LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

REVIEW OF AUDITOR-GENERAL'S REPORT NUMBER 11, 1996

Financial Audits with Years Ending to 30 June 1996

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Report Number 26

June 1997

RESOLUTION OF APPOINTMENT

The Standing Committee on Public Accounts was appointed by the Legislative Assembly on 9 March 1995 with the following terms of reference:

(a) examine:

   (i) the accounts of the receipts and expenditure of the Australian Capital Territory;

   (ii) the financial affairs of authorities of the Australian Capital Territory; and

   (iii) all reports of the Auditor-General which have been laid before the Assembly;

(b) report to the Assembly, with such comments 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 Assembly should be directed;

(c) inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question; and

(d) inquire into and report on the implementation of the *Public Sector Management Act 1994* with particular reference to:

   (i) the public interest; and

   (ii) any other related matter.

MEMBERSHIP OF THE COMMITTEE

Mr Andrew Whitecross MLA (From 18 February 1997. Elected Committee Chair 19 February 1997)

Ms Louise Littlewood MLA (From 18 February 1997. Elected Deputy Committee Chair 19 February 1997)

Ms Lucy Horodny MLA

Mr Bill Wood MLA (From 26 March 1996 to 18 February 1997. Former Committee Chair)

Mr Trevor Kaine MLA (To 18 February 1997. Former Deputy Committee Chair)

Ms Rosemary Follett MLA (To 26 March 1996. Former Committee Chair)

Secretary: Bill Symington

1. INTRODUCTION

1.1. Auditor-General's Report No 11, 1996 was presented to the Assembly on 12 December 1996.

1.2. The report is based mainly on the audits of agency financial statements for the years ended between 31 December 1995 and 30 June 1996 and, in essence, deals with matters of compliance and efficiency which have come to the notice of the Auditor-General during the conduct of financial audits. The report also takes the opportunity to advise the current position with matters raised in the corresponding report for 1995.

2. AUDIT FINDINGS AND COMMITTEE APPROACH

2.1. Significant issues arising from the audits are summarised in pages 2-7 of the audit report.

2.2. As the audit findings ranged over most agencies the committee sought and received from the Chief Minister comment on the findings.[1] The significant issues raised by the audit and an outline of the Chief Minister's response in each case follows.

Financial Reporting and Accountability

2.3. **The audit found that in past years many agency financial statements were prepared and published too late after the end of the year to be of value. This timeliness problem was largely overcome in 1994-95 and remains at a satisfactory level.**[2]

2.4. Responding to this matter, the Chief Minister advised that the continued improvement in getting statements completed in a timely fashion is expected to continue to improve as agency management of the Oracle system is refined. With monthly financial statement reporting the level of resident expertise is expected to improve significantly and the lack of timeliness before 1994-95 should not recur.

2.5. **The audit found that departments continued to use expensive contract assistance for the preparation of annual financial statements and other financial management tasks, and that there is a need for departments to recruit staff with accounting qualifications to perform these responsibilities in-house. In this regard, the audit noted that contractor costs for financial statements preparation alone were about $220,000 and that in the long term it is probably more economic to employ personnel to carry out ongoing tasks rather than use contractors.**[3]

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[1] Chief Minister. Letter to the committee dated 9 April 1997

[2] Audit report p10

[3] ibid p11

2.6. The Chief Minister advised that departments are adapting as rapidly as possible to the new financial reforms. The Chief Minister's Department has conducted an extensive training program in the financial management reforms and has facilitated further training in the concepts and practices of accrual accounting.

2.7. In this regard, the Chief Minister advised that chief executives are encouraged to continue with the provision of training opportunities for their staff, as well as looking to a greater interchange between the private sector and the public sector and recruitment of qualified accountants. The committee takes this to mean that all departments and agencies in addition to the Chief Minister's Department are involved in appropriate training and recruitment.

2.8. The Chief Minister advised that the use of contractors is a short term measure, noting that while the private sector firms have not had a great deal of experience with the accrual accounting model now applying to the public sector, nor with the owner/purchaser/provider model which applies in the ACT, their skills have been instrumental in enabling the reforms to be achieved. The Chief Minister further advised that resident accounting expertise is now occurring across departments, with the recruitment of a qualified and experienced accountant as the Chief Finance Officer in the Chief Minister's Department, and action taken to appoint about twenty people with accounting and/or financial management qualifications at the top senior officer level in the Office of Financial Management.

