LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

REVIEW OF AUDITOR-GENERAL'S REPORT NUMBER 5, 1992

Budget Outcome Presentation
and the Aggregate Financial Statement
for the year ended 30 June 1992

Report Number 5 of the Standing Committee of Public Accounts
September 1993

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: Ms Karin Malmberg

Audit Report Number 5, 1992 - Budget Outcome Presentation and the Aggregate Financial Statement for the year ended 30 June 1992

RECOMMENDATIONS

The Committee recommends that:

- the Treasurer respond, in detail, to the findings of and recommendations made by the Auditor-General contained in Auditor-General's Report Number 5, 1992, Budget Outcome Presentation and the Aggregate Financial Statement for the year ended 30 June 1992 and present that response, including timeframes, to the Assembly. (paragraph 2.10)

- a timetable for the introduction of accrual accounting to all public sector activities and the presentation of the first set of "Whole of Government" accrual financial statements be developed and advised to the Assembly. (paragraph 5.12)

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1 INTRODUCTION

Background

1.1 The terms of the resolution under which the Public Accounts Committee was established on 27 March 1992 require it to examine all reports of the Auditor-General which have been laid before the Assembly.

1.2 On 9 December 1992 the Auditor-General's Report Number 5, 1992, was presented to the Assembly. The Report, titled "Budget Outcome Presentation and the Aggregate Financial Statement for the year ended 30 June 1992" addressed three issues:

- the effectiveness of the Consolidated Fund information contained in the Budget Speech and Budget Papers in communicating overall Government performance and plans;
- the results of the audit of the Aggregate Financial Statement; and
- a comparison of cash based and accrual based reporting.

Approach to inquiry

1.3 On 15 March 1993 the Committee met privately with officers of ACT Treasury to discuss the issues raised by the Auditor-General in the Report. As a result of that discussion Treasury agreed to provide the Committee with a submission addressing the following issues:

- the changes currently being undertaken to improve the ACT accounting systems;

- the Treasury's view of the changes suggested by the Auditor-General and problems the suggested changes present; and

- changes proposed to the presentation and format of the 1993-94 Budget Papers.

1.4 Following receipt of that submission in July the Committee decided to hold a public hearing to take evidence from Treasury officials. Prior to the public hearing on 16 August the Committee met privately with the Auditor-General and Assistant Auditor-General to discuss the Report and the submission provided by Treasury.

1.5 Representing Treasury at the hearing were Dr D Rosalky, Under Treasurer, Mr G Harper, Assistant Under Treasurer and Mr R Hollier, Director Accounting Policy.

1.6 The Committee also reviewed material concerning the New Zealand government accounting framework.

2 OVERALL FINDINGS

Audit findings

2.1 The overall opinion formed by the Auditor-General following his examination of the 1992-93 Budget Papers and the 1991-92 Aggregate Financial Statement was that the reporting of Consolidated Fund outcomes and estimates is not fully conducive to assisting in the formation of reasonable assessments of the government's performance and plans[1]. In coming to this view the Auditor-General found that:

- aggregate Consolidated Fund information contained in the Budget Papers omits major and significant transactions of the Trust Fund, limiting the usefulness of published information as indicators of overall financial performance and planning;

- tables containing Consolidated Fund information disclose surpluses or deficits calculated from a combination of cash transactions and non-cash provisions;

- the use of "Provisions" creates the opportunity for Budget outcomes and estimates to be distorted;

- the Consolidated Fund information reported in the Budget Papers is not calculated in accordance with any conventions or standards;

- the Aggregate Financial Statement is published in an inappropriate manner and has consistently been published too late to be useful;

[1] Auditor-General's Report Number 5, 1992, Budget Outcome Presentation and the Aggregate Financial Statement for the Year ended 30 June 1992, p 2-5

- there is no "Whole of Government" accrual reporting to provide for convenient assessment of the complete financial performance and position of the Territory public sector; and

- cash accounting is the basis for the Budget Papers and Aggregate Financial Statement and does not provide information on a range of matters including the liquidity and solvency of the Government, the full cost of resources to be consumed in a period and all liabilities to be paid for in the short and long term.

2.2 The Auditor-General acknowledged the progress made since self-government in Budget and financial information disclosure, drawing particular attention to the significant improvements made in the 1992-93 Budget Papers to improve the transparency of the Government's financial management practices. Financial management and reporting has also improved in terms of the quality and timeliness of financial statements prepared by most agencies.

Committee comment

2.3 The submission provided by Treasury to the Committee outlined the financial management strategy currently being developed to co-ordinate the range of developments and reviews underway or being developed. Areas under examination are[2]:

- a review of the Audit Act 1989, which involves the incorporation of accountability and management concepts and principles to meet obligations of program management and the Executive to the Assembly;

- budget and financial statement reporting;

- development of accrual accounting, together with performance analysis and measurement tools;

[2]Submission, ACT Treasury, 16 July 1993, p 1 - 4

- the development of a solution to current information technology difficulties within the overall financial management strategy; and

- education and training.

