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Parliament of New South Wales

Report on

Payment

Performance

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Public Accounts Committee
of the Forty-Ninth Parliament

Report on the

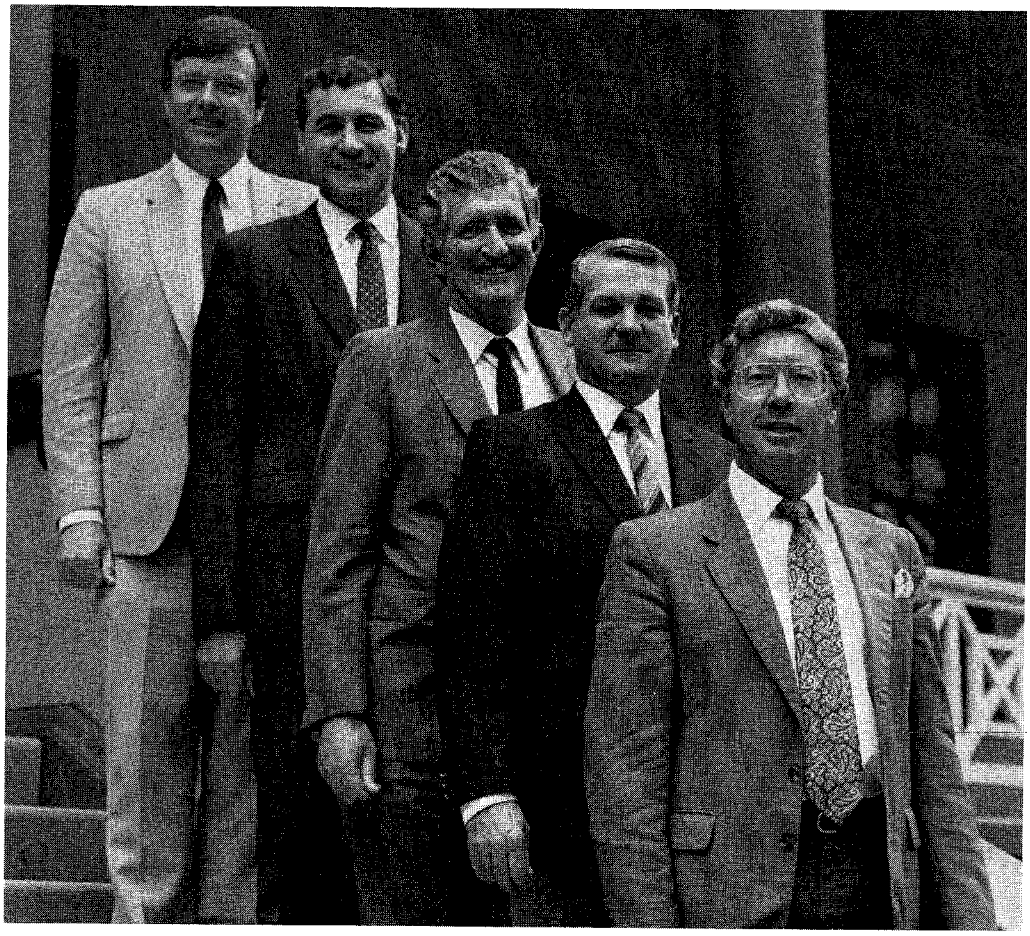
Payment Performance of

Major Statutory Authorities and Inner Budget Sector Departments

Fifty-fifth Report

Inquiry pursuant to Section 57(1) of the Public Finance and Audit Act 1983, concerning the Payment Performance of Major Statutory Authorities and Inner Budget Sector Departments

(Transcripts of Proceedings are printed in a separate volume to this Report)



From left:

Phillip Smiles (Chairman), George Souris (Vice Chairman), Allan Walsh, Terry Griffiths, John Murray

Members of the Public Accounts Committee

The Members of the Public Accounts Committee of the Forty-Ninth Parliament are:

Mr Phillip Smiles, LL.B., B.Ec., M.B.A., Dip. Ed., M.P., Chairman

Phillip Smiles was elected Member for Mosman in March 1984. A management and marketing consultant since 1974, Phillip Smiles has been involved with entrepreneurial business activities since his teens. Since entering Parliament he has been actively interested in areas of small business, emergency services, welfare and financial analysis. He was appointed a Member of the Public Accounts Committee in 1984 and was elected Chairman in 1988.

Mr George Souris, B.Ec., Dip. Fin. Mangt., F.A.I.M., F.A.S.A., C.P.A., M.P., Vice Chairman,

George Souris was elected Member for Upper Hunter in 1988. An accountant in public practice for 12 years, George Souris also served as a Shire Councillor in Singleton for seven years, four of which were as Deputy President. At university he was a Rugby Blue, represented N.S.W. Country, Australian Universities and Australian Colts rugby teams. He is the N.S.W. Parliament's appointed Member of the University of Newcastle Council. George Souris has experience in taxation and business management and an interest in financial analysis. He is a member of Rotary and other community organisations.

Mr John Murray, B.A., M.P.

John Murray, formerly a teacher, was elected Member for Drummoyne in April, 1982. An Alderman on Drummoyne Council for three terms, John Murray was Mayor of the Council for five years and served four years as Councillor on Sydney County Council. He has served as a member of the Prostitution Committee and the House Committee, and is a former Chairman of the Public Accounts Committee.

Mr Allan Walsh, B.A.(Hons), Dip. Ed., M.P.

Allan Walsh was elected Member for Maitland in September, 1981. Following eight years as a Mirage fighter pilot with the R.A.A.F., he was involved in business management. Allan Walsh has also taught industrial relations, management and history at technical colleges.

Mr Terry Griffiths, M.P.

Terry Griffiths was elected Member for Georges River in 1988. Prior to being elected to Parliament he was the Chief Executive of the Scout Association of Australia. Before this he was an Army Officer. He is a graduate of the Officer Cadet School Portsea, a graduate of the School of Military Engineering and a Fellow of the Australian Institute of Management. He has been actively involved in Lions, Rotary and other community organisations.

* Mr George Souris, M.P., Member for Upper Hunter, was appointed to the Committee on 23 February 1989, and elected Vice-Chairman on 2 March 1989. Mr Souris replaced Miss W. Machin, M.P., who was appointed to the position of Chairman of Committees on 23 February 1989.

Report on Payment Performance of

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Secretariat

* Victoria Walker M.A., Director, * Mike Smart B.A. (Magna Cum Laude)(Harvard), *Consultant,* * Norma Rice, Secretary/Word Processor Operator, * Anne Lucas, Acting Clerk, * Rebecca Turfell B.A. (Visual Arts)

The Public Accounts Committee

* Parliament House, Macquarie Street, SYDNEY NSW 2000 * Tel: 230 2631 * Fax: 230 2831

Chairman's Foreword

This Inquiry, although perhaps not dealing with an issue that would regularly be noted on the front page of our major metropolitan newspapers, is nevertheless one of great significance to the many thousands of small, medium and large businesses in Australia that choose to do business with the New South Wales Government.

In any one year the New South Wales Government lets contracts to the private sector to a total value in excess of $4 billion. Consequently, should State Government departments or authorities be late in paying its suppliers of goods or services the impact on the New South Wales economy and on business cash flows can be profound.

This was recognised when the State Treasury issued a Treasurer's Direction in May 1989 specifying that all departments and statutory authorities must pay accounts in 30 days of receipt of a claim for payment or within agreed terms.

Unfortunately, this Inquiry has revealed that the Treasurer's Directions have not been followed by many of the departments and authorities the Committee examined.

Compounding this significant breach of Treasury guidelines the Committee found that many heads of departments and agencies are not able to quantify their organisations timely payment effectiveness because their accounting systems are inadequate and that some senior managers may be deliberately pursuing strategy of slow payment in order to maximise their working capital.

Much has been made of the importance of running New South Wales Government departments and authorities (which employ in excess of 3,000 people and have an aggregate annual turnover in excess of $30 billion) along sound business lines. This report reveals that some aspects of the business and financial management of these departments and authorities are far from satisfactory.

In conclusion, I would like to acknowledge the contribution of my fellow Committee Members, Victoria Walker, Director of the Public Accounts Committee and Michael Smart, the Committee's Consultant for this Inquiry, to this report.

Executive Summary

When the State Public Service is late in paying its bills, creditors are confident they will be paid. This confidence stems from a widespread perception that government is somehow above engaging in practices inspired by greed, that it serves higher purposes than the pursuit of profit. Nevertheless, this image of government suffers when late payment becomes a chronic feature.

A tarnished image manifests itself in many practical problems. Whether they realise it or not, government departments which pay late usually wind up paying more for goods and services. Suppliers to these departments add finance charges to their prices. The competition among suppliers which might keep these inflationary forces in check is diminished as firms who have been paid late increasingly refuse to do business with the government. The range of goods and services available to the government is diminished, too, as firms opt out of the public market sector.

Provisions of the Public Finance and Audit Regulation, 1984, specify that Departments and Statutory Authorities must pay accounts within 30 days of receipt of a claim for payment or within agreed terms. If timely payment is not effected, then the Minister may award a supplier penalty interest, under Treasurer's Direction 219.01, as amended May, 1989.

Following a reference from the Premier and Treasurer under section 63A(2) of the Public Finance and Audit Act, 1983, the Public Accounts Committee has investigated the on-time payment performance of major Statutory Authorities and major Inner Budget Sector Departments. Information garnered in the first instance from questionnaires distributed to the Heads of these agencies leads the Committee to several clear conclusions:

* Heads of a number of agencies are not able to quantify their organization's timely payment effectiveness because their administrative or accounting systems are inadequate.

* Among those agencies which were able to measure performance, a majority reported that their payment of accounts failed to meet the requirements of Treasurer's Direction 219.01.

* Those organizations whose senior managers felt payment performance to be an important issue generally had better financial reporting and control systems.

Payment Performance

* The most common reason for failure to pay on time is deficient administrative or accounting systems.

* Liquidity problems were found to play a very minor role in managerial decisions to delay payment.

* There is evidence to suggest that some senior managers may deliberately pursue a strategy of aggressive debt collection and deliberately slow payment of claims in order to maximise an agency's working capital.

* Cash accounting systems raise the real possibility that some senior managers may avoid reporting spending in excess of the budget by delaying some payments until the following financial year.

* A strong case could be made that the payment terms specified in TD219.01 are unnecessarily strict in comparison to accepted private-sector practice, and that payment by the end of the month following the month in which an invoice is received would be a preferable rule to administer.

* More widespread adoption of accrual accounting within the Public Service is a necessary but not sufficient precondition to proper control over the timeliness of financial transactions.

Recommendations

1. It is recommended that all inner budget sector entities and any statutory authorities which do not currently have an accounts payable and accounts receivable ledger move as quickly as possible to adopt these accounting tools.

2. It is recommended that once it has an accounts payable and accounts receivable ledger in place, each authority be required to submit to Treasury quarterly reports on aged creditors and debtors, and on liquidity management. The Committee to review progress in one year.

3. It is recommended that Treasurer's Direction 219.01 be amended to require payment by the end of the month following the month in which an invoice is received, and that Clause 2AB of the Public Finance and Audit Regulation, 1984, be similarly amended.

4. It is recommended that Treasury conduct seminars for financial management officers of inner budget sector entities and statutory authorities on financial control and performance, focusing particularly on corporate philosophy, staff motivation, and automated systems.

5. It is recommended, where appropriate, that Senior Executive Service and Chief Executive Service contracts offered by authorities include payment .performance in the evaluation of an executive's performance.

6. It is recommended that the Head of eachauthority ensure that the annual internal audit plan includes examination of compliance with TD 219.01 and Clause 2AB of the Public Finance and Audit Regulation, 1984.

7. It is recommended that once it has an accounts payable ledger in place, each authority be required to include <u>aged</u> sundry creditors in its annual financial statements. The Committee to review progress in one year.

8. It is recommended that once it has an accounts receivable ledger in place, each authority be required to include <u>aged</u> sundry debtors in its annual financial statements. The Committee to review progress in one year.

Introduction

Terms of Reference

1.1 On 17 November, 1989, the Hon. Nick Greiner, M.P., the Premier and Treasurer, requested that the Public Accounts Committee conduct an inquiry under section 63A(2) of the Public Finance and Audit Act into the payment performance of major statutory authorities and inner budget sector departments with the following terms of reference:

i. To undertake a review and report on the payment performance of major statutory bodies and inner budget sector departments, in accordance with clause 2AB of the Public Finance and Audit Regulation 1984.

ii. To assess the performance of statutory authorities and inner budget sector departments since October 1989 when the Treasurer's direction 219.01 on Prompt Payments was extended to fall in line with the Public Finance and Audit Regulation.

iii. To consider any other matters relating to thepayment performance of major statutory authorities and inner budget sector departments.

Method of Investigation

1.2 The Committee conducted its inquiry between December 1989 and April 1991, concurrent with a number of other inquiries and activities pursuant to Section 57 of the Public Finance and Audit Act 1983. The method of investigation included:

* preparation of a questionnaire on payment performance, debt collection performance, cash-flow forecasting, and related financial controls which was distributed to the heads of major statutory authorities and inner budget sector departments in July, 1990;

* detailed examination of responses to the questionnaire;

- * a review of submissions and correspondence received in response to advertisements issued in the press;

- * letters to various peak industry organizations representing firms who are creditors to government agencies, and analysis of the replies;

- * a public hearing, held on 22 February, 1991.

1.3 The questionnaire was designed to examine comparable periods in the 1988-89 and 1989-90 financial years which were representative of the situation before and after changes to Treasurer's Direction 219.01 took effect.

