AUSTRALIAN NATIONAL AUDIT OFFICE

CPA Australia Seminar

Financial Management Reform – From Rhetoric to Results and Getting Back to the Basics

19 September 2001

Ian McPhee
Deputy Auditor-General

Australian National Audit Office

Introduction

For as long as many of us have been employed within the APS, it has been undergoing reform. The APS today is required to manage rapid policy change, shorter deadlines, better customer focus and higher standards of accountability than ever before. All with no prospects of quieter times.

The Prime Minister in the Sir Robert Garran Oration in 1997,[1] went out of his way to recognise that the public service he found in 1996 was, in many of its operations, markedly improved on the service he had known in the 1970s and early 1980s. The budgetary and financial systems had been streamlined and there was greater emphasis on results in place of the past concentration on process inputs, central agencies exercised far less control over the staffing and finances of other agencies, there was more competition in the delivery of programs both within the public service and outside and there was vastly more interest shown in delivering high-quality service to the public.

Notwithstanding these relatively positive comments, a further program of major reform was embarked upon because the Howard Government, like its predecessors, considered the public sector should not be quarantined from playing its part in making the Australian economy more internationally competitive. Over the last five years, we have seen the introduction of a new Public Service Act enunciating the principles and values of the public service while removing much of the prescription of previous legislation; we have seen the implementation of competitive tendering and contracting refocussing the APS on its core activities of policy development, legislative implementation and the contracting and oversight of service delivery; and we have seen the introduction of service charters detailing the levels of services to be provided by APS agencies to the public.

These changes have been accompanied by a program of major financial reform across the APS culminating in the implementation of an accruals based outcomes and outputs model with the full integration of accrual based budgeting, management and reporting. All of these major financial reforms have been driven by changes to the budgetary arrangements.

This evening I am going to discuss this financial reform program recognising the significant progress which has been made in the last decade before discussing the current status of the financial reform program and highlighting some of the contemporary practical issues surrounding its implementation. I will conclude by outlining some thoughts on possible future directions for the program.

The Commonwealth's financial reform model

If I was presenting this paper in 1991 rather than 2001, I would probably be speaking to you about the Government's intention to require government departments to prepare their annual financial statements on an accruals basis and the implications of this decision for you, as public sector accountants. However, it's now 2001 and the challenges associated with this reform are now no more than fond memories to many of us.

This was the first of a number of changes during the 1990s. These included the repeal of the 1901 Audit Act and its replacement with a trilogy of modern financial management legislation[2] providing the financial regulatory, accountability and accounting framework for Commonwealth bodies as well as associated audit requirements. This legislation provided government entities with greater flexibility to manage resources whilst codifying in legislation, associated accountability requirements.

In 1996, the Commonwealth Department of Finance (now the Department of Finance and Administration), with the assistance of the ANAO, prepared a trial set of consolidated financial statements for the Commonwealth for the year ended 30 June 1995. The Minister for Finance released the results of that trial on 28 August 1996, some fourteen months after the end of the relevant financial year. Since that time, the quality and timeliness of preparation of the financial statements have continually improved with the 30 June 2000 statements being published on 5 October 2000 : a commendable three months after financial year end. The improved timeliness of reporting at a Commonwealth level required bringing forward the completion of the financial statements for individual Commonwealth entities. In the 1999-2000 financial year, the financial statements of the majority of material Commonwealth entities were prepared and audit cleared by 15 August 2000, a significant improvement and achievement by all involved.

While all of these changes were important contributors to the overall financial reform program, undoubtedly the most significant change was the implementation of the Commonwealth's accrual based output and outcomes framework. Although I will make some comments on the challenges and difficulties with the implementation of this model, as it currently stands, I want to put on the record, up front, the ANAO's acknowledgment of the major achievement represented by the implementation of this model, both by Finance, as the drivers of the change and by public sector agencies, as its implementers.

