LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

REVIEW OF AUDITOR-GENERAL'S REPORT NO 12, 1997

Financial Audits With Years Ending To 30 June 1997

STANDING COMMITTEE FOR THE CHIEF MINISTER'S PORTFOLIO (INCORPORATING THE PUBLIC ACCOUNTS COMMITTEE)

Public Accounts Committee Report Number 9

September 1998

RESOLUTION OF APPOINTMENT

The Standing Committee for the Chief Minister's Portfolio was appointed by the Legislative Assembly on 28 April 1998 to examine any matter under the responsibility of the Chief Minister's portfolio. The Assembly also resolved that the committee perform the duties of a public accounts committee, specifically:

(a) to 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) to report to the Assembly, with such comments as it thinks fit, on 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

(c) to 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.

MEMBERSHIP OF THE COMMITTEE

Mr Ted Quinlan MLA Committee Chair

Mr Trevor Kaine MLA Deputy Committee Chair

Mr Greg Cornwell MLA

Secretary: Bill Symington

1. INTRODUCTION

1.1. Auditor-General’s Report No 12, 1997 was presented to the Assembly on 10 December 1997.

1.2. It has been the practice of the Auditor-General each year to provide a report such as this one based mainly upon matters coming to light during the audit of agency financial statements which are incorporated in agency annual reports presented to the Assembly.

1.3. This particular audit report also comments generally on the financial reporting and accountability in the ACT public sector. It also makes comparisons against budget of agencies financial performance as reported in their operating statements.

2. AUDIT FINDINGS

2.1. The audit’s overview findings in relation to financial reporting and auditing, the Territory operating result and the Territory financial position were generally favourable, although some reservations were entered with regard to specific matters, for example, the standard of departmental performance statements.[1]

2.2. The committee sought comment on the audit findings from the Government and subsequently received a submission from the Chief Minister.[2]

2.3. With regard to individual agencies the committee focussed upon matters of significance raised by the audit and has summarised in the following section the Government response to these matters.

3. GOVERNMENT COMMENTS ON THE SIGNIFICANT AUDIT FINDINGS

ACTEW Energy Ltd

3.1. The audit found that ACTEW Energy’s billing and debtor system is inappropriate for conducting business in an efficient and effective manner.[3]

3.2. In response the Chief Minister advised that as noted by the audit ACTEW Energy is in the process of installing a general ledger accounting system to meet the company's requirements. By February 1998, the company had purchased the system and was in the process of transferring data and trialing the system, which should be fully operational by the end of the 1997-98 financial year.

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[1] Audit report pp2-4
[2] Chief Minister, letter to the committee dated 11 May 1998
[3] Audit report p45

ACTION

3.3. The audit found that:[4]

(i) ACTION's 1996-97 operations resulted in a loss of $6.2m

(ii) there was ineffective control by ACTION over the custody and distribution of bus tickets

(iii) ACTION was unable to manage its operations within budget.

3.4. The Chief Minister noted the audit found lower than expected passenger boardings (which resulted in lower than expected revenue) and the automated ticketing system that provides more accurate data. The Chief Minister advised that as a result of more accurate data ACTION had made a correction to the previous year's figures and the 1996-97 estimate was reduced during the year from 24 million to 22 million passenger boardings.

3.5. The Chief Minister further advised that although ACTION's results did not match its budget, management did contain the unforseen impacts on revenue and expenditure to the extent that ACTION managed its operations within the constraints of its appropriation limit.

3.6. In separate advice to ACTION, the Auditor General recommended and ACTION accepted a number of steps to be taken to reduce risk and increase control over the custody and distribution of bus tickets. The Chief Minister advised that ACTION has re-centralised the distribution process, introduced formal monthly reconciliations of ticket stocks, and implemented better debtor control in relation to ticket sales. ACTION is also currently looking at options to upgrade the accounting system to record bus ticket stocks and sales.

Agent's Board

3.7. The audit noted that the Agents Act 1968 does not require banks to transfer interest earned on agents trust accounts to the Agents Board, a matter which had also been reported in 1995 and 1996.[5]

3.8. The Chief Minister advised that the Agent's Board supports amending the Agents Act and a review of the Act is currently underway.

