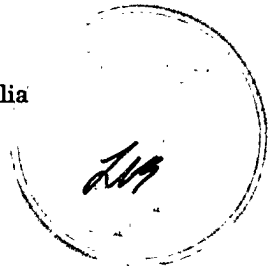


The Parliament of the Commonwealth of Australia

Joint Committee of Public Accounts



DEPARTMENT OF THE SENATE
PAPER No. 13284
DATE
PRESENTED
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**REPORT 340**

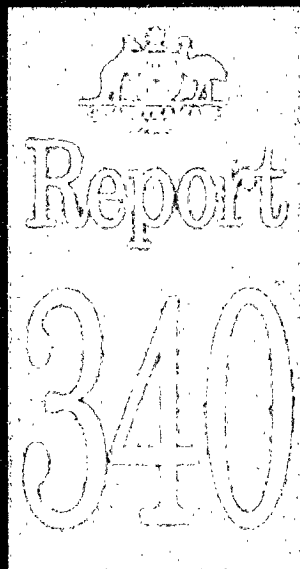
**Cash Matters:**

**Cash Management in the Commonwealth**

**October 1995**

Australian Government Publishing Service  
Canberra

THE COMMONWEALTH OF AUSTRALIA



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## REPORT 340

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**Dr J Carter**

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**Mr W Harrison**

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<sup>1</sup> The Sectional Committee on Auditor-General's reports was responsible for the conduct of the cash management review.

## DUTIES OF THE COMMITTEE

The Joint Committee of Public Accounts is a statutory committee of the Australian Parliament, established by the *Public Accounts Committee Act 1951*.

Section 8(1) of the Act describes the Committee's duties as being to:

- examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the *Audit Act 1901*;
- examine the financial affairs of authorities of the Commonwealth to which this Act applies and of inter-governmental bodies to which this Act applies;
- examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the Houses of the Parliament;
- report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- inquiry into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question.

The Committee is also empowered to undertake such other duties as are assigned to it by Joint Standing Orders approved by both Houses of the Parliament.

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## **LIST OF ABBREVIATIONS**

<b>ACMC</b>	<b>ATO Cash Management Centre</b>
<b>ACS</b>	<b>Australian Customs Service</b>
<b>ANAO</b>	<b>Australian National Audit Office</b>
<b>ATO</b>	<b>Australian Taxation Office</b>
<b>CBA</b>	<b>Commonwealth Bank of Australia</b>
<b>CFT</b>	<b>Commonwealth Financial Transactions</b>
<b>CPA</b>	<b>Commonwealth Public Accounts</b>
<b>CRF</b>	<b>Consolidated Revenue Fund</b>
<b>DAS</b>	<b>Department of Administrative Services</b>
<b>EDI</b>	<b>Electronic Data Interchange</b>
<b>EDISC</b>	<b>Electronic Data Interchange Sub Committee</b>
<b>EFT</b>	<b>Electronic Funds Transfer</b>
<b>Finance</b>	<b>Department of Finance</b>
<b>FIRM</b>	<b>Finance Information on Resource Management</b>
<b>GBE</b>	<b>Government Business Enterprise</b>
<b>GIS</b>	<b>Government Information Services</b>
<b>IESC</b>	<b>Information Exchange Steering Committee</b>
<b>IT</b>	<b>Information Technology</b>
<b>NDSF</b>	<b>National Debt Sinking Fund</b>

<b>OGIT</b>	<b>Office of Government Information Technology</b>
<b>PAYE</b>	<b>Pay As You Earn</b>
<b>PDI</b>	<b>public debt interest</b>
<b>PM&amp;C</b>	<b>Department of the Prime Minister and Cabinet</b>
<b>PSB</b>	<b>Purchasing Statistics Bulletin</b>
<b>RBA</b>	<b>Reserve Bank of Australia</b>
<b>the FMA Bill</b>	<b>The Financial Management and Accountability Bill 1994</b>
<b>Treasury</b>	<b>Department of the Treasury</b>
<b>SPPs</b>	<b>Specific Purpose Payments</b>

## CHAIRMAN'S FOREWORD

Cash management in the Commonwealth is all about endeavouring to match, as closely as possible, patterns of expenditure with patterns of revenue.

Responsibility for this task is shared between individual agencies, which deliver programs or collect revenues, and the central economic agencies, the Departments of Finance and the Treasury, which are involved in forecasting overall cash needs and engaging in short term borrowing when cash holdings are predicted to be insufficient to cover forthcoming payments.

When short term borrowings are made, the Commonwealth incurs an interest expense - this expense is known as the public debt interest (or PDI). The Budget Papers for 1995-96 reveal that, in aggregate terms, the single major source of real growth in outlays is expected to be transactions to fund the public debt interest.<sup>1</sup> While the Budget Papers predict a decline in PDI expenditure in future years, the past two years have seen such expenditure grow from \$6.65 billion to \$10.08 billion. In terms of total Government outlays this represents an increase from about 6% to about 8%.

By any measure, the scale of the Commonwealth's cash management task is significant - so too are the potential savings from improvements in cash management performance.

For this reason, the Auditor-General decided in 1993 to conduct an efficiency audit of cash management in the Commonwealth.

As well as making a number of recommendations directed at improving cash management within individual agencies, the Auditor-General found that there was considerable scope for improved cooperation and coordination between Finance and Treasury - particularly in relation to the forecasting of cash flows and the targeting of cash balances in the Commonwealth's accounts with the Reserve Bank of Australia.

These issues were also central to the Committee's considerations.

---

1 The Budget Papers disclose that, in aggregate terms, the major sources of real growth in outlays for 1995-96 (in order of magnitude) are increases in the functions, 14A. Public Debt Transactions, 5. Health, and 13B. Labour and Employment Affairs (see Budget Paper No.1, 1995-96, pp. 3-12 and 3-15).

During the course of its review the Committee observed that many of the agencies with a key role in cash management have done much to improve their performance in recent years. Finance has endeavoured to raise the profile of cash management throughout the Commonwealth; Treasury has taken steps to improve the accuracy of its forecasting; and the Australian Taxation Office (ATO) has refined its revenue collection and banking procedures.

The sheer scale of the Commonwealth's cash transactions (for example, it is not unusual for the ATO to receive more than \$1 billion per day in peak periods) and the magnitude of PDI expenditure demonstrate that cash management should continue to receive special attention. In the Committee's view, efficient and effective cash management, leading to the containment of PDI expenditure, is a key (although often neglected) element of good public sector administration.

One of the main concerns to the Committee is the number of serious cash management issues which remain unresolved, despite having been the subject of review for some years. In this context, the Committee was surprised by the apparent dearth of best practice benchmarking information or studies - particularly in relation to the conduct of corporate treasury functions in other jurisdictions and in large private sector corporations.

In this report the Committee supports many of the audit recommendations and makes a number of its own aimed at strengthening the central focus on cash management issues and proposing a mechanism to settle the issues which remain unresolved.

The Committee acknowledges that the challenge of managing cash resources wisely should be seen in perspective - that is, as one of many issues confronting public sector managers. But maintaining a balanced perspective should not obscure the need to make improvements where improvements are warranted. In our view, the costs associated with poor cash management and, conversely, the magnitude of the savings which can arise from better cash management are reasons enough to give special attention to improving the Commonwealth's cash management performance.

In concluding, I would like to express the Committee's appreciation to officers from the Department of Finance and the Australian National Audit Office for their willing contributions, both formal and informal, to the Committee's review.

Les Scott MP  
Chairman



## **RECOMMENDATIONS**

### **Recommendation 1**

**The Treasury should:**

- (a) establish a series of cash forecasting benchmarks based on national and international best practice in both the public and private sectors; and**
- (b) routinely monitor and regularly evaluate its cash forecasting performance against these best practice benchmarks, as well as against its previous performance. (paragraph 3.20)**

### **Recommendation 2**

**The 'target group' of Commonwealth accounts for cash management purposes should be formally expanded to include the additional accounts in the 'overdraft' group and the target for cumulative average cash balances should be revised to take this change into account. (paragraph 4.16)**

### **Recommendation 3**

**The Departments of Finance and the Treasury should review the optimal target range for the cumulative average balances of the target accounts, with the aim of seeking approval for a narrower range toward the lower end of the current target range or, alternatively, the issue should be assessed by an independent review such as that suggested in Recommendation 20 of this report. (paragraph 4.27)**

### **Recommendation 4**

**All Commonwealth agencies should, within three months of the tabling of this report, create and maintain their own registers of all bank accounts held. (paragraph 5.15)**

**Recommendation 5**

All Commonwealth agencies should, on a monthly basis, collect and analyse data relevant to their bank account activity, and evaluate performance against appropriate indicators. (paragraph 5.19)

**Recommendation 6**

Each quarter, all Commonwealth agencies should provide summary bank account activity data for analysis by the Department of Finance, in accordance with guidelines to be issued by the Department of Finance. (paragraph 5.20)

**Recommendation 7**

The Department of Finance should continue to regularly remind all Commonwealth agencies of their responsibilities in regard to bank accounts. (paragraph 5.21)

**Recommendation 8**

All Commonwealth agencies should:

- (a) on a monthly basis, collect and analyse data relevant to their cash management performance and evaluate performance against appropriate indicators; and
- (b) each quarter, provide the Department of Finance with such summary cash management performance data as required, for analysis. (paragraph 5.26)

**Recommendation 9**

As part of its current revision of procurement guidelines and other materials, the Department of Administrative Services, in consultation with the Department of Finance and key inventory holding departments, should issue guidance to Commonwealth agencies on inventory control aspects of cash management. (paragraph 6.18)

**Recommendation 10**

The Department of Administrative Services, in consultation with the Department of Finance, should include advice on other cash management aspects of purchasing in its guidance materials. (paragraph 6.19)

**Recommendation 11**

The Australian Taxation Office, in consultation with the Department of Finance, should develop effective performance indicators for all significant factors of its cash management activities and routinely monitor and analyse these indicators to assist in improving performance. (paragraph 7.35)

**Recommendation 12**

The Department of Finance, in collaboration with the Australian Taxation Office, should expedite establishment of agency banking arrangements to facilitate maximisation of the value of receipts being deposited with the Reserve Bank of Australia on the day of receipt. (paragraph 7.39)

**Recommendation 13**

The Australian Customs Service should, in consultation with the Department of Finance and the Australian Taxation Office, develop effective performance indicators for all significant factors of its cash management activities, particularly collection and banking, and routinely monitor and analyse these indicators to assist in improving performance. (paragraph 7.46)

**Recommendation 14**

The Department of Finance, in consultation with key agencies, should develop effective measures for monitoring and reporting of cash management performance, and issue guidelines for their use by departments and authorities. (paragraph 8.15)

**Recommendation 15**

The Department of Prime Minister and Cabinet, in consultation with the Department of Finance, should consider amending the annual report requirements for departments to require the presentation of expanded information on the payment performance of Commonwealth agencies. (paragraph 8.16)

**Recommendation 16**

The Department of Finance should liaise with the Department of the Prime Minister and Cabinet to ensure that the cash management performance guidelines, referred to in Recommendation 14 above, are consistent with and complement the annual report requirements for departments. (paragraph 8.17)

**Recommendation 17**

The Department of Finance should report to Parliament annually on the consolidated cash management performance of all Commonwealth departments and authorities. (paragraph 8.20)

**Recommendation 18**

The Department of Finance should consider extending the life of its Cash Management and Banking Section as the central focus for Commonwealth cash management guidance and reporting. (paragraph 8.35)

**Recommendation 19**

The Auditor-General, in any subsequent audit of cash management in the Commonwealth, should consider the effectiveness of cash management training delivered by the Department of Finance. (paragraph 8.38)

**Recommendation 20**

The Minister for Finance should commission a high level review of cash management in the Commonwealth. The review team should:

- (a) be chaired by a suitably qualified person from the private sector with expertise in corporate treasury functions;

- (b) consist of senior representatives from the Departments of Finance and the Treasury;**
- (c) include a senior representative of the Australian National Audit Office as a member of the review team or as an observer;**
- (d) focus on the cash management issues which remain unresolved; and**
- (e) report within six months of being established. (paragraph 9.25)**

PART ONE -

INTRODUCTION AND CONTEXT

## INTRODUCTION

### Background to the Review

1.1 Pursuant to section 8(1)(ab) of the *Public Accounts Committee Act 1951*, the Committee examines all reports of the Auditor-General, including efficiency audit reports.

1.2 This report contains the Committee's examination of two audit reports on the topic of cash management in the Commonwealth:

- *Audit Report No. 22, 1993-94, Efficiency Audit, Cash Management in Commonwealth Government Departments*; and
- *Audit Report No. 10, 1994-95, Efficiency Audit, Cash Management in Commonwealth Government Departments*.

1.3 Both reports result from the same performance audit, with the first an interim report and the second the final report. The Committee's consideration has focussed on *Report No. 10, 1994-95*.

1.4 The Committee's decision to give special attention to the cash management reports took into account:

- the huge amounts of cash managed by the Commonwealth Government. On a cash accounting basis, total revenue and expenditure for 1993-94 was budgeted to be \$99 billion and \$115 billion, respectively;<sup>1</sup>

---

1 Auditor-General, *Audit Report No. 10, 1994-95, Efficiency Audit, Cash Management in Commonwealth Government Departments*, AGPS, Canberra, 1994, p. xi.

- the substantial potential savings for the Commonwealth through improved cash management practices. The Commonwealth's interest revenue and interest expenditure were budgeted in 1993-94 to be \$2.058 billion and \$6.65 billion, respectively<sup>2</sup> (the Committee notes that, in the 1995-96 budget, the forecast for interest revenue is \$1.395 billion<sup>3</sup> whilst interest expenditure is forecast at \$10.076 billion<sup>4</sup> - an increase of more than 50% over the intervening two year period); and
- the obvious links between the subject of cash management and those of several other current and recent JCPA inquiries; viz. those into the Australian Government Credit Card, the new financial management and accountability legislation, commercialisation in the public sector, accrual reporting and accounting, and specific purpose payments to the States and Territories.

1.5 The Committee was also aware that a number of key cash management issues were unresolved at the time the audit reports were published.

## **The Audit Reports**

### *The Audit Focus and the Interim Report*

1.6 In 1993, as part of its ongoing investigation into areas where there may be potential savings for the Commonwealth, the Australian National Audit Office (ANAO) identified cash management in Commonwealth Government departments as the subject of an efficiency audit. Audit testing commenced in July 1993. Statutory authorities whose accounts did not form part of the Commonwealth Public Account were not included.

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2 Auditor-General, *Audit Report No. 10, 1994-95*, p. xi.

3 *Budget Paper No. 1, 1995-96*, p. 4-20.

4 *Budget Paper No. 1, 1995-96*, p. 4-20.



1.7 The focus of the cash management audit was on decisions made by, and techniques employed in, selected departments to reduce the Commonwealth's net cost of borrowing.<sup>5</sup>

1.8 Early in the audit, ANAO identified a number of issues which, if effectively addressed, could generate large savings to the Commonwealth. Consequently, an interim audit report was tabled on 14 December 1993.<sup>6</sup> The ANAO made only three recommendations at this stage of the audit. These focussed on improving agencies' practices in the following areas:

- collection, receipting and banking procedures;
- payment practices; and
- matching of receipts and payments flows.<sup>7</sup>

*The Final Report (Audit Report No. 10, 1994-95)*

1.9 The final report incorporated the detailed findings of the interim report and was tabled in the Senate on 30 November, 1994.

1.10 Whilst the report canvassed a spectrum of cash management issues facing Commonwealth agencies, it focussed mainly on how the Department of Finance (Finance) and the Department of the Treasury (Treasury) have coordinated cash management throughout the Commonwealth.

1.11 The report also considered the role of the Australian Taxation Office (ATO), as the Commonwealth's largest revenue collector, the Department of Defence, as one of the larger expenditure agencies and the Department of Primary Industries and Energy, as an agency with large amounts of cash available for investment.

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5 Auditor-General, *Audit Report No. 10, 1994-95*, p. xii.

6 Auditor-General, *Audit Report No. 22, 1993-94, Efficiency Audit, Cash Management in Commonwealth Government Departments*, AGPS, Canberra, 1993.

7 Auditor-General, *Audit Report No. 22, 1993-94*, p. 10 (See Appendix I for a summary of *Audit Report No. 22, 1993-94*.)