2.9. The audit found that while the financial reforms have been substantially and comparatively quickly implemented in departments, they have been expensive with consultancy costs alone estimated to be between $2m and $3m.[4]

2.10. The audit further noted that as there was limited budget and financial monitoring of the costs of the financial reforms implementation, it was not possible to say whether or not the reforms were achieved within budget, or in fact what the reforms actually cost.[5]

2.11. The audit noted comment by the Chief Minister's Department reproduced in the report to the effect that Government took a decision not to provide supplementation for departmental implementation expenses, [the costs] being accommodated through savings within departments. The audit noted Departmental advice that the exception was a specific budget provided for the development of reports, system software and hardware and management of the overall implementation. This budget was $3.12m and expenses of $2.24m were incurred against that budget. The audit noted that the Department claimed that implementation of financial reforms without budget supplementation had generated a reduction in non essential expenses in a range of areas.[6]

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[4] ibid pp12/13

[5] ibid p13

[6] ibid p13/14

2.12. The Chief Minister endorsed the Department's response and noted that staff in each department contributed of their own time to the achievements and deserved high praise for their efforts which had been largely without additional cost to the Government.

2.13. While the committee recognises the significant contribution of departmental staff in implementing the financial reforms, it questions why it had been thought necessary that they do so in their own time.

Aggregate Financial Statement

2.14. The audit drew attention to an "Emphasis of Matter" included in the audit opinion on the 1995-96 Aggregate Financial Statement arising from the absence of effective accounting procedures and controls in the Office of Financial Management and departments during an industrial dispute in March/April 1996. Over this period cheques were written manually and expenditure and receipts were not recorded in the ledger until after the dispute was settled. The absence of proper controls resulted in the risk of substantial loss from fraud or error for the ACT.[7]

2.15. With regard to this matter, the Chief Minister advised that the audit observations related to an extraordinary circumstance in which the unions, without notice, brought the relevant financial systems down. The Chief Minister advised that extensive industrial action in March and April 1996 prevented normal accounting processes. All agencies were advised of necessary changes to processes and were reminded of the need to meet legal obligations for payments of accounts. The Auditor General's Office was advised at the time of the changed processes, raised no objections and undertook a number of checks to verify that appropriate controls were in place.

2.16. The Chief Minister further advised that significant manual reconciliation was undertaken by several experts over many months and resulted in an unidentified variance of less than $3,000 between banking records and ledger records and adjustments that should have been made had time permitted at the end of the financial year.

Chief Minister 's Department

2.17. The audit noted that as a result of the audit and in order that an unqualified audit opinion could be issued several material alterations were necessary to the statements initially submitted by the Department to the Audit Office for audit. Reasons for the alterations included reclassification and changes to the Territory abnormal revenue of $486m and approximately $22m of

[7] ibid p19

unpresented cheques at year end not accounted for correctly in the statements.[8]

2.18. The Chief Minister advised that the adjustments noted by the audit were the result of a timing problem. The final reconciliation of the Territory Public Account had not been completed when the Department was required to submit the initial financial statements for audit. During the final stages of the reconciliation these adjustments were identified by the Department and financial statements were consequently amended. The amendments involved an initial classification error as opposed to an omission, and had no effect on the bottom line.

2.19. The audit noted that the ACT Government withdrew from its contract with the State Bank in early 1996 and appointed the Reserve Bank as the ACT Government banker in December 1995 without calling for tenders. At the time of the audit the Government had entered into a formal contract with the Reserve Bank although there had been an exchange of correspondence and a draft agreement was being considered.[9]

2.20. The Chief Minister advised that a formal contract with the Reserve Bank was now in place.

2.21. The audit found that procedures to ensure that asset disposals and transfers were being correctly monitored and controlled have been inadequate. In its 1995-96 stocktake the Department found discrepancies with assets with purchase values totalling approximately $485,000 not being located.

2.22. With regard to this matter the Chief Minister advised that the historical cost of assets valued at $485,138 mostly covered old computers with a written down value (after depreciation) of $146,264 but with little monetary value in market terms. In accordance with common practice most of the old computers were transferred to the Department of Education and Training for use in ACT schools.

2.23. The Chief Minister advised that the 1995-96 stocktake followed the merger of three agencies into the one department. The previous asset register systems of the old agencies were not compatible and it was decided to merge the information in all three systems into the new accounting system being introduced. The stocktake highlighted that some incorrect procedures had occurred in the past and the Department reviewed its operating procedures in regard to transfer and disposal of assets. The Chief Minister advised that the Department has implemented revised procedures to ensure that in future all assets are properly transferred and disposed of.