Attorney-General's Department

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[4] ibid p47
[5] ibid p52

3.9. The audit found that the Department did not have a good understanding of the type and quality of evidence which needs to be maintained to adequately evidence reported performance measure results.[6]

3.10. The Chief Minister advised that the Department has established 17 outputs and 262 performance measures intended to disclose as much information as possible to the Assembly and the community. The Department's efforts to develop systems to support these indicators has been a major exercise but due to the relatively small size of the Department, and operational demands, the Department has found the process to be difficult and resource intensive.

3.11. The Chief Minister further advised that the Department was under the impression that the existing systems were adequate, and the interim audit appeared to confirm this belief. However, the final audit was more rigorous and indicated that a number of measurement systems required further development and the Department is currently undertaking such development. It was noted that the Department is also currently reviewing its outputs and performance indicators. This review should reduce the number in line with the Office of Financial Management's revised outputs guidelines which limit outputs to a focus on the concept of "final goods".

3.12. The committee observes that the Select Committee on Estimates 1998-99 in its report on the Appropriation Bill 1998-99 could find no basis for comparability between the current and previous year's budgets for the Department of Justice and Community Safety while acknowledging that quantity is not always reflective of quality.[7]

Australian International Hotel School (AIHS)

3.13. The audit found that:[8]

(i) under a capital restructuring, borrowings of $22.75m were reduced by transferring the Hotel Kurrajong to the Chief Minister's Department for $10.921m and converting the remaining debt to equity

(ii) a loan of $1.984m owing to the Canberra Institute of Technology was written off

(iii) the School incurred a loss before abnormal income of $1.53m in the six months to 30 June 1997.

3.14. The Chief Minister advised that in September 1996, after two years of poor trading, the Auditor General was asked to review the financial affairs of the AIHS. At that time, accumulated losses were substantially due to the inability to attract students to the predicted level and the resultant interest payable on loans from CIT and the Chief Minister's Department to establish the AIHS.

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[6] ibid p55
[7] Select Committee on Estimates 1998-99, 24 August 1998, p6
[8] Audit report p63

3.15. As a result of the review, the Auditor General (in Report No 8 of 1996) recommended certain changes for improved management of the School. With the exception of a recommendation to affiliate with an Australian University, which is yet to be finalised, all recommendations have since been adopted. The key financial management recommendation related to debt restructuring, which is the basis for the audit's current findings.

3.16. The Chief Minister advised that, as noted by the audit, the audit review of the AIHS led to the decision to revise the management and funding arrangements for the School which led to the events noted in the first two significant findings.

3.17. The Chief Minister further advised that the debt restructuring arrangements implemented provide for the AIHS to make continuing, but reduced losses, until it achieves a break even result in 2001.

Business, The Arts, Sport and Tourism Department

3.18. The audit found that: [9]

(i) the Government is currently involved in nine land development joint ventures all of which have been negatively affected to some degree by the continued down-turn in the residential property market, resulting in only 450 of the expected 600 blocks being sold during 1996-97

(ii) the value of the golf course, an integral part of the Gold Creek Country Club in the Harcourt Hill joint venture development, was written down to its estimated realisable value after sale of the Country Club did not proceed. As a result the Harcourt Hill joint venture made a loss of $7.3m in 1996-97

(iii) during the year the Commonwealth transferred ownership of land at Kingston Foreshore to the ACT Government in return for land at Acton Peninsula. The valuation of the land at Kingston Foreshore has been included in the financial statements at the cost of consideration offered for the Acton land of $7.3m plus an additional payment of $3m

(iv) independent valuations of all property, plant and equipment with the exception of 6 sportsgrounds and 36 community specific and heritage assets were brought to account for the first time in 1996-97. This resulted in $72.9m being added to opening accumulated funds.

