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### The Framework of Public Sector Accountability in NSW and the Commonwealth: An Overview of Current Developments and Antecedents

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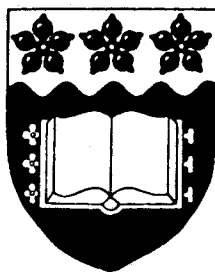
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**UNIVERSITY OF WOLLONGONG**

**DEPARTMENT OF ACCOUNTANCY**



**THE FRAMEWORK OF PUBLIC SECTOR ACCOUNTABILITY  
IN NSW AND THE COMMONWEALTH: AN OVERVIEW OF  
CURRENT DEVELOPMENTS AND ANTECEDENTS**

**by**

**Warwick N Funnell**

**March 1990**

**WORKING PAPER NO. 14**

**The Framework of Public Sector Accountability in NSW and the Commonwealth: An Overview of Current Developments and Some Antecedents**

**INTRODUCTION**

Government departments and government commercial enterprises, along with statutory authorities, constitute a very significant sector in the Australian economy. Expenditure by all government agencies, i.e. departments, authorities, enterprises, constitute about 42% of Gross National Product in Australia. The public sector is also the single largest employer, accounting for the employment of 30% of all wage and salary earners in Australia (Curran Commission, 1988, p.1). In addition, 50% of Australia's capital stock is owned by government with 20% of all investment undertaken by government undertakings (Moore, D., 1988). The role of government in Australia is therefore considerable.

Government agencies and their effects permeate every aspect of our society in the pursuit of "peace, order and good government" (Constitution of the Commonwealth of Australia, S.51). Indeed, there are very few times in our life when we do not come up against some government agency. Our modern welfare state increases government intervention as more demands are placed upon government. In the current period of economic constraint, however, there is a general trend to reduce the extent of government intervention by privatisation and 'down-sizing' (Curran Report, p.vii). Even allowing for this, it is undeniable that the actions of government in Australia are remarkable for their depth of penetration and breadth of coverage.

Despite the importance and extent of government intervention in our economy it has only been over the last few years, really since the late 1970's, that the importance of better resource management and the role of government accounting in promoting this has been appreciated. It is now realised that government accounting can be a very significant means by which resources in the hands of government can be used in a more efficient, effective and economical manner.

## AVENUES OF PUBLIC SECTOR INTERVENTION

The three main avenues of government influence in our economy are through departments, statutory authorities of a non-commercial nature and commercial undertakings. While this description of government organisations is adequate for the purposes of this paper, the practical demands of new government initiatives have convinced the NSW Government that a more detailed classification was needed. Accordingly, a Classification of Government Owned Organisations (June 1989) has been published which lists six (6) categories<sup>1</sup> on the basis of the level of competition faced from the private sector and the degree of self-sufficiency from the budget.

Government departments, which are directly under the control of a minister of state, have the prime function of providing services to the community primarily centred on "the collection of revenues, the distribution of funds, the enforcement of laws, ... the administration of expenditure programs aimed at a variety of social and economic goals" (Exposure Draft 28, 1989, p.11). A pronounced feature of most Western countries throughout the 20th century has been the expansion of government departments and their subsumption of the responsibility for the provision of services previously provided by the private sector or never previously available to the great majority<sup>2</sup>. Few government departments directly charge their customers for services provided, preferring instead to pay for these services primarily through the levying of taxation. This is likely to change with the expansion of the 'user pays principle' which has gained increased favour in the current difficult economic times. Generally, however, because the public has come to view access to the services provided by government departments as an almost inalienable right it becomes politically hazardous to charge people directly for services provided by government departments. Thus, the introduction of fees is still treated with some caution.

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1. Government service, semi-commercial business, semi-commercial service, commercial business, commercial service, commercial enterprise.
  2. For example, at Federation in 1901 there were only seven departments in the Commonwealth Government (7 in NSW). In 1989, this number had increased to 33 departments (26 in NSW). (See Spann, 1979, pp.53-57 for more detail and NSW Public Sector Management Act 1988, Schedule 1).

Statutory authorities are government bodies established by specific acts of parliament or statutes, their enabling acts. The largest statutory bodies in NSW include the State Rail Authority, Urban Transit Authority, the Electricity Commission. At the Federal level Telecom and the Australian National Railways Commission are two prominent statutory authorities. The individual acts establishing these authorities state, amongst other things, the precise nature of the activities in which they are to be engaged which, in comparison to departments, are usually more narrow in focus, concentrating upon achieving a single main purpose. For example, the 1987-88 report of the Grain Handling Authority of NSW stated that under Section 12 of the Grain Handling Act 1954 its main powers were to store and handle wheat, maintain and operate grain storages and advise the Minister on matters affecting the grain industry. Statutory authorities differ from government departments therefore, in both the nature of their birth (by statute) and by the extent of their activities. While their mandates may be more circumscribed, the economic impact of statutory authorities rivals that of departments. For example, in NSW it has been estimated that statutory authorities control \$33.7 billion in assets compared to \$31 billion for departments (Curran Report, p.44). They are similar to departments in that the majority operate as monopolies in their market or are by far the major player.