2.24. The audit found that under a lease for photocopiers, the Department paid a total of $135,929 for copiers which could have been purchased for $75,000 and probably less. The audit noted that senior management became aware of the leasing arrangement in December 1995, acknowledged there had been a lack of financial accountability when the contract was established in 1993, and

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[8] ibid p26

[9] ibid p27

negotiated a settlement with the supplier.[10]

2.25. The Chief Minister advised that future purchases and leases of photocopiers, faxes and computers are to be undertaken by InTACT. Moreover the Department now has procedures in place to ensure that business cases are prepared with appropriate cost analyses for any major purchases or leasing arrangements. These arrangements, in the context of the Government's new financial management framework, should minimise the possibility of a recurrence of the poor assets management arrangements which led to this contract being entered into in 1993, and extended as recently as May 1995.

ACT Superannuation Provision Trust Account

2.26. The audit found that the level of unfunded superannuation liabilities as at 30 June 1996 was $601.8 m, representing almost $2,000 for every ACT resident. The level of unfunded superannuation liabilities has increased over the last three years and will continue to increase for the next three years at least. The audit noted that the need for full funding of superannuation liabilities has been recognised by some States with some fully funding their liabilities and some with plans to achieve full funding.[11]

2.27. In response, the Chief Minister advised that the Government is aware of the growing unfunded superannuation liability and of the need to redress it. The Chief Minister proffered the view that the responsible approach is to move the budget into a cash surplus to provide capacity to reduce the unfunded liabilities without resort to borrowing. The Government has sought actuarial advice on the projected long term growth in both annual costs and unfunded liabilities arising from the existing superannuation and financing arrangements; and the actuarial report will also assess the effect of alternative financial strategies and of measures taken by State Governments to contain the growth in future liabilities, including the introduction of new superannuation schemes.

ACT Borrowing and Investment Trust Account

2.28. The audit found that the Central Financing Unit had not implemented changes to the operation of cash management and management of interest rates exposure which were recommended by an expert consultant in 1994-95.[12]

2.29. The Chief Minister advised that the consultant's recommendations were not implemented mainly on account of the impending introduction of the financial management reforms commencing on 1 July 1996. The Chief Minister advised that cash management was to change significantly as a result of these reforms and it was

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[10] ibid pp28/29
[11] ibid p32
[12] ibid p35

not cost effective or practical to implement changes in 1995-96 which would then require further alteration in 1996-97.

Department of Health and Community Care.

2.30. The audit found that the Department had not addressed weaknesses in controls over trust monies in the Central Equipment Pool (CEP) reported in 1994-95. These included an incomplete equipment register, lack of personal identification and a cumbersome accounting system.[13]

2.31. The Chief Minister advised that to improve the efficiency of CEP administration and the effectiveness of loan equipment management, the Canberra Hospital trialed a loan contract agreement, developed in consultation with the ACT Solicitor General, whereby the patient, upon signing such an agreement, became liable for the replacement cost of loan equipment not returned to the CEP. The results of the three month trial, which commenced on 1 August 1996, demonstrated an effective, accountable return process, without the maintenance of a labour intensive deposit system. The Chief Minister advised that this approach to creating incentives for the return of equipment will avoid the cost of collecting and accounting for loan equipment deposits.

2.32. The Chief Minister further advised that cash receipts and payments relating to the CEP since 1 July 1996 have been processed through a control account maintained in the Oracle General Ledger and are supported and reconciled with a subsidiary record as well as the cash balance on hand at month end. The balance of deposits held in trust at the cessation of the deposit system will be reconciled and wound down through refunds or replacement purchases as equipment is returned or written off.

2.33. The audit noted that a service agreement for 1995-96 between Calvary Hospital and the Department of Health was not finalised during the year.[14]

2.34. The Chief Minister advised that the Department supports the concept of service agreements and for the 1996-97 financial year there are formal agreements in place with most service providers, including Calvary Hospital. Despite there not being a formal service agreement for 1995-96, the Chief Minister advised there was adequate control over the level of funding provided to Calvary Hospital in 1995-96 through the two appropriations approved by the Legislative Assembly and also through correspondence between the Department and Calvary Hospital.

