

## CODE OF GOOD PRACTICES ON FISCAL TRANSPARENCY

The Code is based on four general principles of fiscal transparency (which are set out below). The Code also proposes specific principles and good practices corresponding to each of the general principles. The International Monetary Fund (IMF) *Draft Manual on Fiscal Transparency* (the Manual) sets out in more detail the principles and practices in the Code and provides guidance on their implementation — in effect, the Manual is a ‘User's Guide to the Code’.

- Given that much of the detail relating to the Code is contained in the Manual, it would be beneficial to read the following assessment against the Code in conjunction with the Manual.
- The Manual used to assist this assessment was dated 19 October 1998.

### I Clarity of roles and responsibilities

*General Principle I reflects the importance of clear boundaries within government between fiscal, monetary, and public enterprise activities, and between the public and private sectors.*

**1.1 The government sector should be clearly distinguished from the rest of the economy, and policy and management roles within government should be well defined.**

**1.1.1 The boundary between the government sector and the rest of the economy should be clearly defined and widely understood. The government sector should correspond to the general government, which comprises the central government and lower levels of government, including extrabudgetary operations.**

The Commonwealth Government observes the minimum standard specified in the Manual.

The definition of general government used by the Australian Bureau of Statistics (ABS)<sup>1</sup> is outlined in the *Standard Economic Sector Classifications of Australia (SESCA)* (Cat. No. 1218.0). SESCO is based on the principles contained in *A System of National Accounts (SNA93)* and defines the general government sector as comprising all government units of the Commonwealth Government, each State and Territory Government, each local government authority, and all resident non-market non-profit institutions that are controlled and mainly financed by those governments. Government units are considered to be those units that are described in the SNA93 as “unique kinds of legal entities established by political processes which have legislative, judicial or executive authority over other institutional units within a given area”. The general government sector includes government controlled unincorporated enterprises that engage in market production but do not qualify as quasi-corporations because their operations are too closely integrated with the operations of other government units and are not the subject of a separate full set of accounts.

As recommended in the Manual, the ABS regularly provides the IMF with information to update the institutional tables currently included in the *Government Finance Statistics Yearbook*.

**1.1.2 Government involvement in the rest of the economy (e.g. through regulation and equity ownership) should be conducted in an open and public manner on the basis of clear rules and procedures, which are applied in a nondiscriminatory manner.**

***Regulation of the nonbank private sector***

Recent competition policy reforms in Australia (see Box 1) are relevant to this standard.

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1 The ABS is Australia’s national statistical agency. Its roles and responsibilities are outlined in section 4.1.3.

### **Box 1: Competition policy in Australia**

As part of its competition policy, Australia has laid down principles and processes for reviewing legislation (including subordinate legislation and quasi-regulation) which restricts competition. The guiding principle in reviewing legislation is that it should not restrict competition unless it can be demonstrated that:

- the benefits of the restriction to the community as a whole outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition.

Australia's Commonwealth, State and Territory governments have developed timetables for the review and, where appropriate, reform of all existing legislation that restricts competition by the year 2000, and have developed procedures for the review of new legislation.

Proposals for new legislation that restrict competition must be accompanied by evidence that the legislation is consistent with the guiding principle outlined above. For the Commonwealth, this is done through the Regulation Impact Statement (RIS) process, under which a RIS must be prepared for new regulatory proposals and treaties involving regulation that directly affect business, or which have a substantial indirect effect on business, or which restrict competition. A RIS sets out the relevant policy objective along with all the viable alternatives for achieving that objective. The purpose of RISs is to ensure that government departments and agencies fully consider the costs and benefits of all viable alternatives, with a view to choosing the alternative with the maximum positive impact. A consultation statement is incorporated into the RIS. A government agency, the Office of Regulation Review (ORR), has the function of training officers from departments and agencies in the preparation of RISs.

The ORR also reviews and reports on compliance with RIS requirements. The Commonwealth reports annually on progress with its legislation review program. Further, the National Competition Council reports annually on progress by all governments in meeting their national competition policy commitments.

Once existing legislation has been reviewed, each government is committed to systematically reviewing the legislation at least once every ten years. This review exercise requires governments to identify and justify restrictions on competition, thus greatly improving the transparency of Australia's regulatory regime.

### **Box 1: Competition policy in Australia (continued)**

Under the competitive neutrality component of the national competition policy, governments committed to the principle that government businesses should not enjoy any net competitive advantage simply as a result of their public sector ownership. Specifically, significant Commonwealth businesses are required to operate in the same regulatory environment as private sector competitors. Where this poses difficulties, government businesses take steps to offset any resulting competitive advantage; e.g. by paying exempted charges on an *ex gratia* basis, or by raising prices to notionally include the value of any benefits from regulatory exemption.

As part of its fulfillment of commitments made under national competition policy, the Commonwealth publishes an annual report on its implementation of competitive neutrality principles. Also, an independent Commonwealth Competitive Neutrality Complaints Office (CCNCO) investigates complaints (from any source). The CCNCO publishes an annual report on the details of complaints and its findings, and the Commonwealth reports on its responses to the CCNCO's recommendations in its annual report.

### ***Government intervention in the banking sector***

There is ongoing prudential regulation of deposit-taking institutions at both the Commonwealth and State level, and direct government intervention in the banking sector, including quasi-fiscal activities, is limited at both the Commonwealth and State level.

During 1998, the Commonwealth Government implemented the first stage of its financial system reforms. The Australian Prudential Regulation Authority (APRA) was established to provide prudential regulation for deposit-taking institutions, life and general insurance companies and superannuation funds. In carrying out this role, APRA has substantial operational autonomy and is accountable to the Treasurer and Parliament.

- APRA's functions and objectives are specified in the *Australian Prudential Regulation Authority Act 1998*. APRA's policies are publicly available, for example, the prudential statements that govern APRA's supervisory framework are available on APRA's internet site ([www.apra.gov.au](http://www.apra.gov.au)). APRA also publishes its quarterly Bulletin (which contains industry and other statistics, copies of recent speeches and statements) and will produce an annual report that will outline the activities it undertakes to achieve its objectives. (There

is more discussion on banking under *Financial Sector Supervision* in Part II of the report.)

### ***Direct equity investment***

At both the Commonwealth and State level, only the Queensland Government owns a significant shareholding in a commercial bank. The Commonwealth Government has recently sold the Australian Industries Development Corporation and the Housing Loans Insurance Corporation.

#### **1.1.3 The allocation of responsibilities between different levels of government, and between the executive branch, the legislative branch, and the judiciary, should be clearly defined.**

### ***National and subnational governments***

The Australian federal system is based on three tiers of government — Commonwealth, State and local. The Australian Constitution provides the framework for the relationship between the Commonwealth and the States. It defines the scope of the Commonwealth's legislative powers, which in some cases are exclusive to the Commonwealth but otherwise are concurrent with the States. In the areas of concurrent responsibility, sometimes negotiations between the Commonwealth and the States decide where the responsibilities of each level of government lie. In case of a conflict between Commonwealth and State law, Commonwealth law prevails. Local government falls under State jurisdiction but is recognised formally by the Commonwealth.

### **Box 2: Intergovernmental financial relations in Australia**

While both the Commonwealth and the States have the Constitutional power to collect income taxes, only the Commonwealth does so. In addition, the Constitution prohibits the States from imposing customs or excise duties, which has been interpreted judicially as precluding the States from imposing general taxes on goods (but not services). Partly because of the above, federal fiscal arrangements are characterised by a high degree of vertical fiscal imbalance. The amount of revenue raised by the Commonwealth is considerably larger than its own-purpose outlays. In contrast, the amounts that the States raise in revenue are insufficient to meet their expenditure responsibilities.

## **Box 2: Intergovernmental financial relations in Australia (continued)**

This fiscal imbalance is addressed through the payment by the Commonwealth of general purpose and specific purpose financial grants to the States. Formal agreement on the allocation of general purpose payments (untied grants) is reached at an annual meeting of the Heads of the Commonwealth and State Governments (the Premiers' Conference), having regard to the recommendations of the Commonwealth Grants Commission, a Commonwealth body that advises the Commonwealth Government on the distribution of general purpose assistance to the States. Specific purpose payments are payments for policy purposes related to particular functional activities. In most cases, these are subject to conditions reflecting Commonwealth policy objectives or national policy objectives agreed between the Commonwealth and the States.