1.12 The audit report included the following ANAO observations and opinions:

- that Finance and Treasury should agree on optimal levels of cash balances;
- Treasury's short-term forecasting practices should be more active, with the need to consider a more formal forecasting system;
- there was a need for better central coordination and guidance on cash management practices and that there was scope for greater cooperation between Finance and Treasury on cash management matters;
- that Finance should give greater emphasis to cash management matters by maintaining a more consistent and apparent focus on the related issues in its dealings with departments;
- there was concern about the large number of bank accounts maintained by agencies and about the lack of central registration and monitoring of these accounts;
- there had been little incentive, to that time, for departments to consider short-term cash management;
- that the ATO should develop a target percentage of receipts to be banked at the Reserve Bank of Australia (RBA) on the day of receipt;
- that the Information Exchange Steering Committee (IESC) should issue its awaited Statement of Direction on Electronic Data Interchange (EDI), and that the costs and benefits of using EDI rather than other payment methods did not seem to have been evaluated by Finance;
- the reporting of information relevant to Commonwealth cash management for external scrutiny by Parliament and others should be improved; and
- that Commonwealth-wide criteria for the evaluation of prepayments are insufficient. Some prepayment practices should be reconsidered to optimise the net advantage accruing to the Commonwealth.

1.13 A summary of the key findings is at Appendix II.

1.14 The ANAO made 36 recommendations directed primarily at the coordination roles of Finance and Treasury.

### Conduct of the Committee's Review

1.15 As part of its review process, the Committee received twelve written submissions, all from Commonwealth agencies. The responses were generally supportive of the audit recommendations they addressed. Some of the less supportive responses (both in initial submissions to the Auditor-General and in those to the Committee) left a number of matters open for further consideration. These related mainly to:

- prospects for establishment of a joint Finance/Treasury working party (essentially aimed at achieving closer cooperation and mutual support between these two agencies on cash management matters);
- deciding on and maintaining optimum levels of cash balances;
- enhanced forecasting arrangements;
- development and implementation of key cash management performance indicators;
- evaluation of the effectiveness of Finance cash management training in changing practices and culture;
- systematic monitoring of bank accounts; and
- the potential for existing EFT/EDI systems available from RBA and Finance to satisfy the Commonwealth's cash transfer needs.

1.16 These issues were the focus of the Committee's review and are considered in this report.

1.17 Following the receipt of submissions the Committee met with the Auditor-General on 29 May 1995 for a briefing on the findings of the audit, and held a public hearing on 15 June 1995 at which representatives from ANAO, Finance, Treasury and ATO gave evidence.<sup>8</sup>

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8 A list of witnesses who gave evidence at the public hearing is at Appendix III. Lists of submissions and exhibits are at Appendix IV and V respectively.

1.18 To clarify some issues and to pursue matters which arose during the public hearing, the Committee sought additional information from the agencies which had provided evidence. At the request of the Committee, the Auditor-General also provided further opinion and advice. On behalf of the Committee, the secretariat held a number of meetings with officials from the interested agencies to seek further comment and clarification on issues which were canvassed in submissions and at the hearing.

### **Structure of the Report**

1.19 The report is in four parts. The first, comprising this chapter and the next, provides an introduction to the report and, by exploring some implications of cash management in the Commonwealth Government environment, provides a context for the review.

1.20 Part 2 is titled 'Issues For Finance and Treasury' and contains two chapters, each of which examines specific cash management issues for which these agencies are responsible.

1.21 Part 3, 'Issues For Other Agencies', contains three chapters considering cash management issues which are principally the responsibility of agencies other than Finance or Treasury. Chapter 5 considers control and activity of bank accounts and internal monitoring of cash management performance, while Chapters 6 and 7 consider issues related to purchasing, inventory control and revenue collection.

1.22 The final part considers a number of issues involving co-ordination of the Commonwealth's cash management efforts. These relate principally to the need for a central cash management focus, division of responsibilities between Finance and Treasury, and the relationship between these two agencies. Chapter 9, the last chapter in the report, proposes a strategy for addressing and resolving the various issues which remain unresolved.

## CASH MANAGEMENT IN CONTEXT

### Introduction

2.1 This chapter explains the context in which the audit and the Committee's review were conducted. It contains a brief description of the framework in which the Commonwealth's cash is managed and an introduction to some of the implications of cash management for individual programs, for departments and for the Government.

### What Does Cash Management Mean?

2.2 For the purposes of the audit, ANAO defined the meaning of cash management as being how the Commonwealth's net cost of borrowing can be reduced through the improved timing of cash flows and management of cash balances. Good cash management therefore requires both consideration of cash flow patterns and the effective management of cash balances.

2.3 There are annual cyclical patterns for the Commonwealth in both revenues and expenditures and, based on these patterns, the Government engages in short-term borrowing when cash is expected to be insufficient to cover forthcoming payments.

2.4 Departmental decisions and practices in relation to the banking of receipts and the timing of payments can impact on these patterns and result in significant interest savings for the Commonwealth.<sup>1</sup>

---

1 As noted in Chapter 1, public debt interest for 1995-96 is budgeted to be around \$10.8 billion, which indicates the potential for savings measures in this area to have a significant impact on the Government's borrowing costs.

2.5 The biggest impact is made by the major revenue collection and expenditure agencies, such as ATO, the Australian Customs Service, the Department of Social Security and the Department of Defence. However, the impact of cash management decisions in other agencies should not be underestimated - although individually the cash amounts managed by smaller agencies may be less, the cumulative effect across the whole of the government can be significant.

2.6 In his report, the Auditor-General noted that, at agency level, good cash management requires (inter alia) the following types of actions:

- depositing all funds at the bank on the day they are received;
- invoicing promptly for goods and services sold;
- expediting collection of amounts due;
- purchasing goods or services later without jeopardising program objectives;
- negotiating more favourable purchase payment terms;
- reducing the amount of inventory held;
- spreading payment terms; and
- paying invoices only when they fall due.

2.7 The key message is that proper cash management by all agencies is required to achieve the desired levels of cash balances in order to minimise borrowing and, subsequently, the net public debt interest cost to the Commonwealth.<sup>2</sup>

### **Program Context**

2.8 It is important that cash management decisions are taken within Government policy parameters and that they are consistent with effective and efficient delivery of Government programs. In other words, departments should not regard efficient cash management as a primary objective in isolation, but should recognise it as an effective tool which can, by improving resource utilisation, assist in achieving outcomes which reflect and contribute to the Government's overall policy objectives.

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2 Auditor-General, *Audit Report No. 10, 1994-95*, p. xii.

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## Financial and Administrative Context

### *The Fund Accounting System*

2.9 The Commonwealth maintains a cash-based ledger system. All cash accounting transactions are recorded in the Commonwealth's ledger in one or more of the three funds:

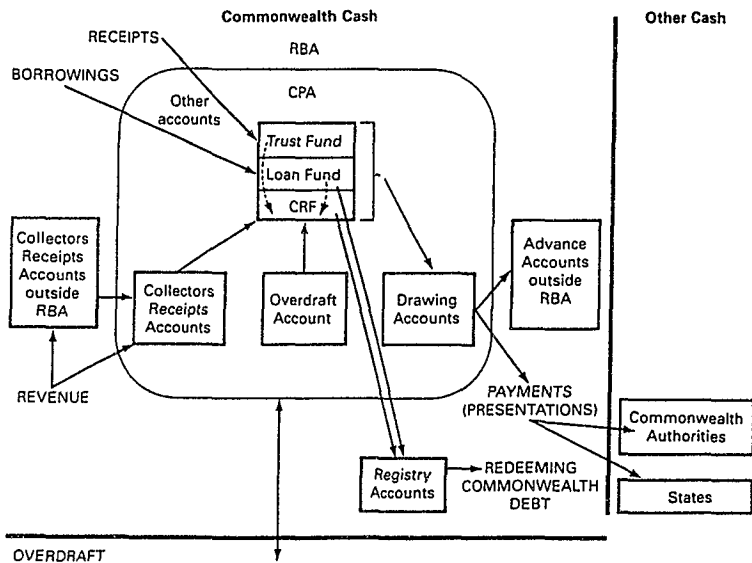
- CONSOLIDATED REVENUE FUND (CRF): This is the Commonwealth's principal working fund and all revenues raised or received by the Commonwealth are part of this fund. Payments can only be made from this fund by means of a parliamentary appropriation. The main sources of receipts to the fund are income tax, sales tax, payroll tax, customs duties, excise and other departmental receipts;
- THE LOAN FUND: All loans raised to the public credit of the Commonwealth Government are deposited in this fund, and a loan appropriation is required for the loan moneys to be spent;
- THE TRUST FUND: There are four types of trust moneys:
  - Group 1 - money held in trust for people and authorities other than the Commonwealth Government, e.g. for services provided to other Governments;
  - Group 2 - working accounts covering certain factories, stores and services, e.g. for business services provided by the Department of Administrative Services;
  - Group 3 - other money held in trust under the authority of Parliament to meet future expenditure, e.g. the Loan Consolidation and Investment Reserve (used to purchase debts that will mature in the future); and
  - Group 4 - funds and accounts not part of the accounts of the Minister for Finance but which, by virtue of their enabling legislation, are part of the Trust Fund.

2.10 Trust moneys can be spent only for the purposes of that trust or be invested by the Minister for Finance (or his delegate).<sup>3</sup>

2.11 The Financial Management and Accountability Bill 1994 (the FMA Bill) which, when enacted, will replace the *Audit Act 1901*, is not intended to significantly alter the structure outlined above, but creates a modified accounting system featuring a Consolidated Revenue Fund, Loan Fund, Reserved Money Fund and Commercial Activities Fund.

2.12 Figure 2.1, which follows, illustrates the cash flow and holding arrangements in the current accounting framework, while Figure 2.2 provides a simplified model of the Fund Accounting System proposed in the FMA Bill.

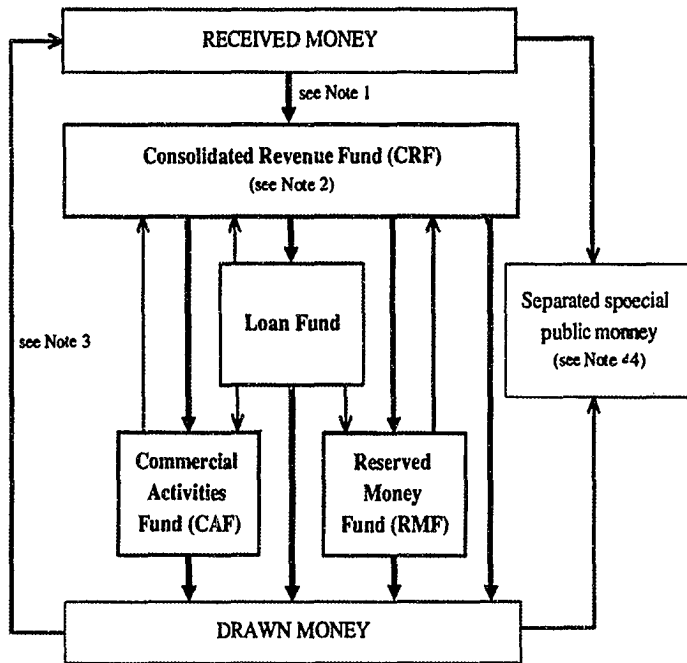
**Figure 2.1 - Commonwealth cash holdings, flows and their relationship with the Funds**



3 Department of Finance, *Commonwealth Financial Management Handbook*, AGPS, Canberra 1992, pp. 36-8.



**Figure 2.2 - The Fund Accounting System - Proposed by the FMA Bill 1994 (Simplified model showing typical transfers)<sup>4</sup>**



Indicates a common type of transfer



Indicates a less common type of transfer

1. All Received Money must be credited to the CRF as soon as practicable after receipt (unless a Special Instruction applies).
2. The following transfers pass through the CRF: transfers between components of the CAF or the RMF; transfers from the CAF or RMF to the Loan Fund.
3. An example of this transfer is an unused advance on expiry of the relevant appropriation.
4. Separated special public money is special public money that is subject to a Special Instruction.

<sup>4</sup> House of Representatives, *Financial Management and Accountability Bill 1994 (third reading)*, p. 25 (Appendix A).

### *The Banking Arrangements*

2.13 Although a range of accounts is held at other banks, the Commonwealth's principal banker is the Reserve Bank of Australia (RBA).

2.14 Good cash management involves consideration of how and where cash is held. To maximise interest receipts, cash needs to be held at RBA for the maximum period. Analysis conducted by ANAO during the audit exhibited that if large sums of cash are held outside RBA the Commonwealth's interest revenue will not be maximised, and it may be necessary to increase borrowing.<sup>5</sup>

### **Operating in this Framework**

2.15 When considering cash management issues departments have a clear responsibility to comply with these legislative and administrative requirements. For example, the Finance Directions which support the *Audit Act 1901*, stipulate that unless otherwise contracted, Commonwealth departments must pay accounts 30 days from the receipt of the goods or services and from the receipt of a correctly rendered invoice. Good cash management in the Commonwealth, therefore, usually precludes paying properly rendered accounts later than 30 days.<sup>6</sup>

### **Overall Responsibility for Cash Management**

2.16 Under the devolved operating environment of the Australian Public Service, agencies are responsible for making best use of their own cash resources. All of the practices described above as constituting good cash management are within the control of individual agencies.

2.17 As the timing of receipts and payments directly affects the amount of money the Commonwealth has to borrow, the period of time over which borrowing extends and the amount of interest the Commonwealth has to pay, the Government's key economic and financial agencies (Treasury and Finance) have a key role in setting and monitoring cash management strategies.

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5 Auditor-General, *Audit Report No. 10, 1994-95*, pp. xi-xii.

6 Finance, *Section 8, Finance Directions*, Section 8.9, Direction 8c.

*Finance's Role*

2.18 Finance is responsible, amongst other things, for governmental financial administration and accounts, including administration of the Commonwealth Public Account (CPA). This is somewhat akin to a corporate treasury function and cash management is clearly central to this function. Finance is also responsible for overseeing the Commonwealth public sector's financial management policy development, and for evaluation and review of governmental programs and associated expenditure and staffing estimates. Cash management considerations are relevant when carrying out both these functions.

*Treasury's Role*

2.19 Although Treasury is principally responsible for macro-economic matters it also has a key cash management role - it is responsible for the borrowing activities of the Commonwealth. This includes forecasting the Commonwealth's cash requirements and ensuring that they can be met from revenue and loan raising.

*Complementary Roles of Finance and Treasury*

2.20 As both departments have cash management responsibilities, from the early stages of the review the Committee was interested in the complementarity and interdependence of their functional cash/debt management roles. There is an obvious and close relationship between debt management and cash management, with short-term debt being a key tool for day-to-day management of cash flow. The audit report stated that officers in both Finance and Treasury had also noted the complementarity of the departments' roles in cash management matters.<sup>7</sup>

2.21 One of the close links between the cash management roles of the two departments is their activities related to the CPA.

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7 Auditor-General, *Audit Report No.10, 1994-95*, p. 113.

2.22 The CPA holds the cash balances of the Commonwealth's three funds (the Consolidated Revenue Fund, the Trust Fund, and the Loan Fund) with the distinction between funds existing only in the Finance Ledger System. As mentioned above, the CPA is administered by Finance.

2.23 Monitoring and management of the balances of the 'target' group of accounts (as discussed in chapter 4) is the responsibility of the Treasury. The 'target' group consists of the CPA together with the Registry Accounts. Most of the Commonwealth's public debt redemption and principal and interest payments are made from the Registry Accounts, which are generally in overdraft. Reimbursement of these accounts occurs monthly.

PART TWO -

SPECIFIC ISSUES FOR  
FINANCE AND TREASURY

## FORECASTING CASH FLOWS

### Introduction

3.1 *Audit Report No. 10* contained a series of recommendations aimed at improving the Commonwealth's ability to forecast its cash requirements. The recommendations, which were directed primarily at Treasury, were grouped around the following themes:

- making the currently informal processes more formal;
- continuing to educate officers in agencies about the importance of timely and reliable information on upcoming expenditure;
- considering additional sources of forecasting information, such as data held Finance; and
- regularly evaluating forecasting practices and procedures.

3.2 Treasury's response to these recommendations was to argue that there are no major deficiencies in their current forecasting practices and the actions contained in the audit recommendations were, therefore, unnecessary.