[13] ibid p39
[14] ibid p40

Department of Urban Services

2.35. The audit found that as at 30 June 1996 traffic fines totalling \$2.5m and parking infringements totalling \$1. 6m had been outstanding for more than twelve months and the Department did not have a policy regarding the write off of long outstanding fines.[15]

2.36. The Chief Minister advised that while processes are in place to pursue the collection of fines through the non renewal of registration and driver licences, the level of fines outstanding in the financial statements is mainly attributable to licensees who have left the ACT. At present these debts are difficult to follow up through other jurisdictions and given that the likelihood of recovery of these long outstanding fines is limited, the Department is developing a policy, to be introduced during the 1996-97 year, to write off long outstanding fines.

2.37. This issue is relevant to the committee's report no 24 of April 1997 which reviewed Auditor-General's report no 6/1996 - Collection of Court Fines.[16] In that report the committee noted that the Standing Committee of Attorneys-General had reportedly developed a scheme concerning mutual recognition arrangements in relation to the collection of fines and court ordered levies imposed on persons resident in State and Territory jurisdictions other than those in which the fines and levies are imposed. The committee recommended that the Attorney-General inform the Assembly on legislation to support the scheme and advise the Assembly on progress by other jurisdictions in this area. In view of this development, the committee considers it may be premature to write off long outstanding fines incurred by persons resident outside the ACT.

2.38. The audit noted that infrastructure assets administered by the Department totalled \$3,690m but the Department had yet to formulate policies regarding how changes in the values of infrastructure assets are to be accounted for.[17]

2.39. The Chief Minister advised that the Office of Financial Management will work with the Department to supplement, where necessary, guidance provided by the ACT Accounting Policy Manual. A working party involving officers from the City Services Group, Planning and Land Management and the Corporate Finance area of the Department has already been established. The issues involved are to ensure consistency in the application of approved valuation methods, to ensure that there are adequate handover procedures in transfers between Groups within the Department, that assets are brought on in the receiving Group's assets register and to ensure that there are adequate handover procedures in transfers to and from other bodies outside the Department, recognising that there may be additional issues to be resolved.

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[15] ibid p46
[16] Tabled 10 April 1997
[17] Audit report p47

ACTION

2.40. The audit noted that although the real reduction in Government recurrent funding between 1994-95 and 1995-96 amounted to $3.26m, the value of internally generated efficiencies achieved by ACTION was only $1. 015m.[18]

2.41. In response, the Chief Minister advised that the audit analysis of savings ignored real price movements and that it focussed on only one element from a complete discussion in the audit report which reflects an overall satisfactory performance in the context of the Three Year Funding Agreement. The aim of the Agreement is for ACTION to reduce its reliance on the Government recurrent contribution by $12.7m over three years while providing the same level of transport services. The Chief Minister advised that to achieve this target a number of initiatives were agreed [including the overhead cost reductions noted by the audit] which achieved savings of $6.261m in 1995-96 against a target of $6.7m.

2.42. The Chief Minister further advised that the Government paid ACTION $3m in compensation for loss of fare revenue from the industrial dispute in early 1996. The industrial dispute also prevented the introduction of a new timetable which would have resulted in a further reduction in expenditure of $0.9m. The Chief Minister advised this would have meant a savings achievement of $7.16m.

2.43. The committee notes that because internally generated efficiencies at ACTION have not covered the reduction in Government recurrent funding, the shortfall has been met by reductions in services. The effectiveness of the approach needs to be considered against the subsequent decline in ACTION patronage.

ACT Fleet

2.44. The audit noted that the vehicle fleet was sold to Macquarie Bank Ltd under a sale and leaseback arrangement in late 1995-96 and neither a profit nor a loss was made on the sale.[19]

2.45. The audit noted that most Fleet vehicles were sold at their book value of $25,715,526 and as the sale was at book value neither a profit nor a loss was made. The lease contract is for a minimum of 10 years and following the sale, Fleet made a capital payment of $25m to OFM. Nevertheless, the audit noted that Fleet made a substantial profit from its vehicle operations, the profit being $3.482m in 1993-94, $4.994m in 1994-95 and $4.820m in 1995-96.

2.46. In response, the Chief Minister advised that sale and leaseback of the passenger vehicle fleet achieved a return of capital to the Government of $26.57m, the Bank

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[18] ibid pp50/51

[19] ibid, p54

judging that the book value of the fleet reflecting the market value of the assets. The Chief Minister advised that the sale was consistent with the commercial objectives for ACT Fleet, was in line with arrangements generally used by the private sector and other public sector fleet managers, and that the Government, taking all factors into account, judged there was a long term benefit to the ACT resulting from the decision to lease.

