

Office of the Director-General

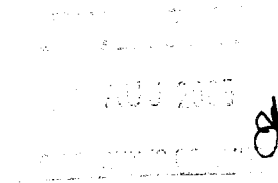


Department of
Primary Industries and Fisheries

Reference: 05/07920

10 AUG 2005

Mr Gary Fenlon MP
Chair
Public Accounts Committee
Parliament House
George Street
Brisbane Qld 4000



Dear Mr Fenlon, *Gary*

Inquiry into financial reporting

The following information has been prepared in response to your letter concerning the above matter, dated 13 May 2005.

The Department of Primary Industries and Fisheries (DPI&F) continues to achieve best practice financial reporting. Our ultimate aim is to assist stakeholders in their decision-making processes, and to provide the information stakeholders need to assess the integrity, economy, efficiency and effectiveness of the department's financial management.

DPI&F has a strong governance framework, designed to help deliver efficient and effective services to a diverse range of stakeholders in an accountable way. Good governance is dependent on decision makers being provided with relevant, reliable and timely information. We have achieved this by:

- clarifying the roles and responsibilities for the Senior Executive Team (SET) and DPI&F staff
- having a robust system of accountability through control, monitoring and review, including internal reporting, a strong internal audit team and an independent audit committee
- transparency through good external reporting

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- a new risk management framework that aims to integrate risk management with all other departmental management responsibilities.¹

The department provides the following resources to support decision-making, as well as providing the information users require to assess the department's effectiveness in delivering its outputs :

- Annual Report prepared in accordance with Australian Accounting standards and other legislative requirements.
- Ministerial Portfolio Statement.
- Strategic Plan.
- various strategic discussion papers.
- Information Policy Framework which defines the department's requirements for information management, knowledge management and information technology.
- Senior Executive Team (SET) updates; which are available on the department's intranet for all staff to read.
- Business model for performance management which will enable performance management, allowing access to information across the organisation to inform decision-making for strategic directions, industry investment, priority setting and resource allocation.
- Project development: planning and funding – Research and Development (R&D) proposal assessment process, funding bodies and fund co-ordinators, R&D priorities, intellectual property.
- Various information and data systems including:
 - Datapond – DPI&F information portal for financial, performance and human resource data.
 - Clarity – performance management system.
 - SAP System and its modules.
 - Asset Register.
 - Portable and Attractive Items Register.
 - LIMS (Laboratory Information Management System).

The department's annual report is an effective means of collating and presenting data from a variety of sources, in an easy to understand format, to provide stakeholders with the information they require to evaluate the department's financial position and performance.

¹ Report No. 7 2004-05 Results of Audits as at 31 October 2004 and Public Sector Auditing 1997-2004 – A Reflection, QAO, 2004, s5.2.1.

“Financial reports play a major role in fulfilling government’s duty to be publicly accountable because they are used to assess that accountability. The duty to be publicly accountable is more significant in government financial reporting than in business enterprise financial reporting”².

The department maintains a process of continuous improvement of the quality of the information, both financial and non-financial, provided in its internal and external financial reports, as this quality ultimately determines the usefulness of such reports to users. The department strives to provide information that is useful to evaluating management and organisational performance and allows users to make informed decisions about the allocation of resources to achieve its desired outcomes, as outlined in the Ministerial Portfolio Statement (MPS).

Performance information is readily accessible and is published in the department’s annual report in a scorecard format so all users, including those users who may not be conversant with public sector terminology and standards, can easily interpret it. The department is currently upgrading the performance management system (referred to as “Clarity”) to provide improved information in the performance management framework. The system will be used to monitor, evaluate and report on the achievement of performance outcomes. The department’s financial systems and performance management system are to be aligned, creating a single whole-of-department performance management and reporting system.

In 2004 the department undertook an organisational review, which involved extensive consultation with State Government Agencies, industry representative bodies and universities to examine critically DPI&F’s role, functions and structure. The review allowed the department to restructure output areas to better meet the desired State Government outcomes and the needs of users. Such a review would not have been possible without access to financial and non-financial history on which to evaluate and plan for the future.

The current financial reporting regime and accrual accounting framework supports, and ensures that the Government will meet, its commitment to maintain a strong fiscal position for the State, and that the State’s asset base supports current and future service delivery needs as detailed in the *Charter of Social and Fiscal Responsibility*. The fiscal objectives of the charter include:

- Affordable service provision.
- Prudent management of financial risk.
- Building the State’s net worth.
- Sustainable borrowings for capital investment.

