

LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

**REVIEW OF
AUDITOR-GENERAL'S REPORT
NUMBER 8, 1995**

Financial Audits With Years Ending To 30 June 1995

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Report Number 19

August 1996

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 Bill Wood MLA (From 26 March 1996. Elected Committee Chair 3 April 1996)

Mr Trevor Kaine MLA (Deputy Committee Chair)

Ms Lucy Horodny MLA

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

Secretary: Bill Symington

1. INTRODUCTION

Background

1.1. Auditor-General's Report No 8, 1995 was presented to the Assembly on 14 December 1995.

1.2. This audit is based mainly on the audits of agencies' financial statements for years ended between 31 December 1994 and 30 June 1995. During these audits matters of compliance and efficiency come to notice and significant matters of this nature are noted. The audit also advises the current position with matters raised in the corresponding report for 1994, and general comments about financial reporting and accountability in the ACT Public Sector are also addressed.

1.3. The audits were carried out by staff of the Office of the ACT Auditor-General and the contracted accounting firms Ernst and Young, Coopers and Lybrand, Price Waterhouse, KPMG Peat Marwick, Deloitte, Touche, Tohmatsu, Stanton Partners, Walter and Turnbull, and Arthur Andersen.

2. AUDIT FINDINGS AND COMMITTEE APPROACH

2.1. Significant issues arising from the audits are summarised in pages 1-8 of the audit report with extended discussion in the relevant sections of the report.

2.2. A number of the significant issues were worthy of further examination by the committee and, in respect of these, the committee sought comment from Ministers. The Minister for Urban Services and Minister for Business, Employment and Tourism provided a substantive response in relation to those findings attaching to matters within those portfolios. The Chief Minister provided a Government response in relation to the findings attaching to all portfolios including those matters addressed by the Minister for Urban Services and Minister for Business, Employment and Tourism.

2.3. The significant issues raised by the audit and upon which Ministerial comment was sought follow together with an outline of Ministerial responses.

Audit of 1994-95 Budget Outcome

2.4. The Auditor General sought to audit the 1994-95 budget outcome figures but found it impractical to do so as the Office of Financial Management (OFM) did not maintain an "audit trail" which could be used to validate revisions to the 1994-95 data base.¹ The audit further noted that there is no legislative requirement for the Government Finance Statistics (GFS) format budget outcome to be independently audited.² In this regard, the audit observed that budget outcome reports tabled in the

¹ Audit Report, p19

² *ibid*, p18

Legislative Assembly need to have absolute credibility if the information is to be relied upon to form judgements on the Government's discharge of its financial accountabilities.³

2.5. The audit recommended that it should be a legislative requirement that the main budget paper information anticipated to be used for "accountability" purposes be independently audited.⁴

2.6. The Chief Minister advised the committee that working trail audits were recorded to enable like with like comparisons between 1994-95 and 1995-96 but that complexities arose due to the major administrative changes in March and June 1995 and various devolutions such as accommodation. The Chief Minister advised that while some degree of complexity is unavoidable and administrative arrangements remain the prerogative of Government, the current financial management reforms place considerable importance on such comparisons, and that it is anticipated that these reforms will facilitate comparisons in future financial statements.⁵

Net Indebtedness at 30 June 1995

2.7. The audit noted an inconsistency between net indebtedness and the budget deficit outcome, the former being \$49m and the latter \$32m and observed that the two should be reconcilable. The audit noted that OFM had advised that for the year ended 30 June 1996 a reconciliation will be undertaken between the budget outcome and the movement in net indebtedness, and recommended that this reconciliation be given prominence in budget outcome reports to the Assembly.⁶

2.8. The Chief Minister advised that as is the case in all States and Territories, different valuation approaches are adopted for the two calculations and that changes in levels of financial assets and liabilities are also affected by revaluations and debts transfers. The Chief Minister confirmed that for the year ended 30 June 1996 a reconciliation will be undertaken between the budget outcome and the movement in net indebtedness and the reconciliation will be included in a prominent position in any budget outcome report provided to the Legislative Assembly.⁷

Inconsistencies Between Budget Results and Financial Reporting

2.9. The audit anticipated difficulties in that departmental financial statements for the 1995-96 financial year will be prepared on the basis of Australian Accounting Standard (AAS) 29 which provides for accrual based financial statements while the budget outcome must necessarily be presented following GFS principles. The audit

³ *ibid*

⁴ *ibid*, p21

⁵ Chief Minister, letter to committee dated 1 July 1996

⁶ Audit report, p20

⁷ Chief Minister, *op cit*

noted that AAS 29 is not consistent with the GFS format. Departmental operating statements will present transactions on an accrual basis rather than the cash basis used for GFS; the GFS presentation will not, for example, include accrued expenses such as depreciation, employee entitlements and superannuation while departmental AAS 29 statements will.⁸

2.10. The audit recommended that the requirements for the preparation of 1995-96 financial statements be clarified as soon as possible.⁹