Yarralumla Nursery

2.47. The audit noted that as Yarralumla Nursery operates as a commercial entity, it would be appropriate for its Profit and Loss Statement to separate costs of production from selling and administration costs. This disclosure would provide for the Nursery's commercial operations to be more readily assessed.[20]

2.48. The Chief Minister advised that the Chart of Accounts has now been changed to allow for [appropriate] analysis.

ACT Forests

2.49. The audit noted that ACT Forests will not meet its business plan objective of achieving profitability in 1996-97.[21]

2.50. In response, the Chief Minister advised that the business plan adopted in 1992-93 projected a loss of $60,000 in 1996-97. The Plan was reviewed in the lead up to the preparation of the 1996-97 Budget to reflect the downturn in building activity currently being experienced. A budgeted $556,000 operating loss was included in the 1996-97 Budget Papers[22]. The forward estimates in the 1996-97 Budget Papers showed ACT Forests achieving a profit in 1997-98. ACT Forests has drafted a new five year business plan as part of the draft Ownership Agreement being considered by the Government for the 1997-98 Budget.

2.51. The audit noted that operating revenue declined by $2.3m or 22% in 1995-96, as timber mills reduced their orders to minimum contracted timber volumes in line with decreased demand for timber from the mills due to the depressed building market in the ACT.[23]

2.52. The Chief Minister advised that a regional marketing strategy has been adopted targeting markets across the ACT and surrounding region. In addition alternative sources of revenue are being explored including the purchase of timber from private sources and its resale to timber mills.

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[20] ibid p58
[21] ibid p59
[22] Budget Paper No 4 Vol 2 p396
[23] Audit report p60

ACT Construction Industry Long Service Leave Board

2.53. The audit noted that the Board as at 30 June 1996 still held funds $19m in excess of its estimated liabilities for long service leave payments. The audit referred to a Board view expressed to the auditor that while it supports the ultimate objective of a zero levy on employers as a means of assisting employment within the ACT, a zero levy should not be introduced until such time as the fund's asset base is sufficient to achieve an income which equals its annual expenditure in real terms when inflation is taken into account.[24]

2.54. The Chief Minister advised agreement with the Board's support of the ultimate objective of a zero levy on employers as a means of assisting employment in the Territory, and that a zero levy will not be introduced until the fund's asset base is sufficient to achieve an income that equals its annual expenditure. The Chief Minister further advised that the Board is reviewing its administrative processes with a view to reducing costs, is receiving [professional] investment strategy advice and is confident that investment income will improve in the immediate future.

Agents Board of the ACT

2.55. The audit noted that previous audits had recommended the Agents Act 1968 be amended to require banks to transfer to the Board interest earned on agents' trust accounts. However, the audit found that currently there is only an agreement with the various banks that such interest be passed on to the Board.[25]

2.56. In response, the Chief Minister advised a review of the Agents Act is progressing. It is intended that the Act be amended to incorporate the recommendation that the Board be given statutory support to underpin its agreement with Banks to transfer interest to it.

Exhibition Park in Canberra [EPIC]

2.57. The audit found that:

- **(i) Exhibition Park had experienced significant operating losses over the last four years. Operating losses at 30 June 1996 totalled $1.9m.**

- **(ii) without substantial increases in revenue and/or reductions in expenses the National Exhibition centre Trust will continue to face problems in meeting its financial obligations as they fall due**

[24] ibid p68

[25] ibid p70

(iii) the Government has reduced its guarantee to the Exhibition Park's bank from $300,000 to $250,000, and in September 1996 the Trust's overdraft exceeded the amount of the guarantee.[26]

2.58. The Chief Minister advised that EPIC results at the end of 1996 were in line with its budget. The bulk of accumulated losses shown in the balance sheet are attributable to depreciation accumulated over many years and the Government recognises that for EPIC to increase revenue to a profitable level it will need to diversify from the core business of events. The Government is also considering a proposal from EPIC to address the issue of funding community service obligations.

2.59. The Chief Minister further advised that a cash flow problem occurs every year in the winter months from May to September when the venue is unattractive to clients. The overdraft temporarily exceeded the Government guaranteed level with the knowledge and understanding of the bank, noting that the guarantee expressly limits Government exposure and the bank had taken a commercial decision.

