

**Public Accounts Committee Inquiry into  
“Government Financial Reporting”**

**Issues**

**1. Stakeholders’ Ability to Assess Performance**

Q. Does the current reporting regime enable stakeholders to readily assess the integrity, economy, efficiency and effectiveness of government financial management ? If not, what improvements could be made ?

A. The ability of stakeholders to readily assess the integrity, economy, efficiency and effectiveness of government financial management depends on two conditions -

1. The knowledge, skills, and experience of stakeholders to read and understand the reports.
2. The ability of preparers of reports to present reports in such a way that they can be readily understood by stakeholders.

Although there are some excellent examples of where both conditions are satisfied, under normal circumstances neither condition is adequately satisfied. This can lead to inappropriate judgements being made about the financial performance and financial position of public sector entities, and inappropriate decisions being made about the future allocation of financial and other resources.

Employees who have acquired professional accounting qualifications have a professional responsibility to prepare financial reports which are readily understood by internal and external users of the reports. The reports can include, for example, a written commentary with visual aids such as graphs and bar charts, to explain the numbers and trends in the financial reports.

The financial reports for any significant public sector entity should be prepared by staff with professional accounting qualifications.

It is entirely possible, and highly desirable, for complex financial reports to also be expressed in plain language so that the financial reports are more useful to stakeholders and other users of the reports who do not possess an accounting background. This is crucial for decision-making purposes.

Some of the reforms in the public sector in Australia and elsewhere have delivered better information to a range of stakeholders. The ultimate beneficiaries of these reforms are the managers of the public sector and the taxpayers.

Where the reforms have failed to deliver better information, the costs will be borne by current and future generations of taxpayers.

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**2. Availability of General Information**

Q. What information is available to assess the economy, efficiency and effectiveness of government operations in general ?

A. There is a great deal of information that is readily available for assessments of the economy, efficiency and effectiveness of government operations, both at a whole-of-government level and at specific public sector entity level.

Such information may include the Charter of Social and Fiscal Responsibility, the Priorities in Progress 2003-04 Report, Whole-of-Government Annual Financial Statements, Auditor-General’s Reports, Reports to Parliament, Reports of Professional Associations on Public Sector Performance in Australia and in other countries, community consultation, corporate or strategic plans, long term financial forecasts, business plans, operational plans, annual budgets, internal management reports, external reports to stakeholders and the community, and reports by internal and external auditors, evaluators, and consultants.

**3. Availability of Specific Information**

Q. What information is available to assess specific public sector entity performance ?

A. Likewise, there is a great deal of information that is readily available for assessments of the economy, efficiency and effectiveness of government operations, both at a specific public sector entity level, as well as at a whole-of-government level.

Such information may include community consultation, corporate or strategic plans, long term financial forecasts, business plans, operational plans, annual budgets, internal management reports, external reports to stakeholders and the community, and reports by internal and external auditors, evaluators, and consultants.

**4. Usefulness of Annual Reports and Financial Reports**

Q. How useful are annual reports and other government financial reports ?

A. The usefulness of annual reports and other government financial reports to external and internal stakeholders and readers of these reports depends on two conditions -

1. The knowledge, skills, and experience of stakeholders and users of these reports to read and understand the reports.

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2. The ability of preparers of reports to present reports in such a way that they can be readily understood and used by stakeholders and other readers of the reports.

Although there are some excellent examples in Queensland, Australia and other countries of where both conditions are satisfied, under normal circumstances neither condition is adequately satisfied. This can lead to inappropriate judgements being made about the performance and organisational health of public sector entities, and inappropriate decisions being made about the future structure of the public sector entity, and the allocation of resources.

In Queensland, local governments are required to publish a “Community Financial Report” in plain language which can be readily understood by the community.

In Australia, publicly listed corporations are required to publish a “Concise Financial Report” which includes a management discussion and analysis of the annual financial statements.

In the United States of America, local governments are encouraged by the Government Finance Officers Association to publish a “Popular Annual Report”, which is a simplified version of the statutory annual report.

It may be noted that, although financial reports on “cash flows” (cash accounting) will always be important, it is not possible to adequately assess the financial performance and financial position of an organisation unless the organisation has adopted the “accrual accounting” basis for financial management.

**5. Non-Expert Users’ Ability to Assess Performance**

Q. Is performance information readily accessible, and can it be interpreted by non-expert users ?

A. Some performance information is readily accessible. Some performance information is almost certainly not available as it has not yet been identified, measured and reported.

There are many examples of performance information that can be readily interpreted by non-expert users.

Likewise, there are numerous examples of performance information that cannot be readily interpreted by non-expert users.

Where performance information is not yet available because it has not yet been identified, measured and reported, it will not be able to be interpreted by anyone, be they an expert user or a non-expert user.

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**6. External Reports Linked to Internal Reports**

Q. Is the financial information presented in annual reports linked to management reporting ?

A. Financial information, and non-financial information presented in annual reports should be routinely linked to internal management reporting.

There may be some good examples of where this routinely occurs.

In practice, there appears to be a significant difference between the content and presentation of the financial information presented in annual reports, and that disclosed in internal management reports.

The then Australian Society of CPAs published in 1996 a very good guide on “Best Practice in Monthly Management Reporting”, which is still very relevant.

There is no intrinsic reason why internal financial reports should not be routinely audited by internal or external auditors, and why internal financial reports should not be linked to audited external annual financial reports.