Background to Inquiry

1.4 Failures of Government Departments to observe Treasury regulations requiring payment of accounts within 30 days were noted in correspondence between the Hon, John Hannaford, MLC, and the Premier dated June 1989. Mr Hannaford drew the Premier's attention to testimony before the Standing Committee on State Development on 22 June, 1989 to the effect that consistent patterns of late payment by the State Rail Authority, the Public Works Department, the Electricity Commission and the Water Board were causing hardship to contractors. In the first instance, the Premier directed these complaints to the Minister for the Environment, the Minister for Minerals and Energy, the Minister for Transport, and the Minister for Public Works.

1.5 In October 1989, the Premier reviewed the Treasurer's Direction 219.01 on Prompt Payments and extended it to fall in line with Clause 2AB of the Public Finance and Audit Regulation 1984. In particular, the Treasurer's Direction 219.01 now specifies that firstly, should a payment not be made within the allowed time, the Minister may award penalty interest, and secondly, the Head of an authority shall nominate a staff member to be the accounts complaints officer.

1.6 Treasurer's Direction 219.01, under the heading *"Prompt Payment"*, specifies that accounting officers shall ensure claims for payment are made on or before agreed terms or 30 days after receipt of an invoice. The full text of this Direction is quoted in Appendix 2 to this report.

1.7 The Treasurer's Directions are a body of instructions issued by the Treasurer covering accounting and related financial principles, practices and procedures to be observed by officers of authorities in the administration of financial affairs of the State. Section 9 of the Public Finance and Audit Act, 1983, provides for Treasurer's Directions to be issued at appropriate times. Amendments to the Directions are explained in Treasury Circulars. All accounting officers, as defined by section 4(1) of the Public Finance and Audit Act, 1983, and other officers of an Authority, must comply with the Treasurer's Directions.

1.8 Ministerial replies to the Premier's letters regarding the late payment instances raised by Mr Hannaford indicate that in some cases delayed payment has resulted from the contractors' failures to fully meet contractual obligations. Withholding payment for this reason is consistent with the Directions. Unfortunately, the Committee found that not all delayed payment instances fit this scenario.

1.9 Administrative procedures for processing payments differ greatly from one authority to the next. Another scenario for many tardy payers is that a breakdown of administrative or accounting procedures, the inadequacy of these procedures, or the inexperience of the staff executing them is the cause of the problem. Since the Treasury no longer has authority to supervise departmental accounting at the "*line item*" level, this supervision is done by public service managers who may not have a sufficient accounting background.

1.10 Decentralisation of departments has, in many cases, complicated the tasks of payment processing. For example, in the Public Service Notices of February 7, 1990, the Department of Administrative Services comments that slow payments for motor vehicle purchases have occurred in part because *"the current procedures within a number of large decentralised Departments do not allow certification [of invoices] to be performed by the local office who actually take delivery of the vehicle."*

1.11 Parenthetically, the Committee notes that the term *"decentralisation"* can often be ambiguous. Decentralisation of points at which goods can be received often leads to payment delays when invoices are directed to an office other than the one which has authority to process payment, or when the local receiving office fails to forward receipt documentation to the central payment office. To confuse matters, decentralisation of payment authority allows receiving offices to pay directly, without referring documents to a central authorization point. Speaking precisely, the problem is not with decentralisation per sc. It arises when the point at which goods are received is different from the office at which payment is authorized.

1.12 Another scenario is that late payment is a deliberate strategy. Such a strategy might be employed to permit expenditure in one financial year which exceeds the department's budget. Since departmental accounting is presently done on a cash basis, rather than an accrual basis, it is easy to manipulate reported results. If payments for year-end overspending were not made until the next financial year, then the department would appear tobe within its budget.

1.13 Late payment by government authorities causes hardship to many suppliers and generates bad will within the business community. This problem is always more severe during recessionary times. In cases where late payment arises from weaknesses in financial administration, it may be symptomatic of other serious problems such as a failure to promptly collect accounts receivable, a failure to properly implement risk management in bill paying, and a failure to provide Treasury with cash-flow forecasting information. Additionally, weak financial administration may prevent an authority from obtaining discounts for prompt payment--a lost opportunity to gain better value for government expenditure. Payment performance is closely allied with these other aspects of cash management in the public sector.

1.14 In cases where late payment forms part of a management strategy--effectively increasing an authority's working capital at the expense of creditors--the cash accounting system is unable to provide an accurate picture of the authority's accounts until the end of year report (when outstanding creditors must be disclosed). Thus accountability may be compromised.

1.15 Through this inquiry, the Committee sought to discover firstly just how good or bad the State public sector is in paying bills on time, secondly what are the underlying causes and motivations for late payment, thirdly how effective have been the steps taken thus far to improve performance, and finally what further steps might resolve the current problems. In pursuing these questions, the Committee observed that other important public sector management and accountability issues are interrelated. These other issues are discussed in the final section.

Evidence that slow payment by public service is a problem

2.1 The Committee sought to establish how serious a problem is posed by the slow payment of accounts within the State public sector. Firstly, submissions were sought from parties disadvantaged by late payments. Secondly, evidence was sought from statutory authorities and government departments on their own payment performance. Thirdly, evidence was sought from government agencies who are creditors to other government agencies on how quickly they are paid by their government debtors. Finally, to gain some perspective, the Committee made some thumb-nail comparisons between public sector payment performance and accepted norms within the private sector for on-time payment.

2.2 Responses to the Committee's requests for submissions from the private sector about late payment were practically nonexistent. Advertisements in the press garnered no complaints concerning late payment. Despite writing to the State Chamber of Commerce and Industry, the Chamber of Automotive Industries, the Australian Chamber of Manufactures, and the NSW Association of Chambers of Commerce, to request statistics on late payment or complaints from members, the Committee received no indication that the members of these organizations were dissatisfied with the State's payment performance. Furthermore, specific letters from the Committee to a number of firms which do steady business with the State public sector drew a complete lack of response.

2.3 The Committee felt that this absence of complaints was attributable to one of several possible causes:

* no strong public perception that late payment was a problem,
* complaints were handled satisfactorily by the authority,
* suppliers do not know where to direct complaints,
* fear that by complaining publicly a supplier might be blacklisted.

2.4 The Committee understands, however, that complaints are frequently directed to the Ministerial level, usually indicating that the authority in question has failed to resolve the complaint satisfactorily. In correspondence made available to the Committee, at least one Sydney firm has complained that, thanks to late payment by the Public Works Department, it is being sent bankrupt by virtue of doing business with the Government.[1] In another case giving rise to Ministerial correspondence, a former employee of the State Rail Authority who was totally and permanently incapacitated on the job is suffering financial hardship because the SRA is perpetually late in reimbursing him for pharmaceutical expenses.[2] In other instances, the Committee understands that complaints are directed to Treasury when the Departments concerned are unable to satisfy the creditor.

2.5 Self-assessments of payment promptness were sought from departments and authorities in various parts of the questionnaire. Very few questionnaire respondents acknowledged any systematic problems with on-time payment of accounts. To provide the Committee with a cross-check for payment timing, the questionnaire asked respondents, in question 2, to fill in a creditor ageing table, which is equivalent to information provided by a creditors ledger. Unfortunately, some respondents did not fill out the accounts payable table. The majority of respondents who elected to fill in the question 2 tables did so on a *"selective sampling"* basis. In other words, their tables were based upon a *"representative"* sample of invoices rather than the entire accounts payable. From this evidence, the Committee could not rule out the possibility that significant late payment was occurring.

2.6 For example, Mr Kenneth Barker, the Executive Director - Finance and Administration for the Department of Health, stated in the letter accompanying his questionnaire reply,

> *"Despite the extended deadline it has not been possible to present meaningful information in the format requested in Question 2. The importance of establishing the patterns and thereby assessing the success of the systems in operation is appreciated, but it is considered that the information that could be supplied, particularly on a sampling basis, would not be representative."*

2.7 Mr Peter Dransfield, Director of Housing, stated in the letter accompanying his questionnaire reply,

1 Letter from Mr Max Elbourne, Joint Managing Director of Stainless Metal Craft Pty. Ltd., to the Hon. W.T.J. Murray, M.P., Minister for Public Works, dated 10 March 1989.

2 Letter from Mr Allan Walsh, M.P., to the Hon. Baird, MP, Minister for Transport, dated 13 August 1990, regarding Mr Walsh's constituent Mr Lyall Ward.

"The Department, at least at this stage, does not have systems in place which would permit the calculation of commitments and ageing of debtors and creditors nor could any reasonable estimates be provided. The only figures which can be supplied are the totals of cash paid and cash received by month etc."

2.8 Mr Dransfield noted that to sample 30% of invoices over the period examined in the questionnaire, "The *Department could therefore quite conceivably be required to check and detail 1,000,000 payments."*

2.9 In their reply, the Police Service employed a sampling procedure (as did many other respondents) to provide creditor ageing information. Mr John Thoms, Director of Finance for the Police Service stated in his questionnaire reply,

"Due to the fact that the Department operates on Cash Accounting Creditors' balances which are aged are not readily available. However, a sample of 1% which represents 2320 vouchers has been taken."

2.10 In a more positive sense, some respondents, such as the State Rail Authority, frankly admitted to administrative obstacles which were compromising on-time payment. Other respondents, such as the Public Works Department, indicated that their average payment performance fell outside the 30 days prescribed by the Treasurer's Directions.

2.11 Mr Ross Sayers, Chief Executive of the State Rail Authority, stated in his testimony,

"The State Rail Authority does not have a formal accounts payable ledger; therefore, we do not have a print-out of the ageing of creditors. Each month we do a sampling of one day's invoices and we analyse those. The result of that analysis shows that 40 per cent of general accounts are not paid within 30 days." [3]

2.12 Mr R.D. Christie, Director-General of the Department of Public Works, stated in reply to the questionnaire, *"Public Works average performance in this area during the 1989/90year was 32.2 days ...* [4]

3 Minutes of Evidence, 22 February 1991, p. 55.

4 Questionnaire reply from the Public Works Department, question 11.

2.13 Upon hearing evidence of late payments between government departments, it became clear to the Committee that prompt payment is very much a live issue. Notably, the Commercial Services Group (formerly the Department of Administrative Services), the Public Works Department, and the Roads and Traffic Authority stated in evidence that a significant proportion of their overdue accounts receivable is attributable to government agencies at the State and other levels. From this evidence, the Committee concluded: a) that payment outside the terms specified in the Treasurer's Directions must be widespread, b) that the lack of private sector complaints does not indicate complete satisfaction with public sector payment norms, and c) that the lack of evidence derived from self-assessments indicates a lack of financial control rather than excellent performance.

2.14 Mr Bernard Fisk, Chief Executive of the Roads and Traffic Authority testified to the magnitude of late payments to his authority:

Committee: *"You mentioned also other government departments being slow payers?"*

Mr Fisk: *"Indeed."*
Committee: *"Would you explain that, please?"*
Mr Fisk: *"Thirty-eight per cent."*
Committee: *'Ms you look at the figures, that is 38 per cent of?."*
Mr Fisk: *"$3.8 million."*
Committee: *"It is well over $1 million?"*
Mr Fisk: "A *bit more than $1.5 million."*
Committee: *"That is $1.5 million owed to your department over 90 days by other government departments?"*

Mr Fisk: *"Other government departments."*[5]

2.15 Relatively late in the inquiry, the Committee also became aware that payment outside terms to firms in the oil industry is endemic to the State (and

5 Minutes of Evidence, 22 February 1991, p. 34.

Commonwealth) Public Service. Understandably, some of the oil executives who discussed this matter with the Committee were reluctant to be quoted or named. Nevertheless, the Committee believes this evidence to be credible since several firms have independently given matching accounts. State organizations nominated by the oil firms as being particularly late payers included: the State Rail Authority, the Police Service, the Roads and Traffic Authority, the Department of School Education, the Department of TAFE, the Department of Health, the Water Board, the Department of Public Works, the Forestry Commission, and the Electricity Commission.

2.16 One oil executive stated that his firm does add a finance charge into its contract oil price to account for the expected delay in payment. Another firm stated that they provide a discount of 0.5 cents per litre for payment within 14 days. None of these firms had directed complaints beyond the immediate departmental staff handling the transactions, and none had made or intended to make protests at the Ministerial level. One firm informed the Committee that they were unaware that government agencies were required to have an accounts complaints officer? Clearly, there is a problem experienced by the oil industry which may very well be experienced by firms in many other industries. Obviously an absence of complaints does not guarantee that performance is acceptable. Just as clearly, the State is paying a price for late payment, whether it be viewed in terms of lost goodwill, finance charges, or missed opportunities for discounts.

2.17 Having established that public sector bill-paying is often outside the prescribed time-limits, it is still legitimate to ask how much of a problem it poses to suppliers. The argument often advanced on the suppliers' behalf is that these organizations typically operate on narrow margins, requiring vigorous cash-flow to remain solvent. By delaying payment unnecessarily, government agencies may unwittingly drive some of these suppliers to bankruptcy. On the other hand, is it reasonable to expect the public sector to adhere to payment norms which are far more stringent than those typical of the private sector? There is evidence to suggest that payment by the end of the month FOLLOWING the month in which an *invoice is* received is an acceptable target for accounts payable in the commercial sector. Depending upon when the invoice is received, payment according to that rule could occur as late as 60 days without

6 The Committee notes that under subsection (3) of Clause 2AB of the Public Finance and Audit Regulation, 1984, an authority is required to include with each order form a statement that if a payment is not made within the agreed time, the supplier should take the matter up with the accounts complaints officer for the authority. Furthermore, under this subsection, the authority is required to supply the telephone number of the accounts complaints officer with each order. See Appendix 1.

being outside terms. Average payment time under this arrangement would **be** in excess of 30 days.

