

CIMA, AGSM and the Management
Accountants Committee of CPA
Australia

Going Beyond Budgeting

26 August 2005

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Auditor-General for Australia



GOING BEYOND BUDGETING

**Presentation to CIMA, AGSM and the Management Accountants
Committee of CPA Australia
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***“Has Traditional Budgeting Lost its relevance”*
Introductory and Wrap-up comments by
Ian McPhee, Auditor-General for Australia**

Introductory Comments:

- Good afternoon. It's good to see so many at today's presentation hosted by CIMA, AGSM, and the Management Accountants Committee of CPA Australia.
- The topic of 'budgeting' is always likely to be a good draw in a town like Canberra.
- But a topic '*Going Beyond Budgeting*' is really very captivating.
- We would all like to improve our budgeting performance but what can we do, and how should we go about it?
 - How important is the methodology, the 'people' dimension, the incentives?
 - What should be the drivers for change?
- We are fortunate today to have as our presenter Aubrey Joachim, who is well qualified to present on the topic of budgeting. We will also have time at the end of Aubrey's presentation for a brief commentary and to discuss issues arising from the presentation.
- Aubrey has a very interesting and varied background. He has worked in Australia and overseas in senior financial and management accounting positions. He spent some 10 years with Sydney Water Corporation in a variety of roles, and has recently

ventured out on his own as a management consultant, and management trainer and coach.

- Aubrey has also taken a high profile within the accounting profession and is currently on the National Executive of CIMA Australia and represents Australasia on the Governing Council of CIMA London. He is also on the Executive Committee of CIMA in London.
- These positions, and his background, mean that he is well-placed to provide leading edge commentary on today's challenging accounting and financial management issues.
- Aubrey's topic today is "***Going Beyond Budgeting – Has Traditional Budgeting Lost its Relevance***".
- Please make Aubrey welcome.

Wrap up comments

- Aubrey's presentation has provided a real insight into the factors that need to be considered in any budgeting model
 - it has presented a very useful range of considerations for us to take into account; and confirmed that 'command and control' approaches have outlived their usefulness in budgeting as they have in general management.
- Many of the financial management reforms over the years have sought to provide the right framework for effective budgeting at the government and entity levels.
- Developments which come to mind include:
 - the adoption of the forward estimates for 3 years, in addition to the Budget,
 - carry-over arrangements to compensate for lapsing appropriations,
 - programme management and budgeting;
 - the outputs / outcomes framework;
 - accrual budgeting; and
 - sunset provisions on particular programmes
- There is a limit, however, to which externally imposed budgeting frameworks can assist with incentives for effective budgeting
 - and, as Aubrey has pointed out, the behavioural aspects of budgeting are as important, and arguably even more important, than any of the process requirements commonly applied.
- It is important, however, to have a budgetary framework / process that assists the preparation of the budget.
- The OECD produced a study in May 2001ⁱ which provides a list of best practices for budget transparency by national governments, which includes best practices such as:
 - The government's draft budget should be submitted to Parliament far enough in advance to allow Parliament to review it properly, (3 months prior to the start of the fiscal year was suggested).

- The budget should be approved by Parliament prior to the start of the fiscal year;
 - The budget, or related documents, should include a detailed commentary on each revenue and expenditure programme;
 - Non-financial performance data, including performance targets, should be presented for expenditure programmes where practicable;
 - The budget should include a medium-term perspective, illustrating how revenue and expenditure will develop during, at least, the two years beyond the next fiscal year. Similarly, the current budget proposal should be reconciled with forecasts contained in earlier fiscal reports for the same period; all significant deviations should be explained;
 - The economic assumptions underlying the report should be made clear;
 - The budget should include a discussion of tax expenditures;
 - The budget should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities.
- The OECD Best Practices also suggest that:
 - There should be a pre-budget report, released no later than one month prior to the release of the Budget, to encourage debate on the budget aggregates and how they interact with the economy;
 - Monthly reports should show progress in implementing the budget and this should be released within 4 weeks of the end of each month;
 - There should be a mid-year report providing a comprehensive update on the implementation of the budget;
 - There should be a year-end report, being the Government's key accountability document, which should be audited by the Auditor-General;

- There should also be pre-election reports to illuminate the general state of the government's finances immediately before an election; and
- A long term report assessing the long term sustainability of current government policies.
- The OECD Best Practices are clearly directed towards getting the framework right and, in these terms, our practices fare quite well.
- A number of aspects of budgeting at the Australian Government level still cause debate, though:
 - the split between departmental and administrative items;
 - the various accounting presentations;
 - the outcomes level for the appropriation of funds;
 - the quality of the performance indicators.
- The first two aspects are currently subject to review.
- The accuracy of budgeting is also an issue, particularly for the significant administered items;
 - there is scope for improving the estimation modelling for both revenue and the more significant expenditure items, and efforts are being devoted to this.
- Portfolio Budget Statements and agency's internal budgets are obviously expected to be consistent with the Government's budget but also to include targets for key performance indicators.
 - This is intended to address programme performance but is generally not as focussed as a balanced scorecard approach would suggest.
- It is also important that entities have targets, that they manage by them and respond appropriately to significant variances within an entity.

- Within an entity flexibility is important, at an organisational level, and at the divisional level.
 - my observations are that if you have effective governance with senior executives working together in addressing organisational priorities and strategies, there is likely to be a greater acceptance of budget decisions;
 - part of this leadership role is in getting acceptance of the role of reviews and benchmarking exercises to improve performance, so that informed, rather than arbitrary, decisions are made;
 - the last thing anyone wants from a budget process is ‘surprises’ : which underlines the importance of those charged with governance signalling directions and priorities early and often.

¹ *OECD Best Practices for Budget Transparency*, May 2001