Workers Compensation Supplementation Fund

2.60. The audit found that at 30 June 1996 the Fund held cash and reserves of $6.61m compared with $6.74 m at 30 June 1995, and noted that the need for this level of reserves has never been independently assessed.[27]

2.61. In response, the Chief Minister advised that a preliminary actuarial outline of a review to establish the level of reserves needed for the Supplementation Fund has been received and once the outline is agreed the actuary will be appointed to carry out the required study.

Legal Aid Commission

2.62. The audit found a need for the identification of strategies to maintain the future financial viability of the Legal Aid Commission having regard to the Commission's uncertain future in relation to funding as a result of the Commonwealth withdrawal from the current funding agreement at the end of 1996-97.[28]

2.63. The Chief Minister advised that agreement in principle with the Commonwealth for future funding arrangements for the next three years has been reached.

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[26] ibid pp70/71
[27] ibid p78
[28] ibid p81

Canberra Theatre Trust

2.64. The audit found that the Canberra Theatre Trust achieved a significant increase in revenue but incurred a larger increase in expenses in 1995-96 when compared to the previous year. This resulted in a large operating deficiency of more than $483,000.[29]

2.65. In response, the Chief Minister advised that wage and production fees/royalties increased during 1995-96 compared to the previous year due to an increase in the Theatre programming expenditure. This was primarily due to restrictions placed on programming expenditure in 1994-95. The Theatre had run down its working capital in the 1993-94 year and was not in a position to fund significant programming activities that it might have considered in prior years. The 1994-95 year was used to build up the Theatre's working capital reserves to a reasonable level, and with reasonable levels of working capital again available the Theatre was able to undertake programming activities at a more normal level during 1995-96.

2.66. The Chief Minister further advised that depreciation increased primarily as a result of depreciating for the first time the previous year's building projects and that the audit had not addressed the role of depreciation charges in affecting the "operating" result as reported in the financial statements. Under the traditional cash based budget model the Theatre was similar to all Government agencies that received a significant level of government funding, in that depreciation of major capital works (ie buildings) did not form part of recurrent funding. The Government funded the gap between operating expenses and commercial revenue only and capital works grants were used to fund major assets replacement. The Chief Minister advised that all other factors being equal a deficit equal to the major asset depreciation expense for the year could therefore be the expected result, and made the point that the operating result reflected Government funding decisions and not necessarily management performance.

2.67. The Chief Minister further advised that while the Government continued to make available separate capital funding for major asset replacement, the Trust could absorb deficits equal to annual major assets depreciation indefinitely.

Canberra Institute of Technology

2.68. The audit noted that International House, purchased in 1995 for $879,000 as accommodation for international students, was unoccupied due to a dispute over a change to the lease purpose clause and it was unlikely that the Institute

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[29] ibid p83

would occupy the building before 1997.[30]

2.69. The Chief Minister advised that when the International House was purchased the Institute was advised that a public consultation process would not be required for a lease purpose change. This proved not to be the case and the Institute was required to participate in a full public process with appeal mechanisms. This process began in 1995 and it is only recently that the lease purpose has been changed. Due to the uncertainty of the outcome of the consultation process and the lengthy delays within that process, the Institute decided that it would not expend funds on the building other than upgrading the fire safety provisions. Renovations to the kitchen and bathroom facilities were identified as being required to bring the building up to standard for student accommodation and these renovations have yet to begin.

ACT Housing

2.70. The audit found that the operating loss on rental operations had grown by \$8.5m or 113% and expenditure on property maintenance was down \$4.2m on 1994-95.[31]

2.71. The Chief Minister advised that the increased operating loss in the 1995-96 financial year is explained by a changed policy for depreciation expense (\$5.6m) and write-off of property demolitions (\$3.4m). After adjusting for these in 1995-96, the operating position improved by \$0.5m over the 1994-95 result. The Chief Minister advised that the changed depreciation policy correctly accounts for fixtures and fittings separate from the dwelling itself and reflects that fixtures and fittings have a higher depreciation rate. The write-off of property value relates to property portfolio activity and is mainly connected with the re-development of Condamine Court.