2.4 Overall, the Committee was disappointed by the findings contained in the response by Treasury to the Audit Report, and what it perceives as the outlook for further improvement.

2.5 The Committee found the submission from Treasury lacking in detail, in particular information relating to the timeframe within which changes to accounting systems and practices, Budget Paper presentation and other Territory financial management issues are proposed to occur. The Committee had further difficulty during the public hearing in eliciting such information.

2.6 While the Committee is in general agreement with the thrust of the approach put forward by Treasury, there is a lack of specificity, detail and timing. It would appear that aspects of the strategy have yet to be endorsed and the methodology determined.

2.7 At the conclusion of the hearing the Committee indicated to the officials that it would seek additional, written information but following further consideration was of the view that there was little to be gained from such an approach.

2.8 The Committee believes that whilst there has been a gradual improvement as noted by the Auditor-General, there appears to be a lack of commitment to a greater rate of change. The Committee is concerned that Treasury appears to exhibit a certain lack of enthusiasm and is not acting as a catalyst for change within the ACT Government Service.

2.9 Additionally, the Committee has noticed a tendency for issues to reappear in consecutive Audit Reports with no discernible difference resulting. An example of this is the revision of the Audit Act. Audit Report 5, 1992 (dated December 1992) refers back to Report 2, 1992 (dated June 1992) which, in turn, refers to a review having commenced and being expected to be completed over the next financial year (which implies June 1993). During the hearing in August 1993 the Committee was advised that the new legislation was not expected to be completed until June 1994.[3]

2.10 The Committee recommends that:

- **the Treasurer respond, in detail, to the findings of and recommendations made by the Auditor-General contained in Auditor-General's Report Number 5, 1992, Budget Outcome Presentation and the Aggregate Financial Statement for the year ended 30 June 1992 and present that response, including timeframes, to the Assembly.**

[3]Transcript 16 August 1993

3 BUDGET PAPER PRESENTATION

Audit findings

3.1 The Audit reviewed the methods used to calculate the Consolidated Fund Budget outcomes and estimates disclosed in the 1992-93 Budget Papers.[4] The Report acknowledges that the Budget Papers contain information relating to transactions occurring through the Trust Accounts, statutory authority bank accounts etc in addition to the Consolidated Fund information. The Report also recognises that Consolidated Fund information is significant, as those results and outcomes are perceived by the electorate as the main means by which the Government's financial accountability to the Assembly is discharged and its future financial plans disclosed.

3.2 The Auditor-General highlighted several difficulties with the current reporting of budget outcomes and estimates, including the use of provisions in calculating the surplus or deficit of the Consolidated Fund. This does not conform to generally accepted accounting standards in Australia.

3.3 The Auditor-General did acknowledge the desirability of identifying definite or likely major future commitments and liabilities as an essential requisite for prudent financial management. The problem that is noted arises when the inclusion of such provisions is discretionary leading to the possibility that the exercise of such discretion could be used to achieve some desired result.

3.4 The Auditor-General stressed that there is no indication that "creative" accounting has been used to produce desirable results although he states that the risk is there, and that the use of cash flows only would lessen that risk.

3.5 The Audit Report contained a calculation of the Consolidated Fund cash outcomes to illustrate that a significantly different outcome to that contained in the 1992-93 Budget Papers can be obtained by excluding the provisions from the calculation and basing it only on cash flows during the year.

[4]Audit Report, p 6 - 12, 17 - 22

3.6 The Report contains an alternative presentation which clearly identifies the estimated cash outcome while also disclosing provisions and financing transactions, and recommended its use or the use of an alternative which clearly shows the cash result.[5] The Auditor-General also recommended that the comparison of actual Consolidated Fund cash results with the Budget estimate should be the major measure of discharge of Government accountability.

3.7 The Auditor-General also drew attention to the significant financial activities transacted through the Trust Fund and stated that it was necessary to consolidate the Consolidated Fund and the Trust Fund transactions, and to eliminate the effect of transfers between the Funds, to more completely and accurately reflect the finances of the Government.[6] He included in his Report tables showing the results of such a consolidation.

3.8 The Auditor-General recommended that a statement showing combined Consolidated and Trust Fund transactions, eliminating transfers and reconciled to show movements in borrowings, cash and investments be included with the Budget Papers.[7]

3.9 The Report noted the decision of the 1991 Premiers' Conference regarding the uniform presentation of government financial information. The Auditor-General stated that when the development phase for the uniform presentation is completed and aggregate financial statements showing the total public sector become a reality, a significantly more complete source of financial information will be available to the Assembly and the electorate.