It is also important to acknowledge the support provided by the Joint Committee of Public Accounts and Audit and the Senate Reference Committee on Finance and Public Administration to the adoption of the accrual budgeting framework. There was thus broad institutional support for the change agenda.

The Commonwealth's accrual budgeting framework

The new accrual budgeting framework actually introduced two distinct changes:

- the adoption of accrual budgeting as well as accounting; and
- the reorientation of the resource management focus from a program basis to one that emphasises outputs and outcomes.

The 1999-2000 Commonwealth budget was the first prepared under the new framework. The main features of the new framework were described by Finance[3] as

> *A change in* how we measure …*the new framework will measure all financial information on an accrual basis and will provide a wider, more accurate and comprehensive approach to measurement, enabling better management and accountability*

> *A change in* what we measure – *from monitoring inputs and tracking actual outcomes to focusing also on the outputs associated with achieving the governments outcomes.*

The accrual framework focuses on what agencies are producing (outputs), the resources they are administering on behalf of the Commonwealth (administered items), the purposes of outputs and administered items (outcomes) and the cost, in accrual terms, of these activities[4].

Some of the expected benefits of this reform were that:

- it would enable a clear read across planning, budgeting and reporting documents with agency portfolio budget statements and annual reports reporting on planned and actual financial and non-financial information in a consistent fashion[5];
- it would clarify responsibilities by assigning a "pivotal and more transparent role to outputs and outcomes in planning, budgeting and reporting"[6] and
- it would improve performance measurement by providing clearer links from the price, quality and quantity of outputs to planned outcomes and strategic priorities of government.[7]

Have all of these benefits been achieved? Not yet, in a universal sense. This is not a criticism of the model adopted, rather it is a reflection that the model is still in a transitional phase with the APS still in the process of implementation. It is not until full implementation has occurred, that these benefits could be achieved. And it should be acknowledged in this context that, as with all major change programs, successful implementation at the agency level relies heavily on the leadership of the agency's executive team and the effectiveness of governance arrangements they have in place.

Before turning to discuss some of the issues with the model as it currently stands, it is useful to understand the key elements of the model as it has been implemented.

Firstly, agencies are provided with a one line appropriation to fund their departmental activities, supplemented in some cases, with departmental capital or borrowing appropriations to fund asset acquisition and the like. Under the appropriating acts, the departmental appropriations "may only be applied for the departmental expenditure of the entity"[8]. The amounts appropriated are based on the budgeted full, accrual costs of delivering agency outputs. There is no automatic adjustment of appropriations if either the cost or quantity of outputs delivered varies from that budgeted although access to additional funding may be available through additional estimate processes where funding provided is not sufficient to meet the needs of the organisation. Unspent appropriations do not lapse and are retained in agency bank accounts for subsequent expenditure, and there is a capital use charge imposed upon the net departmental assets of agencies.

It is important to note that while many PBSs specify and cost the outputs which are to be delivered, this is explanatory information only and agencies are not legally restricted to spending departmental appropriations in accordance with the outputs listed within PBSs. In this respect, the APS has not implemented a traditional purchaser provider model where agencies are "paid" for the delivery of specified outputs at agreed prices.

Appropriations for administered items are provided for specified outcomes. These appropriations "may only be applied for expenditure for the purpose of carrying out activities for the purpose of contributing to achieving that outcome"[9]. The amount of administered appropriations is determined by the Finance Minister taking account of actual expenses incurred during the year. Administered capital appropriations may also be provided.

In practical terms therefore, the key changes from the introduction of the accrual budgeting framework have been that:

- amounts appropriated are based on the full cost of delivering outputs/outcomes rather than the expected cash outflows for the year;
- unspent departmental appropriations do not lapse but are held within agency bank accounts until required; and
- appropriations may now be provided in the form of revenue, borrowings or capital injections.

In the next sections of this paper, I will outline some of the issues which may merit review if the model is to better deliver on its promised benefits. I have categorised these issues into five major groups:

- information provided to parliamentarians;
- the composition of appropriations;
- the presentation of financial statements;
- the impact of the capital use charge; and
- issues for public sector agencies.