3.19. In response to these findings the Chief Minister advised that:

(i) as a consequence of the down turn in the market further Government land releases were postponed until the market improves and this should assist the market to stabilise

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[9] ibid p65

(ii) as the audit noted, the ACT planned to purchase the golf course at its written down value but has now taken over ownership of the golf course in exchange for debt which enables the ACT to reconsider the future management and ownership of the course. The Chief Minister further advised that over a thousand blocks remain in this development and revised sale projections provide a reasonable basis for the joint venture to trade back to profitability

(iii) the above valuation is consistent with generally accepted accounting practice

(iv) these properties were previously recorded at nominal values of $1 000 each in accordance with ACT Government policy at that time. That policy has now changed in line with Australian Accounting Standards to require valuation based on "deprival methodology", ie based on replacement, reproduction, or market value of those assets.

Chief Minister's Department

3.20. The audit found that the Territorial bank account was not reconciled on a monthly basis for nearly all of the financial year. A catch up reconciliation was performed at year end to reconcile the financial statement accounting records to the bank records. A number of significant adjustments were made to correct the financial statement accounting records as a result of the reconciliation process.[10]

3.21. The Chief Minister advised 1996-97 was the first year the Territory Bank Account was established in its current format. During the year, Chief Minister's Department established and tested procedures and practices to ensure complete accuracy of the reconciliation of the transactions involved in this complex bank account and, as noted by the audit, the Department has bedded down the new procedures and the bank account is now reconciled on a monthly basis.

3.22. The Chief Minister advised it is normal to make adjustments as part of the reconciliation of such a complex account and that with over seven organisations depositing large sums of money into the account, on occasions monies have incorrectly been deposited and adjustments were necessary.

[10] ibid p80

Construction Industry Long Service Leave Board

3.23. The audit found the Construction Industry Long Service Leave Board continues to hold funds in excess of its estimated liabilities for long service leave payments with an excess at 30 June 1997 of $21m.[11]

3.24. The Chief Minister advised that, as indicated in response to the previous year's audit, the Board supports the ultimate objective of a zero levy on employers as a means of assisting employment in the Territory. However, a zero levy will not be introduced until the fund's asset base is sufficient to achieve an income that equals annual expenditure. The Board has reviewed its administrative processes with a view to reducing costs. In addition, investment income has improved as the Board anticipated last year.

Exhibition Park (EPIC)

3.25. The audit found that:[12]

(i) accumulated losses decreased from $1.9m in 1995-96 to $0.8m in 1996-97. However, this decrease was due to an abnormal item of $1.4m in revenue which represented assets received free of charge from the Department of Urban Services. After deducting this abnormal item the operating result was a loss of $0.4m ($0.4m in 1995-96). Exhibition Park has experienced losses through its normal operating activities over the last five years

(ii) without substantial increases in revenue and/or reductions in expenses the trust will continue to face problems in meeting its financial obligations

(iii) the Government has recognised the loss incurred on operations is partly due to the four major licence agreements the Trust has with community groups, and has approved Community Service Obligation (CSO) funding to the Trust for the 1997-98 financial year of $292,000.

3.26. The Chief Minister advised that a significant portion of EPIC's accumulated losses and ongoing expenses relate to depreciation, which does not raise an imminent cash flow problem. However, as the audit indicated, the "current ratio" reflects a more pressing cause for concern, because it reflects EPIC's present capacity to meet its debts as and when they fall due. The Chief Minister advised that CSO funding will greatly assist the situation, but aside from this additional funding there is also a need for an increase in operating revenues to enable an improvement in EPIC's current ratio.

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[11] ibid p90

[12]

3.27. The Chief Minister further advised that the Trustees expect a significant increase in revenues and, at the end of January 1998, EPIC's end of year projections showed a significant drop in current liabilities to $251,000 with a smaller drop in current assets to $59,900. This represented an improvement in the current ratio from the 1996-97 level of 1:5.2 to a projected level of 1:4.2.

3.28. The Chief Minister continued by stating that EPIC's operations warrant close attention in the future. But, at this stage, they appear to be gaining ground and that a program of capital works has been underway during the past five years to upgrade and improve the Trust's facilities.