Health and Community Care

2.11. The audit identified more than 30 issues where operational controls could be improved. In some cases the operational weaknesses were identified in the previous year's audit and had only been partially rectified.¹⁰

2.12. Responding to the audit findings, the Chief Minister advised that management had complied with audit recommendations [conveyed directly to management] in all but seven issues. The Chief Minister advised that for the majority of the outstanding issues, more wide-ranging reviews have been necessary and it is expected these [would] be completed by the end of June 1996 after which discussions would be held with the Auditor-General to consider the most appropriate solution. The Chief Minister advised these reviews relate to the issues of mental health rehabilitation "businesses", issuing of equipment at the central equipment pool (CEP), waiver of deposits at the CEP, and receipting and payment at the CEP.¹¹

Future Viability of the Public Trustee Office

2.13. The audit found there is a need for the identification of strategies to maintain the future financial viability of the Public Trustee Office.¹²

2.14. Advice by the Chief Minister supported this finding and further advised that a task force comprising the Public Trustee Office, the Attorney General's Department and the Office of Financial Management was to complete its work by the end of June 1996.¹³

Lease of Public Car Park

2.15. The audit found that a car park in Mort St Braddon was rented to a local car dealer for 12 months from January 1995 for \$2,000 a month, but the Department of

⁸ Audit Report, p22

⁹ *ibid*

¹⁰ *ibid*, p45

¹¹ Chief Minister, *op cit*

¹² Audit Report, p91

¹³ Chief Minister, *op cit*

Urban Services was unable to provide records on the basis for the rental charge. The Department subsequently advised the audit that the rental represented the amount which might reasonably have been obtained from long-term users had the site not been leased. The audit noted the absence of records which could leave the Department open to accusations including negligent decision making, lack of accountability and corruption.¹⁴

2.16. In response, the Chief Minister¹⁵ advised that licences are issued to use unleased Territory land for various purposes such as storage of building materials, site sheds, access and so on. In this case no tender or valuation process was considered necessary as the car park was to be used by the car dealer while rebuilding of the dealer's premises was underway.

2.17. The Chief Minister advised that records of cash collected from voucher machines in the car park indicated that the actual revenue collected over the period 5 July to 20 December 1994 averaged \$22.95 per parking bay per week. The area leased contained 23 parking bays and was assumed to have produced on average in the order of \$2,100 per 4 week period based on the July to December collections.

2.18. Applying the 10% discount available for long term parking vouchers it was then assessed that the lowest fee which should be accepted would be \$1,900 per month. The applicant was initially offered a lease at \$4,000 per month. However, after negotiation, a fee of \$2,000 per month was agreed upon.

2.19. The Chief Minister advised that guidelines are now in place to deal with any future leasing arrangements. The guidelines include the maintenance of adequate records and their subsequent safe keeping.

Floriade

2.20. Floriade incurred an operating loss of \$155,802 for the year ending 30 June 1995. This compared with an operating loss of \$40,375 in the previous year. The audit noted that there is a mismatch of revenues and expenses for Floriade because many of the expenses are brought to account for the coming year while most of the revenue relates to the event in the previous year. While this does not necessarily fully explain the losses, the audit suggested a more appropriate reporting period such as a calendar year instead of a financial year would assist in giving a truer picture of the accounts.¹⁶

2.21. In response, the Chief Minister advised that the Government allocation to Floriade has reduced over the last few years while the level of other revenue has remained relatively static. The Chief Minister noted that two contributing factors to the operating loss in 1995 were a shortfall in expected sponsorship and an operating

¹⁴ Audit Report, pp57/58

¹⁵ Chief Minister, op cit

¹⁶ Audit Report, pp96/97

loss carried over from 1994, and observed that while Floriade contributes significantly to the ACT economy (estimated at \$20m in 1995), support from the private sector is limited. The Chief Minister advised that specific actions being taken include possible new sources of income (entry fee, donations and carparking charges), a new sponsorship agency employed in an attempt to improve performance, and cost reduction reviews.¹⁷

2.22. With regard to the suggested calendar year reporting, the Chief Minister advised that this needed to be considered with other changes that are being introduced as part of the Government financial reforms, noting that Floriade is currently consolidated into the Departmental reporting process and is likely to lose its separate trust account status which would make a calendar year approach difficult.¹⁸

ACT Housing - Subsidy to Joint Venture Partner

2.23. The audit noted that ACT Housing financial statements included information relating to two joint ventures for the construction of townhouses and apartments in Braddon and Holder. Under the terms of the Holder joint venture the audit found that ACT Housing is required to pay some \$200,000 above the market price for 10 dwellings resulting in a \$100,000 subsidy to the joint venture partner.¹⁹

2.24. Advice from the Chief Minister²⁰ was that ACT Housing entered into the Holder joint venture agreement in September 1994 to provide a dwelling type, and at a cost, currently not provided in the market place. Before construction ACT Housing contracted to purchase half of the 20 properties at a cost of \$150,000 each. This purchase price was significantly less than the market valuation of \$165,000 as assessed by independent property valuers at the time. The subsequent downturn in market values has resulted in ACT Housing paying about \$20,000 above the current market price for each dwelling.