2.18 Standard terms of payment for the NSW Electricity Commission are the end of the month following the month in which the invoice is received. These terms are printed on Elcom's order forms. By accepting one of Elcom's orders, a supplier therefore agrees to these terms. Neither Elcom nor the Office of the Minister for Minerals and Energy have received any complaints about these terms of payment.

Current payment' status of major authorities

3.1 In this section, the Committee reviews questionnaire responses from a selected group of major inner budget sector organizations and major statutory authorities in order to form an overall impression of their payment performance. For those organizations which appeared before the Committee at its public hearing, the questionnaire responses are supplemented with answers to certain questions asked of all witnesses. Since the distinction between cash accounting and accrual accounting systems is in many ways central to the issue of monitoring payment performance, the short section below explains the differences between those two systems.

Cash accounting versus Accrual accounting

3.2 A number of respondents to the questionnaire highlighted the fact that, **since** their departments were on cash accounting, they were unable to *"age"* their creditors, debtors, or both. In effect, this inability means that the Head of such a department has no way of quantifying bill-paying performance. Many of these departments have procedures to follow invoices through the system. However, if they have no creditors ledger, there is no comprehensive independent check, and no way to estimate the monetary value of invoices which have not been properly processed. Random sampling is employed by some authorities, notably the State Rail Authority, to estimate the magnitude of overdue invoices, but such a procedure provides only a statistical estimate.

3.3 The Committee found it useful to distinguish between agencies which account for income and expenses on a cash basis and those which employ accrual accounting. In broad terms, inner budget sector entities are mostly on a cash accounting basis, although they are gradually being transferred to an accrual basis. Statutory authorities are generally all on accrual accounting.

3.4 Cash accounting is relatively simple to administer, since income is brought to account only when the cash is received, and expenses are brought to account only when the cash is paid. Accrual accounting, on the other hand, is a more sophisticated financial control and management tool, since liabilities are brought to account as soon as they are incurred. Thus accrual gives the financial planners a greater degree of *'forward visibility"* for receipts and payments, hence a greater ability to plan.

> *'54 simple way of describing the difference between cash accounting and accrual accounting is to use an analogy: for an individual cash accounting would simply summarise cash transactions during a period. Accrual accounting would also take in the unpaid bills: hence total expenses for the year would include the Christmas shopping which was charged up to Bankcard (and still hasn't been paid)."*[7]

3.5 A typical result of cash accounting for many inner budget sector departments is that they find it impossible to *"age"* their creditors, or debtors. In other words, their accounting system provides no basis for them to place unpaid bills into various age categories (e.g. what is the total dollar value of bills which remain unpaid over 30 days but less than 60 days, over 60 days but less than 90 days, or over 90 days?).

3.6 For this reason, some respondents to the questionnaire, particularly the Department of School Education, were unable to fill in the tables for question 2 of the questionnaire. The requisite information was not provided by their accounting systems. Incidentally, the Committee understands that the tables for question 2 form an integral part of the general ledger systems of most commercial accounting systems, and that most private enterprises should be able to provide this type of information practically by pressing a button. Accounting resources of these commercial enterprises are minor in comparison with the government departments and authorities surveyed in this inquiry.

3.7 Clearly accrual accounting is a necessary first step toward achieving a reasonable degree of control over an organization's financial affairs. On its own, however, accrual accounting is not sufficient to guarantee that appropriate controls will be exercised. The Committee notes with approval Treasury's recent initiative to have all inner budget sector entities adopt a financial reporting code on accrual accounting. Treasury has taken a fairly non-prescriptive approach, allowing each department to decide how it will collect and verify the information it is required to present. The Committee hopes that heads of departments will ensure that their financial officers have the knowledge and experience to make productive use of this flexibility.

7 *Accrual Accounting: Necessary, But Not Sufficient*, Professor R.G. Walker, Proceedings of the Accrual Accounting Seminar, hosted by the NSW Public Accounts Committee, 5 February 1988, p. 21.

Major Inner Budget Sector Departments

Department of School Education

3.8 The Department is on a cash accounting system and does not maintain a creditors ledger. The Director of Finance testified that the Department does not have trouble paying bills on time, and that if there were *"large"* problems he would be aware of them. Regarding problems which may not be considered *"large"* by the Department, Mr Dixon testified: *"There would be occasions when I would be advised." 8*

3.9 According to the Department, it noted a dramatic improvement to its payment performance in 1973/74 and that a high level has subsequently been maintained. It has paid no penalty interest to suppliers. The Director of Finance stated that late payment strategies are not deliberately employed, and that no officers in the organization apart from himself would be in a position to employ such a practice. Payment of creditors is felt to be a relatively minor issue, but is given due emphasis by accounting officers. The largest obstacle to prompt payment is thought to be improperly documented or misdirected payment claims. The Department stated that systems and procedures are in place to expedite the payment of claims.

3.10 The Department declined to fill in the accounts payable or accounts receivable tables in the questionnaire for the following reason:

> *"In order to complete the tables provided the Department would need to age its creditors and debtors month by month for the first six months of 1989 and 1990. Unlike statutory bodies and departments conducting commercial type operations, the Department, which is predominantly a service provider, does not depend on cash flow to ensure that adequate funds are available to meet commitments on an on-going basis. The Department pays debts as they emerge and does not extend credit for revenue generating activities. Consequently no records exist of the type needed to compile the returns." 9*

8 Minutes of Evidence, 22 February 1991, p. 4.

9 Questionnaire reply from the Department of School Education, question 2.

3.11 The Department stated, *"Creditors are established at the time goods/services are delivered and payment is made as soon as possible. There are few amounts outstanding for longer than 30 days."*[10]

3.12 However, when pressed by the Committee to quantify the outstanding amounts, Mr Dixon testified:

> *"No, I cannot. That comment was made to indicate there were not many accounts outstanding longer than 30 days. It was not meant to be any quantifiable expression."* [11]

3.13 The Department's answer to question 4, which asked how they ensure invoices are not overlooked or delayed unnecessarily, was extremely brief:

> *"All invoices are referred immediately to accounts payment officers upon receipt. Work on hand is monitored by regular work returns and desk checks."*

3.14 When the Committee pressed Mr Dixon to explain how he could be confident in this assertion, he stated:

> *"Well I am confident because the complaints are not there. So, I can say it from that point of view but I also say where we have had approaches regarding late payments, most of those approaches have been as a result of the claim having gone missing in the organization; that is, not sent to the appropriate area of the department."*[12]

3.15 The Committee concludes from this evidence that if the Department had problems with timely payment they could easily escape notice. Lacking a creditors ledger and any formal follow-up procedures, the Department seems to rely on the absence of complaints as its performance indicator. As noted elsewhere in this report, the absence of complaints is a notoriously unreliable guide.

10 Ibid.

11 Minutes of Evidence, 22 February 1991, p. 10.

12 Minutes of Evidence, 22 February 1991, p. 11.

Police Service

3.16 The Service is on cash accounting and does not have a formal accounts payable ledger. The Director of Finance testified to systematic problems with paying bills on time.

3.17 The accounts payable table was completed by sampling 1% of payment vouchers, and the accounts' receivable table was also completed. The Committee was advised that improvements to the Service's performance have been evident since the changes to the Treasurer's Directions resulting partly from increased dollar values held in Advance Accounts, and greater decentralization of invoice payment authority. Because of late payments, the Police Service was required to pay penalty interest on the order of $1,000 in 1988/89 and $42 in 1989/90. The centralised nature of the accounts branch function is felt to be the largest obstacle to on-time payment. Late payment is seen to be a very serious matter within the Police Service. The Service stated that a delayed payment strategy is not consciously employed. Individuals at the cost centre level could theoretically act to delay payments, however the Director of Finance doubts whether any worthwhile benefit would be achieved.

3.18 On the question of how the Service ensures that payments are not overlooked or unnecessarily delayed, the Director of Finance outlined a series of checks which are carried out at the warehouse level, and some routine checks within the accounts branch.

3.19 The Committee was pleased by the Director of Finance's frankness in disclosing the Service's position and heartened by his commitment to improved performance standards. While a full accrual accounting system will ultimately provide the only satisfactory monitoring tools, the Service's interim steps seem soundly formulated.

Department of Health

3.20 The Department operates on cash accounting and does not have an accounts payable ledger. Systems currently in use do not produce aged creditor listings. From the questionnaire reply, the Committee was unable to form an impression as to how prompt the Department's payments are.

3.21 Like the Department of School Education, the Department of Health declined to submit any information on accounts payable or accounts receivable ageing. Suppliers statements and correspondence are used to detect and follow-up unpaid invoices. To date no penalty interest has been paid. The Department of Health found it difficult to assess the impact of changes to TD219.01 since these changes coincided with an organizational restructure in which purchasing procedures were more highly centralised. Apparently risk management procedures are only now being examined as to possible benefits.

3.22 The largest obstacles to prompt payment are thought to be mail and courier services, and staff awareness of appropriate procedures. Prompt payment is felt to be important to the Department's local accounting/purchasing managers on a day to day basis, but only involves senior executives if and when complaints arise. The Department does not admit to consciously employing a late payment strategy. On the question of whether other officers would be in a position to employ such a strategy, the Department stated:

> *'Areas and hospitals do use the practice to some extent in that they are advanced cash to meet future expenditure and they control cash to budget. On the other hand the Department, through the Treasury abstracting process is subject to a different set of rules and conditions."* [13]

3.23 One Visiting Medical Officer wrote to the Committee to complain of a consistent pattern of delayed payments from the Gunnedah District Hospital for medical services rendered. Having discussed the matter with the Doctor, the Committee understands that the problem is likely to have originated with the hospital itself. The Committee believes it is possible that this case is unique principally in that this doctor overcame his reluctance to speak out.[14]

3.24 The Committee notes that the questionnaire reply referred to the Department of Health Central Office accounting, purchasing and finance operations. *"Whilst Central Office fully accounts for all Health expenditure ($4.65b recurrent and capital in 1990/91), it does not raise orders, obtain supplies, pay suppliers or involve itself with debtors for Area Health Services, Public Hospitals or the Ambulance Service."*[15]

Department of Housing

3.25 The Department of Housing operates a cash accounting system, and was unable to fully complete the creditor and debtor ageing tables in the questionnaire. The Department does not have systems which would permit the calculation of ageing of debtors or creditors, nor can any reasonable estimates

13 Questionnaire reply from the Department of Health, question 11.

14 Letter from Dr Martin Wainberg, received 28 March 1991.

15 Questionnaire reply from the Department of Health, question 1.

be made. The Department states that payments are made on time, and points to the fact that no penalty interest has been awarded as evidence of effectiveness.

3.26 In its reply to the question of how it ensures payments are not overlooked or unnecessarily delayed, the Department mentions in reasonable detail a series of measures. These include an implementation of Risk Management procedures, the promotion of the use of direct credit to bank accounts by regular contractors, advance accounts for urgent payments, immediate action on supplier statements, on line enquiry facilities for recent payments in process (available for the last 3 months at September, 1990), and use of the Treasury Transfer system wherever possible.

3.27 While the Committee is pleased to observe that the Department has many facilities for expediting payment, this reply did not exactly answer the Committee's question. Little indication is given of follow-up procedures or double-checks which might bring overlooked claims to the attention of senior managers.

3.28 The Committee was advised that no change in performance was evident following changes to TD219.01, although performance was felt to be adequate already. The lack of a creditors ledger is thought to be the largest obstacle to on-time payment. The lack of such a ledger is attributed to the enormous volume of one-time vendors. Looking to the future, the Department plans to implement a new purchase order package which is expected to remedy this shortcoming. Late payment is not considered an issue due to the perception that payments are made on time. However, the Department states that it is cognisant of the importance of maintaining good supplier/contractor relations in order to maintain regular and competitive sources of supply.

3.29 The Committee looks forward to the successful implementation of a purchase-order system within the Department, and hopes that current shortcomings in controlling payment performance will thereby be remedied.

Commercial Services Group

3.30 The newly restructured Commercial Services Group, formerly the Department of Administrative Services, has adopted accrual accounting in all areas. The Managing Director is not aware of any present problems with timely bill-paying, although he did acknowledge problems in the recent past, particularly with paying for motor vehicle purchases. He is of the opinion that any problems would quickly *come* to his attention.

Payment Performance

3.31 Perhaps reflecting the confusion which often accompanies a large-scale restructuring effort, separate questionnaire replies were submitted by the various service agencies within the group at different times. The last one received, from the Group head office, was only submitted after a telephone call and two letters. At the beginning of his testimony, the Managing Director, Mr Gordon Messiter, provided some context to his rganization's response:

> *"It has been a long hard slog to restructure, rationalise and reform those many bits and pieces into what is now, I think; a fairly viable commercially successful government department. The standard of the documentation submitted to the Committee I can only apologise for. I do not think it is really up to standard. I think it perhaps reflects the time and the staffing resources available at the time it was provided. I think we have been subjected to perhaps the most rigourous reform process of any part of government. I think we have now reached a point, where, as I said, we are a most commercially oriented and viable government department but I am happy to expand 'on any points or offer points of explanation in questioning."*[16]

3.32 The accounts payable ageing table was duly completed for head office, but the accounts receivable ageing table suffered from the lack of availability of some information for 1990. From the extremely terse handwritten replies, the Committee found it difficult to form an overall impression of the Group's payment performance, the relative importance of payment performance as an issue, or the Group's philosophy on timely payment. The Committee understands that the implementation of the new commercial accounting system led to a significant improvement in performance, but that step is not quantified in any materials submitted to the Committee.

