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# Government Responses to the Recommendations of PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE'S 64<sup>th</sup> Report on the review of the Auditor-General's report on – Parliamentary control and management of appropriations

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Pursuant to Section 36 of the *Parliamentary Committees Act 2003*, this paper provides a response to the recommendations contained in the Public Accounts and Estimates Committee's (PAEC) 64<sup>th</sup> Report.

**Guide for Readers:**

Following is the explanation of the format of this paper.

1 <b>Chapter number and topic</b>			
2 <b>Responsibility</b>			
1 <b>PAEC Recommendation</b>	2 <b>Response</b>	3 <b>Action Taken to Date</b>	4 <b>Further Action Planned</b>

Row 1: Indicates the number and topic of the response to the PAEC recommendations.

Row 2: Indicates the Department with primary responsibility for responding to the recommendation as outlined in the PAEC Report.

Column 1: Contains the PAEC's recommendations as published in its 62<sup>nd</sup> Report.

Column 2: Indicates the Government's response to each recommendation (**Accept, Accept in part/principle, Under Review or Reject**).

Column 3: Indicates those actions relevant to the implementation of the recommendation that have been taken to date.

Column 4: Indicates the additional actions planned that are relevant to implementation of the recommendation, together with an explanation of the Government's position concerning the recommendation.

**CHAPTER 2: GOVERNMENT'S RESPONSE TO THE PAEC REPORT NO. 64 – REPORT ON PARLIAMENTARY CONTROL AND MANAGEMENT OF APPROPRIATIONS**

APPROPRIATION FRAMEWORK

PAEC Recommendation	Response	Action Taken to Date	Further Action Planned
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• **Recommendation 1 (Page 41)**

<p>The government seek expert advice on the relevance of and inconsistencies between the financial provisions contained in the <i>Constitution Act 1975</i> and the budget management provisions contained in the <i>Financial Management Act 1994</i> and annual appropriation acts.</p>	<p>Accept</p>	<p>The Department of Treasury and Finance is currently reviewing components of the <i>Financial Management Act</i> with the intention of undertaking a broader review in the near future. As part of this review the Department will seek expert advice on the relevance of and any inconsistencies between the financial provisions contained in the <i>Constitution Act 1975</i> and the budget management provisions contained in the <i>Financial Management Act 1994</i> and annual appropriation acts.</p>	<p>The Department of Treasury and Finance in conjunction with the Department of Premier and Cabinet will seek expert advice as part of a project to review the <i>Financial Management Act</i>.</p>
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• **Recommendation 2 (Page 41)**

<p>The <i>Constitution Act 1975</i> be amended to reflect current practices in the collection and authorisation of the disbursement of all state revenues.</p>	<p>Under review</p>	<p>See Above. The outcome will depend on the outcome of the expert advice.</p>	<p>See above</p>
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• **Recommendation 3 (Page 42)**

<p>The Treasurer be required to provide Parliament with details of all moneys withdrawn or to be withdrawn from the Consolidated Fund to satisfy any liabilities arising from guarantees or indemnities provided by the Treasurer in respect of any contracts, agreements in general, or actions of certain public servants, within seven days of each such payment being agreed to by the Treasurer.</p>	<p>Reject</p>	<p>Whilst implementing Government commitments the Treasurer is often required to provide guarantees and indemnities to third parties. The <i>Financial Management Act 1994</i> (section 24 (j)) already requires that the responsible Minister to disclose in the <i>Annual Financial Report for the State of Victoria</i> payments made during the financial year in fulfilment of any guarantee by the government under any Act and any moneys received or recovered in respect of guarantee payments. In addition section 24 (k) requires disclosure of contingent liabilities under guarantees and indemnities.</p>	<p>The Department of Treasury and Finance will continue to report under existing provisions of the <i>Financial Management Act 1994</i> and to manage the guarantees or indemnities issued in an effective manner to minimise the cost to the Consolidated Fund.</p>
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**CHAPTER 2: GOVERNMENT'S RESPONSE TO THE PAEC REPORT NO. 64 – REPORT ON PARLIAMENTARY CONTROL AND MANAGEMENT OF APPROPRIATIONS**

