cheques each year. The cheques are personalised by printing the agencies name and corporate logo. Actual cheque printing has been outsourced to the private sector.
- Direct Entry. FIRM processes some twenty six million Direct Entry payments each year through the Australian Direct Entry System. Department of Finance transmits transactions to the Reserve Bank of Australia for transmission via its gateway. The gateway service is also used for special purpose payments by Departments of Social Security and Veterans Affairs and the Australian Taxation Office. Direct entry has the benefit of a fast turn around and is more secure and cost effective than the printing and mailing of cheques. To further encourage the use of Direct Entry the Department of Finance now charges agencies for cheque processing, the cost being the differential between cheques and Direct Entry.
- Financial EDI. Financial Electronic Data Interchange is used to process approximately 110,000 transactions each year. FIRM uses Financial EDI for 3 purposes:
 - to transfer funds from the Commonwealth Public Account to reimburse the Drawing Accounts;
 - to transfer receipts from agencies Receipts Accounts at the Reserve Bank to the Commonwealth Public Account; and
 - to process high value, time critical payments such as Treasury payments to the state governments.

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- a more strategic approach - the central system will not duplicate agency transactions;
- a more devolved approach - agencies will be responsible for finance management; and
- reporting at an aggregate government level will be through consolidation of agency returns.

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