3.33 Interestingly, the Group admitted to sometimes deliberately delaying payment, *"If our account is in the red in Treasury."*[17] The stated reason is that Treasury does not allow special deposits to be negative at the end of the month. This point is consistent with admitted problems the Commercial Services Group has experienced in receiving payment on time from other government agencies. The Committee understands that poorly documented payment claims from the Commercial Services Group have resulted in payments being delayed for verification. In more extreme cases, Treasury Transfers to Commercial Services

16 Minutes of Evidence, 22 February 1991, p. 19.

17 Questionnaire reply from the Commercial Services Group Head Office, question 11.c.

have been reversed by some Departments in response to the inadequacy of claim documentation or misdirection. These reversed Treasury Transfers have played havoc with Commercial Services' liquidity levels

3.34 The Committee understands that this problem is being addressed by the interested parties directly, and sees no reason to comment further at this time.

Public Works Department

3.35 Public Works is moving towards full accrual accounting. Manly Laboratory, Electrical and Mechanical Services Workshop, Geotechnical Services, and the Materials Testing Laboratory now operate on accrual principles. The Committee understands that some branches within the Department do have the equivalent of a creditors ledger.

3.36 Despite some difficulties experienced in compiling an aggregated ageing table for creditors from a number of diverse systems, Public Works, to their credit, were successful in providing the Committee with ageing information in the requested format. The Committee acknowledges that this feat was accomplished under some strain, as the timing of the Committee's request coincided with the preparation of annual financial statements.

3.37 Public Works' procedures for ensuring that invoices are not overlooked or unnecessarily delayed were described with a moderately high degree of detail and include a monthly review of payment performance at the senior executive level. These monthly reviews have revealed a distinct improvement in performance since the changes to the Treasurer's Directions. At June, 1990, 87% of payments through head office and 99.2% of payments through regional offices were within terms?

3.38 The one reported instance of penalty interest being paid related to a trivial sum paid to the Water Board in connection with overdue counter-claims. Major obstacles to on-time payment were all related to problems caused by suppliers: insufficient information on invoices, misdirected invoices, and the receipt of invoices prior to the receipt of goods or services. Prompt payment is regarded by Public Works as an important issue since a history of late payment can lead to inflated contract prices and diminished interest among contractors in tendering for Public Works jobs.

18 Questionnaire reply from the Public Works Department, question 7a.ii.

3.39 On the question of deliberately pursuing a late payment strategy, the Public Works Department posed several challenges to the existing regulations. Among inner budget sector departments, Public Works seemed to have the greatest degree of control over their finances generally, and payment performance in particular. Unlike the other inner budget sector respondents, Public Works' payment timing appears to the Committee to result more from deliberate management choices than from weaknesses in the administrative systems. The Committee welcomes the Department's candour in disclosing a consistent pattern of late payments, and furthermore in questioning the validity of some of the principles underlying Treasurer's Direction 219.01.

3.40 Public Works consistently made the point that *"normal"* private sector payments are considerably less prompt than standards specified in the Treasurer's Directions. While some of this evidence may be debatable, the standard payment terms for many *"AAA-rated"* commercial firms are the end of the month following the month in which the invoice is received. These terms are certainly outside the letter of the Treasurer's Direction 219.01.

3.41 In combination the zest displayed by Public Works in collecting funds owed it and the calculated payment of claims as close as possible to terms serve to maximize the Department's working capital. As the Department stated in its questionnaire reply, its intention is to maximise investment returns on this working capital? Certainly the Committee approves of the enterprising spirit and value-for-money orientation which underlies this strategy.

3.42 However, the Committee must question the validity of applying great pressure to debtors who are almost all in the public sector. Surely this strategy has the primary result of earning investment income for Public Works at the expense of other government entities, and the secondary result of distorting the allocation of working funds among government agencies.

Major Statutory Authorities

State Rail Authority

3.43 By far the longest response to the questionnaire came from the State Rail Authority, whose 62 page reply was submitted in a 3-ring binder. The SPA does not presently operate an accounts payable ledger. The Executive

19 Questionnaire reply from the Public Works Department, question 11a.iii.

Chairman testified to significant problems in timely payment, which he attributed to deficiencies in the administrative and accounting systems.

3.44 Mr Frank Morrison, Corporate General Manager, Finance, indicated in his testimony the current status of accrual accounting within the SPA:

"We have been producing accrual-based financial statements for our end-of-year accounts for the last two years. We are bringing in a comprehensive new chart of accounts and general ledger on a fully accrued basis from 1st July, and that is really a responsibility centre-based new general ledger to go to all of our 2,000 responsibility centres in New South Wales. It is a massive task. We are in the user. testing stage now and hopefully by Christmas we intend to start providing the board with at least six-monthly balance-sheets and hopefully, as we get better, quarterly."[20]

3.45 While the SPA was unable to provide aged creditor information in the requested format, by sampling one day's payment vouchers per month the SPA was able to give the Committee an indication of creditor ageing. The Authority's response to the question of how it ensures invoices are not overlooked or unnecessarily delayed was detailed. Admittedly there are problems with this follow-up system, but these shortcomings appear to be well appreciated at the senior executive level and programs appear to be in place to rectify them.

3.46 The SPA has difficulty in concluding whether the changes to TD219.01 have resulted in improved performance. Measuring performance is difficult since there is no creditors ledger and payment systems are numerous. Penalty interest has been awarded in three cited cases, amounting to a total in excess of $20,000. The largest payment is still under review as to the appropriateness of the payment.

3.47 The greatest obstacles to timely payment are thought to centre around delays in arranging inspections of goods received, non-processing of receipts by warehouse staff, and delays in forwarding receipt documents to Purchasing and Materials for data entry. Prompt payment is perceived to be an important issue for reasons cited by Public Works and the Electricity Commission - better contract prices and a larger pool of tenders to choose from. Deliberate late payment is said to be practiced only to facilitate resolution of disputes over the

20 Minutes of Evidence, 22 February 1991, p. 62.

quality of goods or services delivered or to collect funds owing to the SRA by creditors who are also debtors.

3.48 The Executive Chairman appeared to the Committee to understand the SRA's payment performance problems and to be committed to remedying them. Organizational changes already in train should bring about significant improvements over the coming 18 months to 3 years. Mr Sayers' candid appraisal of the SRA's history of poor payment performance afforded the Committee a meaningful insight into the problems which many other authorities and departments face. Unfortunately the executives of some of these other organizations do not even realize how serious are their problems nor how inadequate are their current administrative and accounting systems.

Roads and Traffic Authority

3.49 The Roads and Traffic Authority is understood to employ accrual accounting. Nevertheless, it was unable to complete the creditor ageing table, and could complete the debtor ageing table only for 1990. The Chief Executive testified that he was unaware of any systematic problems with timely bill-paying, and that on-time payment would occur in 98 or 99 per cent of cases. Mr Fisk implied that he would be aware of any such problems.

3.50 The RTA's reply to the question on how it ensures that invoices are not overlooked or unnecessarily delayed was very brief and appeared to rely on officers adhering to general policy without the assistance of specific guide-lines. No mention was made of administrative systems to back up the policy.

3.51 According to the Authority, "The *issue of these instructions [TD219.01] merely formalised' what was in practice."* [21] Therefore, no performance improvement was evident to the RTA following the changes. No obstacles to prompt payment were mentioned. Late payment is not perceived to be an issue. The RTA denies ever deliberately delaying payments, and while officers with decentralised payment authority could conceivably delay payments, such a practice is contrary to policy.

3.52 The Committee received no evidence that the RTA had a pattern of late payment. Considering the RTA'sfinancing arrangements with Treasury, there appears to be little incentive for the senior executives to pursue a deliberate late payment strategy to increase working capital. However, from evidence at

21 Questionnaire reply from the Roads and Traffic Authority, question 7a.2.

hand, the Committee could not be confident that current administrative and accounting systems give the executives full control over payment timing.

Electricity Commission

3.53 The Electricity Commission operates an accrual accounting system, has a formal accounts payable ledger, and was one of very few respondents to fully complete the creditor and debtor ageing tables. Its payment performance, as demonstrated in the questionnaire, stated in testimony by the General Manager, and illustrated by a chart tendered in evidence, is excellent.

3.54 One point which. should be borne in mind, however, is that the Commission's standard terms of payment are the end of the month following the month in which an invoice is received. These terms are technically outside the 30 days from invoice receipt specified in Treasurer's Directions 219.01. Elcom's terms are not out of step with current commercial practice,

3.55 The Commission did note an improvement in performance since the changes to the Treasurer's Directions. In that time, the Commission has received no requests for payment of penalty interest. Obstacles to prompt payment include a high volume of claims processed, a diversity of locations, a high volume of claims requiring inspection prior to acquittal, and defective creditor claims, On-time payment is said to be of significant importance to the Commission with regard to complying with legislation, obligations to creditors, and maintaining a good business reputation.

3.56 Replying to the question whether late payment strategies might be beneficial from a management point of view, the Commission stated:

> *"The Commission as a major business organisation is jealous of its good business reputation and does not countenance the abrogation of contractual responsibilities to its contractors and other creditors, Deliberately delayed payment processes provide short term gains which are vastly outweighed by future pricing penalties and the adverse consequences of a diminished contracting and supply market.*

Payment Performance

"This commitment has been widely communicated throughout the organisation and the personal accountability for payment performance would dissuade any attempt at deliberate payment delays by individuals." 22

3.57 On the question of how Elcom ensures that invoices are not overlooked or unnecessarily delayed, the Committee received a detailed and specific reply:

"In summary they entail:

- *Regular and timely follow up by Finance Group officers to nominated contact officers regarding the status of claims falling due for payment.*
- *Five days prior to the due payment date, an exceptions listing of all claims due for payment which have not been acquitted as received into store or certified is transmitted to MMIS sites (stores claims), or facsimilied or hand delivered (major contract and services claims) to contact officers for immediate attention.*
- *Two days prior to the due payment date, follow up action is referred to the Payments Administration Manager if necessary to enable claims to be paid or cancelled.*
- *Overdue Claims Responsible officers are requested to provide the reasons for non payment to enable reporting to the General Manager.*
- *Payment of Overdue Claims - Where claims are processed after the due date for payment, evidence of follow up action is to be attached to claims to enable appropriate investigation of circumstances should any enquiry arise."* 23

3.58 Wherever possible the Committee feels that other public sector organizations should emulate the philosophy and methods which Elcom has employed apparently with such great success.

22 Questionnaire reply from the Electricity Commission, question 11

23 Questionnaire reply from the Electricity Commission, question 4.

State Transit Authority

3.59 The State Transit Authority operates an accrual accounting system, which includes a creditor ledger. Creditor and Debtor ageing tables were duly completed. Payment within terms is claimed to be routinely achieved, although the degree of success is not quantified in the information available.

3.60 Like the vast majority of organizations surveyed, the STA relies primarily on supplier statements to ensure that invoices are not overlooked or unnecessarily delayed. No penalty interest has been paid. Payment performance was felt to be good prior to the changes to TD219.01, hence little improvement was observed. The decentralised nature of the organisation creates an intrinsic problem of control of documentation, and that problem is cited as the principal obstacle to on-time payment. Late payment, being exceptional, is not perceived as an issue. The STA does notadmit to deliberately delaying payments.

3.61 From the creditor ageing table supplied by the STA, a significant fraction of unpaid creditor bills are consistently in the 90 day category. (Approximately 5% of the monthly cash paid or more). The STA states that accounts over 90 days do not necessarily represent late payment, as invoices may be under challenge. The Committee finds it puzzling that such a large fraction of invoices would be under challenge.

3.62 In general, the Committee feels that the creditor ageing table does indicate a consistent pattern of payment outside the Treasurer's Directions. While the STA does not perceive this performance level as problematic, it is certainly less satisfactory than the performance achieved by many other public agencies within this study. The Committee would have thought that strained business relationships with suppliers would be as damaging to the STA as they are to the State Rail Authority, to Elcom, to the Roads and Traffic Authority, and to Public Works, and that therefore the STA would pay close attention to payment performance. Surprisingly, the STA's questionnaire response does not acknowledge such. a connection.

Water Board

3.63 From the Water Board's questionnaire response, the Committee was unable to determine the present status of accrual accounting. The creditor ageing table is compiled on the basis of number of invoices in each age category. (The Committee also notes that the accounting periods used by the Water Board differ from those employed in the rest of this study). Based on the information provided, there is no evidence of a pattern of late payment.

3.64 To ensure that invoices are not overlooked or unnecessarily delayed, every four weeks, the Board produces periodic performance measurement reports showing for each Accounts Payable area:

* Unkeyed and held-in-suspense invoices,
* Aged listings of keyed but unpaid invoices,
* Number of days taken to pay suppliers. These reports are dissected into age categories.

3.65 Board has commented on an improvement to payment performance within two months of the change to TD219.01. To date it has not paid any penalty interest. The largest obstacle to timely payment is felt to be the delays which are sometimes experienced in forwarding receipting documentation for deliveries made in the field.

3.66 Payment performance is felt to be important for the following reasons:

> *"Paying creditors on time is an important objective of the Board as it maintains good business relationships, ensures that future orders are promptly delivered and minimises costs by eliminating payments of penalty interest."*[24]

3.67 The Board admits to deliberately withholding payments when disputes arise about performance or negotiated terms under a contract. Regarding the possibility that officers with decentralised payment authority can deliberately withhold payment, the Board states:

> *"Each circumstance is considered on its merits by the responsible project manager, contract superintendent or other appropriate authorising officer."*[25]

3.68 From the evidence presented, the Committee is unable to form a definitive view of the Water Board's payment performance.