ACT Forests

3.29. The audit found that:[13]

(i) ACT Forests has returned operating losses every year since 1991-92, and has budgeted for future losses until 2001

(ii) as in 1995-96, log sales were depressed in 1996-97, as timber mills reduced their orders to minimum contracted timber volumes. Lower demand for timber results from the depressed building market.

3.30. The Chief Minister advised that the audit missed the fact that ACT Forests achieved its 1996-97 budgeted operating result, that ACT Forests is set to continue to achieve its budgeted results, which now forecast small operating losses for the next few years, prior to moving into operating surplus thereafter.

ACT Housing

3.31. The audit found that:[14]

(i) as a result of revaluations the value of the property portfolio fell by $164m or 12% between 30 June 1996 and 30 June 1997, with the average falling from $112,037 to $100,597

(ii) ACT Housing currently has $2.8m worth of capital invested in the Braddon Gardens residential unit development. The capital represents 33 unsold units which are currently being leased to tenants under market conditions.

3.32. In response, the Chief Minister advised that:

(i) the change in value results from a restatement of the portfolio by $137m following advice from an independent, qualified valuer and a depreciation charge of $26.7m. The reduced value of the portfolio reflects the overall change in ACT property values over the 1996-97 financial year. Housing's

[13] ibid p107
[14] ibis p119

rental properties range in value from $20,000 to $464,000 reflecting the market value and condition of properties in various locations across the ACT

(ii) as noted in last year's response, the 33 unsold units were never intended for public tenanting. The properties in this development which have not been sold have been temporarily leased to private tenants. This ensures an income stream prior to sale to a private owner, as either vacant possession or as an investment property, at a time when market sale conditions improve, rather than incur a loss in the present market. The Chief Minister further advised that in 1996-97 the unsold units achieved a gross return on capital of 5.95%, through lease revenue. These properties are held as part of a joint venture. The venturers agreed to test market conditions in 1997-98, by placing ten units available for sale in November and December 1997. By the end of January 1998, seven of the ten units were sold, with a likely two further sales pending. Other units continue to generate lease revenue and continued assessment of the market is being undertaken to determine further appropriate timing of sales.

InTACT

3.33. The audit found that:[15]

(i) InTACT did not have an appropriate fixed asset register at year end to support the $14.3m of IT plant and equipment transferred to InTACT on 30 June 1997. InTACT experienced difficulties in compiling a register because of the timing of the transfer (on the last day of the financial year) and the size of the task

(ii) InTACT relied upon asset information provided by other ACT Government entities to support their property, plant and equipment amounts in the financial statements, this was on the understanding that InTACT would create an appropriate fixed asset register early in the 1997-98-financial year.

3.34. In response the Chief Minister advised that InTACT plans to have a new asset register implemented by the end of June 1998. This is longer than initially envisaged, due to the size and complexity of the task but InTACT is proceeding carefully, to ensure that all data in the Register is accurate and complete. The Auditor General has been consulted over the methodology to be used to compile the register and is in agreement with the process thus far.

[15] ibid p129

Legal Aid Commission

3.35. The audit found there is a need to identify strategies to maintain the future financial viability of the Legal Aid Commission.[16]

3.36. The Chief Minister advised that the ACT and the Commonwealth had already reached agreement in principle for future funding arrangements for the next three years. In December 1997 this agreement was finalised and signed off, ensuring the financial viability of the Commission through to 30 June 2000.

Superannuation Provision Unit

3.37. The audit found that the level of unfunded superannuation liabilities (ie total liabilities less investments) as at 30 June 1997 was $651.2m, representing approximately $2,200 for every resident in the ACT, and that the liability has increased over the past three years and will continue to increase for some years.[17]

3.38. The Chief Minister advised that as noted by the audit a consultant was engaged to recommend how Government might address this situation. The consultant is undertaking a review of ACT public sector superannuation and the measures taken by Federal and State Governments to contain the growth in their future liabilities. The consultant's report will form part of Government's consideration of a strategy to address the specific issues of superannuation financing and coverage for the ACT public sector.