The growth of statutory authorities has been even more remarkable than that of departments. The Australian Auditor-General in his 1987 report counted 105 authorities whose accounts were audited by the Australian Audit Office (AAO) (Annual Report of the AAO 1986-87, p.21). This extension of government influence via statutory authorities has, however, been seriously questioned. In particular, the substitution of a government organisation for private sector involvement has been severely criticised (Curran Report, p.vi). Indeed, recent moves in both Australia and overseas for government to withdraw from activities which could be taken over by private interests is a reflection of the belief that government should be rolled back and that less government is better government.

The Commonwealth government has, like the NSW Government, unambiguously declared its aversion to the proliferation of authorities and indicated

that it intended to "make sparing use of the statutory authority form of administration" (Policy Guidelines for Commonwealth Statutory Authorities and Government Business Enterprises, 1987, p.7). A major objection to the unrestrained growth and presence of statutory authorities expressed in the Policy Guidelines was the "unnecessary fragmentation of the machinery of government" and accompanying accountability problems which seemed unavoidable in the past as the number of statutory authorities grew (p.7).

The most distinguishing features of government commercial enterprises is the competition they face with private firms and that they are to be wholly self-supporting from revenue earned by their operations. It is in this area of government influence that the move towards privatisation is strongest, e.g. Qantas, Australian Airlines. The government may enter the market as a competitor for a number of reasons, not the least of which is the desire to elevate the level of competition which may otherwise exist. Further, in a country the size of Australia with a very small and dispersed population, the level of initial and continuing investment in the provision of some goods and services may be prohibitive for a private firm. Also, the secure hold of the market by the existing firms may dissuade new firms entering the market (See, Classification and Control of State Organisations, June 1989, pp.9-11).

Given the very intense competitive environment faced by government commercial enterprises special conditions governing their operations and accountability necessarily apply. In particular, the competitive situation of these bodies whereby confidentiality is essential creates special requirements for financial accounting and reporting.

Irrespective of the source of funding, mission or nature of operations all government agencies are accountable to Parliament. Departments are almost entirely dependent upon Parliament for annual funding through the process of budgetary appropriations while statutory authorities may be, in part, dependent upon Parliament for financial sustenance. Commercial enterprises, which are not supported by annual Parliamentary appropriations are still accountable to Parliament because Parliament is either the major shareholder or provided the original capital.

## THE CONSTITUTIONAL AND INSTITUTIONAL FRAMEWORK OF ACCOUNTABILITY

### Constitutional Developments

As a British colony in the 19th century, government accounting was transplanted almost without alteration from the United Kingdom (UK). The public sector accounting which came to Australia, initially with the First Fleet, was the culmination of centuries of development in the UK. Possibly the most significant event in the modern evolution of government accounting in the UK was the English Revolution of 1688 and the revolutionary settlement of 1689 for the settlement once-and-for-all affirmed the supremacy of Parliament in all matters but most importantly it settled that Parliament had the right to raise revenue and only Parliament had the authority to determine the use of the revenue so raised.

Parliament had long been recognised in England as the supreme law making body although much of the constitutional fighting in the 17th century, in particular the Civil War, concerned the rights and privileges of Parliament as questioned by the monarchy. Most frequently challenged were Parliament's revenue powers. Real power in government is based upon money: whoever controls the finances of the country will usually have unassailable power. This power was derived from the ability to control the raising of an army and to direct its actions. Consequently, after the Revolution in 1689, Parliament wanted to ensure that it could not be threatened by the powerful army of the ruling monarch. If Parliament controlled the raising and dispensing of finance it would therefore also control the King's military might - armies must be paid, fed, equipped and clothed.

While Parliament was supreme in financial control Parliament did not, and still does not, spend the money raised through its legislative authority. Instead, the elected government of the day which comprises the executive, i.e. Prime Minister, Cabinet Ministers and Departments, is responsible for deciding how the money is spent. Before the executive can get the money it needs from Parliament, which has exclusive revenue raising powers, it must present a list of reasons why it requires the money. This demand on Parliament is the budget.

### Budgetary Appropriation

In today's political environment where government is dominated by party politics rejection of executive proposals for expenditure is not very common. The Executive party, after all, also constitutes the majority in the legislature's lower house, the House of Representatives (Federal), from which all money legislation must originate as established in s.53 of the Constitution

"Proposed laws appropriating revenue or moneys, or imposing taxation shall not originate in the Senate."

The NSW Constitution Act 1902 also gives the lower house the sole prerogative to originate money bills (S.5).