APPROPRIATION FRAMEWORK

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• **Recommendation 4 (Page 42)**

<p>The government's annual <i>Financial Report for the State of Victoria</i> include details of the circumstances leading to payment of liabilities arising from guarantees and indemnities provided by the Treasurer.</p>	<p>Reject</p>	<p>See Above</p>	
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**CHAPTER 3: GOVERNMENT'S RESPONSE TO THE PAEC REPORT NO. 64 – REPORT ON PARLIAMENTARY CONTROL AND MANAGEMENT OF APPROPRIATIONS**

OPERATION OF EXISTING APPROPRIATION FRAMEWORK

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<p>• <b>Recommendation 5 (Page 53)</b></p>			
<p>The government give further consideration to the Auditor-General's recommendation that further statutory limits be placed on the extent of budget supplementation authorised by the Treasurer, and that exceeding these limits would require a supplementary appropriation.</p>	<p>Reject</p>	<p>Department of Treasury and Finance does not support any additional caps or limits on budget management provisions. Under current arrangements ex-post accountability is strong. The <i>Financial Management Act 1994</i> requires departments to report on actual delivery at the detailed output level compared with what was published in the budget papers for the scrutiny of Parliament.</p> <p>A high level of flexibility available under the existing system of global appropriations is compensated for by increased accountability back to the Parliament. Further controls by Parliament could reduce current management flexibility and incentives which are required to manage unforeseen or urgent circumstances.</p>	
<p>• <b>Recommendation 6 (Page 53)</b></p>			
<p>The government's annual Financial Report for the State of Victoria include an overview report explaining the use of budget supplementations by departments.</p>	<p>Reject</p>	<p>The Department of Treasury and Finance notes that accountability for the use of budget supplements exists through the requirement of departments to detail in their annual reports comparisons between the actual cost of outputs as compared to the output costs recorded in the budget papers. In addition, the audited section of the <i>Annual Financial Report for the State of Victoria</i> includes a list of all payments from advance to the Treasurer, including the purpose for the supplementation, provided to Departments under the Annual Appropriation Act and payments under section 35 of the <i>Financial Management Act, 1994</i>.</p>	<p>The Department of Treasury and Finance will continue to monitor the reporting of budget supplements contained within departmental annual reports.</p>

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OPERATION OF EXISTING APPROPRIATION FRAMEWORK

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• **Recommendation 7 (Page 53)**

<p>The government's annual Financial Report for the State of Victoria and the budget estimates include summary information on the composition and nature of annotated receipts.</p>	<p>Accept in part</p>	<p>The annual financial report of each department now includes a note to the financial statements detailing the various types of annotated receipts and comparative figures between financial years, along with the title and name of each annotated receipt agreement approved by the Treasurer.</p> <p>The government's annual financial report continues to provide summary information of these annotated receipts on a departmental basis.</p> <p>The Department of Treasury and Finance will consider the inclusion of summary information on the composition of estimated annotated receipts in the budget papers.</p>	<p>The Department of Treasury and Finance will continue to include notes in the annual <i>Financial Report for the State of Victoria</i> and in Departmental annual Reports.</p>
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• **Recommendation 8 (Page 56)**

<p>The government's annual Financial Report for the State of Victoria and the financial reports of departments separately disclose the balances held in the State Administration Unit and the composition of the balances.</p>	<p>Accept in part</p>	<p>The Department of Treasury and Finance supports greater disclosure of information relevant to assessing the performance of departments. The <i>Annual Financial Report for the State of Victoria</i> includes a summary total of the amount of applied appropriations unspent at the end of the year, together with a reconciliation of the net increase for the year and payments made from prior year appropriations. There may be some merit in greater disclosure of SAU Account balances, but there is limited value in detailed disaggregation of transactions on the SAU or requiring further authority to use funds which Parliament has already appropriated.</p>	<p>The Department of Treasury and Finance will continue to encourage departments to improve the level of disclosure of SAU balances in their annual reports.</p>
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• **Recommendation 9 (Page 58)**

