LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

REVIEW OF AUDITOR-GENERAL'S REPORT NUMBER 11, 1993

Financial Audits with Years Ending to 30th June 1993

Report Number 14 of the Standing Committee of Public Accounts
September 1994

RESOLUTION OF APPOINTMENT

On 27 March 1992 the ACT Legislative Assembly established a Standing Committee on Public Accounts with the following terms of reference:

(1) Examine

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

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

(c) all reports of the Auditor-General that have been laid before the Assembly;

(2) Report to the Assembly, 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 Assembly should be directed; and

(3) Inquire into any question in connection with the public account which is referred to it by the Assembly and to report to the Assembly on that question.

MEMBERSHIP

Mr Trevor Kaine MLA (Presiding Member)

Ms Annette Ellis MLA (Deputy Presiding Member)

Mrs Kate Carnell MLA

Mrs Ellnor Grassby MLA

Mr Michael Moore MLA (from 25 February 1993)

Secretary: Bill Symington

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1. INTRODUCTION

Background

1.1 Auditor-General's Report No11, 1993 was presented to the Assembly on 16 December 1993. The report which was prepared by staff of the Audit Office with contributions by a number of accounting firms and others is based mainly on the audits of agency financial statements for the year ended 30 June 1993. It discusses the results of each audit separately and reviews the position with matters raised in the corresponding report for 1992 on financial statement audits.

Approach to the Inquiry

1.2 The committee's practice in dealing with audit reports covering the financial statements has been to meet where appropriate with officers of the ACT Treasury to discuss the issues raised and to then determine whether to hold public hearings. This was done in relation to the audit report for 1992. Public hearings were held during August 1993 and the committee's subsequent report, report No.5 of 1993 was finally debated in the Assembly on 25 August 1994.

1.3 The committee's overriding concern is to review the issues raised and to report in time to allow the Government to respond before the Assembly adjourns for the general election to be held in February 1995.

1.4 The committee also notes that the recent 25 August Assembly debate is relevant to a number of the matters raised in the 1993 audit report and it is appropriate to draw upon that debate in the context of this report.

2. AUDIT FINDINGS

2.1 The 1992 audit expressed the view that the reporting of Consolidated Fund outcomes and estimates was not fully conducive to assisting in the formation of reasonable assessments of the government's performance and plans and the committee recommended *inter alia,* in its review report No 5 of September 1993, improvements to financial disclosure and program management information bases.[1]

2.2 In responding to the committee's report on 25 August 1994, the Chief Minister informed the Assembly that on the budget outcome presentation issue, the committee's recommendations and those of the Auditor-General were implemented with the presentation of the 1993-94 and 1994-95 budgets and that the budget has been presented on a cash basis in a format that is consistent with the Auditor-General's findings.[2]

2.3 The Chief Minister advised that further improvements in uniform presentation of government financial information will become evident in 1995-96 when full Government Finance Statistics reporting is implemented. On the question of aggregate financial statements and accrual accounting, the Chief Minister went on to say that the ACT Treasury and agencies are developing the concepts and that the Government will be considering a detailed timetable for both accrual reporting and overall improvements in financial management very shortly.[3]

2.4 Audit report no 11 of 1993 turned again to the benefit of accrual based financial statements in highlighting agencies which might be heading towards liquidity problems, difficulties in repaying borrowings, or meeting dividend requirements or the reverse, organizations which become overly "asset rich" through excessive charging etc.[4] Although this comment was made well before the Government announced its intention to move to accrual based financial statements, it is a succinct expression of the value attaching to such statements and the committee endorses the comment.

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[1] Public Accounts Committee, report No.5, September 1993, Review of Auditor-General's Report No.5, 1992

[2] Assembly Hansard, 25 August 1994

[3] ibid

[4] Auditor-General's report No11, 1993, p1

Significant Issues Raised by the Report

2.5 The audit was a review of all agency financial statements from which a number of issues of significance were noted. However, the committee observes that with the passage of time and with intervening events, such as the inquiries and reports by the Select Committees on Estimates for 1993-94 and 1994-95 and reports on specific agencies by this committee, many of the significant issues noted by the audit have been addressed in one form or another. For example, audit concerns about unfunded superannuation liabilities and the level of investments by the Building and Construction Industry Long Service Leave Board were noted and discussed by the Estimates Committees.

Committee Comment

2.6 While the committee accepts that some issues raised by the audit may not be current it considers there are a number which still require a specific Governmental response. These include the following which were identified by the audit:[5]

- a general improvement in the standard of financial reporting and control but scope for further significant improvement
- almost $1m of funds provided for the NIES Program were unspent at 30 June 1993, representing more than two years expenditure
- ACT Housing is generating reduced cash surpluses from rents and thus reducing its ability to fund increases in the housing stock
- ACTEW profitability has been achieved through additional revenue rather than reductions in operating costs and electricity activities continue to subsidise water and sewerage operations
- ACTION did not have adequate controls in relation to ticket stocks
- ACT Fleet profit of $2.7m was almost fully offset by losses on plant and workshop operations
- audit opinions on some 14 agency financial statements were qualified for non-compliance with the Financial Statement Guidelines

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[5]ibid, pp1-3

Recommendation

2.7 **The committee recommends that:**

- **The Government provide a response to the Assembly during the current sittings on the significant issues raised by the audit report and listed in paragraph 2.6 of this report.**

Trevor Kaine MLA
Presiding Member

19 September 1994