2.72. The Chief Minister further advised that the overall level of funds able to be allocated to maintenance activities reflects the extent of rent rebates or forgone income arising from government policy and the limitations of the then Commonwealth State Housing Agreement to transfer grant funds to maintenance activity. Offsetting this, an increase of \$5.5m in capital funds was used in 1995-96 to undertake asset improvement works. This was aimed at improving stock condition thereby reducing the need for maintenance work.

2.73. The audit noted that ACT Housing lost \$115,000 on the Holder development joint venture and observed that the private sector partner was protected from downside risk.[32]

2.74. The Chief Minister advised that the audit highlighted the accumulated loss on the joint venture development of 20 residential units at Holder and that the loss itself reflected the commercial reality of a deflated residential sales market. The Chief

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[30] ibid p86
[31] ibid p90
[32] ibid pp93/94

Minister advised that in providing an earlier explanation to the Auditor General, ACT Housing pointed out that, while the Holder venture resulted in an operating loss, the other venture - Braddon Gardens - had derived an operating surplus back to ACT Housing. Overall a profit was returned on the two ventures.

2.75. The Chief Minister further advised that the audit comment that the private sector partner was protected from downside risk was not correct. The purchase of 10 units at $150,000 each was a separate transaction by ACT Housing outside its role in the joint venture and the purchase price valuation was based on then market values. The financial outcome from the joint venture was equally shared by the partners.

2.76. The audit found that ACT Housing is using $2.4m in capital to provide housing to persons not eligible for public housing by leasing 33 unsold units in the Braddon Gardens joint development to private renters under market conditions.[33]

2.77. The Chief Minister advised that the temporary rental of unsold units had been based on the potential for best financial returns to the joint venturers and it was never envisaged that ACT Housing would retain more than 10 units as first planned. The 33 unsold units would not normally have been available for public tenanting but the unsold properties have been temporarily leased to private tenants to ensure an income stream prior to sale to a private owner at a time when market conditions improve rather than incur a loss in the present market.

2.78. The Chief Minister further advised that it was not correct that ACT Housing was using $2.4m in capital funds on this development. The $2.4m was the value of ACT Housing's remaining investment in the venture and was an equity investment rather than an expenditure of funds.

ACT Office of Rental Bonds

2.79. The audit found that it is still not possible to reconcile the Office's trust ledger to its cash and investments and the absence of this reconciliation means that only limited assurance can be taken that the trust ledger is a complete and accurate record of all rental bonds held.[34]

2.80. This matter was identified by the Auditor-General in the report for 1995 [report no 8 of 1995, page 118] and this committee recommended that the Government indicate progress in establishing a reliable trust ledger in the Office of rental Bonds.[35] The Government response to that recommendation was that the Office of Rental Bonds has taken steps to establish a reliable bond tracking system and a decision on the most appropriate course of action would be made once the assessment had been completed. The response also advised that the Office of Rental Bonds had

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[33] ibid p94
[34] ibid p95
[35] Public Accounts Committee, report no 19 of August 1996, pp8/10

progressively been reconciling the ledger to the trust fund, that many of the data errors had been identified and corrected, that the balance would continue to receive attention until full reconciliation was achieved, and that a project team is currently identifying and correcting data errors to facilitate reconciliation.[36]

2.81. In response to the audit's current finding, the Chief Minister repeated the response given to the committee's last recommendation in relation to the failure of the Office of Rental Bonds to establish a reliable bond tracking system.

2.82. The Chief Minister went on to advise that the problems have occurred as a result of failure of the software used. In 1994-95 a four stage contract with a software supplier was terminated after the first stage due to extremely unsatisfactory performance. The Chief Minister advised that steps have been taken to replace or rebuild the bond tracking system. Interstate counterparts' systems are being assessed with the view of purchasing one, if appropriate. Failing that, tenders will be sought from software developers to redesign or redevelop the application software. The Chief Minister advised that the combination of checking all bonds records, rectifying past errors and the replacement of the tracking system should ensure a reliable trust ledger.

2.83. The committee is concerned at the lack of progress in establishing a reliable bond tracking system.

Bruce Stadium

2.84. The audit found that although a significant increase in revenue was generated, the increased revenue was more than offset by increased costs and an operating loss of $100,000.[37]

2.85. The Chief Minister advised that during the 1995-96 financial year an employee with a significant leave accrual was transferred to Bruce Stadium. The Stadium is required to bring to account leave provision balances in its financial statements and accordingly this resulted in a one-off expense of $69,000 being incurred during the 1995-96 financial year. It was also agreed to share the salary expenses of two employees of the ACT Academy of Sport between the Academy and the Bruce Stadium for the 1995-96 financial year. This resulted in 50% of the salary expense of these two employees being brought to account by the Stadium for the first time. It was known at the commencement of the financial year that such costs would be incurred and that there was little scope for the Stadium to recover these costs.