Information provided to Parliamentarians

As indicated earlier, one of the benefits of the new framework is that it will allow a clear read across planning, budgeting and reporting documents with agency portfolio budget statements and annual reports reporting on planned and actual financial and non-financial information in a consistent basis. However, it is apparent that major users of this information, parliamentary committees, are experiencing ongoing difficulties with the presentation by agencies of material in the accrual-based outcomes-output framework.

Difficulties include:

- variability in the definition of outputs – some outputs are very highly aggregated and others were quite specific;
- apparent lack of consistency in the approach to distinguishing between departmental and administered items – the definition of control is crucial to the distinction between administered and departmental items, but it has proved difficult for agencies to apply and even more difficult for senators to understand; the reasons for the departmental/administered judgment must be robust and transparent;
- failure to disclose discrete entities, such as the Office of the Status of Women and the Australian Quarantine Inspection Service;

- lack of alignment between the organisational structure of the agency to the outputs-outcomes framework. Where agency outputs do not reflect the organisational structure, a clear description of the methods used to allocate costs should be provided;
- stability of the outcomes-outputs structure – committees would be concerned if major changes were to take place as it would make it difficult to keep track of expenditure year to year. Further, when a function is moved from one portfolio to another, it should be slotted transparently into the new framework and at a similar reporting level from whence it came; and
- measuring progress towards outcomes which are long-term goals - the adoption of intermediate targets is a good way forward.

It is noteworthy that the Joint Committee of Public Accounts of Audit has commenced an inquiry into accrual budget documentation with the objective of enhancing the usefulness of this documentation for the purposes of parliamentary scrutiny. The review is considering the effectiveness of current budget documentation including the Portfolio Budget statements, Annual Reports and Portfolio Additional Estimates and will identify options for enhancing the format and contact of this documentation. Matters being considered by the Committee during this review include the integration of these documents and the level of detail and consistency of financial, output and outcome information presented within these documents.

The composition of appropriations

As outlined earlier, the appropriation acts limit the use of departmental appropriations to “departmental expenditure” however allow administered appropriations to be utilised for any activities carried out “for the purpose of contributing to achieving that outcome”. However, the basis on which expenses may be categorised as ‘departmental’ as apposed to ‘administered’ is not explained on the face of the appropriate acts. It is not always clear as to how program administration costs fit within this model. Such costs would generally be considered “departmental expenditure” within the accepted meaning of this term as agencies have direct control over this expenditure. However, equally, these activities contribute to the achievement of specified outcomes and may thus be legally funded under administered appropriations (as arguably could all departmental activities as presumably they all contribute to the achievement of outcomes).

In its financial audit activities, the ANAO observed that there is sometimes inconsistency with how agencies are funding program administration costs. Where administered appropriations are used to fund administrative expenditure, this can result in an anomaly in financial reporting with the funding classified as administered revenue but the associated expenditure classified as departmental expenditure and may result in operating losses being incurred.

More importantly, it is questionable whether this mixing of appropriations was really what was envisaged when the model was developed as it is at significant variance from the traditional appropriation model which clearly distinguished program from administrative moneys.

The second major consequence of the change in the method of calculating appropriations is that agencies are now funded for expenses incurred, regardless of when the associated expenditure is required. This means that agencies may build up substantial cash balances. Agencies are expected to preserve these funds so that they are available for the purposes provided. For example, the expectation is that asset replacement will eventually be funded out of depreciation appropriations.

There is a temptation for individuals both within and outside the agency to see these funds as an available resource and to redirect them to other, perhaps more immediate, priorities. Agencies will require discipline and effective financial management practices to prevent this diminution in their capital base.

It is noteworthy that Finance is about to issue guidance suggesting that depreciation funding provided for long lived assets (defined as those with a useful life in excess of 50 years) be set aside and only accessed when required to meet planned expenditure on long lived assets as set out in a capital plan endorsed by a management board.