3.3 The importance of accurate cash forecasting was the subject of further discussion during the Committee's review.

### Why is Forecasting Important?

3.4 Because it is not usual throughout a year for receipts to be in advance of payments, the Government must borrow to cover the difference. The usual method of borrowing funds in the short-term is to issue Treasury Notes. The interest paid on such borrowing is referred to as public debt interest (PDI). To ensure

the Commonwealth does not run out of cash, it is necessary to forecast both outlays and receipts to determine in advance when there is a need to borrow. Borrowing also needs to be at an optimal level to ensure that the Commonwealth is not paying interest to maintain cash balances at higher levels than necessary.

3.5 The degree of accuracy achieved in cash forecasting directly affects the amounts borrowed or held by the Commonwealth and, therefore, the amount of PDI expenditure. For example, with less precision in the forecasting process the Commonwealth could be expected to hold more cash (avoiding unforeseen use of overdraft). In turn this would require larger borrowing than would be incurred with more accuracy in forecasting.

### Treasury's Role in Forecasting

3.6 Treasury's role in forecasting the Commonwealth's cash requirements derives from its responsibility for borrowing to cover any cash shortfalls. The audit report describes the task in the following terms:

*To do this, [Treasury] collates short-term forecasts of revenue in consultation with the Australian Taxation Office. Short-term forecasts of expenditure are primarily obtained by schedules provided by officers in spending departments and frequent informal contact with those officers. Inflows and outflows associated with previous financing transactions must also be forecast. (The Reserve Bank also undertakes its own forecasting exercise for macro-economic liquidity reasons.)<sup>1</sup>*

3.7 Treasury's primary objective in cash flow forecasting is to ensure the optimal volume of Treasury Notes is issued each week. The aim is to provide the Commonwealth with just enough funds to meet daily cash needs, in order to minimise PDI costs on funds borrowed.

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1 Auditor-General, *Audit Report No. 10, 1994-95*, p. xiii.

## Treasury's Response to the Audit Recommendations

3.8 As noted above, Treasury disagreed strongly with the suggestion in the audit report that its cash forecasting practices suffered any major deficiencies or that more formality needed to be introduced to the process:

*We do not consider that a further formalisation of the present arrangements would result in improved cash balance forecasts. In fact, further formalisation could well be counter-productive if it inhibited the flexibility and timeliness of existing processes.*

*Moreover, Treasury rejects the criticism of its short-term forecasting practices which lead the ANAO to make this recommendation. Under the current arrangements spending departments regularly provide schedules detailing the size and timing of major outlays. This information is supplemented by on-going telephone contact. That the current arrangements are sufficient to ensure that complete and accurate advice is being received is evidence by the relative accuracy of forecasts and outcomes.<sup>2</sup>*

3.9 In subsequent comments and submissions the ANAO argued that its recommendation calls for an incremental improvement in current procedures, and that the introduction of more formality in information gathering practices need not inhibit flexibility and timeliness. Instead, the recommendation is aimed at producing a more accurate and reliable base on which to construct forecasts.

3.10 Evidence taken at the Committee's hearing indicates that Treasury has in fact taken steps to improve its channels of communication with agencies and increase awareness of the need for accurate cash forecasting information. In answer to a question about improved and more formal forecasting procedures, Peter McCray, a senior Treasury official, said:

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2 Auditor-General, *Audit Report No. 10, 1994-95*, p. xix.



*Over the last couple of years I think I could safely judge that there has been a greatly heightened awareness of the significance of the Commonwealth cash management task in the spending departments through the audit reports, through the Department of Finance's cash management module, our own program of visits to spending departments 12 months or so ago, which we are about to repeat in the next few weeks and, indeed, our regular daily telephone contact with spending departments in finessing our forecasts, have all contributed to a greatly heightened awareness of the significance of this issue.<sup>3</sup>*

3.11 The Committee was also advised that Treasury had provided input to the development of Finance's cash management training modules. Treasury's attempts to better communicate its need for accurate cash flow information were acknowledged by ANAO.<sup>4</sup>

#### **The Committee's Comments**

3.12 The Committee appreciates that consistent accurate forecasting is not an easy task, particularly with the volatility experienced in Commonwealth cash flows. At the same time, however, the Committee has sympathy with the view expressed by the Auditor-General that even small improvements in forecasting procedures may yield significant benefits.

3.13 It is important that Treasury constantly assesses its forecasting procedures and practices.

3.14 A recently published survey of corporate treasurers in Australian companies reported that:

*Financial managers and treasurers indicate that one of the most difficult aspects of cash flow forecasting is accuracy. One way to improve the accuracy of cash flow forecasting is to measure the accuracy of the forecasts and use that information to improve subsequent forecasts. Two thirds of respondents attempt to do this.<sup>5</sup>*

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3 Peter McCray, Assistant Secretary, Debt Management Branch, Treasury, *Transcript*, pp. 54-5, (Canberra, 15 June 1995).

4 Auditor-General, *Transcript*, p. 15, (Canberra, 15 June 1995).

5 The Australian Corporate Treasurer, *Trends in Cash Management*, December 1994, p. 14.

3.15 As well as confirming that testing for past accuracy is an important element of improving future performance, the survey suggests that there is merit in looking beyond the Australian Public Service in the search for best practice.

3.16 The Committee acknowledges that the cash management task in the Commonwealth is of a magnitude not found in other Australian jurisdictions or in Australian private sector corporations. For example, the revenue of the New South Wales Government is approximately one third of the Commonwealth's,<sup>6</sup> and the 1994 turnover of Australia's largest private sector organisation, BHP Ltd., was just under \$7 billion.<sup>7</sup>

3.17 It is possible, however, that a wider field of reference could provide the Commonwealth with suitable private sector best practice models. Internationally, there are in excess of 30 corporations with revenue and expenditure similar to or greater than that of the Commonwealth. This group is constituted approximately as follows:

- 20 corporations based in Japan;
- 10 based in USA; and
- 3 based in Europe.<sup>8</sup>

3.18 A rigorous assessment of performance against best practice benchmarks requires more than routine calculations of past accuracy, as important as such calculations can be. The Committee considers that a formal study of practices in other Australian jurisdictions, in other countries and in the private sector, is needed to establish benchmarks against which Treasury's current practice can be tested, and future performance monitored.

3.19 Recent experience in many areas of Commonwealth activity has shown that consideration of commercial practices can lead to improvements in public administration. There is every reason to expect that such studies would help improve performance in cash forecasting.

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6 *NSW Auditor-General's Report for 1995*, Vol.1 p.45. - Total revenue for 1993-94 for the NSW Government was \$30.533 billion.

7 Extel Financial, *The Times 1000, 1995*, Times Books, London, p. 102.

8 Extel Financial, *The Times 1000, 1995*, Times Books, London, pp. 59, 99, and 100.

**3.20 Recommendation 1**

*The Treasury should:*

- (a) *establish a series of cash forecasting benchmarks based on national and international best practice in both the public and private sectors; and*
- (b) *routinely monitor and regularly evaluate its cash forecasting performance against these best practice benchmarks, as well as against its previous performance.*

3.21 The survey of corporate treasurers mentioned above also highlighted the importance of integrating computer based information systems as an aid to forecasting cash needs:

*One trend that seems to be emerging is that systems are being connected. Some organisations are looking to their treasury, accounts payable and receivable systems to directly provide source data for cash flow forecasting. One package uses cheque presentation information to forecast how long a vendor takes to present a cheque and then allocates the cash flow into the correct time slot in the forecast.<sup>9</sup>*

3.22 It appears from material contained in the audit report that the Commonwealth's attempts to link the relevant financial management information systems have been poorly co-ordinated and, to date, unsuccessful. The ANAO noted that:

*... Treasury officers were aware in late 1992 that the Department of Finance's new ledger system (FIRM) had the potential to assist their forecasting task. It is understood that the Department of the Treasury first approached the Department of Finance concerning access to the cheque reconciliation system (CHRIS), but were advised that the system could not readily provide the required data, and that FIRM (then under development) could be of assistance ... The ANAO notes that development of the FIRM system was well advanced*

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9 The Australian Corporate Treasurer, *Trends in Cash Management*, December 1994, p. 14.

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*at that stage. ... The ANAO believes that it would be logical to expect that the Commonwealth's central financial management application could assist in the forecasting task, if forecasting requirements are built into specifications at an early stage.<sup>10</sup>*

3.23 In the Committee's mind this is an indication that the respective roles and responsibilities of Finance and Treasury in forecasting cash needs have neither been fully defined nor effectively integrated. These issues are considered further in Chapter 9.

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10 Auditor-General, *Audit Report No. 10, 1994-95*, p. 21.

## TARGET ACCOUNTS AND OPTIMAL BALANCES

### Introduction

4.1 One of the major issues identified during the audit was whether the 'target' group of accounts, which have been the focus of the Commonwealth's cash management activities, are appropriately configured. A related issue concerns the target average cumulative balance of that group of accounts. In drawing attention to these issues, the Auditor-General made no recommendations for change, noting that these were policy matters and thus not appropriate subjects on which ANAO should make recommendations. The audit report did, however, note the relevance to cash management of the 'overdraft' group of accounts.

4.2 The Committee raised these subjects with Treasury, Finance and the Auditor-General and received further evidence from the three agencies.

### The 'Target' and 'Overdraft' Accounts

4.3 As described in Chapter 2, the target group of accounts comprises the Commonwealth Public Account and the Registry Accounts. The overdraft group is much broader, comprising the CPA, Drawing Accounts, Collectors' and Receivers' Accounts, accounts for statutory authorities under the *Audit Act 1901*, Registry Accounts and other departmental accounts. It is the overdraft group of accounts which is used by RBA for calculation of the Commonwealth's interest.

## Managing the Commonwealth's Cash Balances

4.4 Following a July 1989 Cabinet decision, Treasury is required to keep the cumulative average level of the target accounts in the range of \$0-\$300m and to use overdraft infrequently.

4.5 To meet this requirement Treasury currently forecasts how much the Commonwealth is expected to receive each day from all of the major revenue items as well as major outlays on large programs.

4.6 Information on tax and non-tax revenue is collated by Treasury in consultation with ATO. Monthly totals for each tax item are provided after Budget time and after estimates cycles. The monthly totals for each type of tax are broken down into expected daily flows. The daily forecasts are based primarily on historical patterns; each tax has set payment dates which generate unique cycles (peaks and troughs). For example, there are two payment dates for PAYE tax each month, the 7th and the 21st. The largest PAYE flows are received in the few days immediately following these dates.

4.7 Information on outlays comes from the Budget process, the monthly *Statement of Commonwealth Government Financial Transactions (CFT)* and, on a regular basis, directly from spending departments.

4.8 All other financing transactions and financial flows affecting the Commonwealth's cash balances must also be forecast. These include PDI payments, reimbursements from the States (for State debt), maturing debt and National Debt Sinking Fund payments and transfers. Much of the basic data has to be modified so that it reflects the actual day on which the transactions impact the Commonwealth's cash balances.

4.9 The RBA also independently forecasts taxes and outlays. The Treasury and RBA forecasts are compared each Friday, to provide a cross check of omissions by either group. Any differences are investigated prior to deciding, each Monday, how much to borrow by way of Treasury Notes.

### *Reconfiguring the Target Group*

4.10 The audit report noted that the question of the appropriateness of the configuration of the target group of accounts had been raised in correspondence between Finance and Treasury on 2 December 1993. Finance summarised the key cash management issues at that time as being:

- the cost to the Commonwealth of holding cash balances;
- the optimal levels of average cash balances;
- the use of overdraft to meet temporary cash flow requirements;
- the monitoring of Commonwealth cash balances;
- cash flow forecasting, including possible incentives to departments to improve their performance, and
- the appropriateness of the target group of accounts.<sup>1</sup>

4.11 The reason for raising the question of the target group was that considerable sums of money often rest in RBA accounts other than those in that group, and could have significant bearing on the Commonwealth's need to borrow. In later correspondence to Treasury (dated 7 March 1994), Finance suggested a review of several important cash management issues including:

*Having regard to the very large balances involved in drawing accounts and collectors' receipts accounts held with the Reserve Bank, arrangements for making optimal use of these balances are important for the purposes of estimating the Commonwealth's daily cash requirements.<sup>2</sup>*

### *The Committee's Observations*

4.12 The Committee recognises that it is desirable for cash balances to be optimised, and considers it fundamental to the efficient cash administration that the Commonwealth is not borrowing money to simply hold it at the bank, incurring unnecessary interest expenditure.

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1 Auditor-General, *Audit Report No. 10, 1994-95*, p. 67.

2 Auditor-General, *Audit Report No. 10, 1994-95*, p. 67.

4.13 From the audit report and evidence provided to the Committee, there appears to be general agreement that it would be more practical, from interest and cash flow management perspectives, to shift focus from the target group of accounts to the overdraft group. This would, in effect, expand the set of accounts monitored for cash management purposes to include the range on which the Commonwealth's interest on RBA accounts is calculated. Indeed both Finance and Treasury have already acknowledged the cash management relevance of the overdraft group, as evidenced by the audit report and the following extracts from recent submissions:

*... in July 1994 Finance entered into arrangements with the Reserve Bank to operate an "overdraft account" .... This enables balances in the "overdraft" group of accounts ... to be utilised on a daily basis to ensure that, in accordance with legal advice, the Commonwealth Public Account (CPA) and its component funds ... at no time show a negative balance. This has facilitated a greater focus by the Treasury, in its cash management role, on the aggregate of the cash balances held in the overdraft group rather than just the target group.<sup>3</sup>*

*Although the Commonwealth receives interest on total cash balances - that is, on cash maintained within the aggregate account grouping - it is the balance in the overdraft group of accounts that is relevant to determining whether the Commonwealth is in overdraft with the Reserve Bank. As a consequence, it is the overdraft group of accounts that is the relevant focus for day-to-day operational cash management purposes. The present focus on the target group of accounts for cash management purposes therefore introduces an unnecessary degree of complication into the cash management task.<sup>4</sup>*

4.14 It appears from the evidence presented that Treasury is already monitoring the overdraft group and that formally changing the monitoring focus would simply remove an unnecessary administrative complication.

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3 Finance, *Submission*, p. S158.

4 Department of the Treasury, *Submission*, p. S148.



4.15 The Committee notes that Treasury is reviewing 'a possible move to an overdraft account orientation for cash targeting purposes in 1995-96'.<sup>5</sup>

4.16 **Recommendation 2**

*The 'target' group of Commonwealth accounts for cash management purposes should be formally expanded to include the additional accounts in the 'overdraft' group and the target for cumulative average cash balances should be revised to take this change into account.*

### **Optimal Cash Balances**

#### *The Audit Report*

4.17 In his report, the Auditor-General indicated his concern with the levels of cash balances being achieved and suggested that considerable savings could be realised by maintaining lower levels of cash. Finance had, in 1994, expressed its concerns about high levels of cash being maintained. These concerns were reflected in the following recommendations to Treasury for issues to be considered by the proposed review, mentioned above:

*While cash balances fluctuated around an average level of \$1.5b in 1992-93, they have been much higher - often in the range \$2 to 2.5b - in recent months. We are unaware of any reason for maintaining cash balances at such a high level - even \$1.5b seems excessive and well above the target levels envisaged in 1985 - and believe that the appropriate target level of cash balances, and means of realising them, is a matter that should be reviewed.*

*The cost to the Commonwealth of holding large cash balances is not clear. While the interest paid on those balances by the Reserve Bank currently exceeds the cost of short term borrowing, we suggest that there is nevertheless a net cost to the Commonwealth of holding cash, and that this cost should be taken into account in any decision to hold cash in excess of the Commonwealth's day to day requirements. An important task of the proposed review would be to estimate the order of*

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5 Treasury, *Submission*, p. S148.

*magnitude of that cost and to test whether there might be net benefit in targetting relatively low cash balances in the explicit knowledge that overdraft arrangements might need to be used as a buffer against unexpected movements in cash.<sup>6</sup>*

4.18 The following quotation from the internal committee set up by Finance in 1994 to review certain cash management issues, is pertinent:

*Over the past year we have been aware that the Treasury has been maintaining balances at levels in excess of the Commonwealth's requirements often in the range of \$2b to \$3b. We are also aware that the Reserve Bank has expressed concern to Treasury about the excessive level of borrowing.<sup>7</sup>*

4.19 In the audit report, the Auditor-General concluded that these issues had not been adequately addressed and that their early resolution would assist the Commonwealth's cash management effort. This conclusion led the Auditor-General to recommend:

*... that, as part of normal working arrangements and within any pre determined parameters, the Departments of Finance and the Treasury should agree on optimal levels of cash balances.<sup>8</sup>*

#### *Responses to the Audit Recommendations*

4.20 In its response to the recommendation, Finance indicated its willingness to cooperate on this issue:

*Treasury retains responsibility for debt management, but Finance has communicated with the Treasury and indicated its preparedness to assist in the task of identifying cash needs and optimising the balance between cash holdings, securities on issue and bank overdraft.<sup>9</sup>*

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6 Auditor-General, *Audit Report No. 10, 1994-95*, pp. 64-7.