2.86. The Chief Minister further advised that agreements with the users of the Stadium for the 1996 season [such as the Canberra Raiders, ACT Brumbies and the Canberra Cosmos] had already been entered into and it was not possible to change the agreed rate for the hire of the Stadium with such organisations in order to account for

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[36] Government Response to PAC Report no 19/1996, presented to the Assembly 11 December 1996

[37] Audit report p97

the additional costs. In addition, the Territory's share of revenue is based on a percentage of gate takings and due to poor attendance for Raiders and Cosmos fixtures the original budgeted targets were not met.

2.87. The Chief Minister advised that a review of rental charges for the use of the Bruce Stadium facility has been undertaken and adjustments, where possible, have been made to the rentals charged in order to ensure that the Bruce Stadium's expenses are at least matched by the rentals charged for its use.

3. COMMITTEE COMMENT

3.1. The Auditor-General's annual report on financial audits to the end of the financial year are an effective means of oversighting the compliance and efficiency of departments and agencies. The audit report provides an opportunity for the Public Accounts Committee to pursue with Ministers issues which, in the normal course, would not come to notice. The committee's examination of the audit findings establishes a basis for the Assembly to hold Ministers accountable for particular aspects of Government administration.

3.2. In this case, the Chief Minister has responded to the committee on the various matters raised by the audit and, on the whole, the committee is satisfied that action has either been taken to address shortcomings identified by the audit, or that systems with systemic deficiencies which lead to problems of accountability are being attended to.

3.3. However, the committee sees a need to ensure that outcomes and undertakings indicated in the Government response to the audit findings are delivered, hence the recommendations in the next section of this report.

3.4. In discussing the audit findings and the Government responses, the committee has made certain observations which are repeated here for emphasis. These are:

(1) while the committee recognises the significant contribution of departmental staff in implementing the financial reforms during the year, it questions why it had been thought necessary that they do so in their own time and, presumably on a voluntary basis (paragraph 2.13 above)

(2) it may be premature to write off long outstanding fines incurred by persons resident outside the ACT in view of reported action by the Standing Committee of Attorneys-General to develop a scheme of mutual recognition arrangements in relation to the collection of fines and court ordered levies imposed on persons resident in States and Territories other than in those in which the fines and levies are imposed (paragraph 2.37 above).

(3) internally generated efficiencies at ACTION have not covered the reduction in Government recurrent funding and the shortfall has been met by reductions in services. The effectiveness of reductions in recurrent funding

needs to be considered against the subsequent decline in ACTION patronage paragraph 2.43 above).

(4) the delay in establishing a reliable bond tracking system in the ACT Office of Rental Bonds is a matter of concern, particularly as this matter was identified in the previous audit and was the subject of a recommendation by this committee in its report no 19 of August 1996 (paragraph 2.83 above).

4. RECOMMENDATIONS

4.1. The committee recommends that the Government, in responding to this report, advise the Assembly on:

(i) the actuarial findings on the projected long term growth in both annual and unfunded superannuation liabilities for the ACT Public Service (paragraph 2.27)

(ii) the likely effect of alternative financial strategies and measures to contain the growth in future superannuation liabilities (paragraph 2.27)

(iii) progress in responding to the committee's recommendations in its report no 24 of April 1997 concerning mutual recognition arrangements between States and Territories in relation to the collection of fines owed by persons resident outside the ACT (paragraph 2.37)

(iv) progress by the working party established to develop policies in dealing with changes in accounting for the values of infrastructure assets (paragraph 2.39)

(v) progress with development of amendments to the Agents ACT 1968 to provide the Agents Board with statutory powers to underpin its agreement with Banks to transfer interest to the Board (paragraph 2.56)

(vi) progress with, and the outcome of, the actuarial review to establish the level of reserves required for the Workers Compensation Supplementation Fund (paragraph 2.61)

(vii) progress with the necessary renovations to the Canberra Institute of Technology International House to allow for the accommodation of students (paragraph 2.69)

(viii) measures taken to ensure that a reliable bond tracking system is established in the Office of Rental Bonds without further delay (paragraph 2.82)

Andrew W Whitecross

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Chair