<p>The government use the resources of the Department of Treasury and Finance and/or Department of Justice to conduct a review of the ongoing appropriateness of all legislation providing for special appropriations in the context of the current financial management arrangements within government.</p>	<p>Accept in part</p>	<p>The Department of Treasury and Finance acknowledges that there is a need for an ongoing legislative review of special appropriations, including where the legislation was set up many years ago and changing circumstances may have removed the need for a special appropriation. However, as special appropriations are a creation of Parliament, the Department does not consider it appropriate to offer its view on the appropriateness of current individual special appropriations.</p>	<p>The Department of Treasury and Finance plans no further action to this recommendation.</p>
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• **Recommendation 10 (Page 59)**

<p>The Minister for Finance issue a direction under the <i>Financial Management Act 1994</i> requiring all departments to disclose in their annual financial reports special appropriation provisions in legislation under their control, which have not been used during a financial year.</p>	<p>Under review</p>	<p>Under the <i>Financial Management Act</i> all departments are currently required to disclose in their annual financial reports details of the use of special appropriations, including the parliamentary authority provided under the respective legislation and the expenditure applied under the various authorities. The government's annual financial report also records the aggregate expenditure for special appropriations, supplemented by similar information each special appropriation for each department.</p>	<p>The Department of Treasury and Finance will review the merits of reporting special appropriations not used during the financial year.</p>
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• **Recommendation 11 (Page 65)**

<p>The government amend the Model Financial Report to require departments to include explanations in their annual reports on major variations in revenue collections as compared to budgets and the previous year's collections.</p>	<p>Accept in part</p>	<p>The Department of Treasury and Finance supports the disclosure in annual reports of performance targets and actual results for each output, including budgeted and actual output costs. Major variations are usually explained.</p> <p>In addition, the narrative section of the <i>Annual Financial Report for the State of Victoria</i> provides explanations of major variance against budget for revenue and expense categories in the general government sector and variation from the prior year actuals for the whole of government.</p>	
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<p>• <b>Recommendation 12 (Page 65)</b></p>			
<p>The Minister for Finance issue a direction requiring all general government sector agencies, where practical, to include their corporate plans on their web-sites.</p>	<p>Accept in part</p>	<p>The intentions and performance of departments are well reflected in the budget papers and annual reports that are tabled in Parliament. Although effective planning is crucial to achieving government outcomes, the disclosure and details (included in corporate plans) are considered to be internal matters for departmental consideration.</p>	<p>The Department of Treasury and Finance will continue to encourage agencies to include their corporate plans on their websites.</p>
<p>• <b>Recommendation 13 (Page 66)</b></p>			
<p>The Department of Treasury and Finance, unless justification to the contrary can otherwise be demonstrated, provide Parliament with a reconciliation between the Appropriation Bill and expenditure estimates contained in the Estimated Financial Statements, after taking into account retained revenue under section 29 of the Financial Management Act.</p>	<p>Reject</p>	<p>The Department of Treasury and Finance acknowledges that such a reconciliation is technically possible. However, it would be costly, impractical and of limited value. In particular it would be highly subject to error and interpretation without the significant input of all other departments, given the range of assumptions required as to whether certain expenditure was funded by an appropriation, compared to funding from other revenue sources. The costs and revenue for grouped outputs are already published in budget papers and departmental annual reports.</p>	
<p>• <b>Recommendation 14 (Page 73)</b></p>			
<p>The government finalise the development of the Victorian Performance Management and Reporting Framework or a similar framework in order that performance information on portfolio programs and projects recorded in the Report of Operations of public sector agencies and departments can be audited by the Auditor-General, with the impact of operations on community outcomes becoming more readily identifiable.</p>	<p>Reject</p>	<p>As part of the government's Financial Management Compliance Framework, departments are required to develop financial key performance indicators designed to measure and monitor their financial management performance.</p> <p>The Department of Treasury and Finance believes that the development of meaningful internal performance indicators and measures embedded into management decision making is a more appropriate approach to adopt.</p>	

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• **Recommendation 15 (Page 73)**

<p>The Minister for Finance issue a direction to all public sector agencies to include appropriate performance indicators in their Statement of Operations reflecting the extent to which departmental objectives and desired government outcomes are being implemented through various programs and projects and are being met with regard to economy, effectiveness and efficiency.</p>	<p>Reject</p>	<p>Refer Recommendation 14 above</p>	
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• **Recommendation 16 (Page 73)**