7 Auditor-General, *Audit Report No. 10, 1994-95*, p. 14.

8 Auditor-General, *Audit Report No. 10, 1994-95*, p. 67.

9 Auditor-General, *Audit Report No. 10, 1994-95*, p. 68.

4.21 Treasury however has maintained throughout the audit and Committee review processes that no change is required to the target range already defined by Cabinet and that, as expressed in its response to the audit report recommendation:

*An optimal range for cash balances has already been defined by Cabinet. A range, rather than a specific target, was specified in light of the volatility in the Commonwealth's cash flows. Treasury, therefore, does not accept the need for and desirability of a more specific target as suggested in the discussion preceding this recommendation.*

*Setting a specific target level for cash balances could inhibit Treasury's ability to flexibly and properly manage the Commonwealth's cash balances and so minimise PDI expense.<sup>10</sup>*

#### *The Committee's Observations*

4.22 The Committee's understanding of the Auditor-General's recommendation was not that a 'specific target' should be set, rather that Finance and Treasury should consider targeting a narrower range towards the lower end of Cabinet's requirements. This interpretation was confirmed in later discussions with ANAO.

4.23 Also, the Committee notes that Finance, whilst recognising that principal responsibility in this area lies with Treasury, has expertise in a range of relevant cash management functions; has some suggestions for possible improvements; and has consistently expressed its willingness to work with Treasury in achieving better cash management outcomes. One example of Finance's suggestions is:

*While the use of short term overdraft facilities with the Reserve Bank is already made by the Treasury, there may be some potential for greater use at certain times and in certain circumstances ...<sup>11</sup>*

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10 Auditor-General, *Audit Report No. 10, 1994-95*, p. 68.

11 Finance, *Submission*, p. S158.

4.24 It is also worth noting that the target range, in real value terms, has as the result of inflation been gradually narrowing towards the lower end of Cabinet's requirements since the decision was taken. Using an assumed annual inflation rate of 3.4% between 1989 and 1995,<sup>12</sup> the \$300 million upper limit in today's terms would have had an approximate value of \$245m in 1989. Or, conversely, applying an average annual interest rate of, say, 10% the \$300 million upper limit would have extended to around \$530 million by 1995-96.<sup>13</sup>

4.25 The point is that the task of maintaining the cumulative average balances within the 1989 limits is becoming increasingly difficult over time. This is made more apparent when total Commonwealth expenditures are considered. The figures projected for 1989-90 and 1995-96 were \$89 billion and \$124 billion, respectively.

4.26 This is clearly an area requiring further deliberation but the Committee is not in a position to offer a definitive answer to what is essentially a technical question and one which may be further complicated by the expansion of the target group of accounts to include the overdraft accounts.

4.27 **Recommendation 3**

*The Departments of Finance and the Treasury should review the optimal target range for the cumulative average balances of the target accounts, with the aim of seeking approval for a narrower range toward the lower end of the current target range or, alternatively, the issue should be assessed by an independent review such as that suggested in Recommendation 20 of this report.*

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12 With a Consumer Price Index base of 100 for the year 1989-90, and with an index of 95.2 the June quarter 1989 and 116.2 in the June quarter 1995, an annual inflation rate of 3.4% is implied.

13 These figures were calculated using the following formula for net present value:  $P = S(1+i)^{-n}$  where P = principal; S = accumulated value; i = rate of inflation per compounding period; and n = number of compounding periods.

PART THREE -

ISSUES FOR AGENCIES

## MONITORING PERFORMANCE IN DEPARTMENTS AND AGENCIES

### Introduction

5.1 This chapter comments on two issues: first, the extraordinarily large number of bank accounts maintained by Commonwealth agencies; and secondly the importance of developing effective cash management performance indicators, and using these indicators to monitor and measure performance.

### Bank Accounts

#### *Background*

5.2 Commonwealth agencies maintain more than 2000 separate bank accounts. The number of accounts, and the fact that many are with banks other than RBA, has been of concern to Finance for some time.

5.3 In 1992, Finance conducted an evaluation of the revenue collection procedures of the Commonwealth. The evaluation report concluded, among other things that:

- *There is significant opportunity cost associated with Commonwealth funds that are not quickly deposited with the Reserve Bank;*
- *Departments and agencies have large numbers of bank accounts, many of which are held with commercial banks. Substantial balances are held in these accounts;*

- *Accounts should only be held with commercial banks where it would be patently not cost effective to operate on accounts with the Reserve Bank.<sup>1</sup>*

5.4 Since then Finance has embarked on a number of activities to rationalise bank accounts in departments and agencies:

*Cash Management and Banking Section ... is currently conducting a project aimed at the rationalisation of the Commonwealth's 2000 (plus) bank accounts ... The project has involved identification of the agency responsible for each account, from minimal information provided by the banks, and then visiting agencies with a view to closing inactive or seldom used accounts where possible and reminding agencies to bank with the Reserve Bank (RBA) wherever practical in accordance with the Finance Directions. Where agencies are unable to bank with the RBA because of remote location, they have been urged to clear balances frequently to the RBA and not allow large sums to accumulate in accounts with commercial banks.*

*All departments and some other major agencies have been contacted and supplied with an up-to-date register of their individual RBA and Commonwealth Bank accounts. In the case of departments operating small numbers of accounts, contact was made by telephone. Many expressed surprise at the numbers of accounts they held.<sup>2</sup>*

#### *Audit Recommendations*

5.5 The ANAO also expressed concern about the number of bank accounts operated by Commonwealth agencies and made a number of recommendations aimed at reducing the number of accounts and encouraging the central agencies to monitor more closely the operation of bank accounts. Specifically, ANAO recommended:

- *... that the Department of Finance maintain and monitor a central register of bank accounts;*

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1 Auditor-General, *Audit Report No. 10, 1994-95*, p. 72.

2 Auditor-General, *Audit Report No. 10, 1994-95*, p. 74.

- ... that agencies review their use of bank accounts on a regular basis, with a view to rationalising the number of accounts. In making the decision to close bank accounts, agencies should be cognisant of the cost to the Commonwealth of maintaining an account and the costs to the agency if the account is closed; and
- ... that the Departments of Finance and the Treasury establish effective co-operative arrangements to ensure that, between them, they regularly analyse and monitor the Commonwealth's accounts at all banks with the aim of keeping balances at optimal levels.<sup>3</sup>

5.6 In evidence to the Committee the Auditor-General argued strongly in favour of establishing a central register of all bank accounts operated by Commonwealth agencies.

*I know that, in terms of public service reform and letting the managers manage efficiently and so on, that might sound like anathema to some. But it seems to me to be an essential discipline, at least until such time as some experience can be obtained as to why agencies are opening specific accounts and keeping the amounts that they do in them, and until Finance does not suddenly learn - as I am told it does now, and I base this only on hearsay - that it is a surprise to be hierarchies of the agencies concerned to find out that there is so much money in a particular account. In those situations ... we should have a system that does monitor bank accounts and, broadly, the amounts of money in them. More particularly, we should have a system which monitors why they need those amounts of money, and what purposes are being served.*<sup>4</sup>

#### *Finance's Response*

5.7 In its response to the audit report, Finance partially agreed with the Auditor-General's recommendation regarding monitoring of bank accounts:

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3 Auditor-General, *Audit Report No. 10, 1994-95*, pp. 75, 77 and 79.

4 Auditor-General, *Transcript*, p. 20, (Canberra, 15 June 1995).



*The Department of Finance has written to agencies to remind them of their responsibilities in relation to bank accounts and is considering the possibility of strengthening accountability of those departmental officers with delegations from the Minister for Finance to open bank accounts. It is primarily the responsibility of agencies to maintain a record of their bank accounts. Finance will, however, monitor bank accounts and, where appropriate, liaise with agencies to ensure that balances in commercial banks are kept to a minimum and that only necessary accounts are maintained.<sup>5</sup>*

5.8 In addition, Finance has issued a circular memorandum to all agencies reminding delegates of their responsibilities under the *Audit Act 1901* and of the requirement to advise Finance of any changes to bank account arrangements. The circular reads, in part:

*Delegates of the Minister for Finance under Sections 20 and 21 of the Audit Act are reminded of the requirement that they advise the Department of Finance of all bank accounts that are opened or closed under delegated authority.*

*The following information should be provided:*

- *Title of Account*
- *Purpose of Account*
- *Bank and branch at which account is domiciled*
- *Account number*
- *Whether account is being opened or closed.<sup>6</sup>*

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5 Auditor-General, *Audit Report No. 10, 1994-95*, p.75.

6 Finance, *Finance Circular No. 1993/19, Directions to Delegates under Sections 20 and 21 of Audit Act 1901 - Opening and Closing Bank Accounts*, 15 June 1995.

## The Committee's Observations

### *Bank Account Control*

5.9 There may be legitimate reasons for agencies to maintain multiple bank accounts, but the fact that ANAO found it difficult to identify the number of accounts held by Commonwealth agencies points to a serious weakness in agency level control systems.

5.10 It is unacceptable that some agencies were 'surprised' when presented with information about the number of accounts they held and the amount of cash resting in those accounts. It is an essential discipline that proper bank account records be maintained. To do otherwise is an indicator of extreme administrative laxity and exposes Commonwealth funds to significant risks.

5.11 The Committee acknowledges that Finance has repeatedly sought to remind agencies and delegates of the Minister for Finance of their obligations to inform Finance of all accounts which are open or closed. These reminders appear not to have been heeded.

5.12 Although sympathetic to the Auditor-General's call for a central register of bank accounts to be maintained by Finance, as a means of encouraging agencies to exert tighter controls over their bank accounts, the Committee is not persuaded that a central register is necessarily the best means of addressing the problem.

5.13 The Committee considers that, as individual agencies are accountable for the management of funds appropriated to them, it should be a fundamental administrative requirement that agencies themselves maintain registers of all bank accounts they operate. It should be a relatively simple matter for most agencies to compile and maintain such registers. Some agencies may find the task daunting because of inadequate current records, but in the Committee's view this is all the more reason for the task to be undertaken immediately.

5.14 The maintenance of separate registers by each agency does not preclude external access to and scrutiny of the records by agencies such as Finance and ANAO. They could call for information for all or some of the registers whenever it was necessary or appropriate to do so. Indeed it may be that requiring agencies to maintain their own registers will allow Finance and ANAO access to more accurate and up-to-date information than would be available on a central register. The Committee's view is also influenced by the fact that a de facto, and apparently ineffective, central register already exists - as a result of the series of Finance Circulars urging delegates to advise Finance of bank account details.

5.15 **Recommendation 4**

*All Commonwealth agencies should, within three months of the tabling of this report, create and maintain their own registers of all bank accounts held.*

*Monitoring Bank Account Activity*

5.16 While improving the level of control over the number of bank accounts is essential, it is arguably even more important to effectively monitor bank account activity.

5.17 This is an area where the Committee agrees that there is a strong case for Finance to assume a more comprehensive role than at present.

5.18 The Commonwealth should have in place a system which pays more attention to monitoring the amount of money held in bank accounts and asks whether current deposit levels are necessary. Such monitoring should be undertaken at agency level and by Finance.

5.19 **Recommendation 5**

*All Commonwealth agencies should, on a monthly basis, collect and analyse data relevant to their bank account activity, and evaluate performance against appropriate indicators.*

5.20 **Recommendation 6**

*Each quarter, all Commonwealth agencies should provide summary bank account activity data for analysis by the Department of Finance, in accordance with guidelines to be issued by the Department of Finance.*

5.21 **Recommendation 7**

*The Department of Finance should continue to regularly remind all Commonwealth agencies of their responsibilities in regard to bank accounts.*

*Monitoring of Other Cash Management Activities*

5.22 The significance of performance measurement and reporting and the benefits agencies and the Commonwealth should gain through improved performance were well documented in the audit report.

5.23 In respect of agencies, the audit report focussed on monitoring of:

- billing and receipting activities;
- debt recovery;
- purchasing and inventory control; and
- timing of payments.

5.24 The Committee also notes that Finance, in its publication *The New Financial Reports of Agencies*, has encouraged agencies to calculate comparative ratios of financial performance, financial position and cash flows, and to:

- *seek explanations ... for significant changes between years;*
- *benchmark common ratios against other agencies; and*
- *where overhead expenses are allocated to programs, apply ratios at program level as well as for the agency as a whole.<sup>7</sup>*

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7 Finance, *The New Financial Reports of Agencies*, p. 46.

5.25 The Committee regards the development and implementation of performance indicators and benchmarks as valuable tools in improving performance and supports the Auditor-General's view that cash management is an area worthy of more attention in this regard.

5.26 **Recommendation 8**

*All Commonwealth agencies should:*

- (a) *on a monthly basis, collect and analyse data relevant to their cash management performance and evaluate performance against appropriate indicators; and*
- (b) *each quarter, provide the Department of Finance with such summary cash management performance data as required, for analysis.*

## PURCHASING ISSUES

### Introduction

6.1 In the audit report, the Auditor-General drew attention to two areas within the Department of Administrative Services (DAS) which play a significant role in issues which impact directly on cash management. Both areas reside in Purchasing Australia, which is the Commonwealth's central agency for development and coordination of purchasing and disposal policies and guidelines, for the delivery of purchasing and asset sales services, and which has primary responsibility for the introduction of electronic commerce for Commonwealth purchasing.

### Electronic Commerce - Electronic Data Interchange (EDI) - Electronic Funds Transfer (EFT)

#### *Background*

6.2 In its 1994 White Paper on Employment and Growth, the Government announced that it would move to adopt electronic commerce for its purchasing activities by 1997.

6.3 The ANAO recognised that the introduction of electronic commerce, in particular its sub-components of EDI and EFT, would have implications for cash management for departments, and made the following recommendations:

- *... that the Statement of Direction on EDI for a whole-of-Government approach, and the guidelines to support it, be finalised and issued as a matter of priority; and*

- ... that the Department of Finance conduct a comprehensive cost-benefit analysis of EDI compared with other modes of payments.<sup>1</sup>

#### *Statement of Direction*

6.4 The *Statement of Direction* on electronic commerce was released by the Minister for Administrative Services, the Hon Frank Walker QC MP, in April 1995. The Statement was developed by the Electronic Data Interchange Subcommittee of the Information Exchange Steering Committee.

6.5 In introducing the Government's implementation strategy, the Minister advised that several Commonwealth departments are already using electronic commerce extensively and, that:

*Electronic commerce will be used for all aspects of purchasing, from obtaining information about goods and services through to placing the order and arranging payment. ... Electronic commerce will support the Government's program to improve public sector management. Implementing this Statement will ensure that the Commonwealth and its trading partners benefit from emerging information services and technologies.<sup>2</sup>*

6.6 The *Statement of Direction* places overall responsibility for coordination of electronic commerce in purchasing with the Minister for Administrative Services, whilst the Minister for Finance will be responsible for:

- *identifying service-wide issues for resolution; and*
- *ensuring that a coordinated policy is developed for implementing electronic data interchange in Commonwealth departments.<sup>3</sup>*

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1 Auditor-General, *Audit Report No. 10, 1994-95*, pp. 100 and 103.

2 Exhibit No. 9, The Hon Frank Walker QC MP, Minister for Administrative Services, *Electronic Commerce, Commonwealth Government Statement of Direction*, p. 1.

3 Exhibit No. 9, p. 4.

6.7 Finance also has responsibility for the provision of facilities which will enable payments to be made through EFT and EDI. The Committee notes that Finance and RBA have jointly developed a pilot EDI system for test purposes only, at this time, and that the intention is to further develop this system to meet the payment (EFT) needs of Commonwealth agencies under the broader Electronic Commerce umbrella.<sup>4</sup>

#### *Chief Government Information Officer*

6.8 In the *Statement of Direction*, the Government also announced that, in respect of his role in introducing EDI, the Minister for Finance would be supported by the Government Information Services (GIS) Policy Board and by the newly established Office of Government Information Technology (OGIT).