The Commonwealth is proposing to reform the financial relationship with the States in conjunction with its proposed reforms of the Australian taxation system. As part of this process, on 13 November 1998 Heads of Government endorsed an 'Agreement on Principles' for the reform of Commonwealth-State financial relations. Key features of the agreement are that, subject to the implementation of the Commonwealth's tax plan, the Commonwealth will provide to the States all the revenue raised from the proposed goods and services tax, in place of most general purpose payments, and the States will remove or reduce a range of inefficient, narrowly-based indirect State taxes.

### ***Roles of the executive, legislative and judicial branches***

The Commonwealth Government observes the framework outlined in the Manual that the role of each branch of government in fiscal management be clearly defined. The Australian Constitution defines these roles and responsibilities. Key provisions of the Constitution include:

- the Parliament has power to make laws for taxation and borrowing money on public credit (section 51). It also has the exclusive right to impose customs and excise duties (section 90);
- all revenue raised or money received by the Executive Government (that is, the Executive Council, consisting of all Ministers, acting through the Governor-General) has to form one Consolidated Revenue Fund to be appropriated for the Commonwealth's purposes (section 81);

- no money can be drawn from the Treasury of the Commonwealth except under appropriation made by law (section 83);
- the Executive has the sole right to present expenditure proposals to Parliament (section 56); and
- the judicial power of the Commonwealth (including in relation to the points above) shall be vested in a Federal Supreme Court, to be called the High Court of Australia, and in such other federal courts as the Parliament creates and in such other courts as it invests with federal jurisdiction (section 71).

**1.1.4 Clear mechanisms for the coordination and management of budgetary and extrabudgetary activities should be established, and well defined arrangements vis-a-vis other government entities (e.g. the central bank, and state-controlled financial and nonfinancial enterprises) should be specified.**

***Coordination of the fiscal management process***

The Commonwealth Government observes the framework set out in the Manual that fiscal responsibilities among its ministries should be clearly defined.

Pursuant to section 64 of the Constitution, the Governor-General in Council, on the advice of the Prime Minister, issues after each election an order outlining the administrative arrangements, detailing each Minister's responsibilities and the legislation for which the Minister is responsible. The Administrative Arrangements Order (AAO) is published in the *Commonwealth Gazette*.

Responsibilities for fiscal policy and budget management are shared between the Treasurer and the Minister for Finance and Administration. The AAO clearly defines the responsibilities of each Minister. As both Ministers' responsibilities are linked, they often work together in Cabinet.

The Expenditure Review Committee (ERC), a committee of Cabinet, reviews Government priorities and objectives during the annual budget processes.

As part of budget reporting of the ERC decisions, each Minister is required to submit to the Parliament a Portfolio Budget Statement (PBS) covering all departments and agencies within the Minister's Portfolio. With the move to accrual budgeting for the 1999-2000

Budget, the PBS will focus at the agency level and detail planned performance by agencies against outcomes, outputs and budgeted financial statements (see Box 10, section 3.2.2). Actual performance will be reported against planned performance in the agency's annual report, which is also required to be submitted to Parliament.

Issues raised in the Manual under this heading regarding the coverage of the Commonwealth budget reporting (reporting on a gross basis, presentation of aid-in-kind and extrabudgetary transactions) are outlined in Box 4 (section 1.2.1), Box 5 (section 2.1.1) and Box 6 (section 2.1.4).

### **Box 3: Coordination of fiscal management between levels of government**

Coordination between the Commonwealth and the States of the fiscal management of the economy is undertaken principally through the forum of the Australian Loan Council. The Loan Council is a Commonwealth-State Ministerial Council that meets annually, usually in conjunction with the annual Premiers' Conference (see Box 2, section 1.1.3), and comprises the Commonwealth Treasurer, as Chairman, and his State counterparts.

The Loan Council process is undertaken to ensure that State and Commonwealth fiscal strategies are consistent with national macroeconomic objectives and that borrowings by each government are sustainable. The arrangements emphasise transparency of public sector finances rather than adherence to strict borrowing limits, and are designed to enhance the role of financial market scrutiny as a discipline on borrowings by the public sector. (That is, Loan Council acts more as a national fiscal reporting mechanism than as a forum to set national fiscal outcomes.)

Each jurisdiction submits to the Loan Council a Loan Council Allocation nomination that represents the jurisdiction's call on financial markets over the forthcoming financial year. These nominations are considered by Loan Council having regard to each jurisdiction's fiscal position and reasonable infrastructure requirements, as well as to the macroeconomic implications of the aggregate figure.

The Loan Council process is supported by uniform, comprehensive reporting of public sector finances to assist Parliaments, financial markets and the public to make their own judgements about each government's financial performance. Loan Council reporting arrangements form part of the *Uniform Presentation Framework* for government financial information that was agreed by Loan Council in 1997.



## ***Separation of fiscal, monetary and public enterprise management***

### **General government and the central bank**

Issues raised under this heading are addressed in the response to *Good transparency practices for monetary policies by central banks* at Attachment B.

### **General government and public financial institutions**

The issues raised in this heading are addressed under the heading *Direct equity investment* in section 1.1.2.

### **General government and non-financial public enterprises (NFPEs)**

The Manual suggests that transparency concerns can arise over the manner in which NFPEs are privatised, which can have negative fiscal impacts. National competition policy includes principles for the structural reform of public monopolies. In particular, when privatising a public monopoly the Government must undertake a review that includes clarification of appropriate commercial objectives; consideration of separating natural monopoly elements and potentially competitive elements; separation of regulatory from commercial functions; merits of any community service obligations and how they might be funded; and price and service regulations.

Major non-commercial activities of non-financial public enterprises and the policy rationale for their continuation are reported in the enterprises' annual reports.

#### **1.2 There should be a clear legal and administrative framework for fiscal management.**

##### **1.2.1 Fiscal management should be governed by comprehensive laws and administrative rules applying to budgetary and extrabudgetary activities. Any commitment or expenditure of government funds should have a legal authority.**

The Australian Constitution ensures that the authority for collection of taxation, appropriations for government expenditure and government borrowing rests with legislation enacted by the Commonwealth Parliament. Key provisions of the Constitution are outlined under the heading *Roles of the executive, legislative and judicial branches* in section 1.1.3.

As outlined in section 1.1.4, the responsibilities of Ministers in the Commonwealth Government are outlined in the AAO. In addition, the *Financial Management and Accountability Act 1997* specifies those responsibilities and powers of the Minister for Finance and Administration that underpin, and give context and meaning to the traditional role of custodian of the ‘Treasury of the Commonwealth’ referred to in section 83 of the Constitution.

Budget supplementation throughout the budget year is accommodated through the Additional Estimates process. Where amounts appropriated at budget time are insufficient, Parliament may appropriate more funds to portfolios through the Additional Estimates Acts.

The accountability for appropriations for Additional Estimates is similar to that for the budget. Each Minister is required to submit to the Parliament for scrutiny *Portfolio Additional Estimates Statements*, a supplementation to the PBS (described in Box 10, section 3.2.2). Additional funds appropriated under the Additional Estimates process will generally be reflected in the mid-year economic and fiscal outlook report, which under the *Charter of Budget Honesty Act 1998* (CBH) must be released by the end of January or 6 months after the budget, whichever is later (see Box 7, section 2.2.1).

The Contingency Reserve is a separate functional classification in the Commonwealth budget documents. The budget documents give a description of the role of the Reserve and its components.

Issues raised in the Manual under this section regarding the responsibility of individual agencies to be held accountable for the collection and use of resources are addressed under the heading *Internal control systems* in section 3.3.1. Reporting of budget transactions on a gross basis is outlined in Box 4.