Committee comment

3.10 In the submission received from Treasury the Committee was advised that final decisions regarding the presentation and format of the 1993-94 Budget papers had at that time (mid July) not been made.[8] At the hearing in mid August the Committee was advised that the Government was yet to make decisions regarding the presentation of the Budget.[9] As a result the officials were not able to fully answer the Committee's questioning on the recommendations of the Auditor-General regarding Budget presentation.

[5]Audit Report, p 11 - 12
[6]Audit Report, p 17
[7]Audit Report, p 22
[8]Submission p 9 - 10
[9]Transcript 16 August 1993

Audit Report Number 5, 1992 - Budget Outcome Presentation and the Aggregate Financial Statement for the year ended 30 June 1992

3.11 Whilst the Committee accepts the need for confidentiality regarding the contents and strategy of the Budget until presented by the Treasurer, the Committee has found it difficult to carry out this inquiry into the matters raised by the Auditor-General concerning Budget presentation when Treasury officials were unable or unwilling to comment on the response to the recommendations included in the Report. To discuss the possible format of the Budget Papers would in no way reveal any of the content of that Budget.

3.12 The submission provided information on the ACT's efforts to comply with the move to uniform reporting by all Australian jurisdictions. The Committee is however concerned at the comment in the submission that:

> *In addition, an attempt will be made to conform with the second stage of uniform reporting agreed at the 1991 Premiers' Conference.*[10]

3.13 The Committee supports the general thrust of the Auditor-General's report and endorses the recommendation of the Auditor-General that work in this area should continue. The Committee will review the 1993-94 Budget Papers to assess whether the Treasury was able to comply.

3.14 In relation to the other recommendations of the Auditor-General, the Committee found the submission unclear. It was difficult to determine whether the following extract constitutes a definite statement of intent or merely a pious hope:

> *Subject to these commitments at a national level, attempts will also be made to include in the 1993-94 Budget Papers an overall statement of the ACT Public Account as proposed by the Auditor-General.*[11]

3.15 The submission did however indicate it was proposed to treat all use of reserves and provisions as "below-the-line" transactions in the Consolidated Fund Statement as suggested by the Auditor-General. This was confirmed during the hearings.

[10]Submission, p 9
[11]Submission, p 10

3.16 In relation to the recommendation to present a consolidation of the Consolidated and Trust Funds, Treasury officials were unable to comment at the hearings because the Government had, at that time, not made a decision on the presentation.

3.17 The submission stated that refinements are being considered to help simplify and clarify Budget presentation, particularly comparisons of budget estimates and outcomes and transfers between the recurrent and capital budgets.[12]

[12]Submission, p 10

4 AGGREGATE FINANCIAL STATEMENT

Audit findings

4.1 The Aggregate Financial Statement contains information on the receipts and expenditure of the Consolidated and Trust Funds and the cash and investment balances of the ACT Government. It is a requirement of the Audit Act that the statements be prepared and forwarded to the Auditor-General for audit.

4.2 Audit Report No. 5, 1992 includes a signed copy of the Aggregate Financial Statement for 1991-92 and the audit report on the statements, signed on 1 December 1992 and forwarded to the Assembly on 9 December. The Auditor-General raised three issues in relation to the Aggregate Financial Statement ie, qualifications to the opinion; timeliness; and, guidelines.

Audit Report Qualifications

4.3 The audit report on the Aggregate Financial Statements was qualified in respect of two matters. These matters were also raised by the Auditor-General in Auditor-General's Report No. 6, 1992, Financial Audits with Years Ending to 30th June 1992 and examined by the Committee in the context of the Committee's inquiry into the issues raised in that Audit Report. The Committee was satisfied with the action being taken in respect of those matters.[13]

[13]Report Number 2 of the Standing Committee on Public Accounts, June 1993, 'Review of Auditor-General's Report Number 6, 1992, p 7

Timeliness

4.4 The Audit Report asserts that the audited Aggregate Financial Statement is published in an inappropriate manner and has consistently been published too late to be useful, although an improvement in the timeliness of the submission of the Aggregate Financial Statement for audit since self-government was noted.

4.5 The Committee acknowledges the improvement in availability, although is of the view that the 1991-92 statements were neither timely nor useful as they were not available in audited form until December 1992.

4.6 The Committee endorses the comments of the Auditor-General:

> *The provision of these statements to the Assembly long periods after the end of the year on which they are reporting reduces to a negligible level the value of the information disclosed.*[14]

4.7 The Committee fully supports the earlier availability of audited Aggregate Financial Statements and endorses the Auditor-General's recommendation, ie, the audited statements should be available in time for the Estimates Committee.[15]

4.8 The Committee notes the assurances of Treasury officials that the statements should be available for the Estimates Committee this year, although it was noted that a determining factor is whether the audits of all administrative units are completed.[16]

Guidelines

4.9 The Auditor-General's Report notes that whilst it is a requirement of the Audit Act that the Aggregate Financial Statement be prepared according to guidelines, no guidelines have been prepared, nor do the statements conform with the Australian Accounting Standards.