**7. Scope of External Audits**

Q. Do audited financial statements meet performance needs, or do they only address compliance ?

A. The legislation in Queensland requires the audited financial statements to only address compliance. However, the Auditor-General of Queensland does have a legislative mandate to audit public sector performance management systems, and there are alternative channels of communication outside the audited financial statements for the Auditor-General to comment and report on performance issues of public sector entities.

It may be noted that the Auditor-General’s mandate in jurisdictions elsewhere in Australia and other countries is wider than that in Queensland, and those mandates enable the Auditor-General to conduct performance audits, and to report upon the effectiveness of public sector entities.

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**8. Usefulness of Budgeted Figures**

Q. How useful are budgeted figures in the government financial reporting process ?

A. The usefulness, to stakeholders and users, of budgeted figures in the government financial reporting process, will depend on the extent to which, and how -

- the budget is allocated to individual accounts in the general ledger and the cost ledger,
- the variances between actual results and budgeted results are reported and investigated.

It is certain that there will be examples of organisations where this is well done. Likewise, there will be many examples of organisations where this is not well done.

**9. Effects of Implementation of AEIFRS**

Q. Will the introduction of international accounting standards provide more meaningful information about a public sector entity's performance ?

A. Yes. The Commonwealth Government's purpose of implementing the Australian equivalents of the International Financial Reporting Standards (AEIFRS) is to ensure that external general purpose financial reports are prepared on the same basis and are comparable to other entities in other jurisdictions in Australia and overseas.

Australia is most fortunate to have, and to have had for over three decades, a well-established professional process for the development of best practice accounting standards. The transition in Australia to the (AEIFRS) will be easier than for other jurisdictions where accounting standards are not so advanced.

It should be noted that over 90 countries are currently harmonising their national accounting standards with the international accounting standards (IAS). Although the United States of America (USA) is not one of these countries yet, because the gap between their accounting standards and IAS is too wide, the USA does intend to eventually harmonise its accounting standards with the IAS.

It may also be noted that Australia is now developing “sector-neutral” accounting standards, which will assist the comparability of financial reporting for any organisation.

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**10. Other Matters**

Q. Are there any other relevant matters the Committee needs to address ?

A. The usefulness of internal and external financial reports varies significantly between organisations, between jurisdictions in Australia, and between countries.

There are some very good examples, in Queensland, of impressive internal and external financial reports in the public sector.

Likewise, there are some very good examples, elsewhere in Australia and in other countries, of impressive internal and external financial reports in the public sector.

The conditions for impressive internal and external financial reports appear to be -

1. The legislative requirements.
2. The use of professional best practice standards for any activity.
3. The demands and requirements of internal and external users.
4. The professional qualifications, knowledge, skills and experience of preparers of financial reports.

Where these conditions are met, they will usually lead to a highly performing organisation.

Where some or all of the conditions are absent, it increases the risk that internal and external financial reports will not satisfy the needs of internal and external stakeholders and users.

If this Inquiry identifies a gap between the ability of stakeholders to understand government financial reporting, and the ability of preparers of financial reports to meet the needs of stakeholders, it may be useful for the PAC to consider -

1. What needs to be done to improve stakeholders' ability to understand government financial reporting ?
2. What needs to be done to improve the ability of preparers of financial reports to meet the needs of stakeholders ?

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There are many examples of relevant management standards and frameworks which may assist the PAC with its Inquiry. The use of the following management standards and frameworks have assisted many organisations -

- to prepare internal and external government financial reports that meet the needs of their stakeholders, and
- to become highly effective organisations.

The following list is just a sample of better practice management standards which will assist the preparation of useful internal and external reports. There are many other relevant standards.

- \* Tone at the Top (IIA)
- \* Managing for Outcomes (MFO)
- \* International Association of Public Participation (IAPP)
- \* Best Practice Simplified Internal and External Reporting (LGAQ)
- \* Local Government Bulletin 17/03 on Community Financial Reports (DLGPSR)
- \* Framework for the Preparation and Presentation of Financial Statements (AASB)
- \* Management Accounting Standards (CIMA)
- \* USA's Criteria for Popular Annual Reports by Governments (GFOA)
- \* Best Practice in Monthly Management Reporting (CPA Aust)
- \* Balanced Scorecard Planning and Reporting (Kaplan & Norton)
- \* Australian Business Excellence Framework (ABEF)
- \* Integrated Internal Control Framework (IIA)
- \* Australasian Reporting Awards Criteria (ARA)
- \* Queensland Public Sector Annual Report Awards Criteria (IIA)
- \* Global Reporting Initiative Guidelines for Sustainability Planning and Reporting (GRI)
- \* Australian/New Zealand Risk Management Standard (AU/NZ 4360:2004)
- \* Enterprise Risk Management - Integrated Framework (COSO)
- \* Control and Risk Self-Assessment (IIA)
- \* Three Frames (DPI&F)
- \* IT Governance (IT Institute)
- \* Public Sector Corporate Governance Framework (ANAO)
- \* Human Resource Management Standards (AHRI)
- \* Customer Service Standards (Standards Australia)
- \* The Habits of Highly Effective Organisations (Covey)
- \* Program Management and Evaluation (ANAO)
- \* Evaluation Standards (AES)
- \* Corruption Prevention Practices Manual (CMC)
- \* Managing Conflicts of Interest Toolkit (CMC)
- \* Trends in Corporate Reporting - Towards ValueReporting (PwC)
- \* Corporate Alignment ([www.corpalign.com](http://www.corpalign.com))
- \* Characteristics of An Ideal Local Authority ([www.idea.gov.uk](http://www.idea.gov.uk))