6.9 Cabinet decided, in April this year, that OGIT will be headed by a Chief Government Information Officer who will also chair the GIS Policy Board. The Chief Government Information Officer is a Secretary level position within the Finance portfolio.<sup>5</sup>

#### *Guidelines*

6.10 In July 1995, the Electronic Commerce Office of Purchasing Australia advised the Committee that the implementation guidelines which underpin the *Statement of Direction* were currently being drafted.

#### *The Committee's Observations*

6.11 The Committee is of the view that Finance and DAS are cooperatively progressing the introduction of electronic commerce in a most satisfactory manner and is confident that their efforts will be well supported and complemented by the OGIT. The Committee is satisfied that implementation issues are being addressed via:

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4 Finance, *Submission*, p. S159.

5 Finance, *Submission*, p. S158.



- education and awareness campaigns;
- the conduct of business case assessments in agencies;
- provision of industry assistance; and
- publication of Implementation Guidelines for Electronic Commerce / EDI, and other literature.

6.12 The Committee has also noted Finance's distribution of *Finance Circular No. 1995/07*, dated 20 June 1995, which offers additional advice to agencies on timing of payments. The Circular makes reference to direct credit payment and the following extract introduces the subject:

*8. Payments can also be made electronically by direct credit to a payee's account. The Department of Finance considers direct credit to be the preferred method of payment and best practice.<sup>6</sup>*

### **Purchasing Guidance**

6.13 The audit report also noted that inventory control was a function which could possibly impact on cash flow and interest costs. Accordingly, ANAO recommended that Finance and Purchasing Australia should issue guidance to purchasing officers on the cash management implications of decisions about purchasing and holding stores.

6.14 Finance's response to this recommendation was positive and included advice as to the relevance of incentives, provided under the Running Costs reforms, for departments to better manage their inventories (amongst other assets).

6.15 Through its research and through discussions with Purchasing Australia, the Committee became aware of several publishing initiatives in the purchasing area which could impact positively on departments cash management practices:

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6 Exhibit No. 17, Finance, *Finance Circular 1995/07, Cash Management - Timing of Payments*, 20 June 1995, p. 2.

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- In June this year, Purchasing Australia published the first edition of *Transforming Purchasing - Guidance on the Organisation and Management of Procurement*. This publication is designed to provide a coherent framework for agencies to review the organisation and management of their procurement function. *Transforming Purchasing* starts at the strategic purchasing level and guides agencies through to re-engineering of procurement structures and processes, and managing the required changes.
  - Similarly, in January 1995, the initial *Purchasing Statistics Bulletin (PSB)* was published. The *PSB* reports on Commonwealth purchasing activity using end-of-year data. The information is extracted from the Commonwealth *Purchasing and Disposals Gazette* data base and was compiled by the Electronic Commerce Office of Purchasing Australia, with the assistance of the Electronic Information Access Section of the Australian Government Publishing Service. In presenting the data for 1992-93 and 1993-94, Purchasing Australia acknowledged that some limitations exist to the accuracy and completeness of the information presented, and advised that ways to improve the situation are being investigated.
  - The current *Commonwealth Procurement Guidelines* are the subject of a major revision process which should see the new format guidelines tabled in Parliament later this year.
  - The new *Commonwealth Procurement Handbook*, which will provide more detailed practical guidance on the broad range of procurement activities for Commonwealth employees engaged in purchasing, is expected to be published once the guidelines are approved. The Handbook will meet the daily reference needs previously satisfied by the *Commonwealth Purchasing Manual*, which has not been published for some years, and will provide additional topical information.

*The Committee's Observations*

6.16 Responsibility for development and distribution of guidance on purchasing matters lies primarily with DAS rather than Finance, and the Committee therefore believes the Auditor-General's recommendation related to inventory control should be directed to DAS.

6.17 Also, during its review, the Committee became aware of Purchasing Australia's view that a number of other aspects of purchasing have implications for cash management which might be canvassed in its guidance materials.

6.18 **Recommendation 9**

*As part of its current revision of procurement guidelines and other materials, the Department of Administrative Services, in consultation with the Department of Finance and key inventory holding departments, should issue guidance to Commonwealth agencies on inventory control aspects of cash management.*

6.19 **Recommendation 10**

*The Department of Administrative Services, in consultation with the Department of Finance, should include advice on other cash management aspects of purchasing in its guidance materials.*

## REVENUE COLLECTION

### Introduction

7.1 The great majority of the Commonwealth's revenue is derived from:

- various forms of income tax;
- sales tax; and
- customs and excise duties.

7.2 The Budget Estimates for 1995-96 show that these account for over \$117 billion of the Commonwealth's total anticipated revenue of \$124.5 billion.<sup>1</sup> As discussed earlier in this report, the timing of revenue receipts and their prompt depositing with RBA impacts directly on the Commonwealth's borrowing costs.

7.3 Accordingly, a significant proportion of the audit focused on the cash management aspects of the collection of taxation revenue and the receipting functions of ATO.

7.4 This chapter considers the activities of ATO in some detail, as well as commenting broadly on the cash management implications of the revenue raising activities of the Australian Customs Service (ACS).

### The Audit Report

#### *Revenue Patterns*

7.5 The Treasury, to assist ANAO with its analysis of revenue cycles, provided an indicative schedule of major outlays and revenue patterns.

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1 Budget Paper No.1, *Budget Statements 1995-96*, Statement 4, p. 4-3.

7.6 For 1992-93 (the latest full year available for audit testing) major revenue patterns were:

**Table 7.1**

**Actual Revenues**

Gross PAYE	Large employers pay two instalments per month due on the 7th and 21st. <b>Small group employers may pay on a quarterly basis with payment due by the 7th day in the month following the end of the quarter.</b>
PAYE refunds	Refunds have an annual cycle. August, September and October are the peak months, with normally over half of the annual estimate being refunded over this period.
Interest from States for Loan Council Programs and from NT for advances	This is a reimbursement for interest paid out by the Commonwealth on bonds and ASBs issued on behalf of the States. It varies considerably from month to month. Reimbursement is due as interest becomes due.
Excise	The majority of excise payments on traditionally excisable items are made on the first working day of each week, and are for the previous week's clearances.
Customs Duty	Collections tend to be fairly evenly spread over each month.
Withholding tax	Due by the 21st day of each month. Collections tend to be concentrated shortly after that date.
Sales Tax	Due by the 21st day of each month. A seasonal peak normally occurs in January because of the Christmas sales period.

Prescribed Payments System	Due by the 14th day of each month. The majority of collections tend to be concentrated in the five business days after the due date.
Company tax	Large companies are required to pay 85% of their notional tax by the 28th day following their balancing date. For medium-sized companies this initial payment must be made by the 28th day of the third month after their balancing date. All companies must pay the balance by the 15th day of the ninth month after their balancing date.
Other Individual/Tax	Consists mainly of provisional tax (including a Medicare levy component). The quarterly provisional tax payments are distributed over the first ten days of the particular month they are due. All other provisional taxpayers pay annually with the payment due not before 31 March. Payments are concentrated around those times, especially late March and throughout April.
Tax on Superannuation Funds	Tax collected from superannuation funds follows the same payment schedule as that for companies.
Fringe Benefits Tax	Paid by instalments due by 28 July, October and January with the balance due by 28 April (although a number of deferred payments and reconciliation payments are made in May).
Petroleum Resource Rent Tax	Paid by quarterly instalments due by 21 October, January, and April with the balance due on 21 July (although this payment is usually received in August).

*Earlier Evaluation*

7.7 One of the observations of ANAO was that, whilst a 1985 Finance Circular (1985/12) had concluded with the statement that 'a major review of all aspects of cash management is being undertaken', during its audit ANAO could find no evidence that this review had been undertaken. The ANAO went on to say that it was not until October 1991 that a formal review was carried out under the auspices of Finance, which looked only at revenue collection procedures. The ANAO also noted 'the review was finished in April 1992 and was published in November 1993, after this audit was begun.'<sup>2</sup>

7.8 The evaluation was conducted by a team of three officers, one each from Finance, ATO and ACS. A steering committee of officers from these organisations and the Department of Primary Industries and Energy also supported the team. The audit report noted that its purpose was 'to evaluate the efficiency of the present revenue collection procedures of the Commonwealth and to recommend areas for improvement with particular reference to cash management.'<sup>3</sup>

7.9 The audit report summary of the conclusions of the evaluation included the following:

- *The cash management aspect of revenue collection has, over many years, lacked strong initiative and vision. In most agencies there has been little sense of urgency in processing revenue ... ;*
- *However, the benefits of effective cash management are increasingly being recognised. In particular the Australian Taxation Office and the Australian Customs Service have undertaken major initiatives which employ innovative collection methods and modern technology in processing. These initiatives will result in substantial savings to the Commonwealth ... ;*

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2 Auditor-General, *Audit Report No. 10, 1994-95*, p. 117.

3 Auditor-General, *Audit Report No. 10, 1994-95*, p. 117.

- Agencies should examine their revenue processing practices to ensure that they meet cash management objectives. They should ensure that revenue is received by the due date, processed as a matter of urgency and banked on the day of receipt at the Commonwealth's accounts with the Reserve Bank ... ;
- *Many types of revenue are collected by intermediaries on behalf of the Commonwealth. These include some taxes collected for the ATO and levies on primary production collected for the Department of Primary Industries and Energy. Large savings in interest could be realised if the intermediaries were required to remit funds collected by them to the Commonwealth earlier than at present, if necessary by amending legislation or regulations. The case for requiring large intermediaries to remit earlier is stronger than that for smaller intermediaries ... ;*
- *The feasibility of a centralised processing agency to handle most types of Commonwealth revenue should be examined ... ; and*
- *Revenue collection agencies should keep abreast of developments overseas and in the financial and corporate sectors, so that they can implement best practices.<sup>4</sup>*

7.10 Whilst ANAO was critical of both the time lag between finalisation of the review and publication of the findings and of the limited distribution of the published evaluation, it did note that, on 4 January 1994, Finance issued a Finance Circular in which the major findings of the evaluation were set out. The introduction to the Circular stated:

*Some of the major findings of the evaluation are set out below. Implementation of these findings by all agencies would result in significant cash savings to the Commonwealth.<sup>5</sup>*

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4 Auditor-General, *Audit Report No. 10, 1994-95*, pp. 117-9.

5 Finance, *Finance Circular No. 1994/1, Collection, Processing and Banking of Revenue*, 4 January 1994.



*Australian Taxation Office*

7.11 The ATO is the Commonwealth's largest revenue collector with receipts for 1994-95 totalling approximately \$98 billion through its four payment services (Billpay, Mailpay, Over-the-Counter, and EFT-In).

7.12 The agency Billpay arrangements involve using Australia Post offices as collection points around Australia. Five Mailpay sites, nationally, process mail receipts. EFT is used mainly by large clients, with receipts being electronically transmitted direct to RBA. Receipts are also processed over the counter when clients visit a local ATO branch.

7.13 The audit report noted that a Post Implementation Review of the introduction of the Billpay arrangements was completed in January 1994.

7.14 In assessing how the agency Billpay arrangement had performed against the business objective of 'improving the cash flow to the Commonwealth with consequent substantial reductions in public debt interest costs', the review concluded:

*Under the agency arrangement the bulk of monies collected at post office outlets are banked into (13) ATO deposit trust accounts held with commercial banks on the day of payment by taxpayers. The balance of the funds are banked the next day. This agreement is in recognition that banks generally close each day before post offices and that funds collected by smaller agency outlets are banked by parent post offices. On day two the Billpay Centre initially moves the funds electronically into the RBA deposit trust account in Melbourne. Later in the day, after the Billpay Centre has electronically transmitted a Receivers Statement to the Department of Finance, the funds are swept into the RBA Commonwealth Public Account. This is a vast improvement on previous banking procedures and has resulted in significant public debt interest savings.<sup>6</sup>*

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6 Auditor-General, *Audit Report No. 10, 1994-95*, pp. 85-6.

7.15 The ANAO was not as optimistic about public debt interest savings noting that:

*... the current agency arrangement ensured that, while a significant percentage of receipts was banked at commercial banks on the day of receipt, for most receipts a one day's delay must occur before deposits reach the Reserve Bank, and for the remainder a two day delay must occur. Peak processing days (the 7th and 21st of the month) also caused problems in terms of timeliness of processing. This would not seem to be a significant improvement on the processing profile contained in the assumptions in the Design Report (March 1990), reproduced earlier in this chapter. On the other hand, ATO officers have identified that taxpayers now pay their bills at the post office 1.33 days earlier than when the ATO received them under the previous receipting arrangement.<sup>7</sup>*

7.16 Accordingly, the audit report contained a number of recommendations concerning ATO activities, including three aimed at improving receipting practices:

*... that the Australian Taxation Office endeavour to expedite arrangements to maximise the value of receipts being deposited in a Collectors/Receivers Account at the Reserve Bank on the day of receipt;*

*... that the Australian Taxation Office monitor the percentage of receipts banked on the day the mail arrives and endeavour to maximise the value of receipts banked on the day they are received; and*

*... that the Australian Taxation Office expand its performance indicators on banking to include a target percentage of receipts to be banked at the Reserve Bank on the day they are received.<sup>8</sup>*

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7 Auditor-General, *Audit Report No. 10, 1994-95*, p. 86.

8 Auditor-General, *Audit Report No. 10, 1994-95*, pp. 88, 91, and 95.

### Responses from the Australian Taxation Office

7.17 The ATO's responses to these recommendations were supportive although, in responding to the first of these recommendations, it did point to some prospective hurdles (and opportunities):

*The ATO, in consultation with the Department of Finance (DOF), the Reserve Bank (RBA) and the Australian Government Solicitors, has made numerous attempts - by way of proposing legislative changes and alternative business arrangements - to overcome legal impediments that have prevented the achievement of this goal. The culmination of this collective effort has been the recent in-principle agreement between Australia Post, DOF, RBA and the ATO to develop a new banking arrangement that will enable Australia Post to electronically bank ATO receipts into the RBA on the day of receipt.<sup>9</sup>*

7.18 The reference in this response, to possible new banking arrangements with Australia Post and RBA is, in the Committee's view, an important development which could have significant impact on ATO's banking practices.

7.19 One of the factors contributing to delays in having receipts deposited with RBA has been that RBA branches are not located in close proximity to many processing sites and ATO, therefore, uses commercial banks for initial depositing of receipts. In many cases this means funds are not deposited with RBA until the following day. Similar circumstances prevail with a number of other departments and agencies.

7.20 This nexus may be removed if current (at the time of drafting this report) negotiations to have Australia Post offices act as agents of RBA are successful.

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9 Auditor-General, *Audit Report No. 10, 1994-95*, pp. 88-9.

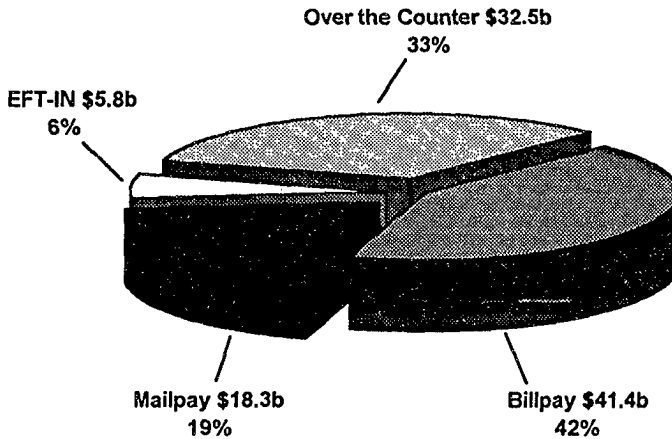
### Further Evidence

7.21 During the course of its review, the Committee was able to gather additional topical information related to this subject.

7.22 The ATO provided figures to the Committee which show that, based on 250 working days per year, the average daily amount received through the four payment services of ATO is around \$391 million. The figures provided also showed that this amount grows to \$2.3 billion on peak days (with over \$1 billion being received through Billpay alone).

7.23 The ATO figures display the following approximate dissection of the \$98 billion in revenue receipts for 1994-95:<sup>10</sup>

Figure 7.1 - Means of Collecting Tax Revenue, 1994-95

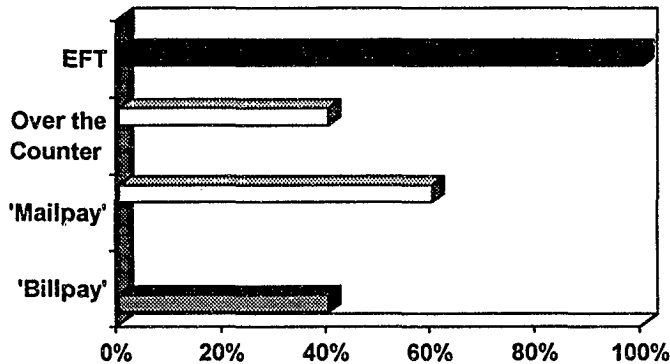


<sup>10</sup> Australian Taxation Office, *Submission*, p. S153.