24 Questionnaire reply from the Water Board, question 10.a.

25 Questionnaire reply from the Water Board, question 11.e.

Principal reasons for slow payment

4.1 Slow payment of bills stems, as far as the Committee could determine, from a variety of causes ranging from simple failures of the administrative systems, to deliberate tactics necessitated by liquidity crises, and intentional cash management strategies. Justifications range from the inability to adequately staff accounting functions to the feeling that private sector norms are far worse than public sector payment performance.

Administrative failure

4.2 In the Committee's view, weaknesses in administration or accounting are the most common explanation for lateness in bill-paying. Mr Ross Sayers, Chief Executive of the State Rail Authority testified:

> *"I am aware of problems with the accounts payable system of the State Rail Authority. The administrative procedures are cumbersome. That has created a situation where the authority has difficulty in paying all its accounts on time. We are focusing our attention on two aspects: first, to improve the performance of the existing system; and, second, to change that system to simplify proceedings to enable us to pay our accounts expeditiously."*[26]

4.3 Mr Gordon Messiter, Managing Director of the Commercial Services Group, indicated in testimony that administrative failures had delayed payments in the past:

> *"We went through a period of late payment for accounts for the purchase of motor vehicles from dealers--naturally people operating with close margins and the need to have payments made promptS. If they are not getting the money they very quickly get on to the Minister's office either in writing or by telephone. We went through a period where there was a very loud and vociferous feedback. That has occurred in other areas as well so I think in the public sector, particularly these days, there is a recognition of the Government's policy about payments. If people are not getting them we soon hear*

26 *Minutes* of Evidence, 22 February 1991, p. 55.

about it from the Minister's office. I think that in itself is also a good discipline. On the motor vehicle side I might add there was a procedural problem there that was causing delays. It had an inherent delay and it was almost impossible to pay within 30 days. We have changed that procedure and generally speaking all those payments are made within 30 days." [27]

4.4 Mr John Thorns, Director of Finance for the Police Service also indicated administrative problems lay at the heart of untimely bill-paying:

"Things have been better than what they are. At the present time we are still having trouble paying accounts. It appears to me that it is not necessarily a function of the direct accounting side of it but a function within the whole of the organization, the Police Service being so large. I have got some specific matters that I am aware of at the present time. Let me take you back to the report we put in, which was round about August, and at that stage we were running reasonably well. Since then we have put a new financial system in, and that went in on 1st November. Certainly in the early months of that we got well into arrears in the accounts branch." 28

4.5 At the conclusion of his testimony, Mr Ross Sayers made the following general observation about administrative obstacles to payment performance in the public sector:

'7 would like to add that as a chartered accountant by training but not by profession, who spent most of his worklife in the private sector, it is my observation that government accounts payable procedures, by comparison to the best private sector practice, are overly bureaucratic, involving excess of paper flow, do not generally hold the people accountable for the same level of performance as would be required in the private sector, relying on systems to provide for that and until State Rail achieves parity with the private sector of having a formal accounts payable ledger and operating it efficiently, then and only then will we be able to satisfy the Committee that we are doing a good job of managing our accounts payable. I would have to say that it was a complete surprise to find that government departments do not routinely have an accounts

27 Minutes of Evidence, 22 February 1991, p.20.

28 Minutes of Evidence, 22 February 1991, p. 39.

payable ledger and I would be of the view that most private sector company executives would not believe that either." 29

4.6 The Committee is very much in agreement with Mr Sayers regarding the seriousness of the lack of an accounts payable ledger.

Recommendation 1

It is recommended that all inner budget sector entities and any statutory authorities which do not currently have an accounts payable and accounts receivable ledger move as quickly as possible to adopt these accounting tools.

Recommendation 2

It is recommended that once it has an accounts payable and accounts receivable ledger in place, each authority be required to submit to Treasury quarterly reports on aged creditors and debtors, and on liquidity management. The Committee to review progress in one year.

4.7 The Committee, too, was surprised to find that the accounts payable table in the questionnaire posed such a difficulty to many departments. Like Mr Sayers, the Committee had expected that departments and authorities would maintain this type of creditor and debtor ageing information as a matter of course--a routine instrument of financial control. Yet the prospect of filling in this table placed such a serious burden on many departmental accounting staff that the Director-General of the Premier's Department was motivated to write to the Committee in protest:

"I am concerned however, that the Committee chose the time of year when the accounting personnel of most public sector bodies

29 Minutes of Evidence, 22 February 1991, pp. 64, 65.

were already under considerable pressure achieving the stringent deadlines set by end-of-financial year reporting requirements to ask for very detailed statistical information which could only be supplied by those same personnel."

"I accept that the Committee revised its original request for a 100% analysis of creditor transactions and extended its deadline, but in most organisations an analysis of 30% of purchase orders still represents a considerable number of costly man-days and a 30% sample is well in excess of the statistical sample upon which performance assessments are usually based. A conservative estimate of the cost involved, on a service-wide basis, in providing the necessary information in the current case is in the order of $250,000.

"I note that, a sample of between 5% and 10% is suggested by Treasurer's Direction 191.05 as being sufficient for claims processing purposes under risk management principles.

"The concerns expressed in this letter are not just those of my Department, as a number of Chief Executive Officers has invited my attention to the heavy workloads imposed on their organizations by this exercise."[30]

Liquidity problems

4.8 The Fish Marketing Authority provides an illustration of how an agency's poor cash position can incline it toward a late payment strategy. The Auditor General made the following observations regarding the Fish Marketing Authority's liquidity:

"The liquidity position of the Authority deteriorated alarmingly during 1989-90. Cash flow forecasts provided by the Authority indicate that liquidity and cash flow difficulties will continue to be experienced for some years.

30 Letter from the Director-General of the Premier's Department to the Committee, dated 20 September 1990.

"The quick ratio, a commonly used measure of short term solvency, has fallen from 1.92:1 in 1987-88; to 1.01:1 in 1988-89, to 0.43:1 in 1989-90, a critically low position."[31]

4.9 In reply to the Committee's questionnaire, the Fish Marketing Authority stated that given the other issues faced by the Authority, late payment of creditors is given very low priority. Furthermore, in reply to question 11, the Authority stated that they could envision circumstances in which delayed payment might be a beneficial management practice, and admitted that they do consciously employ this practice.

4.10 The Authority outlined the circumstances in which delaying tactics are beneficial:

*"Naturally delayed payments (providing penalty interest rates do not apply) enables the Authority to improve its cashflow through the utilisation of creditors funds which can then be invested by the Authority. In other words, payments should be timed so that they maximise the use of creditors funds without incurring penalty charges or loss of goodwill."*32

4.11 This example led the Committee to consider whether other Departments or Authorities might practice a delayed payment strategy because of liquidity problems. Information on accounts receivable tendered by the Roads and Traffic Authority indicate high levels of overdue debtors. In fact, in the accounts receivable table submitted in reply to question 2, the RTA indicated that between January and June, 1990, the greatest portion of uncollected debts remained uncollected over more than 90 days. The 90 day amount uncollected varied between $2.6M and $3.8M.

4.12 The Committee questioned the Chief Executive of the RTA about whether liquidity problems played any part in the RTA's payment performance.

Committee: *"In short, do you ever have a liquidity crisis due to those departments, individuals and councils being a little slow paying?"*

31 New South Wales Auditor-General's Report for 1990, Volume 2, pp. 293, 294.

32 Questionnaire reply from the Fish Marketing Authority, question 11.b.

Mr Fisk: *"No. The sort of money we are talking about here is relatively small beer. With a total budget approaching $1.8 billion this year, one would not expect this to impact on our liquidity to any extent."*[33]

4.13 Confirming Mr Fisk's point, the Committee understands that for inner budget sector departments liquidity is never really an issue since Treasury provides funds as needed from the consolidated account. While liquidity could theoretically be an issue for statutory authorities, these organizations generally have strong revenue streams supported (in the case of some authorities such as the RTA) by relatively flexible overdraft facilities made available by Treasury. In fact, the Committee believes that the situation of the Fish Marketing Authority is an exceptional case. Judging from the evidence presented to the Commitee, liquidity is not a serious enough problem to force either inner budget sector departments or statutory authorities to delay payments.

Maximising cash management benefits

4.14 Question 11 a) of the questionnaire asks whether the respondent can envisage any circumstances in which delayed payment might be a beneficial management practice. This question derived an affirmative reply from a large number of respondents. One of the most commonly cited (hypothetical) management reasons for delaying payments was the ability to invest surplus working capital so as to enjoy interest income. In most cases, respondents did not admit to consciously employing this practice. The Committee was pleased to note that Heads of organizations were conscious of the potential rewards of astute financial management.

4.15 The Department of Public Works outlined in clear terms some of the fund-management benefits which could (hypothetically) be derived from a delayed payment strategy:

"i. .,Is the Department moves towards adopting commercial practices, the strategy of delaying payment to suppliers could be used to assist in the cash flow management particularly where no penalty is in place for late payments;

33 Minutes of Evidence, 22 February 1991, p. 35.

"ii. To reduce the costs of working capital i.e., reduce the interest charges incurred on operating a working account on an overdraft basis; and

"iii. To maximise investment returns."[34]

4.16 Like the vast majority of respondents who alluded to hypothetical benefits from delayed payment, Public Works did not admit to engaging in the practice. However, their reply to question 11 e) indicated a clear interest in pursuing such a policy in the future.

> *'At this stage it is not Departmental policy, except for instances referred to in (d) above, to withhold payments to suppliers. However, the Department is adopting a commercial management and financial approach to its operations. In this regard, the Department is currently reviewing its Accounts Payable and Accounts Receivable Policies with a view of being able to adopt cash management techniques, whilst still having regard to its marketing philosophy and its relationship and goodwill with contractors and clients.'*[35]

4.17 This inquiry is so broad that it has not been practical to perform a more detailed analysis of the Public Works Department's cash management practices. Nevertheless, the evidence regarding Public Works has highlighted a number of practices and philosophies which impinge on the public sector's image, which affect the equitable distribution of working capital within the public service, and which affect the distribution of interest benefits between public and private organizations.

End-of-year reckoning

4.18 For those agencies on cash accounting, the end of the financial year presents a formidable milestone in financial reporting. Generally speaking, it is the only time of the year when the full state of the organization's finances is known. Unpaid creditors and outstanding debtors must be revealed in the year-end accounts. This is the time of year when budget estimates are compared with actual expenditures (and revenues).

34 Questionnaire reply from the Public Works Department, question 11. a. and b. i., ii., and iii.

35 Questionnaire reply from the Public Works Department, question 11.e.

4.19 A flurry of activity is observed in the accounts branches of all agencies as they try to get their affairs in order. According to the Director of Finance for the Police Service, *"come the end of the year, everyone is clearing out their accounts and there is then a mad flurry goes on of sending Treasury transfers all over the place."*[36] This flurry is made all the more intense because debtor and creditor agencies are, at the same time, getting their own affairs in order--which means they are initiating Treasury transfers and paying bills at a furious rate. Unexpected Treasury transfers can play havoc with the debtor organization's attempts to balance year-end expenditures with budgets.

4.20 The Police Service and the Commercial Services Group informed the Committee of various problems with the operation of the Treasury transfer system, which the Committee takes up below under the heading *"Other related issues"*.

4.21 Against the backdrop of this year-end activity, the Committee notes a theoretical opportunity for manipulating the year-end results by delaying payments. The Committee wishes to record, however, that it received no evidence that such a practice was occurring. Public service managers are penalized if expenditure in various budgetary categories diverges from the amount allocated. When an account goes over budget, the manager is generally asked to explain to his superiors, and in some cases must answer to the Minister. In the past, when an account went under budget, the next year's allocation was usually reduced--an action sometimes perceived as a punishment for doing the right thing.

4.22 In the latter case, public-sector managers have been known to resort to some irregular procedures to avoid underspending the budget. Many of these procedures were highlighted by the Public Accounts Committee's Report 20, March 1986, into Year-End Spending in Government Departments and Selected Authorities. As a result of the Committee's Year-End Spending Inquiry, changes to the regulations have reduced the incentives for managers to fully expend the budget near year's end. Funds set aside to pay for orders placed but not filled before the cutoff date may now be held in a special deposit account until September to pay for the order when it is supplied. Also, savings of up to 2 per cent of budgetary allocations for A and B items can be added to next year's budget.

4.23 In the former case, a public-sector manager in a cash accounting system can avoid *"overspending"* the budget simply by delaying payment of accounts. Of

36 Minutes of Evidence, 22 February 1991, p. 52.

course the budget has actually been overspent, but that fact is not apparent in the annual accounts because the unpaid creditors are presented in a highly aggregated and (usually) un-aged format. Since the sundry creditors appear in this format, it is difficult to judge firstly what budget programs might have been affected by these unpaid bills, and secondly whether the payments have been delayed beyond normal terms of trade.

Private-sector behaviour

4.24 A legitimate question arises as to whether the public expects higher timeliness standards of the public sector than of the private sector. Is a firm justified in expecting prompter payment from the public service than from its private sector debtors? Clearly the public secetor should act forthrightly, which means that it should honour business agreements regarding payment terms.

4.25 However, if the public sector's payment terms are shorter than private sector norms, a question of equity arises. Any organization can increase its working capital by paying late, or decrease it by paying on time. If the public sector generally pays on time but the private sector generally pays late, then the private sector effectively enjoys increased working capital at the expense of the public sector. This situation implies that the private sector enjoys interest income (on this excess working capital) which could be considered public income. In other words, the State tax-payers effectively subsidize the late-paying firms.