The financial plans of the executive can be delayed by the Upper House only temporarily. In the case of the Commonwealth Government, the Constitution provides that the Senate has the right to review legislation involving the raising of revenue or its expenditure but can only return suggestions for any changes. The government of the day is free to accept or disregard the suggestions and to proceed without any further reference to the Senate (S.53). (NSW, S.5A of the Constitution Act 1902) .

Once the Executive's budget is finalised it will then be presented to Parliament for debate. The nature of the debate in the past has traditionally been very much on party lines rather than a detailed examination of the merit of the proposals for expenditure and revenue raising. Ultimately, the budget is approved by Parliament which then legislates for the raising of the necessary revenue to meet the Executive's (the Government's) budget objectives. The Appropriation Acts are passed for this purpose each year. In the federal sphere, there are two main Appropriation Acts, which, following the detail of the budget, authorise money to be spent according to the government's approved programme. The Treasury, state and federal, is responsible for issuing money to the government. It is at this point in the Constitutional arrangement of Commonwealth and State finances that the accounting practices of the public sector become important.



### Institutional Framework of Accounting and Financial Control

In Westminster governments the system of budgets and appropriation, covered briefly already, is at the very heart of parliamentary financial control. Through these mechanisms Parliament is able to provide a partial check on the activities of the executive. To ensure that resources are used as approved by Parliament, and thereby to ensure a measure of financial control of the executive, Parliament must rely upon the assistance of various government bodies. Most important in assisting the Commonwealth and NSW Parliaments with their financial powers and responsibilities is the Treasury.

The Treasury is probably the most important department of general government. Through the Treasurer, the Treasury is responsible for advising the government on major macroeconomic matters. A major role of the Commonwealth Treasury is the responsibility for the collection of money through various agencies such as the Tax Office. In NSW, the Treasury has been reorganised (1988) into two sections: the Office of Financial Management and the Office of State Revenue. The Office of State Revenue is exclusively concerned with raising state revenue (NSW Treasury Annual Report 1987-88). The Office of Financial Management is primarily responsible for advising the government on budgetary and other financial issues as well as encouraging efficient and effective management in the public sector. As part of its management improvement role the Office of Financial Management has very extensive responsibilities associated with public sector accounting. Not only is the Office responsible for administering the States "accounting systems, practices and procedures", which includes surveillance of the Annual Reports Acts covering departments (1985) and statutory authorities (1984), it is also expected to take a proactive stance in accounting improvement. Increasingly important also is the review and formulation of accounting standards applicable to the public sector (Annual Report of the Treasury, 1987-88, p.11).

Primarily responsible for the Commonwealth's accounting functions and management advice is the Department of Finance. The Commonwealth Department of Finance was established by the Fraser Government in 1976 by segregating some of

the Treasury's functions. The major function of the Department of Finance is to advise the Treasury and the Government in relation to the financial administration and management of government agencies. This contrasts with Treasury responsibilities which are broader in scope. The major responsibilities of the Department of Finance are:

- (i) the preparation of Appropriation Bills
- (ii) the review of departmental expenditure with the view to making recommendations for improved management. The recently introduced Financial Management Improvement Programme has been an important development in this area.
- (iii) general oversight of the finances of departments which acquire funds from the budget.
- (iv) to evaluate the effectiveness of various executive programmes. To assist the executive in its evaluation the Department of Finance is responsible for developing statements of objectives for government departments and for establishing measures of attainment of objectives.
- (v) supervision of the financial management of statutory authorities.
- (vi) development of accounting and financial systems. (Annual Report, Department of Finance, 1987-88).

Thus the Treasury is more concerned with the raising of revenue and overall economic performance of the country while the Department of Finance is more concerned with the role of individual government agencies as they seek to meet government objectives in the management of the economy.

In NSW the Department of Finance was abolished in 1988 and most of its functions given to the Premier's Office and the Treasury. Thus in NSW, Treasury functions are broader than at the Commonwealth level although prime concerns are very much the same.

Checks on the level and direction of spending only provide a partial control over the executive. In addition, only a small percentage of government expenditure comes up for annual approval by Parliament. The great majority of expenditure is

committed by standing arrangements, e.g. Department of Social Security, or is largely non-discretionary as in the case of wages and salaries. Further, spending by statutory authorities and commercial enterprises is primarily outside the budgetary control of Parliament. As a consequence of the impact of these trends on Parliamentary scrutiny and increasing concern for wise management of public sector resources, the review of expenditure on behalf of Parliament has assumed greater importance. Of particular significance are the investigations of the Auditor-General and Parliamentary Committees.