7.24 The figures provided indicate that, on peak days, receipts are almost \$290 million per hour (based on 8 hours). Every additional hour's collections that can be banked in a day at RBA, rather than on the following day, represents a significant reduction in the Commonwealth's borrowing requirements or an increase in the interest received on the Commonwealth's cash balances. It is obvious that the receipt processing and banking practices of ATO have a major impact on the Commonwealth's cash flow.

7.25 The ATO advises that the current rates of receipts banked 'on the day' is approximately as follows:

**Figure 7.2: Percentage of Receipts Banked on the Same Day, by Means of Collection**



7.26 The ATO informed the Committee that its eventual target for Mailpay is for 90% of daily receipts to be banked on the same day. The ATO further states that it will introduce a performance standard of 90% of all receipts from all four services to be banked on the same day they are received. In making the statement, ATO places a caveat on attainment of this standard as it is dependent upon the introduction of new technology in the banking industry and the outcome of negotiations with external agencies (such as Australia Post and RBA).

7.27 In the meantime, ATO hopes to achieve an improvement in Billpay standards to achieve 65% same day banking within six months (by about January 1996).

7.28 One of the major initiatives introduced has been the establishment of the ATO Cash Management Centre (ACMC). The role of the ACMC is to:

- *recommend internal ATO cash management policies and procedures;*
- *provide national payment processing and payment accounting support to Branch Office accounting cells (to be established by the end of 1995); and*
- *coordinate contact with external agencies in regard to cash management activities.*<sup>11</sup>

7.29 Another important initiative being introduced by ATO is its plan to establish formal contact with other Australian and overseas revenue collection agencies with the aim of:

- developing a better understanding of their current cash management practices;
- understanding their plans for improving banking performance; and
- looking for opportunities to form associations with mutual benefit to both parties.<sup>12</sup>

7.30 The Committee noted from the table above that the timing of PAYE instalment receipts is governed by the remittance arrangements put in place by the Government. Subsequent correspondence from ATO confirmed that the current arrangements are:

- Group employers with PAYE remittances of over \$5 million annually are required to remit deductions on a twice monthly basis (7th & 21st days);
- Group employers remitting between \$10 000 and \$5 million annually remit deductions on the 7th day of the month following the deductions;
- Group employers remitting less than \$10 000 per annum remit for the previous quarter on the 7th day of October, January, April and July.<sup>13</sup>

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11 ATO, *Submission*, p. S154.

12 ATO, *Submission*, p. S156.

13 ATO, *Correspondence*, 10 August 1995.

7.31 In the 1995-96 Budget, the Government announced its decision to further reduce (from the levels set in 1990) 'the deferral of tax payments that arises under the PAYE system by lowering the threshold at which the twice-monthly remittance arrangements apply to \$1 million per annum. This change will take effect from 1 December 1995'.<sup>14</sup>

7.32 The Budget papers show that this measure is expected to increase revenue by \$275 million in 1995-6 (7 month period).<sup>15</sup> The Committee notes that the measure will also have a positive impact on the Commonwealth's borrowing costs.

### **The Committee's Observations**

7.33 The ATO has made a concerted effort to improve its receipting and banking performance. It has developed a series of practical and effective strategies and has begun to develop and implement best practice benchmarks. As a result ATO's banking performance has improved. There is, however, scope for further improvement and ATO's targets for the next 12 months have been set with this in mind.

7.34 In order to maintain the progress which ATO has achieved to date, the Committee believes there is merit in further developing the work on performance targets and benchmarking, so as to produce a range of performance indicators against which to measure ATO's receipting and banking practices.

#### **7.35 Recommendation 11**

*The Australian Taxation Office, in consultation with the Department of Finance, should develop effective performance indicators for all significant factors of its cash management activities and routinely monitor and analyse these indicators to assist in improving performance.*

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14 Budget Paper No. 1, *Budget Statements 1995-96*, Statement 4, p. 4-8.

15 Budget Paper No. 1, *Budget Statements 1995-96*, Statement 4, p. 4-5.

7.36 As well as seeking to improve its own receipting and banking practices, ATO should consider how best to encourage a shift in the pattern of revenue receipts identified in Figure 7.1. It would be in the Commonwealth's cash management interests if a greater proportion of taxpayers made their tax payments by electronic means, rather than over the counter or by Mailpay or Billpay. This would mean that payments would be credited to RBA accounts instantly and would result in a significant reduction to ATO's costs of administration.

7.37 Undoubtedly the Commonwealth's cash management priorities will be of little influence in encouraging taxpayers to change their tax payment arrangements. If such a change is to be made, a range of administrative, legal and technical considerations (and possibly incentives) will need to be assessed. Nonetheless, the potential advantages of shifting the balance between the various modes of payment are such that the matter should be given serious and active consideration.

7.38 The establishment of an RBA agency arrangement with Australia Post, as described in paragraphs 7.17 and 7.18 above, is potentially a very significant development. It will allow a far greater proportion of tax receipts collected via Billpay to be banked with RBA on the day of receipt - the cash management advantages of this approach are obvious. It is important that the various parties to the negotiations settle the new arrangements as soon as possible.

7.39 **Recommendation 12**

*The Department of Finance, in collaboration with the Australian Taxation Office, should expedite establishment of agency banking arrangements to facilitate maximisation of the value of receipts being deposited with the Reserve Bank of Australia on the day of receipt.*

7.40 Although the magnitude of tax receipts make ATO a sensible first choice for the use of RBA agency arrangements, the potential application of similar arrangements for the receipt of other Commonwealth revenues should not be neglected. Wider access to the Australia Post/RBA arrangement should be considered either at the same time or shortly after implementation for ATO.



### Australian Customs Service

7.41 The ACS is the second largest collector of Commonwealth revenue through payments of excise and 'like excise'. This will amount to around \$13 billion in 1995-96.<sup>16</sup>

7.42 Whilst the audit did not include ACS, ANAO acknowledges the significance of the revenue collection role played by Customs.

7.43 The ACS Portfolio Budget Statements for 1995-96 describe revenue collection as one of the key result areas for ACS. The Statements also explain that a revenue compliance improvement initiative is being introduced, the outcome of which will be additional revenue estimated to rise to \$30 million by 1998-99. The measure is also intended to, amongst other things to:

- reduce routine intrusion by ACS into business transaction records for compliance checking;
- achieve long term savings in industry compliance costs; and
- ensure that producers and distributors of legitimately marketed products are not disadvantaged by product which has avoided excise or customs duty.

7.44 ACS also states in the Portfolio Budget Statements that 'an evaluation strategy to measure the effectiveness of the initiatives will be developed in conjunction with the Department of Finance'.<sup>17</sup>

7.45 The Committee views the cash management principles discussed above, in relation to ATO, as being equally relevant to ACS.

#### 7.46 Recommendation 13

*The Australian Customs Service should, in consultation with the Department of Finance and the Australian Taxation Office, develop effective performance indicators for all significant factors of its cash management activities, particularly collection and banking, and routinely monitor and analyse these indicators to assist in improving performance.*

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16 Department of Industry Science and Technology, *Portfolio Budget Statements, 1995-96*, p. 90.

17 DIST, *Portfolio Budget Statements 1995-96*, p. 91.

PART FOUR -

CENTRAL FOCUS AND  
UNRESOLVED ISSUES

## A CENTRAL FOCUS ON CASH MANAGEMENT

### Introduction

8.1 The importance of closely monitoring cash management performance has been referred to at various points in this report, and is self-evident given the magnitude of the Commonwealth's public debt interest obligations.

8.2 For such monitoring to be effective, integrated agency level and Commonwealth-wide performance reporting mechanisms need to be in place.

8.3 This chapter considers the current cash management reporting framework and comments on Finance's role in providing a central focus on cash management and in coordinating the Commonwealth's cash management effort.

### Reporting of the Commonwealth's Cash Management Performance

#### *The Current Reporting Framework*

8.4 The Department of the Prime Minister and Cabinet (PM&C) is responsible for preparation of the *Requirements for Departmental Annual Reports*. PM&C is also responsible for reviewing the utility of the information provided in annual reports. Annual reports by departments are tabled in Parliament and are one of the Executive Government's major accountability mechanisms.

8.5 Pursuant to the *Public Service Act 1922*, the annual reporting requirements come into effect only after they have been approved by the Joint Committee of Public Accounts.

8.6 Finance has responsibility for preparation of various other annual reporting guidelines and requirements including: guidelines for the financial statements of departments and authorities, and the general reporting requirements for authorities.

*Reporting on Cash Management Performance*

8.7 Under current arrangements, public reporting of cash management performance by departments is limited in its focus and is reported yearly, in individual departments' annual reports. Only government business enterprises are required to provide quarterly reports for scrutiny by their departments and Finance. The cash management performance information in departmental annual financial statements is limited to:

- reporting on the age of outstanding debts (but only on any amounts which may be outstanding as at 30 June each year - there is no requirement to report on performance over the period); and
- payment of accounts - the reporting criteria relate to numbers of accounts and their payment relative to due dates - there is no requirement to report on the amounts of money involved in early or late payment.<sup>1</sup>

8.8 Other than the requirement that agencies notify purchase arrangements in excess of \$2 000 in the *Commonwealth (Purchasing and Disposal) Gazette*,<sup>2</sup> the Committee is not aware of any other current cash management reporting requirements.

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1 Department of Prime Minister and Cabinet, *Requirements for Departmental Annual Reports (March 1994)*.

2 See Commonwealth Procurement Guideline No. 2, *Open and Effective Competition and Gazette of Purchasing Information*.

## The Committee's Observations

### *Reporting Cash Management Performance*

8.9 It is clear that the current annual reporting requirements provide little or no incentive for agencies to undertake any serious monitoring, measurement or reporting of cash management performance. Moreover, the current requirements do not produce sufficient information to allow any reliable Commonwealth-wide analysis to be undertaken.

8.10 This position needs to be addressed by individual agencies and by the relevant central agencies.

8.11 The Committee acknowledges that the preparation of accrual based financial statements and the implementation of accrual accounting systems will generate much useful information in this regard. In its recent report on accrual reporting and accounting the Committee urged Finance to help agencies develop a range of measures and indicators to better assess their financial performance, including cash management performance. The Committee also recommended that Finance should collect, analyse and table in Parliament information about the financial performance of all agencies.<sup>3</sup> The Committee holds to its view that such steps would act as a significant incentive toward better management performance.

8.12 One of the subjects which arose from the audit report and in the Committee's review was the need for correct timing of payments. Whilst some evidence suggested that the occurrence of late payment has reduced considerably since the instigation of the "30 day" payment rule for invoices, evidence was also received which indicated that the practice of paying too early has been encountered. A Finance Circular issued in June 1995 referred to this problem and reminded agencies of the need to establish due dates for every payment and to ensure that such dates are met:

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3 Joint Committee of Public Accounts, *Report 338 - Accrual Accounting - A Cultural Change*, AGPS, Canberra, 1995, pp. 35-6.

*Payments should not be made earlier or later than the due date. Many complaints are received from suppliers to the Commonwealth concerning late payment and this reflects badly on the Commonwealth as a business entity ... On the other hand, early payment involves unnecessary costs for the Commonwealth.*<sup>4</sup>

8.13 The Committee is of the view that monitoring and reporting of the timing of payments needs to continue, and perhaps be extended to measure the effects of early or late payment practices by agencies. In addition there is merit in considering whether agencies should be required to include in their annual reports comments on such matters as:

- activity within bank accounts maintained by the agency;
- receipting and banking activities of major revenue collection agencies;
- debt recovery;
- billing activities;
- purchasing and inventory control; and
- the timing of major payments, such as specific purpose payments to the States.

8.14 In view of these considerations, and the substantial gains to be made through improved cash management performance, the Committee makes the following recommendations.

8.15 **Recommendation 14**

*The Department of Finance, in consultation with key agencies, should develop effective measures for monitoring and reporting of cash management performance, and issue guidelines for their use by departments and authorities.*

8.16 **Recommendation 15**

*The Department of Prime Minister and Cabinet, in consultation with the Department of Finance, should consider amending the annual report requirements for departments to require the presentation of expanded information on the payment performance of Commonwealth agencies.*

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4 Exhibit No. 7, p. 3.

**8.17 Recommendation 16**

*The Department of Finance should liaise with the Department of the Prime Minister and Cabinet to ensure that the cash management performance guidelines, referred to in Recommendation 14 above, are consistent with and complement the annual report requirements for departments.*

8.18 In addition to amending the annual reporting requirements to include more and better quality reporting on cash management issues, the Committee believes there is merit in considering complementary central reporting of cash management performance across all agencies. The preparation of such reports by Finance, on an annual basis, would provide a whole of government perspective on the issue and may help to encourage improvements in agency-level performance. It is quite possible that such central reporting may only be needed in the short term.

8.19 In making the following recommendation, the Committee is mindful of the numerous references by ANAO and Finance to the lack of incentives for individual agencies to focus on these issues.

**8.20 Recommendation 17**

*The Department of Finance should report to Parliament annually on the consolidated cash management performance of all Commonwealth departments and authorities.*

**Finance's Focus on Cash Management***The Cash Management and Banking Section*

8.21 In 1993 Finance established the Cash Management and Banking Section, a group of four staff within the Financial Management Division, to provide a renewed focus on improving cash management in Commonwealth agencies.

8.22 The audit report described the Section's functions and initial priorities in the following terms:

*In late November 1993 a work plan was produced for the area. It stated that the objective of the section was primarily to undertake research and investigations and make recommendations for change with a view to identifying economies in the following areas:*

*Priority 1: Management of Principal Funds and Accounts*

*Priority 2: Banking Arrangements*

*Priority 3: Revenue Collection*

*Priority 4: Payment of Accounts<sup>5</sup>*

8.23 Further details of these priority activities are at Appendix VI.

8.24 The ANAO acknowledged the importance of the work program being pursued by the Section, but suggested that there would also be value in adding three other priority areas to the work plan:

*Debtors - There is a need for debtors to be promptly billed and quickly followed up when debts are overdue ... billing and debtors follow-up aspects are equally as important (as revenue collection) ... Revenue is harder to collect if bills are not issued in a timely manner or outstanding debts are not promptly followed up.*

*Prepayments - ... prepayment arrangements should be entered into only where there is an advantage to the Commonwealth ...*

*Inventory - ... Inventory should only be held where there is an advantage to the Commonwealth ...<sup>6</sup>*

8.25 Evidence obtained during the inquiry shows that the Section has undertaken a number of initiatives in relation to debtors and prepayments.<sup>7</sup> As discussed in Chapter 6, the question of inventory control is being addressed by DAS Purchasing Australia.

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5 Auditor-General, *Audit Report No. 10, 1994-95*, pp. 108-9.

6 Auditor-General, *Audit Report No. 10, 1994-95*, pp. 109-10.

7 See Finance, *Submission*, p. S160, and Exhibit No. 17.



*For How Long Will a Dedicated Resource be Needed?*

8.26 In the audit report and during the Committee's review there was some discussion about how long it would be necessary to staff a separate section dedicated to cash management issues.

8.27 The Auditor-General was strongly of the view that Finance should continue to commit resources to a separate and 'dedicated asset' for the foreseeable future.

*... If there is a dedicated resource effort, at least until the time when all alternative avenues have been explored, there will be that focus. I think if you just settle back and say that there is a broad responsibility in this area that Treasury has for managing debt et cetera, and that Finance has for administration in the Public Account, there may well be a tendency to say, 'Well, we have done all we can'. That is why we would be supporting this dedicated unit in Finance to take that through as far as we can go, and then, as I said, we have at least some resource to continually monitor that to ensure that we do not slip back. This is because ... the same deficiencies we are witnessing now are likely to come up in the future again.<sup>8</sup>*

8.28 Phil Bowen, a senior official from Finance, advised the Committee that the Cash Management and Banking Section would be subject to review in 1996 and that a range of factors would need to be assessed at that time:

*... it is very difficult to comment at this point as to whether we will need to have a separate section by that time. What is absolutely clear is that these general issues will remain very much at the forefront of our minds in terms of our overall responsibility ... ; and*

*A lot of effort over the last couple of years has been put in ... to the development of the new financial legislation. Our hope would be that when that is finally passed ... we will have some resources freed up that we can apply to activities such as this.<sup>9</sup>*

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8 Auditor-General, *Transcript*, p. 9, (Canberra, 15 June 1995).