#### **Box 4: Reporting of budget transactions on a gross basis**

Prior to the 1999-2000 financial year, Commonwealth budgets were based on ABS Government Finance Statistics (GFS) standards, whereby fees and charges were classified as offsets to outlays. However, between 1994-95 and 1999-2000, the Commonwealth produced ex-post reports (separately from the budget documents) using an accounting standard under which fees and charges are separately identified as a revenue item. From 1999-2000, the Commonwealth budget will be produced on an accrual basis, which will identify fees and charges separately as a revenue item.

#### **1.2.2 Taxes, duties, fees, and charges should have an explicit legal basis. Tax laws and regulations should be easily accessible and understandable, and clear criteria should guide any administrative discretion in their application.**

##### ***Explicit legal basis for taxes***

The Australian Constitution gives the Commonwealth Parliament power to enact laws with respect to taxation (section 51 (ii)). The Constitution (over a number of other sections) also defines the extent of the Commonwealth's tax powers. The legal basis (i.e. constitutionality) of tax laws, regulations and taxes and fees can be challenged by taxpayers through the Courts. Exercise of discretions and other administrative decisions/actions may be challenged before the Administrative Appeals Tribunal (AAT). All Commonwealth regulations must be published in the *Commonwealth Gazette* and tabled in the Commonwealth Parliament. The Parliament can disallow regulations.

##### ***Accessibility and understandability***

Australia's tax laws, explanatory memoranda and regulations are accessible to the general public. They are available from Commonwealth Government bookshops (by purchase), on the Australian Taxation Office's (ATO) internet home page ([www.ato.gov.au](http://www.ato.gov.au)) and in libraries. ATO Public Rulings, Determinations and other administrative interpretation documents are accessible to the general public through a number of avenues — the ATO's internet home page, through tax agents and by requesting a copy from the ATO. Explanatory material such as pamphlets explaining the tax laws are kept up to date and are available from ATO branches, ATO shopfronts and on the ATO internet home page. The

ATO recently made its law database available to the general public through its internet home page, free of charge. This allows tax practitioners and the public to have access to the material (internal ATO decisions on issues as well as legislation, rulings and Court decisions) that the ATO uses in making its decisions.

New budget revenue measure announcements are also accessible. Budget papers can also be purchased from Government bookshops and are available on the Department of Treasury's internet home page ([www.treasury.gov.au](http://www.treasury.gov.au)). Budget revenue measures generally receive wide media coverage.

Since 1 July 1994 the Tax Law Improvement Project has been rewriting Australia's tax laws with the objective of clarifying and developing legislation to make it more understandable and certain for taxpayers. The project has rewritten large amounts of the law (including capital gains tax) and is well advanced. Techniques used by the Project include core provisions for each Act, Chapter, Part and Division and a coherent structure and plain language. The Government announced in 1998 that an integrated tax code will be established which will integrate all the tax rules, using consistent terminology and definitions and use general principles in preference to long and detailed provisions.

### ***Clear criteria for administrative application***

Australia's tax laws give the Commissioner of Taxation a variety of discretions in making an assessment. Publicly available guidelines are in place to support the exercise of discretions which may also be challenged by taxpayers before the AAT.

The ATO has established guidelines for the settlement of taxation debts and negotiated settlement of tax liabilities. The *Debt Collection Policy Manual* and *Negotiated Settlement guidelines* provide ATO staff with the appropriate principles and guidance to manage the collection of tax liabilities. Both guidelines are public documents.

Australia's tax laws give the Commissioner and his officers powers to gain access to buildings, books and documents for the purposes of the tax law. He also has powers to require information to be furnished to him and to require persons to give evidence and produce documents and books, including information held offshore. These powers are also subject to stringent guidelines, and are subject to review by the Courts.

The ATO is also empowered by law to exchange and datamatch specific information with other government agencies including social security to achieve welfare outlay savings and to request information from employers, investment bodies and others to ensure that income is declared.

The ATO has an Internal Assurance Branch that provides independent and impartial audit and fraud prevention control services to the ATO. It carries out fraud control planning and conducts criminal investigation of staff suspected of criminal behaviour including bribery and corruption. The Australian National Audit Office also conducts external audits of the ATO's programs.

The ATO's major taxation processing systems contain audit trail functionality allowing transactions processed to be cross referenced to initiating staff and hardcopy or electronic source data. Taxpayers are uniquely identified within these systems by the use of the Tax File Number. The integrity of the Australian tax system will be further enhanced with the introduction of the Australian Business Number, announced by the Government in 1998, which will eventually provide a common identifier for businesses across all government agencies.

### ***Taxpayer rights and openness of administrative decisions to independent review***

The ATO established a *Taxpayers' Charter* in July 1997 that explains taxpayer legal rights, including rights of review if they are dissatisfied with the ATO's decisions or actions, and main obligations. In support of the *Taxpayers' Charter*, the ATO publishes information about the service standards that the community can expect from the ATO. In 1997-98, the service standard that a decision on an objection be given within 56 days of receiving the necessary information was achieved in 62 per cent of cases. The Commissioner of Taxation's annual report, which is tabled in the Commonwealth Parliament, reports on the operation of the Charter.

Australian taxpayers have numerous avenues for review of administrative decisions. The ATO has established a complaints handling mechanism within the office, the Problem Resolution Service (PRS) which conducts independent reviews of complaints. In 1997-98, 54 per cent of complaints received by the PRS were resolved in favour of the taxpayer, while another 15 per cent were resolved partially in favour of the taxpayer. The tax law gives taxpayers the right to lodge an objection with the Commissioner. All objection decisions by the

ATO must be accompanied by an explanation of the reasons for the decision. Taxpayers have the right of review of an objection decision to the AAT or by appeal to the Federal Court. The AAT includes the Small Tax Claims Tribunal (STCT), a low cost, informal avenue set up to expedite small taxation matters. In 1997-98 the Commissioner's decision was upheld in 54 per cent of cases in the AAT and 53 per cent of cases in the STCT. Decisions that do not relate to the assessment or calculation of tax may be reviewed under the *Administrative Decisions (Judicial Review) Act 1977*. Taxpayers can also make representations to elected Parliamentary representatives or the Commonwealth Ombudsman and complain to the Privacy Commissioner if they believe the ATO has breached the *Privacy Act 1988* in dealing with the taxpayer's personal information.

The ATO has consultative forums with tax practitioners such as the National Tax Liaison Group and utilises private sector consultants, for example, on its Public Rulings Panel and Litigation Panel. It also conducts external consultation with stakeholders in relation to a number of legislative measures.

### **1.2.3 Ethical standards of behaviour for public servants should be clear and well-publicised.**

Public servants are expected to adhere to formal standards contained in the *Public Service Act 1922*, *Public Service Regulations* and other legislation, such as that dealing with the privacy of information and employment discrimination. Agencies also have their own legislation that may impose a further set of obligations on staff working in these agencies. The publication *Guidelines on Official Conduct of Commonwealth Public Servants*, which was revised by the former Public Service Commission in 1995, provides a reference guide to the standards referred to above. Agencies are able to promulgate their own guidelines regarding the standards of official conduct expected of their own staff.

## **II Public availability of information**

*General Principle II is concerned with the need for both comprehensive fiscal information and for governments to commit themselves to publish fiscal information at clearly specified times. The concept of comprehensiveness goes beyond that typically covered in government budget and accounts statements. In particular, the Code emphasises the need to report on any quasi-fiscal activities that have been assigned or otherwise undertaken by non-government agencies.*

**2.1 The public should be provided with full information on the past, current, and projected fiscal activity of government.**

**2.1.1 The annual budget should cover all central government operations in detail, and should also provide information on central government extrabudgetary operations. In addition, sufficient information should be provided on the revenue and expenditure of lower levels of government to allow a consolidated financial position for the general government to be presented.**

### *Central Government budget and extrabudgetary funds*

#### **Box 5: Coverage of Commonwealth Government budget reporting**

Prior to the 1999-2000 financial year, Commonwealth budgets were mainly presented to focus on the activities of the budget sector (those departments and agencies controlled by the Commonwealth whose day-to-day transactions are recorded in the Official Commonwealth Public Account via the Consolidated Revenue Fund, Loan Fund, Commercial Activities Fund or the Reserved Money Fund).

Supplementary presentations were included which presented data on a GFS consistent basis for the general government, public trading enterprise and consolidated non-financial public sectors.