The presentation of financial statements

The accounting policies used in preparation of public sector financial statements reflect public sector funding and financial arrangements. Thus they may be unlike the accounting policies adopted within the private sector and are, in many ways, more complex. This can make the interpretation of those financial statements difficult and, if users do not understand the differences in the models and policies adopted, can lead to erroneous conclusions in relation to the financial results.

One of the temptations is to assume that, like private sector financial statements, the financial statements prepared by Commonwealth agencies reflect agency performance with the operating result being a key performance measure. This interpretation is often supported by a misconception that the earning of appropriation revenues is aligned with the delivery of outputs.

However, as outlined earlier, there is no purchaser provider model in place within the Commonwealth and agencies are provided with a level of appropriation funding which is not automatically adjusted for changes in either the cost or quantity of outputs delivered. The appropriation funding is thus not a payment for services delivered : rather is a payment in the nature of grant funding which is not dependent upon the delivery of services. Rather, agency management has a fiduciary responsibility to meet the expected performance standards. There is no “matching” of revenue and expenses to reflect performance and the operating result reflects no more than the difference between the funding provided to an agency during the year and the amounts expensed.

This may be a difficult principle to explain to readers of the financial statements, many of whom would be familiar with the traditional forms of private sector reporting where the operating result is a measure of performance and comes about as a result of the matching of revenues and expenses.

This, at least partly, is caused by the application an accounting framework designed primarily for private sector financial relationships to the public sector. The accounting framework reflects a model whereby the vast majority of transfers are reciprocal. That is, when an entity transfers its assets, it will generally receive assets of approximately equal value in return. Or put another way, payments will generally result in the return of goods and services of equal value to the entity. Therefore, if an entity incurs a liability for future expenditure, it will most often be entitled to record the right to receive the ordered goods and services as an asset. To the extent that the mutual obligations are equally unperformed, no asset or liability is required to be recognised on the statement of financial position. This facilitates the matching of revenues and expenses.

Non-reciprocal transfers, which are a feature of government financial activity, do not fit neatly into the accounting framework. Within the Commonwealth, not only is the appropriation funding non-reciprocal, but so to are many of the expenses incurred. With non reciprocal transfers, there is no offsetting asset or liability and hence the associated revenue or expense must be recognised in the financial statements at the time the liability is incurred or the asset first controlled. At times this can distort the timing and/or matching of revenue and expense recognition.

The accounting standard setters made some amendments to the relevant accounting standards in an attempt to resolve this difficulty. These amendments stated that for certain types of non-reciprocal transfers, the liabilities or assets should not be recognised until such time as the recipient met conditions such as eligibility criteria or provided the services or facilities required by the funding agreement. This amendment, while well-intentioned, has proved difficult to interpret and implement as is evidenced by the fact that a consensus view on this point issued by the Urgent Issues Group on the treatment of operating grants paid to universities was recently overruled by the Australian Accounting Standards Board.

Thus many of the accounting policies adopted within the public sector accounting are complex and in some cases peculiar to the public sector. This, unfortunately, means the interpretation of the financial statements by anyone without a detailed understanding of public sector accounting and related accounting standards, can be difficult.

As an example, within the Commonwealth there are six different accounting policies for the recognition of appropriation revenue depending upon whether the appropriation is classified as departmental or administered and whether the source of appropriation is from annual appropriations, special appropriations or special accounts. There is the deprival valuation methodology, which values the same asset differently depending upon planned use of the asset. And there are other examples.

Whilst the ANAO has observed a noticeable increase in the commitment and efforts of agency senior management and audit committees as well as parliamentarians to understand what the financial statements are telling them, the public sector accounting model together with the complexity of the resulting financial statements, combine to make this a difficult ask at times. The underlying message here is that preparers of accounts should devote some effort and energy to the articulation of key accounting policies applicable to their accounts.