4.26 The Public Works Department drew the Committee's attention to its perception of private-sector bill-paying standards in their questionnaire reply.

> *"In relation to the Private Sector (Non-Residential Builders Group) the average payment period for the 1988 and 1989 years was 59.8 days. Public Works average performance in this area during the 1989/90 year was 32.2 days which is 46.2% more efficient than the industry standards which are applied.*
>
> *"In adopting commercial standards Public Works would wish to have the flexibility to adopt the standards applicable within the industry, particularly in relation to creditor's payments."*[37]

37 Questionnaire reply from the Public Works Department, question 11.a. and b.iv.

Payment Performance

4.27 The Director-General of Public Works, Mr R.D. Christie, stated in testimony that the figure of 59.8 days was derived from a Dun and Bradstreet survey? In subsequent correspondence with the Committee, Mr Christie made the following comments under the heading *"Industry Standards":*

> *'Accountants providing advice to Public Works in its process of commercialisation have advised, however, that the payment terms of trade usually adopted are 30 days from date of invoice or payment by the end of the month following the month in which the services are provided. The latter is the more common applying commercially.*
>
> *"In discussing this matter with Dun and Bradstreet, Public Works has also determined that the calculation of 59.8 days as an industry average for industry payments may be questionable. It would appear that Dun and Bradstreet derived this calculation from the balance sheet by averaging creditors over deduced average daily sales. The resulting calculation is in fact more in the nature of an index and does not really provide a sound base for analysing industry performance which should be determined on the basis of payment by the companies not sales. In any event for sales to in any way represent a meaningful figure, the margin would have to be deducted and only the cost of sales should have been used. Dun and Bradstreet do not appear to have done this.*
>
> *"Public Works has, however, analysed ten companies in the industry and adjusting for those with extremely lengthy terms of trade which act to skew the sample, the average creditor payment performance for those ten companies was determined as 73 days."*[39]

4.28 Mr Christie also made the link between a promptness differential between public and private sectors and interest earnings by private operators in his testimony:

Mr Christie: *'7 think what we were referring to there was providing contractors with the use of money when subcontractors are not being paid for longer periods. I think we related it to the private sector average payment period, which you have given the basis of--and I would like to follow that up--of 59.8 days*

38 Minutes of Evidence, 22 February 1991, p. 79.

39 Letter from Mr R.D. Christie to the Committee, dated 8 March 1991.

or thereabouts. On the face of it, it appears that we could be paying contractors punctually within terms and they undoubtedly have the use of that money before they pay subcontractors and do not pay subcontractors as promptly as we are paying. It seems to me that that is a cost of the product. That becomes part of the contractor's costs, and we are paying for it. However, it also seems to me that it is very difficult to attack that problem because one way or the other, someone is going to pay for that practice. We raised it as something that perhaps is worth considering in the context of these blanket rules that are put out across government as to whether those sort of rules are always appropriate in all circumstances."

Committee: *'7 infer from your comments that you are looking for some mechanism by which you could guarantee the subcontractor receives payment?"*

Mr Christie: *"Yes, and I do not know what that is."*

Committee: *"Your contract is always with the principal contractor, not with the subcontractor at all?"*

Mr Christie: *"Yes, but I would raise it I suppose because we could be seen to be providing contractors with the use of money that could otherwise be used by the Government or the principal. I do not really know the answer to it. It is a criticism that perhaps you could validly level about this issue."*[40]

Interpretations of "30 day terms"

4.29 As Public Works has indicated above, payment at the end of the month following the month in which an invoice is received is a widely accepted interpretation of the loose term *"payment within 30 days"* in the private **sector.** The Committee sought and received confirmation of this interpretation from various industry peak bodies. There is no ambiguity in the 30 day terms specified in Treasurer's Direction 219.01, however. This direction requires payment within 30 days of receipt of invoice. In this sense, the Treasurer's

40 Minutes of Evidence, 22 February 1991, p. 81.

Direction requires a fighter standard of payment performance than is expected of even the soundest and most reputable commercial firms.

4.30 For many reasons, the broader interpretation of 30 day terms (e.g. payment at the end of the month following the month in which the invoice is received) is a preferable one to administer. It means that bill-paying can be done in batches, and only one cheque-run per month need be done. In contrast, strict 30 day terms may mean that cheques must be drawn every day. Under the broader interpretation of 30 day terms, procedures such as Elcom's monthly reporting cycle for invoices about to fall due can be executed in an orderly and effective manner. Under strict 30 day terms, such a high-level review of bills due to be paid would be impossible, since bills would fall due every day.

4.31 It may be anticipated that some firms which do business with the State under strict 30 day terms would be disadvantaged by a broader interpretation of 30 day terms. It may further be anticipated that such a change in terms would be strongly resisted given the recessionary economic climate. However, it is important to note that a firm need not experience longer payment delays under the relaxed terms if it submits claims for payment towards the end of each month.

4.32 Considering the managerial, administrative, and accounting benefits to be obtained by employing the broader interpretation of 30 day terms and considering the fact that Elcom actually trades under these terms now, managing to maintain excellent performance and apparently excellent relations with creditors, in the Committee's view, it would be desirable to relax the strict 30 day requirement of Treasurer's Direction 219.01 and of Clause 2AB of the Public Finance and Audit Regulation to allow payment at the end of the month following the month in which an invoice is received. Ultimately, by making such a change to the Directions, the State is likely to improve the on-time performance of many authorities by simplifying the administrative and accounting tasks, and thus improve the State's image as a commercial trading partner.

Recommendation 3

It is recommended that Treasurer's Direction 219.01 be amended to require payment by the end of the month following the month in which an invoice is received, and that Clause 2AB of the Public Finance and Audit Regulation, 1984, be similarly amended.

How Elcom achieved a good payment record

5.1 Organizations surveyed in this inquiry fell roughly into two categories: those which felt their performance was adequate but lacked positive evidence to support their claim, and those which were able to measure performance and thereby discover that it fell short of TD219.01 requirements. The Committee is not confident that organizations which did not quantify payment performance are satisfying TD219.01. Among the organizations which have looked deeply enough to realize there is a problem, the Committee observed a general feeling that one hundred per cent compliance with TD219.01 was an impossible goal for large, complex agencies. The one exception is the NSW Electricity Commission.

5.2 Among the respondents to the questionnaire, Elcom distinguished itself by its outstanding record for paying its accounts within contract terms. Elcom displayed a high degree of control over its finances, and expressed a strong *commitment to timely payment* and positive *commercial relations with its* suppliers. The Committee sought to understand the aspects of Elcom's financial system which produced this performance, with a view to applying it to other State agencies who struggle to pay bills on time. The Committee did *note,* however, *that Elcom's standard contractual payment* terms fall outside the strict 30 days from receipt of invoice which is specified in clause 2AB of the P.F.&A. Regulation, 1984, and Treasurer's Direction 219.01.

5.3 When, late in the inquiry, the Committee received evidence from oil companies that Elcom was among the government agencies with the worst on-time payment record,, the Committee sought immediately to resolve the conflict between the excellent record touted by Elcom itself and these statements. It proved impractical to achieve a thorough and detailed resolution given the oil companies' desire to remain anonymous. However, after discussing the problems at length with a number of oil companies and then challenging Elcom's manager of finance to explain the discrepancy, the Committee has formed the view that Elcom's systems are effective, their staff dedication to payment performance is genuine, and that any late payments are conceivably caused by the oil companies failing to forward invoices on time, or failure to document claims properly. Elcom was able to provide the Committee with instances in which these failures had occurred.

Payment Performance

5.4 Replying to the Committee's question,*"are you aware of any problems in paying accounts on time?",*Mr Barry Flanagan, General Manager of the Electricity Commission testified:

> *"No, none at all. We have deliberately taken a policy of attempting to pay all of our accounts on time. As far back as July 1989 I told my people that I required a monthly report indicating any deviation from full payment of the accounts. That monthly report was then sent to the Chairman and on occasions to the board. We are now consistently achieving 100 per cent so we have stopped the monthly reports and now report only on the basis of deviations from 100 per cent."*[41]

5.5 A chart of monthly accounts payable performance submitted by Mr Flanagan indicates that on-time payment rose steadily from 97% in July, 1989, to 100% in May, 1990. Performance remained at the 100% level for the duration of the chart (until December, 1990). The number of claims processed monthly varied between 11,000 and 15,000, approximately. In April, 1991, Mr Flanagan wrote to inform the Committee that the Commission did not meet 100% on-time performance in February, 1991. Four invoices out of 11,516 were not paid on time? The total value of these four invoices was $2,390? These four invoices have since been paid.

5.6 In Mr Flanagan's letter accompanying his questionnaire response, he stated:

> *"The Commission welcomes the opportunitY to demonstrate its commitment to the Government's Public Finance and Audit Regulation on the prompt payment of accounts."*[44]

5.7 The Electricity Commission was the only questionnaire respondent to welcome the Committee's queries. Elcom was also one of the very few respondents to fill in the accounts payable and accounts receivable tables completely and correctly. Given the considerable success achieved by Elcom in the accounts payable area, the Committee pondered how Elcom did it, how long it took, and

41 Minutes of Evidence, 22 February 1991, p. 66.

42 Letter to the Committee from Mr Barry Flanagan, received 4 April 1991.

43 Figure quoted by Mr. Ron Schmid, Manager of Finance, Elcom, during a telephone conversation on 5 April 1991.

44 Letter to the Committee from Mr Barry Flanagan, dated 28 August 1990.

what philosophies, techniques and technologies were transferable to other public sector organizations who were struggling with prompt payment.

Committee: *"Accepting that, you have achieved what all our other witnesses gave us a litany of reasons for not achieving, saying that it is impossible and you will never do it. How is it that you are achieving it and the other organizations are not?"*

Mr Flanagan: *"First of all we have a very good centralised computerised accounts payable system. We also have delegated out the payment of accounts at certain levels to other people. For instance, in some country areas we pay directly from them within a preset limit of authority. We have impressed upon people the need to pay on time. It all amounts to the system that we have put in place. For instance, we have a risk management procedure for classes of payment up to $1,000. That was put in place following the Government's intention that we follow a risk management procedure. We have a fairly detailed reporting and follow.up procedure that we monitor, and we just keep plugging away at it to make sure that people recognize that it is an important part of the business."*[45]

Committee: *"In your view, presuming some difficulties that your organisation might have faced before you tightened it up, how long does it take to improve the payment performance of an organization?"*

Mr Flanagan: *"I would say it took about two years since I came in and took over, but I think there was improvement appearing before then and that it has been accelerated over the past couple of years under the current management-not just myself but also people such as Ross Bunyon here-and I would say it probably takes the best part of 18 months to two years to turn an organisation around, depending on the base you start from."*

Committee: *"If it is a shambles, three to four years would not be unreasonable?"*

45 Minutes of Evidence, 22 February 1991, pp. 66, 67.

Mr Flanagan: "That is right."[46]

Committee: "Obviously you have developed a system with which you are pleased, but in your view is there any characteristic associated with your organization that would preclude such a system being adopted in other departments and authorities?"

Mr Flanagan: "No, other than I believe that we have developed fairly sophisticated financial and material management systems and, subject to other organizations taking those up and putting them in place, I think they could do it. I think that is one of the things that does help us. Although it does not necessarily apply here could I say that we have, for instance, a materials management information system that is second to none, so much so that we are selling it-or the company who put it in in conjunction with us is selling it-but we are earning money training people. For instance, it is being sold in Asia, into the Electricity Generating Authority of Thailand. The Department of Defence has just bought it and we are training defence department people to use it. We have got that ethic going if you like. We have experience in that sort of area that brings people along."

Committee: "When I think of your commission and material supplies I think of things like coal equipment for the big generators and I suppose vehicles of various sizes. Is that system equally applicable to an organization that might source much smaller items?"

Mr Flanagan: "Yes. In fact it is probably of more use to us on the smaller items than it is on the larger items. It is the smaller quick turnover items that you want to keep track of."

Committee: "Is anything different about the electricity industry that makes its payment performance easier than other departments, such as the State Rail Authority?"

46 Minutes of Evidence, 22 February 1991, p. 71.

Mr Flanagan: "I cannot think of any at the moment. We have fewer locations than the State Rail Authority. I would not think of too many other reasons."

Committee: "Would you have fewer suppliers?"

Mr Flanagan: "No. Well I cannot say what they have but we have a large range of suppliers just for ordinary off-the-shelf items, things like tools and consumables and what have you. We have a very large range. We are developing an electronic data interchange system which will allow us to order electronically. I think we have about 50 firms now who are connected up with us and do this data interchange electronically and we are now getting to the stage of developing that to have actual payments made, like an EFTPOS arrangement. This is cutting down on the ordering process and it will cut down on the payment time as well."[47]

Committee: "What knowledge, techniques or systems which you employ would you find useful or applicable to other statutory authorities or government departments who are struggling to pay bills on time?"

Mr Flanagan: "First of all one of the big things you have to do is get your staff motivated to the point where they see it as important. That is one of the things we have done, particularly in our purchasing group. Can I explain and say that at one time our purchasing clerks, as they were called, were probably all the round pegs we could find that had to fit into square holes. We have now deliberately given them a career path and got them to the stage where they regard it as a career job. They have developed as part of this management information system a tremendous manual. They have developed it for themselves and they now train other people and they have a charter, if you like, of performance that they have to perform to, which they take very seriously. We have got out of a situation where the clerks associated with doing this are no longer just 'clerks'. They regard themselves as important in the organisation and they are treated that way. I think it is a matter of building up the staff and it is also a matter of showing trust in people.