From 1999-2000, the Commonwealth budget will be presented to mainly focus on the Commonwealth general government sector. Data for the general government, public trading enterprise and consolidated non-financial public sector on a GFS basis will continue to be included as a supplementary presentation. Any differences from external reporting standards (such as the System of National Accounts and GFS standards) are reported (as required in the CBH, see section 3.2.4) to allow analysis consistent with those standards.

Issues regarding the reporting of budget transactions on a gross basis are outlined in Box 4, section 1.2.1.

### **Consolidated position of general government**

The annual Commonwealth budget has coverage of the consolidated fiscal position of general government. The budget analyses recent and historical trends in general government and public trading enterprise sector fiscal balances and net debt. *Budget Paper No. 3* presents information on recent developments in Commonwealth-State financial relations, fiscal developments in each of the States, the composition of Commonwealth payments to and from the States and local government, and the outcome of Premiers' Conference and Loan Council meetings.

Information on the consolidated general government sector is available from the ABS, which compiles data on general government finances at the local, State and Commonwealth levels. The ABS releases three annual publications on these data: *Government Finance Statistics*, *Government Financial Estimates*, and *Public Sector Financial Assets and Liabilities*.

Each State budget also contains estimates and forecasts of general government fiscal activity. In each case, these estimates conform to the *Uniform Presentation Framework* (UPF), an agreement which aims to ensure that a common core of financial information is provided in each jurisdiction's budget papers, and that all are consistent with the ABS GFS. From 1998-99, each jurisdiction will also provide updated UPF tables (containing revised estimates and forecasts) for the general government sectors in mid-year review publications.

While the Commonwealth Government budget documents prior to the 1999-2000 financial year have included an analysis of trends in general government information, the focus of the Commonwealth's budget reporting in its annual budget documents has been on the Commonwealth budget sector. This focus will change to general government reporting in the 1999-2000 Budget, as outlined in Box 5.

#### **2.1.2 Information comparable to that in the annual budget should be provided for the outturns of the two preceding fiscal years, together with forecasts of key budget aggregates for the two years following the budget.**

Commonwealth budget documents include the original budget estimates and the estimated outcome (describe as an outturn in the Code) for the preceding year's budget and the actual outcome for the year prior to that. Summary tables included in the budget documents



show trends in outlays and receipts and budget outcomes for more than ten years preceding the budget. The Commonwealth budget documents only include revised estimates for the previous year's outcome (final outcome data has not been included in recent years due to the timing of the budget, which has been brought down prior to the completion of the fiscal year). Final outcomes are published in the final budget outcome (FBO) report (see section 3.4.1).

While Australia does not meet the suggested reporting requirement in the Manual of comparisons of estimates and outcomes for the two years prior to the budget year, there is detailed information published during the budget year on variations to the budget estimates for the previous budget year, the current budget year and the forward estimates.

The Commonwealth Government's legislative framework for the conduct and reporting of fiscal policy, the CBH, requires the Treasurer to publicly release and table a mid-year economic and fiscal outlook (MYEFO) report by the end of January in each year, or within 6 months after the last budget, whichever is later (CBH clause 14).

The MYEFO provides a reconciliation table of variations in budget aggregates for the current budget year and the three forward estimates year. The table disaggregates differences in the revised MYEFO estimates of the budget aggregates into:

- reclassifications;
- policy decisions; and
- changes arising from revised economic parameters and other variations.

In the annual budget documents, a reconciliation is provided for changes to budget estimates for the preceding financial year, the current budget year and the next two forward estimates years since the last budget, showing:

- changes between the original budget estimates and the MYEFO; and
- changes between the MYEFO and the budget, disaggregated into the three elements above.

All budget classification changes are reported in the annual budget documents.

The CBH requires that the budget documents and the MYEFO contain Commonwealth budget sector and Commonwealth general government sector fiscal estimates for the budget year and the following three financial years.

In the event of a general election being called for the federal House of Representatives, the CBH (clause 22) also requires a pre-election fiscal and economic outlook (PEFO) report to be publicly released by the Secretary to the Department of the Treasury and the Secretary to the Department of Finance and Administration within 10 days of the issue of the writ for a general election.

**2.1.3 Statements should be published with the annual budget giving a description of the nature and fiscal significance of contingent liabilities, tax expenditures, and quasi-fiscal activities.**

***Contingent liabilities***

The Commonwealth Government observes the minimum standard in the Manual that a statement be published of the outstanding stock of contingent liabilities of the central government.

The CBH (clause 12) requires that the Treasurer publicly release an economic and fiscal outlook report at the time of each budget, MYEFO and PEFO which contains a statement of the risks, quantified where feasible, that may have a material effect on the fiscal outlook, including:

- (i) contingent liabilities;
- (ii) publicly announced Government commitments that are not yet included in the estimates of the Commonwealth budget sector and Commonwealth general government sector fiscal estimates for the budget year and following 3 financial years; and
- (iii) Government negotiations that have yet to be finalised.

***Tax expenditures***

The Commonwealth Government observes the minimum standard in the Manual that a statement be published with the annual budget of tax expenditures, together with a brief explanation of the nature of each program to enable at least some assessment of their justification and fiscal significance.

The CBH requires the Treasurer to publish:

- an overview of the estimated tax expenditures for the budget year and the following 3 financial years as part of the budget economic and fiscal outlook (clause 12); and
- a detailed statement of tax expenditures (presenting disaggregated information on tax expenditures) as part of the MYEFO (clause 16).

Actual tax expenditures for a number of years prior to the budget year and quantitative estimates of tax expenditures for the budget year and the 3 following years are included in the budget documents and the MYEFO. The budget documents also include information on tax expenditures broken down by functional category.

In addition, a separate *Tax Expenditure Statement* (TES) is published annually by the Department of the Treasury.

The TES provides the following information on Commonwealth tax expenditures:

- the estimated cost of tax expenditures on a functional basis covering the 2 years prior to the budget year, the budget year and the 3 forward estimate years;
- a comparison on a functional basis of the cost of tax expenditures with direct budget expenditures;
- a brief description of each identified tax expenditure, including estimated cost where possible, for the 3 years prior to the budget year, the budget year and 3 forward estimate years; and
- explanations of the tax expenditure benchmarks.

### ***Quasi-fiscal activities***

The Commonwealth Government-owned Export Finance & Insurance Corporation (EFIC) operates a separate ‘national interest account’ for non-commercial undertakings that are requested by the Government. For the remainder of its business, EFIC is presently moving towards accounting separation between fully commercial and non-commercial activities.

The annual budget does not provide a statement of quasi-fiscal activities conducted by non-government agencies as quasi-fiscal activities are not considered significant.

#### **2.1.4 The central government should regularly publish information on the level and composition of its debt and financial assets.**

##### ***Reporting of debt***

Issues raised under this heading, including Australia's observance of the IMF's Special Data Dissemination Standard (SDDS) debt reporting standards, are addressed under the heading *Macroeconomic Data* in Part III of the report.

The Treasury's annual *Commonwealth Debt Management* publication, which is also released on Treasury's website, provides more detailed material, including discussion on Commonwealth debt management.

##### ***Reporting of financial assets***

Adoption of accrual based accounts by the Commonwealth and most States will ensure coverage of both debt and assets in a comprehensive reporting framework (see Box 6).

As part of its accrual financial management framework, the Commonwealth Government has released *Consolidated Financial Statements* for the year ended 30 June 1997 and unaudited statements have been released for the previous 2 years. The statement of assets and liabilities includes valuations of all financial assets and debt. In the notes to the accounts, both financial assets and debt are broken down to a disaggregated level. (For example, investments are broken down into gold holdings, deposits, government securities, debentures, shares, IMF quota, associated entities, and other investments.) All of the major accounting policies used in preparing the Financial Statements are disclosed.

A full balance sheet presentation of the Commonwealth Government budget and accounts (including financial assets and debt) is proposed for the 1999-2000 Budget. This format will be adopted for the budget documents, the MYEFO and the FBO report.

While these documents will provide the information on financial assets required by the Manual, they will be released at longer time intervals than each quarter. Consequently, reporting of financial assets will not meet the timing standard suggested in the Manual of reporting on a quarterly basis within one quarter of the end of the reference period.