The capital use charge

With the introduction of accrual budgeting, a capital use charge was imposed upon the "departmental" net assets of budget funded agencies. In the absence of a pricing agreement or where otherwise agreed, agencies are funded for the capital use charge by way of appropriation from the Government. The charge is imposed on the net assets of the agency at the end of the year and is required to be disclosed as a 'below the line' adjustment on operating statements. That is, the charge is effectively treated as a dividend back to the Commonwealth.

Within generally accepted accounting practices, it is usual for dividends to represent a distribution of operating surpluses to the owner. This is reflected in the Corporations Law which provides that dividends may only be paid out of profits. The imposition of the Commonwealth's capital use charge on the net assets agencies means that it is possible that the charge will be paid out of capital contributions or unrealised asset revaluation reserves. That is, it does not necessarily represent a return of surpluses to the owner. Given this, the ANAO has raised the question as to whether the capital use charge more accurately reflects a cost imposed on agencies by the Government and is thus more appropriately disclosed as an expense.

Further, the current treatment, whereby funding for the capital use charge is disclosed as revenue but the imposition of the charge is not shown as a corresponding expense, directly increases the operating result by the amount of the charge. This again can encourage a misinterpretation of the financial results. As an example, in 1999-2000, the Department of Defence reported an operating surplus of $5.3 billion compared to an equivalent of $3.6 billion for one of Australia's largest corporate entities, Telstra. The significant difference is that $4.6 billion of the Defence surplus was subsequently remitted to Government by way of the capital use charge.

While it has been claimed in some quarters that the main aim of the capital use charge was to encourage agencies to recognise their assets and promote good asset management, it is also understood that the charge is intended to place public sector entities on par with their private sector counterparts by requiring that the price of outputs incorporate an appropriate return to owners.

As the charge is applied on the net departmental assets of an agency, in order to minimise the charge payable, agencies will sometimes seek to minimise their net assets. It is fair to suggest that, since implementation of the charge, the ANAO has observed a greater interest in such "balance sheet management" by agencies.

While there may be a positive effect on asset management, in the ANAO's opinion, the major impact of the charge has been to provide public sector managers with an incentive to manage financial results so as to minimise the charge payable. Whether, in practice, this has resulted in improved management at the program level or resulted in other benefits, is not clear.

Issues for public sector agencies

In the past two to three years, it has been pleasing to see the increase in the numbers of qualified accountants working within government agencies and the increasing recognition given to the role of the Chief Financial Officer at the same time.

If there was any doubt as to the importance of this role, recent comments to the press by Rupert Murdoch on this subject should put this to rest once and for all. You may recall that he stated, in relation to News Corp's investment in One Tel, that "The lesson is we would never again make a significant minority investment without having at least the right to appoint the CFO[10]" .

The increasing responsibilities placed on CEOs for financial management, the increasing complexity of public sector financial arrangements in areas such as private financing initiatives and the uneven level of general financial skills across public sector senior management ranks arguably make this an even more important role within the public sector.

However, in order to operate effectively, not only must the public sector CFO be a strong financial and business manager, they must also have a good understanding of the appropriation framework within which government finances operate. The importance of appropriations in terms of the authority provided by Parliament to agencies should not be understated. In recent times, we have observed a loss of corporate memory on these matters and as a consequence, a lack of appropriate attention paid to ensuring that appropriations are complied with. In the most unfortunate instances, this had lead to a qualification of agency financial statements.

While stressing the importance of a CFO in modern public sector management, I do not want to leave the impression that financial management is the sole responsibility of the individual who is the CFO. The majority of management decisions can impact on an agency's financial results or position. When management decision making is devolved, so to should be the associated financial accountability. In many agencies, further change is required in order to engender a culture whereby program management is understood to include financial management and accountability.