TOTALCARE

3.39. The audit identified many control weaknesses, in particular for the former Works and Commercial Group.[18]

3.40. In response the Chief Minister advised that in November 1997, Totalcare received a post audit management advice from external auditors which lists in detail the control and other audit issues identified through the end of year audit. As a result, the Totalcare Board commissioned the preparation of a Strategic Audit Plan by external accountants. A Board Committee was to meet in February 1998 to consider the draft audit plan.

Department of Urban Services

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[16] ibid p132
[17] ibid p141
[18] ibid p147

The audit found that:[19]

(i) during 1996-97, $4.4m of long outstanding parking and traffic fines were written off

(ii) depreciation on the Territory's infrastructure assets has been understated in previous years and this has meant an additional $9.9m depreciation expense was charged against these assets in 1996-97

(iii) As part of the Territory's Acton/Kingston land swap with the Commonwealth, the Department wrote out of its records land comprising the Acton Peninsula with a recorded value of $18m.

3.41. In response the Chief Minister advised that:

(i) the Department's policy introduced materiality to the fines accounts leading to the write off of fines that stood little chance of collection due to the inability to collect fines from people who may have moved interstate. Writing off the fines does not prevent their recovery should this become possible through the introduction of a mutual recognition scheme between state and territory jurisdictions

(ii) there was an error in the previous year's calculations, which understated accumulated depreciation by 0.65% (accumulated depreciation was $1.525m). As indicated, to correct for this error, the Department posted an adjusting entry to the 1996-97 accounts

(iii) the Department took this action on advice from the Office of Financial Management, after the Federal Minister of Sport, Territories and Local Government signed the instrument of transfer on 6 May 1997. The Kingston land was taken up in the books of the Department of Business, the Arts, Sport and Tourism.

4. COMMITTEE COMMENT

4.1. The committee notes that most of the issues of significance identified by the audit have been addressed or, as advised by the Chief Minister, are being addressed.

4.2. One particular matter which continues to crop up in audit reports is outstanding parking and traffic fines, and the committee is concerned that little progress seems to have been achieved in introducing a mutual recognition scheme between state and territory jurisdictions.

4.3. The matter of outstanding fines was raised by Auditor-General's Report No 6, 1996 - Collection of Court Fines. In its review of that audit,[20] the Public Accounts Committee in the previous Assembly noted that the March 1997 meeting of the

[19] ibid p148
[20] Standing Committee on Public Accounts, Report No 24, April 1997

Standing Committee of Attorneys-General had developed mutual recognition arrangements for fine default arrangements and that the Attorney-General had been reported as saying that legislation would be introduced in the ACT to support the scheme. The PAC recommended that the Attorney-General inform the Assembly of the details of the scheme, that the Assembly be advised as to when the reported legislation would be presented to the Assembly, and that the Assembly be informed on progressing the scheme nationally.

4.4. In response to those recommendations the Attorney-General advised[21] that the Standing Committee of Attorneys-General had agreed that options for a scheme be developed for consideration at its next meeting. The Attorney-General further advised that (ACT) legislation would only be introduced once the Standing Committee of Attorneys-General had settled on a model, and that the Assembly would be kept informed on progress with the development of the model.

4.5. This committee notes that there has been no further indication of progress with the proposed model.

5. RECOMMENDATIONS

5.1. The committee recommends that the Government inform the Assembly on the:

(i) present state of the proposed fine default mutual recognition arrangements between state and territory jurisdictions;

(ii) outcome of the ACTEW Energy trial of the new accounting system;

(iii) outcome of ACTION's consideration of options to upgrade the accounting system to record bus ticket stocks and sales;

(iv) outcome of the review of the Agents Act;

(v) present position with EPIC's financial operations;

(vi) present position with the implementation of the new InTACT asset register; and

(vii) outcome of the Totalcare Board's consideration of the draft Strategic Audit Plan prepared by external accountants.

[21] Attorney-General, Government Response to PAC Report No 24, 25 June 1997

Ted Quinlan MLA
Chair