The government adopted the Charter to increase transparency and accountability of government finances, and a comprehensive accrual accounting and performance management framework is necessary to ensure this is achieved.

² Allen, T, *Public Accountability & Government Financial Reporting*, OECD Journal on Budgeting, Volume 2. Sup 1, 2002, p19.

Accrual Accounting

A comprehensive accrual accounting framework provides management with an opportunity to improve resource use and focus on assets appropriate to delivering the outputs required by government. For the department there is a balancing act of maximising outputs and minimising inputs and to increase the effective use of the State's resources. This will be made easier with the implementation of the performance management system "Clarity".

The department's comprehensive accrual-based framework provides users with more accurate and more timely financial information than the previous modified accrual and cash accounting systems. Under the modified accrual system the department maintained dual accounting systems in order to meet the requirements for information from different stakeholders. This resulted in the perception by senior management that accrual accounting was nothing more than a technical process and was not a useful decision-making tool. The department has expended considerable effort to encourage management to embrace the new accrual framework and actually use accrual information in making management decisions. The department has invested significant time and money in developing a financial management system ("Datapond") to assist management in their decision-making processes.

When DPI&F moved from cash to accruals-based accounting and reporting, there was demonstrated improvement in resource use. Management behaviour changed and focussed on planned spending and this was directly attributable to the changes to the financial management framework³.

The current financial reporting regime provides users with the information to assess whether resources have been used efficiently and effectively, as well as enabling Ministers to make choices between outputs and assist in the ordering of priorities.

The consistent format and approach of accrual accounting enables comparison between years and between agencies as well as comparison of accrual budgets and actuals. Comparative analysis of different government agencies is only possible because of the requirement that all government entities comply with accrual accounting standards. Comparability allows organisations to evaluate the business processes within an organisation towards improvement. Comparative analysis is a management tool in that such information can be used to inform the department's own plans and aid with resource effectiveness⁴. This would not have been possible under the cash accounting model.

Accrual accounting and performance reporting has provided a wider accountability focus than that permitted by the cash-based system of evaluating departmental management of resources. The cash accounting system allowed the manipulation of cash-based information in order to achieve a particular outcome. Preparing financial reports and internal management reports on the basis of generally accepted accounting principles and rules allows users to rely on the information presented. "Practice in Australia and New Zealand has shown that the use of accruals in the budget has led to a better realisation of future

³ Pender, P., *Is It Working – Accrual Accounting*, Unpublished ANZSOG research, 2004

⁴ Ibid

unfunded liabilities, better infrastructure management and a more efficient budget reallocation process”⁵.

The department is still evolving in implementing information systems to provide more comprehensive integrated performance data. It “is building on its ability to analyse markets, and trends to target the department’s products and services to achieve quality outcomes in accordance with whole-of-government priorities and departmental priorities”⁶.

The rationalisation of Queensland public sector financial systems under the Government’s shared service initiative and the implementation of Australian Equivalents to International Financial reporting Standards (AEIFRS) will further enhance the quality and usefulness of financial information. However the department does not envisage any significant changes or impacts from the implementation of AEIFRS.

The current financial reporting framework works from a public sector management perspective with resources being used more efficiently and effectively, and informs users of what the department is achieving. Accounting and reporting by governments should match the highest private sector standards. The Government must provide details on its financial performance, financial position, financing and investing activities and compliance, if it is to be fully accountable.

Full accrual accounting, including budgeting, has only been implemented in the Queensland public sector for five years. A transition period is to be expected before management and users are fully conversant with management expectations. The implementation of accrual accounting has required people to move outside their comfort zone and to learn new things and think differently. There is continued pressure on public sector managers to improve the financial performance of their organisations. Accrual accounting information systems capable of supplying them with relevant and timely information are the only means with which they will be able to satisfy the expectations of stakeholders.

If you require any further information regarding this matter, please do not hesitate to contact Pauline Pender on telephone [REDACTED] or e-mail [REDACTED]

Yours sincerely

[Original Signed]

Jim Varghese
Director-General

⁵ Matheson, A, *Better Public Sector Governance: The Rationale for Budgeting & Accounting Reform in Western Nations*, OECD Journal on Budgeting, Vol 2, Sup 1, 2002, p44.

⁶ DPI Annual Report, 2003-04.