Modern public sector auditing powers in Australia are derived from the 1866 British Audit Act but more specifically the 1901 Audit Act for the Commonwealth and in NSW it is the Public Finance and Audit Act of 1983. At both Federal and State levels the Auditor-General is not a public servant under the control of a public service board but is appointed by the Governor-General (or Governor) and is answerable only to Parliament (Audit Act 1901, S. 3). The role of the Auditor-General has been to audit the accounts of all government departments and also statutory authorities, although this has been modified recently. In the case of statutory authorities, at the Commonwealth level, the Audit Act now allows some authorities, mainly statutory marketing authorities, to contract their external audit with a private firm. In addition, government commercial enterprises are allowed to seek the services of private auditors (S.63MA, S.63MB). This trend has not been received well by the Auditor-General of the Commonwealth who sees it as an erosion of the accountability of these bodies to Parliament (Annual Report of the AAO, 1987, p.9; 1988, p.2).

A major recommendation of Report 296 from the Joint Committee of Public Accounts stipulated that the Auditor-General of the Commonwealth should have, if not the sole responsibility for carrying out all audits, the power to regulate the access of statutory authorities to the services of private auditors. At the moment the sole check of the Auditor-General on the use of private auditors is on the quality of their reports (S.63MB). Private auditors are used by statutory authorities in NSW, although as yet no departments fall in this category, but only with the permission of the NSW Auditor-General (Public Finance and Audit Act, 1983, S.35(1)). While only

about 15% of all statutory authority audits are conducted with the assistance of private sector auditors, and mainly concentrated on County Councils and Area Health Boards, it is apparent that public sector audit work will become increasingly important to private firms. The recently legislated State Owned Corporations Act, 1989 also promises to expand public sector involvement in external audit.

Traditionally the audit task has been mainly concerned with ensuring, on behalf of Parliament, that money appropriated by Parliament to departments had been used as authorised. Today, however, while regularity audits still account for most of the work of the Auditors-General, 72% of the resources of the Commonwealth Auditor-General in 1986-87, the great majority of the time and effort is occupied in statutory authorities and public sector enterprises. In 1986-87, 12% of the Commonwealth Auditor-General's resources were devoted to regulatory audits in departments and 60% to statutory authorities and government enterprises. This is both a reflection of recent legislative changes to reporting requirements for statutory authorities, to be discussed below, and also a recognition of the importance of statutory authorities as instruments of government social and economic policy.

For the Commonwealth Auditor-General a major change in audit responsibilities occurred in 1979 when the Audit Act (1901) was amended to extend the Auditor-General's mandate to include performance auditing. The Auditor-General has maintained that limited scope performance audits, designated as project audits, were carried out prior to 1979 under section 54 of the Audit Act. The addition of section 48 allowed for more detailed performance audits called efficiency audits. Section 48 also improved Parliamentary surveillance by requiring a report of all efficiency audits be presented to Parliament (S.48F), a feature absent for performance audits carried out under S.54.

Originally it was envisaged that efficiency auditing would account for fifty percent of audit effort by the Commonwealth Auditor-General. However, due to resource constraints, the importance of efficiency auditing, has continued to fall to a low of 18% of audit resources in 1986-87, a drop of 10% on the previous year.

Financial audits by the Commonwealth Auditor-General directed towards legality and regularity are mandatory (S.41(1), 41(A)) and therefore there is no room to alter the intensity of audit. Efficiency audits (and project audits) are, however, at the discretion of the Auditor-General who "may carry out, at such intervals as he thinks fit, an efficiency audit of all or any (agencies) .." (S.48C). The efficiency audit function therefore carries the brunt of resource limitations imposed on the Auditor-General. So fragile would it seem the existence of efficiency auditing in times of resource constraint that the Auditor-General expressed concern that "the continued development of this important element of the public sector audit function (would be jeopardised)" (AAO Annual Report, 1986-87, p.4). The impact of resource constraints on the performance of efficiency audits was a major concern of the JCPA in its Report 296 (Recommendations 13-18).

Responsibility for efficiency reviews in NSW is the province of the Office of Public Management (OPM) within the Premier's Department. The NSW Auditor-General's duties continue to reside in traditional audits. The purpose of the OPM is to promote efficient management within the NSW public sector. While there are not explicit statutory provisions governing the conduct of efficiency reviews, the work of the OPM is generally regulated by sections 48 and 49 of the Public Sector Management Act (1988). Section 48 establishes that a Minister may call for a review of a department's performance, or any part of its operations. Unlike the efficiency audits at the Commonwealth level, no report need be made to Parliament of the findings of a review carried out by the OPM (S.49).

The most important financial review committee for both the Commonwealth and NSW which assists Parliament to ensure government agencies are made financially accountable is the Public Accounts Committee. The Commonwealth Committee is called the Joint Committee of Public Accounts (JCPA), because its members are drawn from both Houses of Parliament. The main purpose of this very important review committee, appointed under the Public Accounts Committee Act 1951, is to examine the audit reports of the Auditor-General but more particularly to investigate any matters referred to it by the Auditor-General (S.8(1)). This

Committee is a statutory committee of Parliament and as such will report to Parliament any serious deficiencies exposed in the accounts by the Auditor-General or any recommendations that will improve the accounts (S.8(1)(b)(c)). It is through this Committee that Parliament is able to review the performance of government via the annual accounts as audited by the Auditor-General. The work of the Committee can also be prompted by requests directly from Parliament (S.8(1)(d)). Without this Committee it is doubtful whether Parliament would have the time, expertise or even interest to examine all accounts and Auditor-General recommendations.