At a managerial level, the move to accrual budgeting and the focus on outputs and outcomes have underlined the importance of sound performance management with the goal of supporting the development of a stronger performance culture within the public sector. A fundamental starting point, once the key elements of the governance framework have been settled, is in good scorekeeping systems (balance scorecards or executive snapshots) which firstly translate the organisation's strategies into key operational indicators and then systematically report on the health of the business, both in terms of operational responsibilities and future positioning initiatives. This provides the feedback loop on the effectiveness of organisational strategies and the basis for communicating with staff and other stakeholders on how the agency is travelling. Without such reporting, there is a very significant risk of unfortunate surprises.

So too, the importance of effective control structures and good housekeeping cannot be overstated. An effective control structure provides a fundamental linkage between an organisation's strategic objectives and those functions and tasks undertaken to achieve the objectives[11]. A control structure assists with:

- efficiency and effectiveness of outputs and outcomes;
- reliable financial reports; and
- compliance with laws and regulations.

There is no question that administrative processes should be streamlined and cost effective, and that processes should be viewed as enablers of an organisation's objectives and responsibilities. Good process is designed to deliver long term performance. There is a risk, in a period of significant change, that the importance of effective control structures will be overlooked or not given sufficient emphasis. And history would show that government and public administration will be judged harshly if effective governance and control structures are not in place.

Certainly our audit coverage would suggest that agencies need to give more attention to conformance, as a complement to sound risk management, in the following areas:

- collection, receipt and management of appropriations, levies and other revenues;
- processes supporting payment of accounts including segregation of duties, delegations, debt recovery processes, quality assurance processes and IT access and security;
- ongoing deficiencies in HRMIS functionality;
- asset control including the timely recording of acquisitions and disposals, reconciliation of asset registers to financial systems and review of useful lives;

- information technology controls including management of system implementations, access security controls and program change controls; and
- reconciliations between bank accounts, agency ledgers and the Finance ledgers.

Future directions

I want to reiterate that the above comments are not intended as a criticism of the outputs framework as it has been implemented within the Commonwealth. Rather, they are a reflection of the fact that the model is in a transition phase, and during implementation of any program, issues such as those discussed above should not be unexpected. Notwithstanding this, it might be timely to consider whether the model could be further enhanced at least to a level where the financial statements and related performance information can become a better measure of agency performance. Such a change would be a matter of government policy and it would be for Finance to consider the time that agencies may be in a position to move to such reporting. In this respect, the recently announced review by a subcommittee of the Management Advisory Committee into implementation of the framework is of direct relevance. The Sub-Committee, which is chaired by the Secretary of Finance, is considering agencies early experiences with the implementation of the framework and how the framework is working in practice.

It could be argued that it would be difficult to see how the financial statements could be substantially improved as performance statements without somehow aligning appropriation funding and recognition to the delivery of outputs by agencies. Such an approach would presuppose that agencies could provide assurance on output delivery by the implementation of systems and processes to identify and measure key performance indicators addressing the cost, timeliness and quality of output delivery.

A common theme in ANAO audits is that performance measurement and reporting are intrinsic to the whole process of public management, including planning, implementing, monitoring, evaluation and public accountability. Performance results included in agency annual reports provide an important record of an agency’s progress towards meeting objectives including delivering outputs and their publication makes it possible for stakeholders to exert pressure for improvement, where this is required. Well presented and informative reports can help Parliament and the public assess how well public money is being spent and what is being achieved with it. Such reports are therefore essential for stakeholder assurance.

Most agencies have developed, appropriately, some form of balanced scorecard to assess their own performance in terms of both the financial and non-financial indicators for key result areas. Most executive reporting systems, however, leave room for considerable improvement when it comes to producing integrated management information. Given the level of change as a result of the public sector reforms and restructuring, this is not surprising. At the same time, the criticality of quality information for decision making means that systems integration and focussed management information must be on the priority list for most agencies. Without credible performance information, there is no baseline to assess performance and measure output delivery.

In the modern public sector, it is essential that there is a good understanding of the 'costs of production' regardless of whether an agency is primarily responsible for policy or service delivery. The consequence of not knowing these costs puts agencies at a management disadvantage because costs are a key component of decisions including those concerned with:

- agency funding negotiations;
- internal resource allocations;
- cost-recovery (e.g. charges, levies);
- cost effectiveness/outsourcing; and
- external reporting.

