ACT
GOVERNMENT

Report No. 14

Government Response to Report No. 14 of the Standing Committee on Public Accounts

Review of Auditor General's Report No. 10 of 2003 – Financial Audits with Years ending to 30 June 2003

TABLING STATEMENT

Government Response to Report No. 14 of the Standing Committee on Public Accounts 'Review of Auditor- General's Report No.10 of 2003: Financial Audits with years ending to 30 June 2003'

Mr Speaker, I present the Government Response to the Standing Committee on Public Accounts Report No.14 titled 'Review of Auditor General's Report No.10 of 2003: Financial Audits with Years Ending to 30 June 2003'.

Mr Speaker of the seven recommendations within the report I would specifically like to draw Members' attention to the Government's response to the recommendations relating to the capital works program and the review of performance measures.

- The Government has acknowledged within the response a long tail of under spends in the capital works program and notes that these delays in many cases are caused by externalities beyond Government's control. There are, however, opportunities for Government to improve and on that basis this Government will be conducting a review of problematic projects within the existing capital works program and will also be undertaking a review of the capital works budgeting procedures. Both these reviews will lead to reduced underspends within the capital works program.

- The Standing Committee also recommended a review of performance measures in consultation with the Legislative Assembly and the ACT Community. Members may recall the release of a discussion paper as a supplement to the 2004-2005 Budget Papers. Mr Speaker, the release of this discussion paper represented a key step in addressing the recommendation of the Standing Committee, and this will be followed-up with the release of other papers supporting this process.

Mr Speaker, I commend these papers to the Assembly.

THE LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

Report No. 14

GOVERNMENT RESPONSE
TO THE STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

IN RESPONSE TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS REPORT NO. 14, REVIEW OF AUDITOR GENERAL'S REPORT NO.10 OF 2003 – FINANCIAL AUDITS WITH YEARS ENDING TO 30 JUNE 2003

8 Dec 04

INTRODUCTION

On 26 August 2004 the Leader of the Opposition presented to the Legislative Assembly the Standing Committee on Public Accounts Report 14, *Review of Auditor-General's Report No.10 of 2003: Financial Audits with years ending to 30 June 2003*, dated 24 August 2004.

The Auditor-Generals report included three qualified audit opinions. These were for the Territory's Financial Statements and the Superannuation Unit as well as for ACTEW Corporation. Each of these opinions involves differing interpretations of the Australian Accounting Standards. All other opinions were unqualified.

The Standing Committee on Public Accounts review included seven recommendations.

GOVERNMENT RESPONSE TO RECOMMENDATIONS

Recommendation 1

The Government inform the Assembly of what it has done to address the trend of under spending of capital works funding.

Government Response

The Government acknowledges a long "tail" of under spends in the capital works program. The under spends can be attributed to a range of factors including the current economic conditions (high costs) prevalent in the ACT, a shortage in skilled labour for construction works, extensive consultation and unavoidable delays in major projects currently being undertaken.

The Government is currently reviewing the existing capital works program, particularly those existing prior to the 2004-05 Budget, with the view to reconsidering the status of a number of problematic or long running problems.

The Government is also currently reviewing the procedures for capital works budgeting in order to minimise the future risk of construction delay.

Recommendation 2

The Government critically evaluate the Territory's model of financial management including the conceptual basis for these arrangements.

Government Response

The *Financial Management Act 1996* was amended during 2004 to clarify the operation of the Treasurer's Advance.

Developments in other jurisdictions are critically monitored for improvements to financial models. As there are no identified major problems with the operation of the Territory's current financial model, the present incremental approach to change is considered less risky and less costly than a larger scale approach to review.

The Government also notes that the budget framework, including key performance measures, is being reviewed as part of discussions with the community on the "Framework for Future Budget Presentation – Discussion Paper", released as a supplementary paper in the 2004-05 Budget Papers. Other papers will also be prepared supporting this process.

Recommendation 3

The Government undertake a comprehensive review of key performance measures through consultation with the Legislative Assembly and the ACT Community.

Government Response

The Government agrees that the review of performance measures should focus on the information needs of the Legislative Assembly Members and of the ACT Community.

The Government notes that the budget framework, including key performance measures, is being reviewed as part of discussions with the community on the "Framework for Future Budget Presentation – Discussion Paper", released as a supplementary paper in the 2004-05 Budget Papers. Other papers will also be prepared supporting this process.

Recommendation 4

The audited financial statements of entities in which the Territory has a controlling interest be legally required to be published in the relevant agency annual report.

Government Response

Not Agreed. The Territory prepares annual financial statements complying with all requirements for the disclosure of Territory interests in joint ventures. The recommended additional information would significantly increase the volume currently included in annual financial statements without any necessary information benefits.

Recommendation 5

The ACTION Authority Act 2001 is amended so that the ACTION Authority's objectives are consistent with its actual operations.

Government Response

ACTION Authority prepares its financial statements as a not-for-profit entity. Section 5(c) of the *ACTION Authority Act 2001* (the Act) provides that one of the functions of the Authority is to maximise the sustainable return to the Territory. The Auditor-General has interpreted this provision as a requirement to generate profits and therefore considers it inconsistent with the Authority's asset valuation method.

However, this interpretation is open to question and is not supported by section 28 of the Act which refers to the process for declaring dividends 'if there are profits available', indicating that the generation of profits is neither mandatory nor necessarily expected. The legislation allows for the Authority to be either a for-profit or a not-for-profit entity.

Recommendation 6

The Government inform the Assembly of what it has done to address the failure of the Canberra Hospital to manage its operations to budget, and the delays in capital works spending.

Government Response

The Government notes that the circumstances around the perception that there was a failure to manage to budget largely related to the higher cost of surgical implants and higher pharmaceutical costs. The Government is addressing this issue by providing additional funding through subsequent budget processes. The Government also notes that the end of year impact was managed within the overall higher revenue achieved by ACT Health.

The capital works projects at The Canberra Hospital that remained incomplete at 31 December 2002 have been finalised. Please also refer to the Government's response to Recommendation 1.

Recommendation 7

The Legislative Assembly note the findings of Auditor-General's Report No 10 of 2003: Financial Audits with Years Ending to 30 June 2003, particularly in relation to: agencies non-management of financial operations to budget and incursion of loss, and non-compliance with the *Financial Management Act 1996*.

Government Response

Circumstances will always exist where an agency's financial performance differs from that budgeted. Examples of this will relate to actuarial assessments of liability (for example for superannuation and insurance) or asset valuation. In an accrual system there are many variables to ensure the complete ability to predict, and therefore budget, financial outcomes to 100% certainty. An important issue for agencies is to be able to explain variances and to control the variables that can be controlled.

Training and information sessions on the FMA, including recent amendments to the Act and the importance of compliance with the Act are provided to agencies. Treasury is also considering further ways to increase agency understanding of the FMA. The Government reiterates that corrective action has been taken to overcome the Auditor-Generals concerns regarding the Central Financing Unit's possible breach of section 38 and 45 of the FMA.