To assist the JCPA the Senate Standing Committee on Finance and Public Administration, and its twin Committee in the House of Representatives, is empowered to oversee and promote the public accountability of "statutory authorities, non-statutory bodies, companies ... and the Central Administration of the Australian Government" (Department of the Senate, Annual Report 1988-89, p.46). The broader mandate and statutory base of the JCPA ensure its dominant role in financial review.

The NSW PAC, whose powers and functions are determined by Part IV of the Public Finance and Audit Act (1983), has slightly different powers to the JCPA and is drawn only from the Legislative Assembly. The review functions are, however, very similar to that of the JCPA.

#### **THE ACCOUNTABILITY OF GOVERNMENT AGENCIES**

To be accountable means there is an obligation to answer for ones actions and decisions: there is an agent-principal relationship with one agency (or person) acting on behalf of another and therefore answerable to the principal. In the case of government it is the executive operating under the authority of Parliament. In the public sector accountability is interpreted very broadly but essentially two accountability requirements have been imposed on government agencies: fiduciary and management.

Fiduciary accountability, or concern for the regularity and legality of expenditures has been the traditional accountability concern of Parliament. The prudent management of public sector resources has, however, only recently received

legislative backing. Good management requires resources to be used efficiently, economically and effectively. Efficiency refers to the cost of obtaining a particular output. Efficiency is achieved if the same outputs can be achieved with a reduction in the level of resources used to accomplish the same output or additional outputs for the same resources previously used. Efficiency could also be seen in terms of gaining a proportionately greater increase in output for a given increase in input. Economy is the easiest to verify for it concerns the acquisition of assets and the carrying out of operations for the lowest cost commensurate with quality.

Despite the importance of eliminating waste (improving efficiency) and encouraging economy these two goals will frequently have to take second place. The public may want the government to operate in an efficient and economic manner but not at the expense of reduced services. Thus the most contentious element of management or performance accountability is effectiveness. Society primarily exists to meet collective needs, not to be efficient. Efficiency may assist in the attainment of the goals pursued by society but it is not an end in itself (Report of Standing Committee on Finance and Public Administration, Review of the Efficiency Scrutiny Program, April 1989, p.18). The Commonwealth Auditor-General differentiates between administrative effectiveness and policy effectiveness. He argues that his mandate only extends to the former, an assessment of the results of administrative decisions taken within auditee agencies. Policy effectiveness is the ultimate level of accountability because it is concerned with whether the goals of the government have been achieved. It requires the comparison of achievements with expectations and questioning the merits of existing policy. Policy effectiveness is thus a highly charged political issue. Consequently, effectiveness evaluations are the function of the NSW Premier's Department or the Prime Minister.

Departmental secretaries, also known as Directors, Director-General, are accountable for the regularity and legality, efficiency and economy of their operations to their Minister (NSW, Public Finance and Audit Act, 1983, S.45C, D, Public Sector Management Act, 1988, S.11; Commonwealth, Audit Act 1901, Ss.38-45B). The Minister in turn is answerable to Parliament for the management of a department

(e.g. in NSW, Public Sector Management Act, 1988, S.43). Traditionally the head of government departments has been a careerist in government administration, not a political appointee. They were paid to act in a very limited way as custodians of public resources. In NSW the Greiner Government announced, however, that the procedure for the appointment of departmental heads and other senior officers would change as would expectations regarding their performance. Senior executive appointments are now to be on a contract basis but at the same time it was emphasised that appointment would be securely based on merit and not political sympathies.

This change in appointment criteria reflects the expanded accountability demands now placed upon departments and departmental heads. The Public Sector and Management Act 1988 makes it incumbent on NSW departmental heads to be responsible for "the general conduct and the effective, efficient and economical management of the functions and activities of the Department" (S.11). Increases in salaries to meet the competition for managers in the private sector gives a very high profile to the government's determination to expand the sphere of accountability. Improvements to the reporting requirements of Commonwealth departments also indicates a determination to improve the accountability and financial management of departments (see Financial Statements Guidelines for Departmental Secretaries, June 1989, pp.1,2).