47 Minutes of Evidence, 22 February 1991, pp. 68, 69.

> *"We have delegated out to the regions the right to purchase and to pay up to certain limits. For instance we have a very interesting pilot study going on at the moment with corporate credit cards which we have given out to the region in a very limited way so that we can check how it goes. Those who have to purchase things in a particular country area, such as Tamworth, can do so with a corporate credit card. It has a very low level We are finding that is very good. Obviously the payment is made quickly by somebody else, we hope-the credit organisation-and we get very good records of what has been purchased very quickly and we are finding that is working. We are showing a degree of trust and we are delegating authority and responsibility to people to do these sorts of things. I think it is a matter of building up your staff and their own credibility in these things." 48*

5.8 Evidence presented by the Electricity Commission differed markedly from evidence presented by any other agency to this inquiry. A consistent pattern of detailed information on measured performance combined with very detailed information on administrative systems gave the Committee a credible picture of a large government agency succeeding in paying creditors on time.

5.9 Many aspects of Elcom's approach recommend themselves to other Departments and Statutory Authorities, in particular: the commitment by senior executives to timely payment, a dear recognition of economic benefits in being a *"good commercial player',* establishment of a career path for purchasing staff, recruitment of experienced professional accounting staff to cash management functions, routine use of a creditors ledger, delegated payment authority, periodic review by senior managers, and exception reporting prior to due dates.

5.10 In addition to these factors, Elcom's financial management information system contains a number of notable features:

* It is a fully integrated computerised financial management information system which is linked into one data base system,

* It is based on responsibility centre accounting which allows better accountability and budgetary control because each responsibility centre can be readily monitored,

48 Minutes of Evidence, 22 February 1991, pp. 70, 71.

* It allows a high level of disaggregation of account areas with over 40,000 account elements,

* It is a centralised on-line account processing system with remote access which facilitates on-line updates for regional centres.

Recommendation 4

It is recommended that Treasury conduct seminars for financial management officers of inner budget sector entities and statutory authorities on financial control and performance, focusing particularly on corporate philosophy, staff motivation, and automated systems.

5.11 The Committee notes that Elcom's accounts payable staff are well trained and well motivated. Management at Elcom has provided a career path for these staff members and has considered their professional development needs. Looking beyond Elcom, the Committee is aware that whilst there are widespread opportunities for professional training in management, public policy, and law in the public sector, there is far less emphasis on providing training and career development in public sector financial management. The Committee understands that the Premier's Department's Office of Public Management is planning a new program of fellowships and executive interchanges. The Committee would like to see a number of these fellowships targeted to staff in the finance and accounting divisions of authorities for training in management accounting.

5.12 Apart from training, the other requirement is that key executives have appropriate rewards and sanctions to motivate them to improve the organization's payment performance. In this regard, theCommittee believes that Senior Executive Service and Chief Executive Service contracts could provide these incentives.

Recommendation 5

It is recommended, where appropriate, that Senior Executive Service and Chief Executive Service contracts offered by authorities Include payment performance in the evaluation of an executive's performance.

Principal impacts of the change to TD219.01

6.1 One of the main thrusts of the terms of reference for this inquiry was to examine the impacts of the recent changes to Treasurer's Direction 219.01, regarding prompt payment of accounts. The questionnaire revealed a number of positive impacts related to improved business relations with suppliers, and negative impacts, including more paperwork, slower payment in some cases, and smaller supplier discounts. The Committee studied the overall effectiveness of the change to the Treasurer's Direction in bringing about improved administrative systems.

6.2 It should be noted that a gmat number of respondents, principally from the Inner Budget Sector, stated that the changes to the Treasurer's Direction 219.01 had very little impact. Mr Peter Dransfield, the Director of Housing, stated that *"There has been virtually no effect from the regulation or policy.*[49] Most of these respondents stated that previously existing prompt payment policies and administrative procedures were successful. As the Committee noted elsewhere in this report, this perceived success in bill-paying is often at odds with the views of other government agencies who are unpaid creditors. The fact that problems are not exposed by the administrative systems shows how inadequate some of these systems are.

Positive impacts

6.3 Almost all respondents who noticed positive impacts related the improvements to business relations with suppliers. Some couched it in terms of their organization's improved image. Some commented that their own officers felt a sense of pride in maintaining a good payment record. Public relations aside, these positive business relationships are valuable to a public authority. It is known that some suppliers refuse to do business with government agencies because of poor payment records. Other suppliers who can afford to wait to get paid continue to do business with the public sector, but *"load"* their charges with a finance component in anticipation of having to pay for overdraft facilities. Such a procedure has a distinct and quantifiable inflationary effect.

49 Questionnaire reply from the Department of Housing, question 8 a).

Similarly, since the range of potential suppliers is narrowed by the late payment problem, the State cannot be sure that it is obtaining the best value for expenditure. Less competition for government contracts means higher prices.

6.4 The Electricity Commission noted the following beneficial consequences of its prompt payment policy:

* Suppliers have more confidence that the agency will meet its payment terms and thus do not adversely load prices to cover possible delays;

* It has the potential to attract a broader range of Suppliers in response to quotations given that cash flows are more assured;

* It has increased agency officers' awareness of their responsibilities in this area;

* In agencies which have been successful in paying promptly, such as the Electricity Commission, the on-time performance has instilled a sense of pride in its officers.

6.5 Other positive impacts of the changed Treasurer's Directions include:

* They have created a line of communication for unpaid suppliers;

* They have helped agencies maintain regular, competitive sources of supply.

6.6 Additional factors cited by the Department of Public Works include:

* Increased awareness and need to recoup costs from clients more efficiently;

* Increased awareness/importance of cash management.

Negative impacts

6.7 In broad brush, perceived drawbacks of the changed Treasurer's Directions relate to inconvenience in implementation and to higher costs of administering the system. The one complaint about the Directions which the Committee felt to be the most credible--that 30 days from receipt of invoice is shorter than the normal private sector terms--was not directly voiced by any respondent. Negative impacts which did receive mention seemed, in the Committee's view, to lack substance.

6.8 The Department of Housing complained about the amount of wasted time investigating *"frivolous"* late payment enquiries. The Committee felt that *"wasting time"* in this way is unavoidable unless an agency refuses to listen to complaints--a policy which is incompatible with public accountability and unwise from a commercial point of view.

6.9 The Fish Marketing Authority stated that "The *new initiatives have been least effective because paying accounts promptly as against possibly delaying payment has reduced the utilization of creditors funds*."[50] Certainly the Fish Marketing Authority has some particular liquidity problems at the moment (discussed above under the heading *"Reasons for late payment - liquidity problems")*, but the Committee could hardly countenance an objection to the Directions on this basis. The very point of Treasurer's Directions is to eliminate this sort of practice.

6.10 The Public Works Department contributed the most creative list of unfavourable consequences. Public Works noted that a high level of accounts payable performance requires a substantial resource commitment to ensure adequate monitoring and performance. Clearly, this argument has merit, but it fails to address the sometimes difficult to quantify benefits of paying on time, of enjoying good supplier relations, and of having a positive corporate image. In any case, the Electricity Commission did not complain about the cost of maintaining its high payment standards.

6.11 On this important question, the Committee agrees with comments made by Professor Robert Walker during the Committee's 1988 Seminar on Accrual Accounting. Replying to the question, "What is *the additional cost in terms of percentage increments of the accounting function to be able to implement accrual accounting?"*, Professor Walker stated:

"You can alternatively restate the problem, and say: What is the cost of not doing it? To my mind talking about the cost of implementing accrual accounting are curious, because, frankly, the incremental costs of an information system which incorporates those kinds of year-end adjustments would be pretty marginal. If you have a

50 Questionnaire reply from the Fish Marketing Authority, question 8.b.

situation where an organisation is already maintaining asset registers, which you expect it to be doing to be maintaining appropriate controls over its resources. If it is maintaining appropriate controls over the probity of its transactions, to my mind the adoption of accrual accounting in many settings would be very marginal.[51]

6.12 Other negative consequences brought to the Committee's attention by the Public Works Department centre around concern that suppliers will be disadvantaged by the present form of TD 219.01. Firstly, suppliers who are accustomed to being paid well within 30 days may find that their payment is being increasingly delayed to exactly 30 days under the new Directions. Thus some suppliers may be deterred from trading with the government, and others may increase their prices. Secondly, since suppliers will increasingly expect to be paid within terms under the new Directions, they will offer the government smaller discounts for timely payment.

6.13 In response to the Committee's questions, Mr R.D. Christie, Director-General of the Public Works Department, testified that prompt payment discount of 1 to 2 per cent for payment within 7 days was a typical offer. Mr Christie expressed his feeling that at that rate he would prefer to wait until the full terms of trade had expired, earning interest in the meantime. Unfortunately, being the Head of a government department, he often felt obliged to accept the discount, however paltry.[52]

6.14 Committee feels that Mr Christie's objection is not valid. In the first place, a short term investment which yielded 2 or even 1 per cent over 7 days would be a remarkable opportunity relative to current interest rates and investment returns available in Australia. In the second place, higher prompt payment discounts are likely to indicate that the contract price has been substantially inflated to allow for finance charges. The Committee believes that these smaller discounts demonstrate in a convincing way that the Government's policy initiative is credible to the private sector.

51 *Proceedings of the Accrual Accounting Seminar*, hosted by the NSW Public Accounts Committee, 5 February 1988, p. 66.

52 Minutes of Evidence, 22 February 1991, pp. 80, 81.

Ensuring compliance with Treasurer's Directions generally

7.1 Treasurer's Directions are issued with the authority of the Treasurer in accordance with section 9 of the Public Finance and Audit Act, 1983. All accounting officers, as defined by section 4(1) of the Act and other officers of an Authority, must comply with these Directions. Numbering in the hundreds, the Directions detail principles, practices, and procedures relating to receipts, expenditure, appropriations and general expenditure, Treasurer's public accounts, general accounting and banking, accounting for stores, stocktakes, salaries and wages, payment for leave, payment of pay-roll tax, internal controls, overseas payments, and motor car advances. The Treasurer may issue new directions, amend, vary, or cancel directions as he sees fit.

7.2 Treasurer's Directions do not apply to universities or to some bodies prescribed by the Act.

7.3 As this inquiry was requested by the Treasurer to determine the extent of compliance with one of the Treasurer's Directions, the Committee sought to determine what mechanisms are in place generally for ensuring that Treasurer's Directions are followed.

7.4 Broadly speaking, monitoring of compliance can either be performed externally or internally to an Authority. External monitoring is ultimately the Treasury's responsibility, although a case could be made that under section 34 of the Public Finance and Audit Act the Auditor General's duties include consideration of internal controls (including Treasurer's Directions) as they affect the audits of Public Accounts. The Committee understands that neither the Treasury nor the Auditor General has adequate resources to comprehensively monitor compliance with Treasurer's Directions among all authorities.

7.5 Such a lack of resources is hardly surprising when one considers the amount of effort the Committee has expended in studying compliance with one among hundreds of Directions by a limited number of authorities. Practically speaking, it is feasible for Treasury or the Auditor-General to occasionally detect instances of non-compliance with particular Directions in the course of other investigations. Alternatively, it may be feasible for the Auditor-General to carry out special audits to study compliance with some Directions by a limited number of authorities from time to time. However, for an external organization to routinely and comprehensively monitor compliance by all authorities with all Treasurer's Directions would be an unwieldy task.

7.6 Turning to the question of internal monitoring, section 11(1) of the Public Finance and Audit Act clearly makes the Head of an authority responsble for maintaining internal controls. Section 11(4) indicates the necessary close connection between an authority's accounting manual and the Treasurer's Directions. Section 11(2) states that an authority's internal audit organization shall be responsible for the regular appraisal of the adequacy of and compliance with the system of internal control. Therefore, in the firstinstance, it is the Head of an authority with the assistance of the internal audit organization who is responsible for ensuring compliance with Treasurer's Directions.

7.7 As far as the Committee is aware, there is no feedback channel from the Head of an authority to the Treasurer through which instances of non-compliance would normally be reported. In all probability, the Head of an authority would be reluctant to report such instances. Furthermore, the Committee's investigation of paymentperformance has indicated that some Heads may not be aware that their authorities are failing to comply with Direction 219.01.

7.8 The unfortunate conclusion is that generally speaking there is no comprehensive feedback mechanism through which the Treasurer is able to determine whether or not his Directions are being followed. In this sense, the Committee believes the effectiveness of these Directions must be compromised.

7.9 Returning to the specific case of TD 219.01, the Committee feels that an authority's internal audit organization could play a vital role in heightening the chief executive's awareness of the authority's payment performance by including an examination of compliance with TD 219.01 in the annual internal audit plan.

Recommendation 6

It is recommended that the Head of each authority ensure that the annual internal audit plan includes examination of compliance with TD 219.01 and Clause 2AB of the Public Finance and Audit Regulation, 1984.

Other related issues

Effect of late payments on reported financial position

8.1 In systems where accrual accounting is fully adopted unpaid bills are recorded as expenses incurred, hence there is little scope to manipulate the reported financial position. However, in cash accounting systems unpaid bills are not brought to account, raising the possibility that the reported financial position at any point in time may fail to disclose known assets or liabilities. Since it is mandatory to report unpaid creditors at the end of the financial year, the annual financial statements do not suffer from this problem. However, at any other point during the year it is not straightforward to determine the organization's true financial position. Moreover, since the mandatory year-end statement of unpaid creditors and debtors does not contain any *"ageing"* information, it does not function as a guide to the organization's effectiveness in collecting debts or paying bills (nor is it intended to).