2.25. The Chief Minister advised that finance for the construction was secured through Advance Bank on the basis that ACT Housing would purchase half the dwellings and liability would be several and not joint. This financing arrangement ensured that there was no subsidy guarantee to the joint venture partner, as ACT Housing was not underwriting its partner's portion of the debt. ACT Housing sold half of the land component to its joint venture partner and the profit from that sale offset any loss incurred in a declining residential property market. The Chief Minister noted that ACT Housing came out of the venture revenue neutral, even though the project made a loss overall, and observed that whether the project will incur a loss over its life cannot be judged by one off calculations in a volatile market.

¹⁷ Chief Minister, op cit

¹⁸ ibid

¹⁹ Audit Report, pp113-117

²⁰ Chief Minister, op cit

2.26. The Chief Minister further advised that any future considerations of new joint venture proposals will include an exhaustive analysis of market factors and trends to limit future risk exposure.²¹

ACT Office of Rental Bonds - Reconciliation of Trust Ledger

2.27. The audit found that it is not possible to reconcile the ACT Office of Rental Bonds trust ledger to its cash and investments and that the absence of this reconciliation means that only limited assurance can be taken that the trust ledger is a complete and correct record of all rental bonds held. The audit noted also that this deficiency had been raised in the previous year's report.²²

2.28. The Chief Minister advised that the Office of Rental Bonds has progressively been reconciling the ledger to the trust fund, that over the past year many of the data errors have been identified and corrected, and the balance will continue to receive attention until full reconciliation is achieved. The Chief Minister advised that strong internal controls would continue to compensate for the lack of a formal trust ledger while action is taken to reconcile the trust ledger.²³

2.29. The committee was concerned that the problems relating to the trust ledger which were noted by the 1994 audit had yet to be rectified. The funds involved, some \$14m, belong to ACT landlords and tenants and the committee sought from the Chief Minister advice as to the form of internal controls on the trust ledger and any other information which would assist the committee in assessing the level of accountability by the Office of Rental Bonds.

2.30. In response, the Chief Minister advised that to ensure and maintain strong internal controls on the trust ledger, the Office of Rental Bonds undertakes the following reconciliations:²⁴

- (i) a daily reconciliation of bonds repaid to cheques written
- (ii) a daily balance of bonds lodged prior to banking, with all cash received accounted for and entered onto the rental bonds systems
- (iii) information in (i) and (ii) is entered in the ACT Housing Finance Unit system and print-outs from this system are checked to ensure that all entries have been made
- (iv) a monthly reconciliation of the trust fund

²¹ *ibid*

²² Audit Report, pp117/118

²³ Chief Minister, *op cit*

²⁴ Chief Minister, letter to the committee dated 14 August 1996

- (v) a daily, weekly and monthly spreadsheet with all information concerning bonds lodged and repaid.

2.31. The Chief Minister further advised that each of the reconciliations is performed and/or checked by two officers.

National Exhibition Centre Trust (now EPIC)

2.32. The audit noted that EPIC has experienced operating losses over the last four years, totalling \$1.9m, and that its ability to meet liabilities as they fall due is of concern.²⁵

2.33. The Chief Minister advised that the Government is addressing the operating losses and liquidity issues on two main fronts, firstly, by putting in place a more stringent financial reporting requirement against the agreed budget so that EPIC is able to address any potential shortfalls in expected revenue or increases in expenditure at an earlier stage in the financial year; and, secondly, by commissioning a review of EPIC's operations to assist in identifying the longer term solutions to problems related to its finances and site management. The Chief Minister further advised that as a result of this review, the Government has recently announced that EPIC will operate on a more commercial basis.²⁶

3. COMMITTEE RECOMMENDATIONS

3.1. The committee recommends that the Government response to this report indicate:

- (1) what action is proposed on the audit recommendation that there be a legislative requirement that the main budget paper information anticipated to be used for "accountability" purposes should be independently audited (paragraph 2.5 above);**
- (2) what has been done to clarify inconsistencies between budget results and financial reporting in the 1995-96 financial statements arising AAS 29 and GFS format (paragraphs 2.9 and 2.10 above);**
- (3) the outcome of the reviews relating to the issues of mental health rehabilitation "businesses", issuing of equipment at the central equipment pool (CEP), waiver of deposits at the CEP, and receipting and payment at the CEP (paragraph 2.12 above);**

²⁵ Audit Report, p78

²⁶ Chief Minister, letter dated 1 July 1996 op cit

- (4) **the outcome of the task force review of the future financial viability of the Public Trustee Office (paragraph 2.14 above); and**
- (5) **progress in establishing a reliable formal trust ledger in the ACT Office of Rental Bonds (paragraph 2.28 above).**

Bill Wood

Bill Wood MLA

Chair

27.8.96