[14]Audit Report, p 14
[15]Audit Report, p 16
[16]Transcript 16 August 1993

4.10 In response to the recommendation that guidelines be prepared setting standards for the preparation and content on the Statements, Treasury advised in its submission that the recommendation has merit and will be considered as soon as practicable. It was noted that the guidelines will need to take into account the work of the Public Sector Accounting Standards Board, which is currently preparing a standard to apply to departmental general purpose reporting.[17]

Committee comment

4.11 The Committee stresses the importance of accurate and timely information, both to the Assembly and the wider community.

[17]Submission, p 8

5 ACCRUAL ACCOUNTING

Audit findings

5.1 The Audit Report, in addition to examining methods by which cash based reporting could be made more objective and complete, contrasted cash and accrual accounting. The Auditor-General recommended that accrual accounting should be introduced through all Government agencies not already using that method to enable "Whole of Government" financial statements to be produced.[18]

5.2 The Report outlined the benefits of accrual accounting to individual agencies as well as the advantages that would stem from the ability to produce a "Whole of Government" financial statement covering the entire ACT public sector. The current mix of cash and accrual accounting does not lend itself to a consolidation, as any product is meaningless, whilst the availability of accrual "Whole of Government" financial statements would provide a clear view of the totality of public sector operations and its aggregate assets and liabilities.

5.3 It is noted that accrual accounting concepts have been fully adopted in the public sectors of New South Wales and New Zealand in the last three years. In addition, the Commonwealth, Victoria and Western Australia have announced that they will move to accrual accounting.

5.4 The Auditor-General concluded that:

> *The opportunities exist for the ACT to move more swiftly to accrual reporting in comparison to the Commonwealth and most other States and Territory Governments.*[19]

[18] Audit Report, p 36
[19] Audit Report, p 33

5.5 To support this the Auditor-General cites the compact nature of the ACT public sector and that currently the majority of activities report on an accrual basis, with the consequent knowledge and expertise base. In addition, the Report refers to the significant authoritative guidelines that exist in the form of the Exposure Draft ED 55 - "Financial Reporting by Government Departments" and Australian Accounting Standard AAS 27 - "Financial Reporting by Local Government" as well as guidelines, papers etc prepared by New South Wales and New Zealand.

5.6 The Auditor-General included as an appendix to his Report a summarised version of the New Zealand Government's 30 June 1992 audited financial statements.

Committee comment

5.7 The Committee notes Treasury advice in its submission that work is progressing on an implementation strategy for the introduction of accrual accounting to areas currently using cash reporting, although the strategy has not yet been formally endorsed by the Government Services Board or the Government.[20]

5.8 The Committee is disturbed to note that the submission puts the expected compliance date with the proposed accounting standard for public sector departmental reporting as being four to five years away, noting that the ACT is in a better position than many of the States to meet that timeframe.[21]

5.9 The Committee sees the transition to accrual accounting for all public sector activities as a particularly important issue and views with concern comments of Treasury officials during the hearings that further development of the Exposure Draft etc was awaited before the ACT would progress further.

5.10 The Committee is strongly of the opinion that ACT Treasury should be taking a more active role in the development of improved financial management and reporting tools for the ACT public sector, as has occurred in the Commonwealth, New South Wales, Victoria and Western Australia, rather than waiting for the development of action by outside bodies.

[20]Submission, p 4
[21]Submission, p 7

5.11 The Committee believes that the introduction of accrual accounting across all public sector activity is of vital importance to the well informed future financial management of the ACT public sector. The Committee is of the view that the ACT is in a good position to move quickly in respect of this issue as it is a new jurisdiction, is compact in size, is relatively uncomplicated in nature and has a number of agencies and authorities that already use accrual accounting. The Committee is of the view that without "Whole of Government" accrual financial statements, the Government does not have full and comprehensive information with which to manage the Territory finances.

5.12 The Committee recommends that:

- **a timetable for the introduction of accrual accounting to all public sector activities and the presentation of the first set of "Whole of Government" accrual financial statements be developed and advised to the Assembly.**

5.13 The Public Accounts Committee, although concluding its review of Auditor-General's Report Number 5, 1992, will continue to examine the issue of accrual accounting and whole of government reporting. Accrual accounting is a major issue in Australia and New Zealand, as evidenced by the activity in both countries. As an example the issue was subject of lengthy discussion during the 8th Biennial Conference of the Australasian Council of Public Accounts Committees held in March this year.

5.14 As part of the Committee's continuing examination of this issue it proposes to review developments in accrual accounting and government reporting in other jurisdictions including New Zealand.

Trevor Kaine MLA
Presiding Member
13 September 1993