## Box 6: Accrual accounting by Australian governments

On 7 May 1997, the Commonwealth Minister for Finance and Administration announced that the Commonwealth Government would implement a fully integrated accrual financial management framework. This will move the Commonwealth into line with most State governments, which have either already adopted or have decided to adopt accrual financial management.

Prior to the implementation of the framework, Commonwealth financial accounting was largely conducted on a *cash* basis, which records when a cash transaction occurs. *Accrual* accounting records when an actual economic transaction takes place, independent of whether the related cash payment is made at that time.

### *Audited consolidated financial statements*

In February 1998, the Commonwealth Government released the first ever audited *Consolidated Financial Statements* for the year ended 30 June 1997 and unaudited statements have been released for the previous 2 years.

The financial statements involve the presentation of primary financial statements that focus on revenues and expenses (to show financial performance); assets and liabilities or balance sheet (to show financial position); and cash flows (to show how activities are financed).

The primary statements are supplemented by schedules of commitments and contingencies that provide information about obligations, undertakings and uncertainties that could, on the happening of future events, impact on performance, financial position and cash flows.

### *Accrual Commonwealth Budget*

From the 1999-2000 fiscal year, the Commonwealth budget and forward estimates will be produced on a similar basis to the consolidated financial statements, together with a capital budget. This approach will assist planning and will facilitate comparison of planned and actual outcomes. Accrual information will provide a more comprehensive measure of the sustainability of government activities and their impact on future generations.

The new financial framework will also include a requirement that agencies specify and cost their outputs against planned outcomes and identify meaningful performance indicators against targets. Outputs and their links to outcomes will therefore form the basis of agency operating budgets (see Box 10, section 3.2.2).

### **Box 6: Accrual accounting by Australian governments (continued)**

The Accrual Information Management System will be the central accrual budgeting system for the Commonwealth Government covering the general government sector. It will provide strategic financial information, budget and forward estimates data and input for the whole of government financial statements, as well as monthly accrual reports.

#### ***Accrual Government finance statistics***

The ABS announced in 1997 that it will change its recording of GFS from a cash accounting to an accrual accounting basis. Published GFS will consist of a main accrual presentation and a cash based supplement, using derived cash data. The first publication of accrual based GFS is expected during 1999. The accrual GFS will show three new summary measures: net lending, increase in net worth and the net operating result (increase in net worth less revaluations).

## **2.2 A public commitment should be made to the timely publication of fiscal information.**

### **2.2.1 Specific commitments should be made to the publication of fiscal information (e.g. in a budget law).**

### **Box 7: The Charter of Budget Honesty Act 1998**

The *Charter of Budget Honesty Act 1998* (CBH) sets out the fiscal reporting standards required to be followed in preparing fiscal reports and requires the Commonwealth Government to publicly release and table regular fiscal reports as follows:

- the first fiscal strategy statement for a particular Government at or before the time of the Government's first budget and thereafter at the time of the Government's subsequent budgets (clause 4);
- a budget economic and fiscal outlook report with each budget (clause 10);
- a mid-year economic and fiscal outlook report by the end of January in each year or within 6 months after the last budget, whichever is later (clause 14);
- a final budget outcome report within 3 months after the end of the financial year (clause 18);
- an intergenerational report every five years (clause 20); and
- a pre-election economic and fiscal outlook report within 10 days of the issue of the writ for a general election (clause 22).

Australia observes the requirements of the SDDS as regards release of fiscal sector information.

- As stated above, the CBH requires a FBO report within 3 months of the end of each financial year that provides information on the Commonwealth general government outcome. The UPF also requires that the States and Territories produce comparable outcome information on their general government sectors. There are two different requirements as to the timing of this information:
  - Jurisdictions producing late budgets (i.e. post June) should present outcome information in their budget documents. All jurisdictions producing late budgets do so less than 6 months after the end of each financial year.
  - Jurisdictions producing early budgets, and other jurisdictions unable to present outcome information in their budget documentation, should publish a separate outcome report within 4 months of the end of each financial year.
- A *Commonwealth Government Statement of Financial Transactions* (CFT) is released each month containing actual Commonwealth government transactions for that month and the total financial year to date. Information provided includes revenues, expenditures, the budget balance (both underlying and headline) and domestic and overseas financing transactions. The CFT is generally released around the last Friday of each month, giving details of the previous month's outcome.
  - From July 1999 the coverage will expand to the Commonwealth general government sector with the aggregate data produced on an accrual basis.
- Australia releases information on central government debt as detailed in section 2.1.4.

Further information on Australia's observance of SDDS reporting standards, are addressed under the heading *Macroeconomic Data* in Part III of the Report.

## **Box 8: Commonwealth Freedom of Information Legislation**

Information held by the Commonwealth may be accessed by the public under the *Freedom of Information Act 1982*, subject to some exceptions. The object of the legislation, as outlined in section 3 of the Act is to:

“...extend as far as possible the right of the Australian community to access to information in the possession of the Government of the Commonwealth by:

- (a) making available to the public information about the operations of departments and public authorities and, in particular, ensuring that rules and practices affecting members of the public in their dealings with departments and public authorities are readily available to persons affected by those rules and practices; and
- (b) creating a general right of access to information in documentary form in the possession of Ministers, departments and public authorities, limited only by exceptions and exemptions necessary for the protection of essential public interests and the private and business affairs of persons in respect of whom information is collected and held by departments and public authorities.”

### **2.2.2 Advance release date calendars for fiscal reporting to the public should be announced.**

The CBH contains requirements (which are publicly available) for no-later-than release times for fiscal reports, as listed in section 2.2.1. Arrangements are in place for the publication of the statements required by the SDDS to advise users where the data can be found, and that month-ahead approximate release dates for the data are disseminated on the IMF's Dissemination Standards Bulletin Board.

Australia does not require an office or contact officer to be made available to provide up to date information on the time of release of fiscal reports. The Manual suggests that countries should make such an office or contact officer available.

Release dates for the general government operations data category of the SDDS are set in advance and are publicly available.



### III Open budget preparation, execution, and reporting

*General Principle III encompasses traditional standards relating to the coverage, accessibility and integrity of fiscal information. Considerable emphasis is placed on the development and harmonisation of international statistical and accounting standards for government reporting.*

**3.1 Budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.**

**3.1.1 A statement of fiscal policy objectives and an assessment of sustainable fiscal policy should provide the framework for the annual budget.**

#### *Medium-term forecasts and budget frameworks*

Fiscal policy in Australia is put together using a medium-term budget framework (MTBF). The major features of Australia's MTBF are:

- the CBH requires the Commonwealth Government to release an annual fiscal strategy statement based on principles of sound fiscal management (clauses 5 and 6);
- an integrated framework to calculate macroeconomic and fiscal estimates for the budget year plus the three following years (CBH, clause 12);
- expenditure estimates for the budget year and the 3 following years are broken down by spending portfolio and functional classification in the budget papers;
- the first out-year forward estimate is the basis of budget negotiations the following year (as revised for economic parameters, policy decisions, reclassifications and other variations); and
- funding for programmes not covered in budget appropriations can be funded through the Additional Estimates process (see section 1.2.1) or specific appropriations. This type of funding would need to be approved by a Committee of Cabinet.

### ***Fiscal sustainability***

The Commonwealth Government has commenced implementation of an accrual financial management framework, which will provide a more comprehensive measure of the sustainability of government activities and their impact on future generations (see Box 6, section 2.1.4).

The CBH (clause 4) also requires that the Government's fiscal policy is set in a sustainable medium-term framework and, to meet this objective, its fiscal strategy is to be based on principles of sound fiscal management. One of these principles is to ensure that the Government's policy decisions have regard to their financial effects on future generations (CBH clause 5).

To meet this principle, the CBH requires an intergenerational report to be produced every five years. The goal of the report is to assess the long-term sustainability of current government policies over the next 40 years, including by taking account of the financial implications of demographic change.