Assessment of management performance in Departments is fraught with problems. Most troublesome is a review of management efficiency. To measure the efficiency of a department, or any agency, requires measures of performance and clarification of objectives. For some departments this dual requirement may pose few difficulties, for others solution of these problems is very elusive. Departments frequently provide services to the community, services which may be difficult to quantify and therefore measure, e.g. education. To overcome this it has been suggested that standards of efficiency could be established by comparing performance between similar institutions. However, at government level this may not be possible or feasible given the uniqueness of most departments. Comparison between countries is also fraught with difficulties. Unlike private sector organisations, or public sector



firms competing in the open market, where the 'bottom line' or profit figure is taken as an indication of the efficiency of operations, departmental performance is not able to be encapsulated in one summary figure. The Department of Finance (Commonwealth) recognises that assessment of the efficiency for departments needs to rely instead on several dimensions of performance. To this end the Department of Finance has established a unit to assist departments in developing performance measures.

Accountability standards for statutory authorities and commercial enterprises are largely similar and thus will be treated together. All statutory authorities, and ultimately all commercial enterprises are answerable to a Minister. For statutory authorities this is shown in the enabling legislation. Consistent with the drive for wider accountability in departments, both the Commonwealth and NSW Governments have clearly indicated their determination to make management in statutory authorities and commercial undertakings answerable for their performance. Most are now required to meet very specific performance targets, including return on capital employed and profit levels. This particularly applies to agencies engaged in market transactions as trading enterprises. The present NSW Government, in a paper produced very early in their term of office, made their concern for 'productive efficiency' very clear, accepting that "performance can only be regarded as satisfactory when a GTE has used resources at least as efficiently as its competitors" (A Policy Framework for Improving the Performance of Government Trading Enterprises, September 1988, p.16).

To bolster the government's determination to make statutory authorities more accountable for their activities, whether engaged in trading or not, the NSW government has also reinforced the importance of the Annual Reports (Statutory Bodies) Act 1984 and associated regulations (Regulation, 1985) (see Annual Reporting by Statutory Bodies: Information on the Responsibility of Members of Boards, NSW Treasury, December 1987). Apart from disclosure of essential 'housekeeping' matters such as the enabling legislation of the authority and its location the 1984 Act and associated regulations require considerable management detail. In

particular there must appear in the annual report "qualitative and quantitative measures and indicators of performance showing the level of efficiency and effectiveness" (Regulation 4(h)(ia)).

The general, as well as specific, thrust of the Policy Guidelines for Commonwealth Statutory Authorities and Government Business Enterprises (October 1987) is for greater accountability of non-departmental agencies and Government "commitment to achieving the highest levels of operational and financial efficiency in Commonwealth business enterprises" (Policy Guidelines, p. 1). The addition, in 1979, of section 48 to the Audit Act 1901 provided very stern expression of the governments intention to make non-departmental agencies answerable for the wise stewardship of resources under their control.

#### **THE MECHANISMS OF ACCOUNTABILITY**

In order to ensure the broadened, and traditional, accountability concerns of Parliament are met extensive changes have been introduced at both the Commonwealth and State levels. Most, if not all, these changes have been introduced in the last 5 years. While the winds of change took too long to reach an effective force the pace of change reflects an unflagging zeal and commitment on behalf of governments to push forward.

Outstanding developments in public sector accountability have occurred in: accounting procedures and reporting, the budget cycle, financial and asset management, external and internal audit and in management reviews. Attention will be restricted for the purposes of this paper to the budget and changes to reporting mechanisms. Innovations in external audit and management reviews have already been referred to earlier. Because changes in budget requirements have had a far reaching impact on most other mechanisms of accountability they will be addressed firstly.

#### **Budget Reforms**

The Hawke Labor Government made the issue of budget reform the centrepiece of its package of financial reforms when it published in April 1984,

Budget Reform: A Statement of the Government's Achievements and Intentions in Reforming Australian Financial Administration. The main themes of its reform proposals were to streamline budget decision making, improve "the information base and the process for parliamentary and public scrutiny of the budget" and "upgrading the financial management of programs in Government agencies" (Budget Reform, p.iii). These reforms, it was argued, would contribute to a more responsive, efficient and accountable government.