9 Finance, *Transcript*, pp. 44-5, (Canberra, 15 June 1995).

*The Committee's Observations*

8.29 There is ample evidence that the Commonwealth's cash management efforts could be further improved. For such improvements to be realised, the Committee believes it is important that a strong central focus be developed and maintained for some time yet.

8.30 As indicated earlier, Finance can and should take a lead in this area by:

- providing information, training and guidance to agencies on cash management and banking issues;
- helping agencies develop appropriate indicators for measuring and monitoring their cash management performance; and
- developing better methods of collecting, monitoring, analysing and reporting cash management performance information, on an agency and Commonwealth-wide basis.

8.31 It is not possible to accurately predict how long it will be necessary to persist with a strong central focus on cash management. Ideally, it would be a short to medium term commitment, maintained only until such time as the importance of cash management is entrenched in the APS culture, and the information and advisory functions currently performed by the Cash Management and Banking Section are devolved out to the Supply Divisions, or to agencies themselves.<sup>10</sup>

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10 The Committee endorses the Auditor-General's comments about Supply Division officers encouraging program officers in agencies to consider cash management issues when setting program objectives and evaluating program performance:

*... I think a much more sensible outcome would evolve where the Finance Supply Division people were in constant contact with their opposite numbers and could examine that ... at the outset, when the program and the payments were first being established so that these offsetting issues and the balance that has to be struck could be brought to the Minister's attention at that time ...*, (Auditor-General, *Transcript*, p. 16)

It is pleasing to note Finance's positive response to these comments (see Finance, *Submission*, p. S161).

8.32 However, given the current level of PDI expenditure and the possible areas for improvement canvassed in this report, it may be overly ambitious to think of the need for a strong central focus as anything less than a medium to long term commitment.

8.33 Having said that, the Committee acknowledges the value in periodically reviewing resource allocation and organisational structures. It is to be hoped that the 1996 review of the Cash Management and Banking Section would consider such factors as whether effective cash management practices are being employed in Commonwealth agencies; whether acceptable performance levels (measured against best practice) are being achieved; and whether there are realistic prospects for achieving further cost savings from better practices.

8.34 On the evidence currently available there is little to suggest that the central focus created by the Cash Management and Banking Section should be diminished. Indeed, in the Committee's view, the Section should assume an even greater leadership and co-ordination role in improving and monitoring cash management in the Commonwealth. The range of responsibilities contemplated in this report would involve the Section taking on the role of a 'corporate treasury'.

8.35 **Recommendation 18**

*The Department of Finance should consider extending the life of its Cash Management and Banking Section as the central focus for Commonwealth cash management guidance and reporting.*

*Effectiveness of Training*

8.36 In so far as the effectiveness of cash management training is concerned, the Committee agrees with the comments of the Auditor-General that an evaluation should be conducted. It is, however, sympathetic to Finance's view that it may be too early at this stage to conduct an evaluation which would produce meaningful results.

8.37 In evidence to the Committee, Finance also stated that it is difficult to measure the effectiveness of its training; but advised that it plans, in 1996-97:

*... to conduct a formal evaluation of the impact of training, consultation and other measures to improve cash management ... In the meantime, Finance will monitor a number of measures to determine the impact of its initiatives, including cash management training.<sup>11</sup>*

**8.38 Recommendation 19**

*The Auditor-General, in any subsequent audit of cash management in the Commonwealth, should consider the effectiveness of cash management training delivered by the Department of Finance.*

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11 Finance, *Submission*, p. S159.

## UNRESOLVED ISSUES

### Introduction

9.1 This chapter draws together the various issues which were identified in either the audit report or the Committee's review as being in need of further consideration. The chapter concludes with a proposal which, if implemented, would see the issues resolved.

### The Unresolved Issues

9.2 As discussed in earlier chapters, there are a number of cash management issues which are as yet unresolved. These include:

- (a) agreement on the optimum level of cash balances which should be maintained in the 'target' accounts;
- (b) whether or not the current configuration of the 'target' group of accounts is the most appropriate for monitoring the Commonwealth's cash position;
- (c) establishment of a mechanism for trusts holding moneys at the RBA to allow for the apportionment of interest income to those accounts;
- (d) monitoring and evaluation of changes in the Commonwealth cash management culture;
- (e) identification, implementation and reporting on cash management performance indicators across departments;

- (f) identification of, and benchmarking against, domestic and international best practices in cash and debt management strategies and functions from a 'corporate treasury' perspective (including the 'split function' practice currently employed in the Commonwealth);
- (g) establishment of a more systematic (formalised) approach to cash forecasting;
- (h) the use of overdraft facilities as an effective tool in cost effective short-term cash flow management;
- (i) what respective roles devolved agencies and Finance might play in monitoring and reporting on bank account activity and other cash management functions;
- (j) what form and level of cash management reporting are appropriate, and how these should be introduced to departments;
- (k) what appropriate incentives/sanctions or other strategies should be introduced to assist departments in reducing outstanding debt (particularly overdue debt); and
- (l) best practice in managing Specific Purpose Payments to the States and Territories (SPPs).<sup>1</sup>

9.3 An overarching issue is that of improved cooperation between Finance and Treasury.

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1 Recently the Committee and the ANAO conducted a survey of all Commonwealth departments involved in administering SPPs. The survey revealed that the total annual amount of SPPs made in advance comes to almost \$9 billion. The survey was part of the Committee's inquiry into SPP administration, the report of which will be tabled before the end of the 1995 Parliamentary sittings.

Triggered in part by the joint JCPA/ANAO survey, Finance has established a task force on payments to statutory authorities and the States to examine current practices and advise on a suitable policy framework for more efficiently making payments to these groups. The task force is due to report to the Minister for Finance by 31 December 1995.

9.4 It is evident that the resolution of a good many of the earlier recommendations calls for concerted action from Finance and Treasury. Indeed, one of the key findings in the audit report was that there is considerable scope for greater cooperation between these two agencies. This was a consistent theme throughout the audit report and underpins many of the audit recommendations - in particular, Recommendation 35 which called on Finance and Treasury to:

*... consider establishing a joint part-time working party to identify ways of best sharing the Commonwealth's cash management responsibilities and for ensuring each agency provides maximum assistance to the other in carrying out cash management functions.<sup>2</sup>*

9.5 The initial response from Finance and Treasury to the audit recommendations about closer collaboration was generally positive, although both agencies did reject the proposal for a joint working party.

9.6 Finance's response to the working party proposal was that the necessary levels of co-ordination will 'be achieved by close cooperative arrangements between the two agencies', while Treasury responded that:

*... both departments now agree that the most effective way to improve cash management is by way of discussions between officers on ways to improve specific aspects of cash management. This course of action is already being pursued and progress has been made on a number of issues. A part-time working party is likely to be less focussed and therefore less effective.<sup>3</sup>*

9.7 Representatives from both agencies confirmed, in evidence to the Committee, that they were satisfied with the current consultative arrangements in relation to cash management issues.<sup>4</sup>

9.8 From the Committee's perspective, the evidence about the efficiency and effectiveness of the current arrangements is not so reassuring.

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2 Auditor-General, *Audit Report No. 10, 1994-95*, p. 115.

3 Auditor-General, *Audit Report No. 10, 1994-95*, p. 115.

4 Finance and Treasury, *Transcript*, pp. 38-40, and 51-3, (Canberra, 15 June 1995).

*Evidence of Poor Collaboration*

9.9 The audit report contains numerous examples of a less than desirable level of collaboration and consultation between the two agencies. For example, the report noted that:

- ... [a] paper mentioned by the Treasury which identified various payments where payment dates could be changed, with the possibility of millions of dollars of savings, was dated November 1992 and not referred to the Department of Finance until February 1994;
- Treasury is seeking to liaise with Finance's ledger redevelopment team with a view to improving the information available to the Treasury several years after the ledger redevelopment project commenced; and
- Finance and Treasury officers indicated that the Treasury was not consulted when Finance established the Cash Management and Banking Section last year.<sup>5</sup>

9.10 During the Committee's review a number of other examples of possible inconsistencies, functional overlaps and differences of opinion between Finance and Treasury came to light. One such instance concerns the clarity with which cash management responsibilities are divided between the two agencies.

9.11 The audit report, and other evidence made available to the Committee through annual reports, submissions and at the public hearing, indicates that the Treasury's principal cash management responsibilities relate to:

- forecasting cash requirements;
- monitoring and maintaining (via debt management) the aggregate cash balances in the RBA 'target' group of accounts (including managing the Commonwealth's relationship with RBA); and
- management of, and advice on, the use of overdraft.

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5 Auditor-General, *Audit Report No. 10, 1994-95*, p. 114. Other references to the need for improved co-ordination can be found at pages xvii, 66, 113, 114, and 122, of the audit report.



9.12 At the same time, the work plan for Finance's Cash Management and Banking Section includes the following priorities:

- *Examine cash flow forecasting arrangements and identify potential improvements with a view to identifying and managing the Commonwealth's cash balances in accordance with optimum levels;*
- *Investigate the Commonwealth's interaction with the Reserve Bank with a view to optimising the Commonwealth's business relationship with it; and*
- *Investigate, advise on and implement innovative banking arrangements, including the greater use of overdraft where appropriate, use of EFT and EDI, and on-line bank reporting systems.<sup>6</sup>*

9.13 The two sets of responsibilities overlap substantially.

9.14 Another example, is contained in a memorandum from Finance to Treasury, dated 7 March 1994:

*A concern is that, while in 1985 the Government recorded a disposition to the Commonwealth maintaining a generally lower level of cash balances, the tendency in recent times has been for average balances several times the targets then contemplated. Moreover, while the Treasurer and Minister for Finance were joint sponsors of the proposal and it was envisaged that the targeting of cash be a cooperative exercise, there appear to be no guidelines or working arrangements agreed between our departments that would facilitate the achievement of lower balances.<sup>7</sup>*

9.15 A number of other examples of apparent inconsistency and uncertainty can be found in Appendix VII.

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6 Auditor-General, *Audit Report No. 10, 1994-95*, pp. 108-9.

7 Auditor-General, *Audit Report No. 10, 1994-95*, p. 66.

*The Committee's Observations*

9.16 In the Committee's opinion there is ample evidence that scope exists for clarifying the respective cash management responsibilities of Finance and Treasury, and for improving the levels of co-operation between the two organisations. While it is perhaps an exaggeration to conclude that these deficiencies are the principal cause of the unresolved cash management issues, it is no exaggeration to say that the resolution of these issues is hampered by the confused lines of responsibility and inadequate co-operation between the two agencies.

9.17 The Committee is conscious of the fact that both Finance and Treasury have taken substantial and successful steps to improve the Commonwealth's cash management practices, particularly in recent years. Both agencies deserve praise for these efforts.

9.18 However, the assertion that the current arrangements are adequate and appropriate is shown to be absurd by the number of issues which are still unresolved and by the increasing level of the Commonwealth's public debt interest obligations.<sup>8</sup>

9.19 A number of the unresolved issues are highly technical in nature, with the available evidence suggesting different opinions on the best directions to take. Some of the issues also need to be considered in their broader policy and program contexts.

9.20 In these circumstances, the Committee is not in a position to offer definitive solutions. It is clear, however, is that further examination, by experts in the field, is urgently required. The longer the delays in arriving at agreed solutions, the greater the cost to the Commonwealth purse.

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8 As noted at the beginning of this report, the Commonwealth's anticipated PDI expenditure for 1993-94 was 6% of total expenditure. With expected PDI at \$10.076 billion and total expenditure at \$123.7 billion, the comparative figure for 1995-96 is approximately 8.1%. In order of magnitude PDI is the major source of expected growth in Government outlays in 1995-96 (see Auditor-General, *Audit Report No. 10, 1994-95*, p. 4; and *Budget Paper No. 1, 1995-96*, pp. 3-12 - 3-15).

## Mechanism for Resolution

9.21 As noted above, the Auditor-General's proposal for ensuring an efficient division of responsibility between Finance and Treasury and for encouraging an effective working relationship between the two was to recommend the establishment of a joint part time working party.

9.22 The Committee agrees with the sentiment which motivated the Auditor-General, but considers that resolution of the various outstanding issues would be expedited by the appointment of an externally led review, reporting at Ministerial level.

9.23 In considering the most appropriate structure for such a review, the Committee sought further advice from the Auditor-General. He provided the following opinion:

*It is clear that some issues in your list under this heading (Roles of and Cooperation between the Departments of Finance and the Treasury) require Ministerial and even Cabinet involvement for their resolution e.g. policy on use of overdraft and on the optimum level of cash balances.*

*There is no doubt that such a review as you propose would have access to the best intelligence on the subject and would focus attention on specific and important decisions which may then be more rapidly resolved. Reporting at Ministerial level would also seem appropriate on such issues.*

*The review team could be headed by a well known and respected financier or consultant specialising in corporate treasury type functions and perhaps include two senior public servants with relevant responsibilities, probably one each from Treasury and Finance. The review team would require support from a working party consisting of representatives of Finance and major cash using departments. The time frame for the review should not exceed six months.*

*I see no reason why such a review would be inappropriate, given that the issues you have nominated have material cost consequences and currently require rapid resolution.<sup>9</sup>*

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9 Auditor-General, *Submission*, p. J255.

9.24 An externally led review of this type would enable a fresh perspective to be brought to the issues: a perspective unencumbered by inter-agency sensitivities.

9.25 **Recommendation 20**

*The Minister for Finance should commission a high level review of cash management in the Commonwealth. The review team should:*

- (a) *be chaired by a suitably qualified person from the private sector with expertise in corporate treasury functions;*
- (b) *consist of senior representatives from the Departments of Finance and the Treasury;*
- (c) *include a senior representative of the Australian National Audit Office as a member of the review team or as an observer;*
- (d) *focus on the cash management issues which remain unresolved; and*
- (e) *report within six months of being established.*

*Terms of Reference for the Review*

9.26 The key focus of such a review should be to gather evidence of best practice in cash management in other jurisdictions and in the private sector. It appears that little has been done to measure the Commonwealth's practices against such standards in the past.

9.27 In this context, the review team should consider:

- whether more formal and frequent consultative arrangements should be established between Finance and Treasury on cash management issues, in addition to the current informal arrangements;
- what, if any, elements of the short term debt management functions currently conducted by Treasury might, in the interests of greater efficiency and effectiveness, be consolidated into the cash management functions performed by Finance; and

- whether there is scope for any aspects of the Commonwealth's cash management function to be made contestable or contracted out.

9.28 In addition to these general matters, the Committee considers the specific unresolved issues listed at sub-paragraphs (a), (e), (g), and (k) in paragraph 9.2 above as being priority issues for the review team.

### **Follow-up Audit**

9.29 As the subject of better cash management and the prospective savings it offers are of such significance, and as there are a number of facets to the initiatives recommended in this report, the Committee is of the view that the Auditor-General should consider conducting a follow-up audit. Although the conduct and timing of such an audit are matters for the Auditor-General's consideration, there would appear to be merit in delaying any follow-up audit until the outcomes from this report and the review recommended above are clear.

Les Scott, MP  
Chairman

18 October 1995

# I

## APPENDIX I - SUMMARY OF AUDIT REPORT NO. 22, 1993-94

A number of issues were identified by ANAO early in the audit process which could generate large savings to the Commonwealth. Consequently, an interim audit report was tabled on 14 December 1993.<sup>1</sup> Those issues and supporting detailed findings have been included in the final report.<sup>2</sup>

The ANAO stated that, if the issues raised in the interim report were addressed, there was potential for considerable savings to be generated. The ANAO, however, made only three recommendations at this stage of the audit. The recommendations were directed at agencies and focussed on improvements in the following areas:

- collection, receipting and banking procedures;
- payment practices; and
- matching of receipts and payments flows.<sup>3</sup>

Treasury provided a submission to the Committee in response to the interim report while Finance arranged to provide a submission following tabling of the final report.