The Commonwealth Government does not publish estimates of the primary balance (the overall balance excluding interest payments) or the cyclically adjusted budget balance as suggested by the Manual. However, the following information is published in the Commonwealth's annual budget documents, although it is not specifically required by the Manual:

- estimates of the underlying budget balance and public debt interest, the components of the primary balance; and
- in accordance with the CBH (clause 12), a discussion of the sensitivity of fiscal estimates to changes in economic assumptions. This information is provided in the form of the sensitivity of outlays and revenues to a selected range of economic parameters, covering both activity and prices (but not aggregate economic growth). Sensitivity to GDP growth, particularly for revenue, may vary significantly, depending on the composition of growth.

#### **3.1.2 Any fiscal rules that have been adopted (e.g. a balanced budget requirement and borrowing limits for lower levels of governments) should be clearly specified.**

The fiscal strategy statement that is required under the CBH (clause 9) is to include, amongst other things:

- the Government's long-term fiscal objectives within which shorter term fiscal policy will be framed;
- the broad strategic priorities on which the budget is or will be based;
- the key fiscal measures that the Government considers important and against which fiscal policy will be set and assessed; and
- how the fiscal objectives and strategic priorities specified and explained above relate to the principles of sound fiscal management.

In addition, the purpose of budget and mid-year economic and fiscal outlook reports is to present information in such a way as to allow an assessment of the Government's fiscal performance against those objectives and targets.

The fiscal strategy statement in the Commonwealth Government's 1998-99 Budget documents states that the Government has adopted a medium-term fiscal strategy of pursuing, as a guiding principle, the objective of underlying balance on average, over the economic cycle.

Further explanation of the strategy is in Box 9.

### Box 9: The medium-term fiscal strategy

The Government's medium-term fiscal objective is to achieve *underlying budget balance on average, over the economic cycle*. The primary objective of the medium-term fiscal strategy is to raise longer-term economic growth by providing for a sustained structural improvement in public sector saving. Adherence to this strategy will ensure that, over time, the Commonwealth Government is saving enough to cover its own investment needs and is, therefore, not directly contributing to the national saving-investment imbalance (that is, the current account deficit).

The '*balance over the cycle*' formulation for the fiscal strategy has two main advantages.

- It provides the flexibility to allow fiscal settings to change in response to economic conditions and external shocks (primarily through the operation of the 'automatic stabilisers' in the budget) while also allowing some scope for discretionary counter-cyclical measures.
- It is consistent with a falling government debt to GDP ratio over time.

### **Box 9: The medium-term fiscal strategy (continued)**

While the ‘over the cycle’ formulation provides clear policy advantages, assessing progress against it, however, may not be straightforward. This is largely due to the need to make an assessment of the likely duration and profile of the economic cycle (although this issue arises, to some degree, for any medium-term objective).

- For example, in a particularly long cycle, relatively modest surpluses during a prolonged expansion may be more than sufficient to achieve the medium term fiscal target. However, in a shorter cycle, more substantial surpluses may be required in order to build up the necessary buffer to absorb future deficits and remain on track to achieving the fiscal target.
- Cycles are quite variable and past experience may not provide a good guide to the future, given the substantial improvement in the conduct and transparency of macroeconomic management (and other policy settings).

The Government buttressed the medium term fiscal strategy with several clearly defined supplementary fiscal targets. These targets typically have a shorter term focus and help to provide a clearer guide for fiscal policy — that is, they are intended to act as guideposts to the achievement of the medium-term objective. The Government's current supplementary fiscal targets, as outlined in the 1998-99 Budget Statements, include:

- maintaining surpluses over the forward estimates period while economic growth prospects remain sound;
- halving the ratio of Commonwealth general government net debt to GDP from 20 per cent in 1995-96 to 10 per cent by 2000-01; and
- directing sufficient resources to high priority areas, while significantly reducing the ratio of outlays to GDP through to the turn of the century.
- Some of the targets outlined in the 1998-99 Budget have already been achieved. For example, the Government set itself the target of returning the budget to surplus within three years. This was achieved in 1997-98, a year ahead of schedule. This target provided a very clear short-term goal against which progress could be readily assessed. Now that it has been achieved, the Government is targeting the maintenance of budget surpluses while economic growth prospects remain sound.

**3.1.3 The annual budget should be presented within a comprehensive and consistent quantitative macroeconomic framework, and the economic assumptions and key parameters (e.g. effective tax rates) underlying budget estimates should be provided.**

Macroeconomic forecasts for the coming financial year are presented in the annual budget, along with an explanation of the reasoning underlying the forecasts. The forecasts draw upon information from a variety of sources, particularly estimated historical relationships, survey data and other partial indicators, extensive business liaison and input from Treasury's macroeconomic model. The key macroeconomic parameters underlying budget estimates for the following three years are also presented.

Budget documents clearly explain that these parameters for the forward years are technical projections, rather than forecasts and are prepared solely as a basis for budget figuring. The technical projections for economic growth are consistent with the average growth experienced over the past three decades, while the projections for inflation are consistent with the mid-point of the medium-term inflation target band. Calculations of the sensitivity of budget estimates to changes in macroeconomic parameters are also presented (see section 3.1.1, *Fiscal sustainability*).

**3.1.4 Existing commitments should be distinguished from new policies included in the annual budget.**

New policies are clearly distinguished from existing commitments in the budget documents. All new policies announced in the budget and all new measures introduced since the last fiscal report (normally the previous MYEFO) are described in a separate budget document (*Budget Paper No. 2 — Budget Measures*).

The detail provided includes the estimated fiscal impact of the measure in the budget year and the three forward estimate years. A summary table of all new policies is also included in the budget documents.

The MYEFO includes information on new policies introduced since the last fiscal report.

**3.1.5 Major risks to the annual budget should be identified and quantified where possible, including the variations in economic assumptions and the uncertain costs of specific expenditure commitments (e.g. financial restructuring).**

The CBH (clause 12) requires that each economic and fiscal outlook report contain:

- the economic and other assumptions for the budget year and the following 3 financial years that have been used in preparing the fiscal estimates underlying the budget (as outlined in section 3.1.3); and
- a discussion of the sensitivity of the fiscal estimates to changes in economic and other assumptions (see section 3.1.1, *Fiscal sustainability*).

The CBH (clause 12) requires that a statement of fiscal risks be incorporated in each economic and fiscal outlook report in the budget, MYEFO and PEFO, as outlined in section 2.1.3.

**3.2 Budget estimates should be classified and presented in a way that facilitates policy analysis and promotes accountability.**

**3.2.1 Government transactions should be on a gross basis, distinguishing revenue, expenditure and financing, and classifying expenditure on an economic and functional basis. In addition, expenditure should be classified by administrative category. Data on extrabudgetary operations should be similarly classified. Budget data should be presented in a way that allows international comparisons.**

***Comprehensiveness and compatibility with GFS***

The budget documents break expenditure down by economic type, functional (and subfunction) and spending portfolio. More detailed information on each portfolio's expenditure is provided in Portfolio Budget Statements (PBS), as outlined in Box 10, section 3.2.2.

Issues raised under this heading regarding the reporting of budget transactions on a gross basis and the coverage of the Commonwealth

Government budget reporting are outlined in Box 4 (section 1.2.1) and Box 5 (section 2.1.1).

### **Consistency with administrative accountability**

All Commonwealth departments and agencies are classified to their appropriate institutional sectors (general government, public trading enterprises or public financial enterprises).

Departments and agencies in the general government sector are required to provide budget estimates for inclusion in PBS. PBS include both forward estimates for the budget period, and a comparison of the updated estimates versus the budget time estimates for the previous year. Data in the PBS is consistent with the aggregates included in Commonwealth budget papers.

From 1999-2000, the Commonwealth budget will be produced on an accrual basis. Each general government sector department and agency will complete, as part of the budget process, a standard set of financial accounts to include estimates for the budget year and the following three forward years. These estimates will have been produced under a new framework whereby each of these departments and agencies will plan, budget, manage and report using an outcomes and outputs framework (see Box 6, section 2.1.4).

### **3.2.2 A statement of objectives to be achieved by major budget programs (e.g. improvement in relevant social indicators) should be provided.**

#### **Box 10: Portfolio Budget Statements in an accrual framework**

The Commonwealth Government is committed to introducing in 1999-2000 a full accrual budget and accounting system, which will have outcome and output based estimates and appropriations.