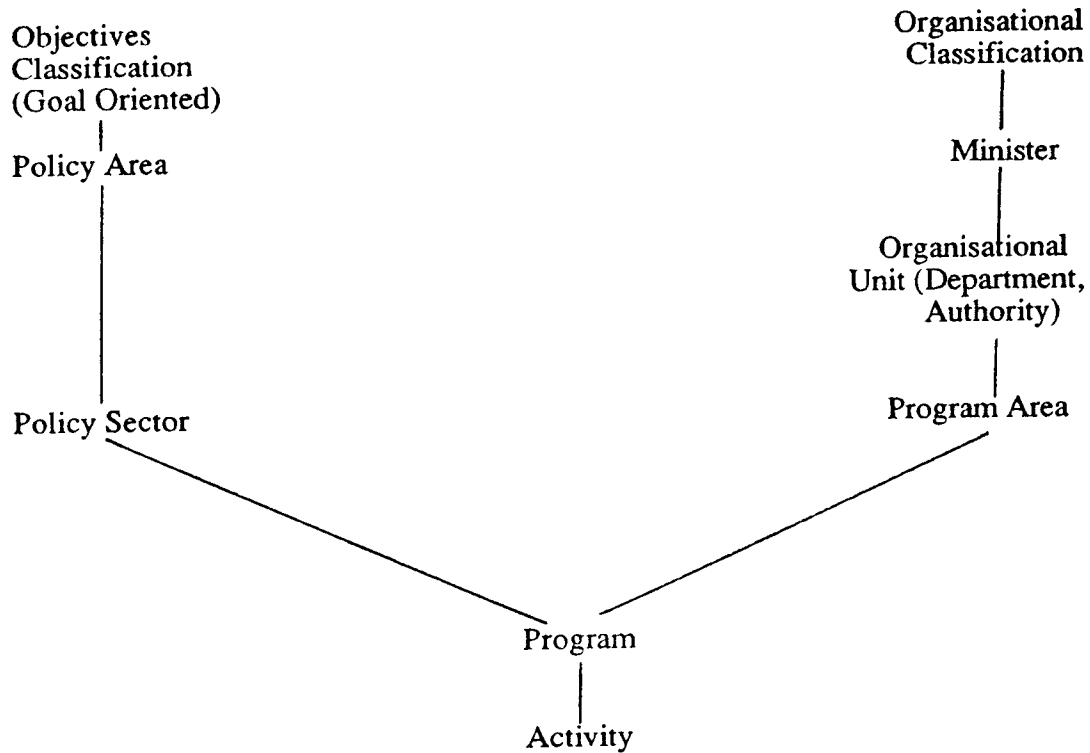
Standing as the keystone to the Commonwealth's reforms is program budgeting for departments. Traditionally budgets were formulated on the basis of items or subjects of expenditure, mainly departmental salaries and administrative expenses. No attempt was made to categorise expenditure according to expected achievements or programs. Dissatisfaction with the information content of the line-item budget finally proved sufficient in the mid-1980's to see it gradually replaced at both State (NSW) and Federal levels with the program format. Since 1986-87 all NSW departments have been required to use the program format, after tentative introduction from 1984 in increasing numbers of departments. All Commonwealth departments now must use programs as the basis of their budget requests.

Program budgeting sets out executive outlays according to broad functions, general programs and specific activities. Activities are placed within a hierarchical structure of programs, each related to a specific objective. Once the programs have been identified major costs must be established. Thus, the major feature and strength of program budgeting over line-item budgeting is its ability to compare program accomplishments with previously determined objectives. Program budgeting thereby encourages efficient administration, if for nothing else than the searching reviews required to form program statements and objectives. By requiring the specification of objectives there also occurs better identification of managers responsible for program accomplishments. This, of course, pre-supposes improved information flows to meet the performance measurement demands of program budgeting.

Program budgeting in NSW is organised around two hierarchies of programs. One hierarchy is goal oriented with programs identified in very broad terms, e.g. law

and order. The main advantage of this hierarchy is it provides a good picture of total policy costs. The second format, which is the one used for budgets and for departmental reporting, centres on ministerial groupings of programs then organisational units, programs and activities. Diagram 1 below illustrates both structures.

**Diagram 1**



Thus, through the provision of information on a program basis, attention to policies and specific activities necessary to fulfil policy objectives is elevated, resources and costs needed are highlighted and measures to evaluate output are developed. Parliament, therefore, is better able to assess departmental needs and performance. It also encourages continuous assessment by departments and facilitates systematic scrutiny of departments (Report of the House of Representatives Standing Committee on Expenditure, Parliament and Public Expenditure, February 1979). For these advantages to be met reporting procedures by departments had to change. These changes occurred not in isolation but in concert with a revolution in public sector accounting affecting all agencies.

### Public Sector Accounts

Accounts produced at State and Federal levels can be categorised in three main groupings: central, departmental and those of statutory authorities and commercial undertakings.

As previously established, government expenditure is authorised by Parliament on the basis of budget submissions from departments. To enable Parliament at a later date to check that its wishes were followed by the executive then reports emanating from the executive showing actual expenditures should be constructed to allow comparisons with allowable expenditure. Consequently, in concert with the changes to budget format, departmental financial reports must now follow the program format of the budget. NSW legislation demands that "financial statements ... shall consist of - i) a statement of receipts and payments of public money ... in relation to such items ... as may be prescribed." (Public Finance and Audit Act, 1983, S.45E(1)(a)). The items referred to are the programs identified in the budget. Commonwealth Departments must also present accounts which follow the mode of Parliamentary expenditure approval (Audit Act 1901, S.50(2); Commonwealth, Budget Paper No. 3, Portfolio Program Estimates).