Recommendation 7

It is recommended that once it has an accounts payable ledger in place, each authority be required to include aged sundry creditors at year's end in its annual financial statements. The Committee to review progress in one year.

Recommendation 8

It is recommended that once it has an accounts receivable ledger in place, each authority be required to include aged sundry debtors at year's end in its annual financial statements. The Committee to review progress in one year.

Inter-departmental debts and allocation of resources

8.2 It is dear from the Committee's investigations that there are substantial inter-departmental overdue accounts. The extent of overdue accounts between the private sector and the public sector is not so easily determined for reasons which have been discussed in this report. One might ask whether these inter-departmental debts are a matter of concern or whether *"it all comes out in the wash".* When Treasury consolidates its accounts for the entire public service, these inter-departmental debts cancel each other out and disappear.

8.3 The Committee perceives two serious problems with this high degree of inter-departmental indebtedness. Firstly, the failure of creditor agencies to collect funds owing to them and the failure of debtor agencies to pay on time are symptomatic of a failure of the management of these organizations to exercise an appropriate degree of financial control, without which the financial management and progress towards objectives is compromised.

8.4 Secondly, budgetary allocations for government departments are set by the Treasurer in line with a popular mandate but must be approved by Parliament. In the Committee's view, to have the Head of an authority pursue a strategy of increasing the authority's working capital by delaying payments and striving to expedite receipts, serves to thwart the strategic intent behind the original budgetary allocations. In this sense, the pattern of intra-governmental late payments may pose a serious obstacle to the Government's strategic policy objectives.

Treasury transfers

8.5 The Treasury transfer system is a means of eliminating time delays in payments from one subscribing department to another. Under this system, the creditor agency can unilaterally initiate a transfer of funds from the debtor agency's account. The transfer takes place almost immediately. Some agencies of government, especially those which are usually creditors (such as Public Works) seem to favour this system for expediting payment.

8.6 As the Commercial Services Group (CSG) testified,' however, some problems with this system emerge when claims for payment are felt by the debtor agency to be inadequately documented. Such a lack of documentation has led to organizations owing money to the CSG *"reversing"* Treasury transfers into the CSG account. Technically, of course, a Treasury transfer is not reversible. Here, the term *"reversing"* refers to the practice of demanding payment by the CSG of an equal value to the payment earlier made to the CSG, effectively nullifying the original transaction.

8.7 The Committee understands that Treasury is currently conducting talks with the organizations which subscribe to the Treasury transfer system to try to overcome the problems associated with unexpected reversals of transfers.

Debts written off

8.8 Mindful of the potential relationship between uncollected debtors and failure to pay creditors on time, the Committee notes with concern an apparent tendency for public sector organizations to write off increasingly large sums as bad debts. According to the Auditor General's report for 1989-90 dramatic jumps in the amount of written-off debts were recorded by the State Rail Authority and the Police Service.

8.9 Mr Ross Sayers, Chief Executive Officer of the State Rail Authority provided the following explanation regarding the rise in debts written off between 1988-89 and 1989-90 (from $23,481 in 1987-88, to $118,865 in 1988-89, to $1,347,456 in 1989-90)[53]:

> *"There was a disputed debt account of $1.1 million and it involved some very complex legal issues and after seeking the best advice we could, our conclusions were the cost of recovery and the probability of recovery were such that the appropriate financial decision was to write that debt off as non-recoverable so the bulk of the bad debts provision related to that one specific disputed account."*[54]

53 New South Wales Auditor-General's Reports for 1990, 1989, and 1988, Volume 2, Appendix on Debts Written Off.

54 Minutes of Evidence, 22 February 1991, p. 64.

Payment Performance

8.10 Mr John Thorns, Director of Finance for the NSW Police Service reacted with surprise to the revelation by the Committee of a huge rise in debts written off for the 1989-90 year. In 1989-90 the Police Service wrote off debts worth $911,432 whereas in 1988-89 the total was only $11,814.[55]

Committee: *"[Can you comment on why debts written off by the Police Service] jumped to more than $900,000 [in 1989-90] from $11, 000 the previous year?"*

Mr Thorns: *"I do not know. That is before my time. Very few debts are being written off at the present time. What I put through in the past 12 months you can count on one hand, the number of times I have written off a debt."*

Committee: *"Can you obtain an explanation for the Committee as to why it was so large in the financial year 1989-907 The last three years, 1989-90, $911,432, 1988-89, $11,814, and 1987-88; $1663 debtwritten off?."*

Mr Thorns: *"Could I ask where you are getting those figures from?"*

Committee: *"They were supplied to the Committee."*

Mr Thorns: *"I have not got any cross reference for those figures here. I would need to go back and do some research on those."*[56]

8.11 The Committee notes that these figures are available from the Auditor-General's Reports, Volume 2 for the three years in question. The 1989-90 Annual Financial Statements for the Police Service (signed by Mr Thorns) state in Note 10 c) that due to the inability to recover 11,886 Infringement Notices, an estimated value of $867,678 in bad debts was written off. Clearly, this sum accounts for the bulk of the debts written off, as reported by the Auditor-General. Significantly, the number of unrecovered Infringement Notices in 1988-89 was 1,621.[57]

55 Op.cit. NSW Auditor-General's Reports for 1990, 1989, and 1988.

56 Minutes of Evidence, 22 February 1991, p. 52.

57 1989-90 Annual Report of the NSW Police Service, p. 109.

8.12 Treasurer's Directions 450.01..10 delineate the required procedures for recovery of debts due to the State. In particular, TD 450.05 states that before a debt may be regarded as irrecoverable, one of the following conditions must be satisfied:

1. The debtor cannot be located; or

2. It is uneconomic to finalise recovery action due to the relatively small value of the debt; or

3. The medical, financial, or domestic circumstances of a particular debtor at that time does not warrant the taking of recovery action or further recovery action; or

4. Legal proceedings through the courts have proved, or on legal advice, would prove unsuccessful.

8.13 A purely audit-based review of debts written off would most likely find that the procedures employed by each authority were consistent with these Treasurer's Directions. The State Rail Authority testified to legal advice that a large debt was likely to prove irrecoverable (thus meeting criterion 4 above). The Police Service's rise in debts written off relates to unpaid infringement notices which are assumed to average $73 each? Presumably each of these infringement notices was uneconomic to recover due to its small value.

8.14 As the Auditor-General observed in Volume 2 of each of his last three reports, there is an alarming rise in the amount of debts written off by the State public service. The Committee has little doubt that these debts were written off according to the rules. Therefore the problems is more one of management than one of accounting, since *ultimately it is* management which decides to extend credit to debtors and management which is responsible for putting systems in place to monitor and pursue debtors. To tackle this problem effectively, the Committee believes it would be necessary to examine the management decisions which have led to the *increased write-offs.*

58 Ibid.

Appendix I

Public Finance and Audit Regulation, 1984 Clause 2AB: Payment of Accounts

1. This clause applies to a contract entered into by or on behalf of an authority for the supply of goods or services (or both) to the authority.

2. The Head of an authority shall nominate the holder of a position within the staff establishment of the authority to be the accounts complaints officer for the authority.

3. An order form issued by an authority shall include-

   a. a statement that if a payment is not made within the time determined in accordance with subclause (4), the supplier should take the matter up with the accounts complaints officer for the authority;, and

   b.the telephone number of the accounts complaints officer;

   and

   c. a statement that the Minister may award penalty interest if the payment is not made within the time determined in accordance with subclause (4).

4. The Head of an authority shall ensure that-

   a. if a contract (in the invoice or elsewhere) provides for the time of a payment under it and the contract is properly performed by the supplier - the payment is made by that time; or

   b. if a contract does not provide for the time of a payment under it and the contract is properly performed by the supplier - payment is made within 30 days after the receipt of an invoice from the supplier.

5. If the appropriate Minister in relation to the authority (or a person appointed by that Minister) is notified that a payment has not been made within the time determined in accordance with subclause (4), that Minister (or person) may direct that the supplier be paid interest on the amount which was not paid within that time, from that time until the time of payment, at a rate of up to 20 per cent per annum, unless a greater penalty is payable under the contract in respect of the default in payment.

6. An interest payment under this clause shall be met from within the authority's approved budget.

Appendix 2

Treasurer's Direction 219.01.

(TD89/5): Prompt Payment

Accounting Officers shall ensure claims for payment are made on or immediately before the time allowed by contract, the agreed terms or 30 days after receipt of an invoice. Should a payment not be made within this time the Minister may award penalty interest. The Head of an authority shall nominate a staff member preferably senior, to be the accounts complaints officer. An order form issued by an authority must comply with the Public Finance and Audit Regulation, 1984 Clause 2AB.

The option of discount for early payment should be exercised whenever appropriate.

Appendix 3

Questionnaire

and Covering Letter to

Heads of Departments and Authorities

Dear ,

The Public Accounts Committee is currently investigating the prompt payment of accounts by major statutory bodies and inner budget sector departments.

To assist the Committee in its inquiry, would you please fill out and return **the** attached questionnaire.

Note that answers are required for all questions. If answers cannot be provided to some questions, please explain why they cannot be provided under your covering signature.

Do not hesitate to use additional pages to complete lengthy answers. Your signature is required on each page of the completed questionnaire.

It is anticipated that the Committee will conduct public hearings in respect to this inquiry. You may be summoned to provide further information on you organization's payment performance at these hearings.

Your co-operation in completing this questionnaire by ,1990 is appreciated, and will assist the Committee in its statutory role.

Appendix 3 (continued)

Public Accounts Committee of New South Wales

Review of Prompt Payment by Major Statutory Bodies and the Major Inner Budget Sector Departments

Questionnaire

for Heads of Departments and Statutory Bodies

1. Your name:
   Your title:
   Name of your statutory body or department:

   Are you the person in your organization with principal responsibility for your organization's cash management, cash payments and cash receipts?

   If this responsibility is jointly held or held by other officers of your organization, please list them below:

Name	Title	Nature of Responsibility	Phone

2. The attached tables will allow the Committee to form an overall impression of your organization's payment performance and general cash management. In filling them out, please aggregate the figures for your entire organization, but do not include regular periodic payments such as salaries or rental payments.

3. On a separate sheet, please describe your administrative procedures for purchasing goods and services beginning with the decision to place a purchase order and ending with the payment of invoices for:
   a, Purchases under $1,000 in value.
   b. Purchases over $1,000 in value.
   Please indicate what controls are applied and who is responsible for applying them,

4. How do you ensure that invoices are not overlooked or unnecessarily delayed?

5. Please describe your administrative procedures for collecting funds owing to your organization,

Payment Performance

6. a. Please describe your methods for forecasting cash needs and cash receipts.
   b. How is this information passed on to other government departments, such as Treasury?
   c. How accurate have your forecasts been in the last two years?

7 a. When did you become aware of:
   A. The government's review of the Treasurer's Direction 219.01 on Prompt Payments (which now allows the Minister to award penalty interest on late payments and which specifies that the Head of an Organization shall nominate a staff member to be the accounts complaints officer)?
   B. An improvement in your organization's payment performance?
   b. Since the amendment to the Treasurer's Direction 219.01, has your organization paid penalty interest to any suppliers for late payments? If so, please summarize these payments.
   c. Has your organization sought discounts from suppliers for prompt or early payments?
   d. Has your organization obtained such discounts?
   e. What is the approximate monetary value of the discounts thus obtained in the last financial year?
   f. Who is the nominated accounts complaints officer for your organization?
   g. What is the complaints officer's grade?

8. a. In what ways have these new initiatives on prompt payment been most effective in your organization?
   b. In what ways have they been least effective?
   c. Why?

9. What are the largest obstacles your organization faces in paying accounts on time?

10. a. Given the other issues faced by your organization, how important an issue is late payment of creditors?
   b. Receipts performance?
   c. Cash management?
   d. Cash-flow forecasting?
   e. What are the important aspects of these issues from your point of view and why?

11. a. Can you envisage any circumstances in which delayed payment might be a beneficial management practice?
   b. If so, in what circumstances and why is it beneficial in these situations?
   c. Do you ever consciously employ this practice?
   d. If so, why? If not, why not?
   e. Might other officers in your organization be in a position to employ such a practice?

Appendix 3 (continued)

Table I (for question 2)

ACCOUNTS PAYABLE

(do not include periodic payments such as salaries and rent)

Purchase Orders (Commitments)	CREDITORS Current	30	60	90+	Cash Paid
	($'ooo)				
1989					
Jan					
Feb					
Mar					
Subtotal					
Apr					
May					
Jun					
Subtotal					
TOTAL 88-89					

ACCOUNTS PAYABLE

(do not include periodic payments such as salaries and rent)

Purchase Orders (Commitments)	CREDITORS Current	30	60	90+	Cash Paid
	($'000)				
1990					
Jan					
Feb					
Mar					
Subtotal					
Apr					
May					
Jun					
Subtotal					
TOTAL 89-90					

Appendix 3 (continued)

Table 2 (for question 2)

ACCOUNTS RECEIVABLE

(do not include periodic payments such as salaries and rent)

	Purchase Orders (Commitments)	DEBTORS Current	30	60	90+	Cash Paid
		($'000)				
			1989			
Jan						
Feb						
Mar						
Subtotal						
Apr						
May						
Jun						
Subtotal						
TOTAL 88-89						

ACCOUNTS RECEIVABLE

(do not include periodic payments such as salaries and rent)

	Purchase Orders (Commitments)	DEBTORS Current	30	60	90+	Cash Paid
		($'000)				
			1990			
Jan						
Feb						
Mar						
Subtotal						
Apr						
May						
Jun						
Subtotal						
TOTAL 89-90						