Portfolio Budget Statements (PBS), which are prepared by each agency in a portfolio as part of the normal budget documentation, will play a key role in reporting and accountability arrangements. The following information will appear in PBS:

- planned outcomes (i.e. the policy objectives to be achieved) for each agency as agreed between the responsible Minister and the agency;
  - these will include the planned outcomes for programs administered by each agency.

**Box 10: Portfolio Budget Statements in an accrual framework (continued)**

- the outputs that the agency will produce to contribute to achieving the planned outcomes and the cost of those outputs; and
- the means for assessing the achievement of, or contribution to, outcomes (i.e. performance indicators).

Reporting actual outcomes will be achieved through each agency's annual report. The outcome and output structures specified in the PBS should form the basis for reporting agency performance in annual reports. Annual reports will report actual outcomes against the planned outcomes in the PBS and should reflect any unanticipated outcomes or the impact of external factors on achievements.

**3.2.3 The overall balance of the general government should be a standard summary indicator of the government's financial position. It should be supplemented by other fiscal indicators (e.g. operational balance, structural balance and primary balance) when economic circumstances make it inappropriate to base judgements about fiscal policy stance on the overall deficit alone.**

The current summary indicator of the Commonwealth government's fiscal position is the underlying cash budget balance. The underlying balance is measured as revenue less underlying outlays (defined as outlays excluding net advances). Net advances consist of net policy lending (new policy lending less repayment of past policy lending) and net equity transactions (equity injections/purchases less equity sales).

Information on the financial position of the Commonwealth will be enhanced with the introduction of accrual accounting (see Box 6, section 2.1.4).

The Commonwealth budget papers do not currently include the supplementary fiscal indicators suggested by the Manual (although the primary balance can be derived from the data in the budget papers) as Australia's economic circumstances do not make it inappropriate to base fiscal policy judgements solely on the underlying budget balance. (Also see section 3.1.1, *Fiscal sustainability*.)



**3.2.4 The annual budget and final accounts should include a statement of the accounting basis (i.e. cash or accrual) and standards used in the preparation and presentation of budget data.**

The CBH requires (clause 12) that each economic and fiscal outlook statement (including that released with the budget) is to:

- be based on external reporting standards; and
- identify, in general terms, the reporting standards on which it is based and any ways in which it departs from those standards.

The CBH (clause 9) also requires the government (in its fiscal strategy statement) to explain broadly the reporting basis on which subsequent fiscal reports will be prepared.

Accrual based recording and reporting is being introduced in most Australian jurisdictions (Box 6, section 2.1.4).

**3.3 Procedures for the execution and monitoring of approved expenditures should be clearly specified.**

**3.3.1 A comprehensive, integrated accounting system should be established. It should provide a reliable basis for assessing payments arrears.**

The Manual suggests that an accounting system should be based on well-established internal controls and encompass (i.e. capture and record information on) all of the types of transactions referred to in the last paragraph of this section.

***Internal control systems***

The Commonwealth's fiscal and financial position is subject to a variety of checks and balances, including:

- Cabinet Committees review and authorise all material expenditure proposals;
- Senate Estimates Committee review of departments' and agencies' expenditure programs; and
- mandated requirements of departments and agencies to maintain accurate and timely financial accounts that meet strict reporting standards. The regulatory financial framework of the

Commonwealth has recently been upgraded through the introduction of the *Financial Management and Accountability Act 1997*, the *Commonwealth Authorities and Companies Act 1997* and the *Auditor-General Act 1997*;

- these Acts mandate fiscal and financial responsibilities at the agency level and place responsibility on agency heads to ensure that their activities are effectively and efficiently managed and monitored. All agencies' financial accounts are independently audited every year.

Accounting for the issues raised under the headings ***assessment of arrears, coverage of domestic and externally financed transactions, aid in kind, and balance sheet operations*** are covered in the accrual framework currently being implemented by the Commonwealth Government (see Box 6, section 2.1.4.).

### **3.3.2 Procedures for procurement and employment should be standardised and accessible to all interested parties.**

#### ***Procurement and tendering***

Under regulations accompanying the *Financial Management and Accountability Act 1997*, the Minister for Finance and Administration has the power to issue guidelines about matters relating to government procurement. Regulation 7 of the *Finance Management and Accountability Regulations* outlines guidelines relating to, among other things, publication of details of Commonwealth contracts and agency agreements.

Pursuant to these regulations, the Minister for Finance and Administration has issued *Commonwealth Procurement Guidelines*, which outline the standards expected of Commonwealth procurement activity. The standards are based on 6 core principles:

- Value for Money;
- Open and Effective Competition;
- Ethics and Fair Dealing;
- Accountability and Reporting;
- National Competitiveness and Industry Development; and
- Support for Other Commonwealth Policies.

## **Employment**

All governments in Australia have an established framework for employment arrangements. All jurisdictions have introduced reforms to employment regulation, generally involving greater decentralisation of authority to agencies, an emphasis on performance related pay and workplace bargaining, while retaining the concept of common grades and uniformity in base level pay increases.

### **3.3.3 Budget execution should be internally audited, and audit procedures should be open to review.**

The *Financial Management and Accountability Act 1997* provides a framework for the proper management of public money and public property. Part 7 of the Act outlines rules that apply to Chief Executives of Agencies, including the control and management of public money and public property for which Chief Executives have a management responsibility. Section 46 of Part 7 outlines the requirements for managers to establish an Audit committee for their agencies, with the functions and responsibilities required by the Finance Minister's Orders.

Under sub order 2.1 of the Finance Minister's Orders (issued under section 63 of the *Financial Management and Accountability Act 1997*), the terms of reference for an Audit Committee must include particulars of membership, frequency of meetings and functions and responsibilities.

The *Commonwealth Authorities and Companies Act 1997* provides a single set of core reporting and auditing requirements for directors of Commonwealth authorities and sets out standards of conduct for officers. The Act provides a single set of requirements for ensuring that wholly-owned Commonwealth companies keep Ministers and the Parliament informed of their activities.

### **3.4 Fiscal reporting should be timely, comprehensive, reliable, and identify deviations from the budget.**

**3.4.1 During the year, there should be regular, timely reporting of budget and extrabudgetary outturns, which should be compared with original estimates. In the absence of detailed information on lower levels of government, available indicators of their financial position (e.g. bank borrowing and bond issues) should be provided.**

### ***Reconciliation with budget estimates***

Each budget year, a MYEFO and FBO report are required to be publicly released under the CBH (clause 14).

The MYEFO report updates key information contained in the most recent budget economic and fiscal outlook report. The information in the MYEFO report is to take into account, to the fullest extent possible, all Government decisions and all other circumstances that may have a material effect on the fiscal and economic outlook.

The MYEFO provides updated economic and fiscal information (including new estimates of the full budget year outcome) to allow assessment of the Government's fiscal performance against the fiscal strategy set out in its current fiscal strategy statement.

All changes in the fiscal estimates since the budget-time estimates are reconciled and explained in the MYEFO (in the categories of parameter changes, policy decisions, reclassifications and other variations).

The purpose of the FBO report is to report Commonwealth fiscal outcomes for the financial year.

### ***Timeliness***

In addition to the annual Commonwealth budget, the Commonwealth also publishes the MYEFO and FBO as outlined in the previous section.

On a monthly basis, the Commonwealth also publicly releases the *Commonwealth Government Statement of Financial Transactions* (see section 2.2.1).

### **General government coverage**

From 1999-2000, the focus of reporting in the Commonwealth budget accounts will be the Commonwealth general government sector, as outlined in Box 5, section 2.1.1.

#### **3.4.2 Timely, comprehensive, audited, final accounts of budget operations, together with full information on extrabudgetary accounts, should be presented to the legislature.**

Section 55 of the *Financial Management and Accountability Act 1997* outlines the requirements for the preparation of annual financial statements. The section requires that:

- 55.(1) As soon as practicable after the end of each financial year, the Finance Minister must prepare the annual financial statements required by the regulations.
- 55.(2) The Finance Minister must give the statements to the Auditor-General as soon as practicable after they are prepared.
- 55.(3) If the Finance Minister has not given the statements to the Auditor-General within 5 months after the end of the financial year, the Finance Minister must cause to be tabled in each House of the Parliament a statement of the reasons why the statements were not given to the Auditor-General within that period.