Like the budget, departmental accounts show almost exclusively cash movements. Cash accounting, which has been the basis of government accounting in Westminster democracies, involves recording only the amounts of cash actually spent in the current financial year and the amount of cash received in the same period. Even though the accounts of NSW departments are not on an accrual basis some exceptions to cash entries are permitted. Accrued salaries and wages are allowed to be included in the accounts and from the Appropriation Act 1986 the cost of goods and services which may have been expected to be paid for by 30 June can be transferred from the Consolidated Fund account, an account which must end the year with a zero balance, to the Special Deposits account thus effectively allowing the carry-over of these amounts to the next budget period. (Report of NSW Auditor-General, 1986-87, Part I, p.13; For examples see the Department of Industrial Relations and Employment Annual Report 1986-87, note 14, p.138; note 2 p.134;

note 9, p.137). Introduction of full accrual accounting in departments is to occur in the near future in NSW. Currently a unit has been established in the Treasury to ensure the smooth implementation of accrual accounting.

By virtue of the powers conferred upon the Cabinet by S.25 of the Public Service Act the Hawke Government issued very modest reporting guidelines for Commonwealth departments in 1982, which were subsequently expanded in 1986. The main aim envisaged for the annual financial statements was to ensure that Parliament was better informed of the activities of departments and that information about these activities be more widely disseminated. Detailed explication of financial statements as part of the annual reporting requirements for departments have been reviewed recently and published as Financial Statement Guidelines for Departmental Secretaries (June 1989). Emphasis is still on cash statements, although the Guidelines make it clear that if improved accountability and financial management are to be promoted then annual financial reports require "information which goes beyond that which has been provided by traditional cash accounting" (p.2). Therefore a good deal of information must be provided, in supplementary information, on assets and liabilities. One notable exception is the cost of land and buildings (p.18). There is, however, "no intention to move to full accrual accounting at this time" (p.2). Amendments in 1985 to the Acts Interpretation Act 1901 have made all departmental guidelines compulsory minimum standards (S.34C).

Annual reports, incorporating financial statements, have been mandatory for NSW departments since 1985-86. The Annual Reports (Departments) Act, 1985 has a similar objective to that of the Commonwealth departmental guidelines and has many common provisions, including disclosure of information on assets.

Both federal and state governments see the form and content of financial statements as a major factor in changing the approach to the management of public sector resources. In particular, the use of accrual accounting in non-budget agencies is seen as crucial to engendering the efficient and effective use of resources.<sup>3</sup> Commonwealth statutory authorities must prepare accounts in accordance with "the

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3. See Appendix 1 for a discussion of the merits of accrual accounting.

accounting principles generally applied in commercial practice" (Audit Act 1901, S.63F; Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings, p.2) while in NSW statutory authorities are directed to prepare their statements on "an accrual accounting basis" (Public Finance and Audit Act, 1983, S.41B(1)(b))<sup>4</sup>. In the case of the Commonwealth the legislation does not detail the contents of the statements. Instead, statement contents are indicated through the use of guidelines published by the Department of Finance. The Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings, which were originally issued in 1983 with subsequent revisions appearing up to June 1989, require the disclosure of financial information which will allow the user to establish: "revenues and costs of operations", "net resources ... currently devoted to its activities", solvency and "change in the level of net resources" (paragraph 3). Commonwealth authorities have argued that using guidelines as opposed to legislation to detail reporting requirements allows greater flexibility; changes can be brought about more quickly and the relative ease with which changes can be made tends to encourage improvement. Despite these avowed advantages NSW has chosen to incorporate financial reporting provisions for non-departmental agencies in the Public Finance and Audit Act 1983, S.41B.

Public sector undertakings at both state and federal levels operating as a company must report on their operations in accordance with the provisions of the relevant Company Code. The reports instead of going to a body of individual shareholders are foremost for Parliamentary consumption through the relevant Minister.

#### CONCLUSION

The accountability of government agencies to Parliament is an essential ingredient to a strong Westminster democracy. Parliament must be able to ensure, as either the main source of sustenance for departments or the sponsor for statutory authorities and public sector companies, that the resources it provides are used wisely and as directed:

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4. Section 41B(2) does allow exceptions with Treasury approval.

The extreme demands placed on Parliament's time and resources prevent direct monitoring of resource usage. Instead Parliament is forced to rely upon the work of review bodies to draw to Parliament's attention matters of concern. Particularly important in this role are the Public Accounts Committee and the Auditor-General.

The effectiveness of review is, in large measure, dependent on the information available to the reviewing body. In the past, the worth of review procedures had been sorely limited because information provided by accountable bodies has been narrowly focused and directed. Especially significant was the obsessive concern with inputs. Surveillance under these circumstances was seriously circumscribed. The eighties with its economic pressures on governments, forced Parliament to expand its performance demands on accountable agencies. Accompanying this was an expansion of Parliament's information net to include questions of efficiency and economy. Thus the eighties have seen the acceptance by Parliament of the need for output measures to assess performance and a preference for more sophisticated accounting systems; more particularly accrual accounting.



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