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- 1 Auditor-General, *Audit Report No. 22, 1993-94, Efficiency Audit, Cash Management in the Commonwealth Government Departments*, AGPS, Canberra, 1993.
  - 2 Auditor-General, *Audit Report No. 10, 1994-95, Efficiency Audit, Cash Management in Commonwealth Government Departments*, AGPS, Canberra, 1994.
  - 3 Auditor-General, *Audit Report No. 22, 1993-94*, p. 10.

Treasury stated that they supported the broad thrust of ANAO's recommendations and reported taking a number of steps in relation to improved matching of receipts and payments after the tabling of the interim report. However, Treasury rejected ANAO's criticisms of its short-term forecasting practices claiming that the present arrangements for forecasting were working quite satisfactorily and that Treasury had been pro-active in developing its forecasting practices.<sup>4</sup>

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<sup>4</sup> Treasury, *Submission*, pp. S1001-2 (1993-94 Submissions).



## APPENDIX II - SUMMARY OF AUDIT REPORT NO. 10, 1994-95

The ANAO concluded that there is a need to change the culture throughout the Commonwealth Government so that good cash management practices are accepted and pursued by all officers who have financial responsibilities. The ANAO accepts that it will take time to change the culture and sees this report as a catalyst in advancing better cash management practices throughout the Public Service.

The ANAO noted that, prior to the time of the audit, continuous proactive strategies aimed specifically at advancing important components of cash management in the Commonwealth were lacking, and key areas warranted improvement, e.g. debtors. Reviews of aspects of cash management by Finance reinforced this conclusion.

A number of issues were identified early in the audit that, when addressed by agencies, could generate substantial savings to the Commonwealth. To expedite these, an interim report was tabled in Parliament in December 1993.

Since the time the audit commenced, ANAO has noted that Finance has devoted resources to cash management matters, raising the profile of cash management throughout the Commonwealth. The Department maintains that it is already seeing benefits from its work. Treasury has also pursued a number of initiatives that could yield savings in the order of \$25m per annum.

The major audit findings were:

- earlier receipting and the adoption of better payment practices could generate significant interest savings for the Commonwealth Government;
- accurate forecasting of cash expenditures and revenues is crucial to good cash management. A number of options were identified for improved forecasting practices;



- Finance needs to expand Commonwealth-wide guidance on good cash management principles in all key areas of cash management;
- Finance and Treasury should agree on optimal levels of cash balances for all types of bank accounts, within Cabinet parameters where applicable, and should monitor and analyse balances with the aim of meeting these optimums. Cabinet decided in 1989 that the average of key Reserve Bank accounts should be maintained between \$0 and \$300m. The Treasury has been aiming to ensure that the average is achieved in cumulative terms by year-end, but has found it necessary to end three recent years with a cumulative average below \$0;
- the Australian Taxation Office has developed a suite of receipts processing options. The audit identified scope for that agency to place more emphasis on ensuring that moneys are banked at the Reserve Bank on the day of receipt;
- Finance established a cash management function in July 1993 which, once fully staffed in January 1994, has pursued a range of cash management matters. However, key areas still need to be addressed; and
- there was scope for greater cooperation between the Finance and Treasury on cash management issues.

The ANAO made 36 recommendations aimed at improving cash management practices and realising substantial reductions in the costs associated with cash management.



## **APPENDIX III - WITNESSES AT THE PUBLIC HEARING**

**Thursday, 15 June 1995**

*Australian National Audit Office*

**Mr Pat Barrett, Auditor-General**

**Mr John Bowden, Executive Director, Performance Audit**

**Mr Alan Chapman, Director, Efficiency Audit**

**Mr Warren Cochrane, Acting National Business Director,  
Performance Audit**

**Mr Robert Morison, Former Senior Director, Efficiency Audit**

*Australian Taxation Office*

**Mr Stephen Chapman, Deputy Commissioner of Taxation,  
Moonee Ponds Office**

**Mr Bruce Jones, Chief Finance Officer**

*Department of Finance*

**Mr Philip Bowen, First Assistant Secretary, Financial  
Management Division**

**Mr David Knapp, Director, Cash Management and Banking  
Section**

**Mr Dean Wallace, Assistant Secretary, Financial Management  
Division**

**Mr Nicholas Williams, System Manager, Central Accounting  
System**

*Department of The Treasury*

**Mr Peter McCray, Assistant Secretary, Debt Management  
Branch**

**Mr Peter Crone, Assistant Director, Debt Policy Section**

**Ms Jennifer Goddard, Director, Debt Policy Section**

# IV

## APPENDIX IV - SUBMISSIONS<sup>1</sup>

- 6 Department of Defence
- 8 Department of The Treasury
- 9 Australian Quarantine and Inspection Service
- 10 Department of Finance
- 11 Australian Taxation Office
- 13 Reserve Bank of Australia
- 22 Australian National Audit Office
- 27 Department of The Treasury
- 28 Australian Taxation Office
- 29 Department of Finance
- A24 Australian National Audit Office
- A25 Australian National Audit Office

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1 The submissions were extracted from those submitted for the review of all 1994-95 audit reports. Consequently submissions which do not relate to the cash management inquiry are not listed.



## APPENDIX V - EXHIBITS<sup>1</sup>

- 1 Department of Finance - 'Cash Management Training Module'
- 2 Department of Finance - 'Finance Circular No. 1995/02 - Commonwealth Banking Arrangements - Commercial Banks'
- 3 Department of Finance - 'Letter to Attorney-General's Department from the Department of Finance'
- 4 Department of Finance - 'Revenue Collection Evaluation - Report of an Inter-agency Study'
- 5 Department of Finance - 'Finance Circular No. 1995/03 - Cash Management: Timing of Payments, Contractors and Traders, Lease Versus Buy'
- 6 Department of Finance - 'Commonwealth Banking and Cash Management Review by Stephen Mcleod, June 1993'
- 7 Department of Finance - 'Commonwealth Cash Management Review - Volume 1 - Review of Current Procedures, May 1992'
- 8 Department of Administrative Services, Purchasing Australia - 'Purchasing Awareness Services - May 1995'
- 9 Department of Administrative Services, Purchasing Australia - 'Electronic Commerce, Commonwealth Government Statement of Direction'
- 10 Department of Administrative Services, Purchasing Australia - 'Register of EDI projects 1994'

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1 The exhibits were extracted from those submitted for the review of all 1994-95 audit reports. Consequently exhibits which do not relate to the cash management inquiry are not listed.

- 11 Department of Administrative Services, Purchasing Australia - 'Request for Offers - Electronic Commerce for Commonwealth Agencies - Business Case Assessment'
- 12 Department of Administrative Services, Purchasing Australia - 'Electronic Data Interchange (EDI) and Financial Management Information Systems (FMIS), Survey of Commonwealth Agencies, March 1994, conducted by the Consultancy Services Unit (Department of Finance) on behalf of DAS Purchasing Australia'
- 13 Department of Finance - 'Summary Information - Deposits to Regional Bank Accounts - 1992-93, Responses to Questionnaires'
- 14 Department of Finance - 'Report on a Joint Review by the Departments of Defence and Finance of Imprest Accounts operated by the Department of Defence'
- 15 Department of Administrative Services, Purchasing Australia - 'Transforming Procurement - Guidance on the Organisation and Management of Procurement (first edition June 1995)'
- 16 Department of Administrative Services, Purchasing Australia - 'Purchasing Statistics Bulletin - A Report on Commonwealth Purchasing using end-of-year Data'
- 17 Department of Finance - 'Finance Circular No. 1995/07 - Cash Management -Timing of Payments'
- 18 Department of Finance - 'Cash Management and Banking Section - Workplan - 1994-95'
- 19 Department of Finance - 'Cash Management and Banking Section - Workplan'

# VI

## APPENDIX VI - CASH MANAGEMENT AND BANKING SECTION PRIORITIES, AS AT NOVEMBER 1993<sup>1</sup>

### Priority 1: Management of Principal Funds and Accounts

*Examine the interrelationships between the funds and accounts including the means of transferring funds between them so as to achieve optimal utilisation of the Commonwealth's cash resources.*

*Investigate the legal status of the funds and accounts and identify any requirements to manage them efficiently and effectively.*

*Investigate relevant reporting systems and identify any shortcomings.*

*Examine cash flow forecasting arrangements and identify potential improvements with a view to identifying and managing the Commonwealth's cash balances in accordance with optimum levels.*

### Priority 2: Banking Arrangements

*Examine existing bank accounts and banking arrangements with a view to rationalising and closing surplus accounts and improving the flow of funds to the Commonwealth's accounts with the Reserve Bank.*

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<sup>1</sup> Auditor-General, *Audit Report No. 10, 1994-95*, pp 108-9.

*Investigate the Commonwealth's interaction with the Reserve Bank with a view to optimising the Commonwealth's business relationship with it.*

*Investigate, advise on and implement innovative banking arrangements, including the greater use of overdraft where appropriate, use of EFT and EDI, and on-line bank reporting systems.*

*Negotiate, and assist with negotiation of, sound terms in relation to accounts held with banks.*

### **Priority 3: Revenue Collection**

*Finalise, publish and implement the findings, as appropriate, of the Revenue Collection Evaluation.*

*Continually review revenue collection procedures with a view to improving the efficiency and cash management of those activities.*

### **Priority 4: Payment of Accounts**

*Review account paying processes to ensure that they meet the objectives of cash management.*

*Review the use of the Australian Government Credit Card.<sup>2</sup>*

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<sup>2</sup> Auditor-General, *Audit Report No. 10, 1994-95*, pp. 108-9.



# VII

## APPENDIX VII - DIVISION OF RESPONSIBILITY BETWEEN FINANCE AND TREASURY

### Introduction

This appendix contains a number of examples of overlap and apparent inconsistencies in the division of cash management responsibilities between Finance and Treasury. It also points to some opportunities for better co-operation between the two agencies.

#### *Example 1*

The Committee notes that Treasury is responsible for managing the Commonwealth's relationship with RBA.<sup>1</sup> Also the Committee's understanding, from various evidence provided, is that Treasury carries primary responsibility for;

- forecasting cash requirements;
- monitoring and maintaining (via debt management) the average cumulative cash balances in the RBA 'target' group of accounts; and
- management of, and advice on, the use of overdraft.

It is not clear that the priorities set for the Finance Cash Management and Banking Section (see Appendix VI - Cash Management and Banking Section Priorities, as at November 1993) are consistent with primary carriage for these matters resting with Treasury.

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1 Auditor-General, *Audit Report No. 10, 1994-95*, p. xvii.

*Example 2*

The Committee noted, from the transcript of evidence the following exchange between Senator Gibson and Mr Bowen when discussing cash balance and overdraft decision responsibilities:

Mr Bowen - ... *It really is a function of the Treasury's responsibility to manage those aggregate cash balances within the Reserve Bank.*

Senator GIBSON - ... *The point I was really trying to get to was whether the fluctuations should be about a mean of around \$1,000 million, ..., zero or \$200 million or whatever. Is it your department's responsibility to work out which is the best option for the Commonwealth?*

Mr BOWEN - *That is an interesting question you raise, I think. To date, Treasury has ---*

Senator GIBSON - *In other words, balancing borrowing costs with the return on money received.*

Mr BOWEN - *Treasury has had that responsibility because, ... , there are costs associated with going to the market as opposed to perhaps letting your overdraft run a little longer or holding some extra cash. Certainly that is an equation for which the responsibility rests with the Treasury.<sup>2</sup>*

Again, it is not clear that these responses are consistent with the establishment of a Section within Finance which has elements of overdraft policy and management of cash balances listed amongst its original priorities.

*Example 3*

The Finance internal review, *Review of Management Arrangements for Administration of Commonwealth Banking and Cash Management*, was completed in June 1993. It produced twelve recommendations; three of these related to establishing a single unit within Finance to oversight the Commonwealth's banking, cash and funds management and to progress, where appropriate, other recommendations in that report.

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*Transcript*, p. 32, (Canberra, 15 June 1995).

Amongst the other recommendations in the report that, in the opinion of the Auditor-General, had not been overtaken by time and other events at the time of publication of the audit report were:

*Responsibility for the policy relating to, and management of, the Commonwealth's financial arrangements with the banking industry should be vested in a single area within the Financial Management Division of the Department of Finance. This area would be responsible for maintaining liaison with specialist areas, e.g. Accounting Operations Branch in relation to systems and the Treasury in relation to relevant functions, such as borrowings, which it performs. (Recommendation 6)*

*Further analysis of the cash balances retained in the various accounts of the Commonwealth should be undertaken, in order to quantify the impact on Public Debt Interest (PDI) of better cash management which would lower cash balances. In this context Departments and agencies should be required to submit monthly cash flow forecasts to the Department of Finance to support this analysis. (Recommendation 9)<sup>3</sup>*

These recommendations appear, prima facie, to be at odds with current arrangements whereby Treasury has responsibility for:

- managing the Commonwealth's relationship with RBA (and perhaps its broader banking industry responsibilities); and
- managing RBA account cash balances which have major impact on PDI.

*Example 4*

Indications that opinion on the respective roles and practices roles is not always consistent was provided during the public hearing in evidence given by Finance:

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3 Auditor-General, *Audit Report No 10, 1994-95*, pp. 37 and 43.

Mr Bowen - *I think the mutual conclusion that we (Finance/Treasury) have come to is that really it is the agencies who are best placed to provide good forecasting information about their cash flow needs ... I think that Treasury, although I cannot speak on their behalf, have also been concentrating more heavily on work with departments to improve the information that is coming in.*<sup>4</sup>

Mr Knapp (in response to a question from Senator Gibson regarding forecasting) - *No, I do not think that we should take any higher role than we do at present. It is clearly Treasury's responsibility.*<sup>5</sup>

Pages 40 and 41 of the transcript provide further comment of a similar nature.

As noted in Chapter 3, there is opinion that Finance, by virtue of its closer working relationship with agencies on a day to day basis could play a more significant role in forecasting.

#### *Example 5*

Treasury's Investment and Debt Division's has declared responsibility for advising on and implementing programs in relation to budget financing ...<sup>6</sup> while Finance, in its annual report, states that the objectives for Program 1 - Budget Development and Management, are to assist the Government to:

- determine, within the context of overall economic prospects and constraints, its broad budget strategies and program priorities; and
- allocate available resources for the efficient and effective undertaking of those programs.<sup>7</sup>

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4 Finance, *Transcript*, p. 29, (Canberra, 15 June 1995).

5 Finance, *Transcript*, p. 39, (Canberra, 15 June 1995).

6 Treasury, *Annual Report, 1993-94*, p. 5.

7 Finance, *Annual Report, 1993-94*, p. 6.

*Example 6*

The ANAO noted that a single corporate treasury area within large corporations generally coordinates cash forecasting and closely monitors and influences cash receipting and disbursement patterns to ensure optimal debt and cash holdings.<sup>8</sup>

Mr Bowen, First Assistant Secretary, Financial Management Division, Finance, in evidence similarly stated that it was 'pretty common' for a single treasury function to have responsibility for cash management 'as a whole' in the private sector.<sup>9</sup>

None of the witnesses was able to advise the Committee of any best practice studies which had been undertaken into cash management / corporate treasury functions in government, either domestically or internationally.

As referred to in the body of this report, the Committee noted the initiative taken by ATO in pro-actively seeking to formalise contact with other Australian and overseas revenue agencies, with one of its aims being to compare its revenue collection and banking performance against the best practices of these agencies.<sup>10</sup>

*Example 7*

The audit report identified the following opportunities, amongst others, for improved cooperation:

*Given the Department of Finance's roles, there may be scope to obtain information from that department. Relevant Department of Finance roles include evaluation and review of Government programs and associated expenditure and staffing estimates, and governmental financial administration and accounts.*

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8 Auditor-General, *Audit Report No. 10, 1994-95*, p. 114.

9 Finance, *Transcript*, p. 30, (Canberra, 15 June 1995).

10 ATO, *Submission*, p. S156.

*As part of the evaluation and review role, the Department of Finance has particular staff assigned to the oversight of particular departments. These officers develop expertise in financial matters relevant to the portfolios they oversight, which could be of assistance to the Department of the Treasury in its forecasting.*

*The Department of Finance also maintains ledger systems for the Commonwealth as a whole, and draws the cheques to meet the expenditure commitments of most agencies. As such, that Department keeps details of budgeted revenue and expenditure and actual revenue and expenditure throughout the year, details of payment patterns and, because payments can be stored pending cheque production at a later date, details of some payments due to be made in the near future.<sup>11</sup>*

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11 Auditor-General, *Audit Report No. 10, 1994-95*, pp. 20-1.