Information on the consolidated general government sector is available from the Australian Bureau of Statistics (ABS), which compiles data on general government finances at the local, State and Commonwealth levels (as outlined under the heading *Consolidated position of general government* in section 2.1.1).

#### **3.4.3 Results achieved relative to the objectives of major budget programs should be reported to the legislature.**

Issues raised under this section are addressed in Box 10, section 3.2.2.

## IV Independent assurances of integrity

*General Principle IV emphasises the usual means of providing assurances of integrity through external audit and statistical independence, but then goes beyond this and calls for openness by governments to allow independent scrutiny.*

### **4.1 The integrity of fiscal information should be subject to public and independent scrutiny.**

#### **4.1.1 A national audit body, or equivalent organisation, should be appointed by the legislature, with the responsibility to provide timely reports to the legislature and public on the financial integrity of government accounts.**

#### ***Office of the Auditor-General***

The *Auditor-General Act 1997* which took effect from 1 January 1998, establishes a statutory office of the Auditor General and also establishes the Australian National Audit Office (ANAO) as a statutory body. The Act also:

- outlines the Auditor-General's functions, mandate and powers; and
- provides for the independent audit of the ANAO.

The Auditor-General's mandate encompasses the conduct of financial statement audits and performance audits of Commonwealth agencies, authorities, and owned and controlled companies. Government business enterprises (which are effectively commercial bodies operating in competition with the private sector) are not subject to performance audits. However, the responsible Minister, the Minister for Finance and Administration or the Commonwealth Parliamentary Joint Committee of Public Accounts and Audit (JCPAA) can request the Auditor-General to conduct a performance audit.

#### ***Reporting arrangements***

The Auditor-General Act provides for the reporting of the results of audits to the Federal Parliament. The Act also allows the Auditor-General to report to the Parliament and Ministers on any matter. Reporting arrangements in respect of financial statement audit reports provide for audit reports to be provided to the responsible Minister and for the responsible agency to include the audit report in its Annual Report, along with its audited financial statements.

All audits undertaken by the ANAO must comply with auditing standards determined by the Auditor-General. The existing auditing standards are based on the auditing standards promulgated by the two peak accounting bodies in Australia: the Institute of Chartered Accountants and the Australian Society of Certified Practising Accountants. These standards comprehensively set out the basis on which performance and financial statements are to be undertaken, including standards relating to the supervision and training of staff.

### ***Independence of the Auditor-General***

The Auditor-General's independence is assured in a number of ways. Under the Auditor-General Act, the Auditor-General:

- is an independent officer of the Parliament;
- is appointed by the Governor-General following the approval of the JCPAA;
- is appointed for a 10 year period;
- can only be dismissed by a resolution of both Houses of the Commonwealth Parliament; and
- cannot be directed by any body (including the Parliament and the Executive) in relation to his or her functions.

### ***Review arrangements***

The JCPAA is responsible for reviewing all audit reports tabled in the Parliament by the Auditor-General. In addition, reports are often reviewed by other Parliamentary Committees who may have a special interest in a particular report.

Arrangements also exist for the Government to monitor the implementation of all recommendations made by the Auditor-General. The results of this activity are reported to the JCPAA every 6 months.

At the agency level, it is accepted practice for the agency's response to each recommendation to be included in the audit report.

### ***Funding arrangements***

As part of the arrangements that took effect from 1 January 1998, the JCPAA is responsible for reviewing the annual draft budget for the ANAO and recommending to the Parliament and the Prime Minister the level of funding considered necessary for the Auditor-General to

meet his or her statutory responsibilities. This arrangement allows for direct Parliamentary involvement in setting the funding arrangements for the ANAO.

Once the level of funding is determined by the Parliament as an integral part of the Commonwealth Government's budget, the Government of the day must make funds available to the Auditor-General. This ensures that the Government of the day cannot withhold funding to the ANAO.

### ***Access to records and information***

The Auditor-General Act provides the Auditor-General with the power to obtain access to all records and information, in whatever form necessary, to undertake his or her responsibilities. This includes the records held by third parties who provide services to or on behalf of the Commonwealth Government. The Auditor-General is also able to access any Commonwealth Government premises for the purpose of undertaking audits.

### ***Review mechanisms***

The Auditor-General is subject to financial and performance audits by an Independent Auditor appointed by the Governor-General. The Independent Auditor's reports and the result of his or her audits are prescribed to the Parliament.

The ANAO has well established quality assurance and benchmarking arrangements in place as an integral part of its own corporate governance arrangements.

#### **4.1.2 Macroeconomic forecasts (including underlying assumptions) should be available for scrutiny by independent experts.**

Official macroeconomic forecasts are published by the Government twice a year, at budget time and in a mid-year review. An abbreviated set of forecasts is also published by the Secretaries of the Departments of Finance and Administration and Treasury immediately before a federal election is held (in the PEFO).

In the budget, forecasts are presented for the economy for the coming financial year, along with an explanation of the reasoning underlying the forecasts. These budget forecasts are reviewed around the middle of the financial year and published in the MYEFO. A comparison of



the budget and updated forecasts is set out in the MYEFO and a preliminary set of key forecasts for the following financial year is also provided.

There are several avenues through which macroeconomic forecasts are subject to scrutiny by independent parties. First, given that the forecasts are publicly available, they are subject to comparison against forecasts provided by the private sector and other agencies (such as the IMF and Organisation for Economic Co-operation and Development (OECD)). This fosters a significant amount of public debate over the credibility of the forecasts. It should be noted, however, that Australia presents the forecasts on a fiscal year basis, whereas agencies such as the OECD and the IMF typically present forecasts on a calendar year basis. Second, the macroeconomic forecasts are scrutinised through parliamentary processes such as regular Senate committees. Finally, the Australian Treasury regularly publishes a review of the macroeconomic forecasts and actual outcomes at the end of the financial year. In 1996, Treasury also published an article on the forecasts which included an evaluation of the budget forecasts for real GDP growth and CPI inflation since the late 1970s ('Macroeconomic Forecasts: Purpose, Methodology and Performance', *Economic Roundup*, Autumn 1996).

#### **4.1.3 The integrity of fiscal statistics should be enhanced by providing the national statistics office with institutional independence.**

The ABS is Australia's official statistical agency. Its mission is to assist and encourage informed decision-making, research and discussion within governments and the community by providing a high quality, objective and responsive national statistical service.

The principal legislation determining the functions and responsibilities of the ABS are the *Australian Bureau of Statistics Act 1975* and the *Census and Statistics Act 1905*. The Census and Statistics Act provides the Statistician with the authority to conduct statistical collections and, when necessary, to direct a person to provide statistical information. The Act imposes on the ABS obligations to publish and disseminate compilations and analyses of statistical information and to maintain the confidentiality of information collected under the Act.

The Australian Statistician determines which statistics are to be collected, after full discussion with users, clients and the Australian Statistics Advisory Council and makes the results widely available.

The independent status of the Australian Statistician is specified in law, and the ABS has always received strong Parliamentary and community support.

In releasing statistics, the ABS follows long established principles that results should be made available as soon as practicable and should be equally available to all users. Statistical publications are released under embargo to ensure equal access to all users.

The ABS strives to produce high quality data with high credibility with users. Credibility is fundamental to the effective use of ABS statistics, and requires both the perception and the fact of ABS objectivity, accuracy and relevance. Credibility is an attribute of the organisation's outputs as a whole, and arises from a system of statistics that is coherent, and relevant to current significant concerns, while providing an objective window on the work and performance of government.

The ABS is open about the methods used in collecting data and any quality concerns about data. It ensures that the information set built is both relevant to current policy concerns, and at the same time provides an objective ongoing base for monitoring government performance and community well being. ABS processes are monitored to ensure collection processes produce high quality statistics and performance is improved. Statistical methodologies, frameworks, processes, and collections are periodically reviewed in terms of the quality of the statistics they produce.