<p>The Chief Information Officer in the Department of Premier and Cabinet be requested by the government to undertake a review of the capability of computer systems across the general government sector to collect data that can be used for performance monitoring and the development of suitable performance measures and indicators that are clear, understandable, economical and soundly based.</p>	<p>Reject</p>	<p>Refer Recommendation 14 above.</p> <p>Departments and agencies have the responsibility for ensuring that computer systems have the capacity to generate suitable performance measures.</p>	
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<p>• <b>Recommendation 17 (Page 73)</b></p>			
<p>As part of the certification process introduced under the whole of government Financial Management Compliance Framework, accountable officers be required to certify that, based on regular testing of information technology operations, information produced by the systems for performance purposes is accurate and complete.</p>	<p>Reject</p>	<p>Refer Recommendation 14 above.</p>	
<p>• <b>Recommendation 18 (Page 78)</b></p>			
<p>The Department of Treasury and Finance undertake a review of the forward asset requirements of all general government sector departments and agencies as set out in the ten year asset strategies adopted by government, with a view to determining any shortfalls in whole of government asset funding in the forward estimates and other projections, and the potential impact on service delivery.</p>	<p>Accept</p>	<p>The Department of Treasury and Finance requires departments to provide a long term asset strategy which is aligned with the departmental corporate strategy. The asset strategy plan in turn provides the government with a basis on which to set the direction for the delivery of infrastructure in the future consistent with government strategies as to desired outputs and outcomes.</p> <p>In July 2005 the Minister for Finance launched the Asset Management Framework which provides a more strategic and cohesive approach to longer term sustainability of Victoria's asset base and future growth needs.</p>	<p>The Asset Management Framework will continue to be rolled out over the next few years.</p>

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• **Recommendation 19 (Page 78)**

<p>The Department of Treasury and Finance undertake a review of the ten year asset strategies submitted by departments, to determine whether those strategies as adopted, adequately provide for the capital investment needs of government agencies of each department, and the potential impact of any shortfalls on service delivery.</p>	<p>Accept</p>	<p>The Department of Treasury and Finance will review the long term asset strategies submitted by departments to determine whether they adequately identify the capital investment direction of each department and their portfolio agencies.</p>	<p>As above.</p>
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**CHAPTER 4: GOVERNMENT'S RESPONSE TO THE PAEC REPORT NO. 64 – REPORT ON PARLIAMENTARY CONTROL AND MANAGEMENT OF APPROPRIATIONS**

USE OF THE TREASURER'S ADVANCE

PAEC Recommendation	Response	Action Taken to Date	Further Action Planned
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• **Recommendation 20 (Page 87)**

<p>The Minister for Finance issue a direction clearly defining the purpose of the Treasurer's Advance, the circumstances in which it can be used as compared to other legislative alternatives and what constitutes 'urgent' expenditure.</p>	<p>Accept in part</p>	<p>In September 2004, the Department of Treasury and Finance issued guidance on the use of the Treasurer's Advance and a budget bulletin containing Guidelines for Approval of the Treasurer's Advance.</p> <p>Any perceived flexibility regarding what constitutes 'urgent claims' and 'discretionary expenses' is compensated for by providing accountability for the expenditure from the Treasurer's Advance in the annual financial report and submitted for Parliamentary authority in a subsequent year's Appropriation Bill.</p>	
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• **Recommendation 21 (Page 87)**

<p>The government's annual <i>Financial Report for the State of Victoria</i> provide details on a departmental basis of supplementary funding for salary and wage increases authorised by the Treasurer under section 3(2) of the Appropriation Act.</p>	<p>Under Review</p>	<p>The Department of Treasury and Finance considers that although accountability exists for use of supplementary funding for salary and wage increases through disclosure of employee benefit expenditure in the annual financial report, consideration will be given to including details of amounts applied (if any) under section 3(2) of the Appropriation Act in the 2005-06 <i>Financial Report for the State of Victoria</i>.</p>	
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• **Recommendation 22 (Page 87)**