In the 30 June 2001 accounts, Commonwealth agencies were requested to report on revenues and costs associated with output groups for the first time. This reporting linked the budgeted information presented on output groups and administered programs in the agencies' Portfolio Budget Statements with actual results for the year. While most agencies were able to make a reasonable effort at cost attribution, these were, in many instances, no more than management estimates. It is evident that, except in agencies that have had a commercial arm to their operations for some time, costing of services in the APS is still at a relatively unsophisticated stage.

Thus, it is apparent that there is some work to be done by agencies on performance indicators and costing systems before it would be possible to consider aligning financial reporting with output delivery. However, it would be simplistic to conclude that this is all that needs to occur to improve the relevance of financial statements. It is noteworthy that even jurisdictions such as the Australian Capital Territory which have implemented more extended ‘purchaser provider’ models have not moved to the final step of aligning revenue recognition with the delivery of outputs by agencies.

In the ACT, agencies enter into ‘purchase agreements’ with their Ministers. The agreements list the outputs which will be purchased by the Minister together with associated performance measures. CEOs report to the Minister on a quarterly basis on the agency’s performance under agreement including progress on delivery of outputs compared with cost estimates and performance measures contained within the agreement and provide explanations of any significant variances. However these agreements are ‘fixed price’ agreements and there is generally no attempt to vary appropriation funding levels to take account of actual output delivery. Thus whilst substantial performance information is provided under the ACT model, the financial statements still do not presume that appropriations are earned by an agency by way of the delivery of agreed outputs. Accordingly, the bottom line remains the difference between funding provided and the costs incurred during the year : it is not an indicator of financial performance in the traditional private sector sense.

The question remains therefore, as to whether it is possible for the bottom line of public sector financial statements to be a true performance indicator. Arguably not in the traditional private sector sense. Just as public sector agencies do not have an overriding objective of generating profits, their financial statements should not be constructed to focus unduly on this aspect.

Given the body of experience which has developed on public sector financial reporting over the last decade, it may be timely for the accounting standard setters to schedule a review of public sector reporting standards so as to address these issues.

Conclusion

The Commonwealth's accrual budgeting framework has required a significant investment from public sector agencies and has achieved some notable results. It has changed the focus of public sector financial management from narrowly focussed inputs onto the outputs and outcomes managed by agencies. Whilst there is still some way to go, performance indicators are being developed and gradually enhanced by agencies. There is an alignment between budget information contained within the PBS and the actual information reported in annual reports. And there is a noticeable improvement in the timeliness of information provided to Parliament on financial results.

However, although it might be tempting to sit back and admire the advances made in Commonwealth financial management over the past decade, public sector accountants cannot afford to let this happen. While the Commonwealth has made major achievements with its reform program, we still have more work to do in exploring ways in which the financial information produced by agencies can be made more meaningful to users including parliamentarians.

---

[1] Howard, J. The Hon 1997, *A Healthy Public Service is a Vital Part of Australia's Democratic System of Government*, Australian Journal of Public Administration, Vol 57 No 1, March 1998, page 4
[2] The *Financial Management and Accountability Act 1997*, the *Commonwealth Authorities and Companies Act 1997* and the *Auditor-General Act 1997.*
[3] *Specifying Outcomes and Outputs, Accrual Budgeting,* Department of Finance and Administration, 1998, page 7
[4] ibid, page 1
[5] ibid, page 59
[6] ibid, page 6
[7] ibid, page 8
[8] Commonwealth of Australia, *Agency Resourcing 2001-02, Budget Paper No. 4*, Canberra, 2001, page 34
[9] ibid, page 35
[10] The Sydney Morning Herald, *News Corp Rabbit out of Humble Pie*, 18 August 2001, page 46
[11] ANAO's Better Practice Guide to Effective Control *'Controlling Performance Outcomes'*, 1997