<p>Details of expenditure authorised by the Treasurer from the Treasurer's Advance be provided to Parliament at least on a quarterly basis. Details and reasons for the expenditure should also be provided.</p>	<p>Reject</p>	<p>The Department of Treasury and Finance considers that adequate accountability exists for use of the Treasurer's Advance in that the expenditure amount and purpose is disclosed in the annual financial report as well as in the subsequent year's annual Appropriation Bill.</p>	
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**CHAPTER 4: GOVERNMENT'S RESPONSE TO THE PAEC REPORT NO. 64 – REPORT ON PARLIAMENTARY CONTROL AND MANAGEMENT OF APPROPRIATIONS**

USE OF THE TREASURER'S ADVANCE

PAEC Recommendation	Response	Action Taken to Date	Further Action Planned
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• **Recommendation 23 (Page 87)**

<p>The government require all departments to disclose in their annual reports the reasons why any supplementary funding was sought from the Treasurer's Advance and the subsequent impact of the funding on their operations.</p>	<p>Reject</p>	<p>The Department of Treasury and Finance considers that adequate accountability exists for use of the Treasurer's Advance in that the expenditure amount and purpose is disclosed in the annual financial report as well as in the subsequent year's annual Appropriation Bill.</p>	
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**CHAPTER 5: GOVERNMENT'S RESPONSE TO THE PAEC REPORT NO. 64 – REPORT ON PARLIAMENTARY CONTROL AND MANAGEMENT OF APPROPRIATIONS**

**ROLE OF THE TRUST FUND**

PAEC Recommendation	Response	Action Taken to Date	Further Action Planned
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**• Recommendation 24 (Page 100)**

<p>The Department of Treasury and Finance review the ongoing need for all existing trust accounts in the general government sector.</p>	<p>Accept</p>	<p>The Department of Treasury and Finance acknowledges that it has been some time since trust accounts had been comprehensively reviewed. Guidelines have been issued to departments stating that trust accounts are to be closed if their ongoing existence could not be justified.</p>	
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**• Recommendation 25 (page 100)**

<p>The transactions, assets and liabilities of all individual trust accounts, be disclosed in the notes to the financial statements of the respective departments, supplemented by additional disclosure at the whole of government level.</p>	<p>Accept in part</p>	<p>The Department of Treasury and Finance considers that adequate disclosure of trust fund operations and balances at the whole of government level is already provided in the <i>Annual Financial Report for the State of Victoria</i>.</p> <p>In June 2005 the Department of Treasury and Finance issued a revised Model Financial Report to all government departments to assist in the preparation of annual financial reports. The Model Financial Report contains an additional requirement for all departments to include a note to their financial statements of cash and investment balances for each trust at 30 June each year. In addition, disclosure is required for all trust accounts opened (including the name and purpose for which the trust was created) and those which have been closed during the financial year.</p>	<p>The Department of Treasury and Finance will continue to review the Model Financial Report on an annual basis.</p>
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**• Recommendation 26 (Page 100)**

<p>The Minister for Finance establish comprehensive guidelines and monitoring provisions for the use of the Treasury Trust Fund.</p>	<p>Accept in part</p>	<p>In the Department of Treasury and Finance's budget financial management guide on the management of trust accounts issued by the department in August 2003, a direction has been given that trust accounts must be closed when the purpose for which they were created no longer existed. Furthermore, other trust accounts are to be periodically reviewed to justify their existence and only appropriate balances are to be maintained.</p>	
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**CHAPTER 5: GOVERNMENT'S RESPONSE TO THE PAEC REPORT NO. 64 – REPORT ON PARLIAMENTARY CONTROL AND MANAGEMENT OF APPROPRIATIONS**

ROLE OF THE TRUST FUND

PAEC Recommendation	Response	Action Taken to Date	Further Action Planned
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• **Recommendation 27 (Page 100)**

<p>The government periodically review all trust accounts with large balances above a prescribed level, with a view to requiring departments to either justify the need to retain such balances or to return surplus funds to the Consolidated Fund.</p>	<p>Accept</p>	<p>The Department of Treasury and Finance acknowledges that it has been some time since departmental trust accounts were comprehensively reviewed. It would be timely for departments to undertake a systematic review of all their current trust accounts on a case-by-case basis and determine whether this is the best way for them to continue to do business, and if so, how best to report on and account for them.</p>	
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