



**PUBLIC ACCOUNTS COMMITTEE ISSUES
PAPER**

Annual Reports



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MEMBERS OF THE PUBLIC ACCOUNTS COMMITTEE

Mr Terry Rumble, FCPA, MP, Chairman

Terry Rumble was elected Labor Member for Illawarra in March 1988. Before entering Parliament he qualified as an accountant and was employed in public practice and in the coal mining industry. He has served as a member of the Regulation Review Committee and is the Chairman of the Premier's Backbench Committee which involves Treasury, arts and ethnic affairs. Mr Rumble was elected Chairman of the Committee on 24 May 1995.

Mr Pat Rogan, MP, Vice- Chairman

Pat Rogan has been member for East Hills since 1973. He has been active on numerous parliamentary committees in that time including the Joint Committee upon Public Accounts and Financial Accounts of Statutory Authorities. This was the Committee that reactivated a dormant Public Accounts Committee in 1983. Pat Rogan has also served as Shadow Minister for Minerals and Energy with a background as a senior sales engineer in automation.

Mr Joe Tripodi B.Ec (Hons), MP

Joe Tripodi was elected to Parliament in May, 1995 as the Labor Member for Fairfield. Before entering Parliament he worked as an economist with the Reserve Bank of Australia and as a union official with the Labor Council of NSW.

Mr Ian Glachan, MP

The Liberal Member for Albury since 1988, Ian Glachan has had a varied background. He served five years at sea as a marine engineer, was a farmer for ten years, and operated a newsagency in Albury for 18 years. Mr Glachan is also a past president of the Albury-Hume Rotary Club and a Paul Harris Fellow, an active member of the Anglican Church, and was the Legislative Assembly member on the Board of Governors of Charles Sturt University. His other parliamentary responsibilities have included the Chairmanship of the Public Accounts Committee.

Mr Peter Cochran, MP

Following a background in farming, the Army, the Commonwealth Police, ASIO, and the Cooma-Monaro Shire Council, Peter Cochran won the seat of Monaro for the National Party in 1988. His other parliamentary responsibilities included the chairmanship of the Minister's Advisory Committee on Land and Water Conservation, deputy chairmanship of the Committee for Police and Emergency Services, and membership of the committee for the Environment and the Select Committee on Public Sector Superannuation. He was also the Premier's representative on the Anzac House Trust and the Anzac Memorial Trust. He is currently Secretary to Shadow Cabinet.

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TERMS OF REFERENCE

To inquire into and report to the Legislative Assembly on:

1. the effectiveness of annual reporting under the current annual reporting legislation;
2. any of the current annual reporting requirements with which there has been consistent inadequate compliance;
3. the form which the annual reporting requirements in the new financial and annual reporting legislation should take, including the extent to which it should be prescriptive;
4. the specific annual reporting requirements which should be included in the new financial and annual reporting legislation, including any new requirements which could improve the effectiveness of annual reporting;
5. mechanisms to monitor compliance with the new requirements and to achieve best practice standards in reporting;
6. measures to increase the level of parliamentary scrutiny of annual reports; and
7. any other matter concerning public sector annual reporting in NSW.

CHAIRMAN'S FOREWORD

It is now ten years since the NSW Parliament passed legislation requiring statutory authorities and government departments to prepare annual reports.

Following the Public Accounts Committee's landmark report on *Accounting and Reporting Requirements for Statutory Authorities* the Annual Reports (Statutory Bodies) Act was passed in 1984. The Annual Reports (Departments) Act was passed in 1985 and detailed regulations were made, prescribing the detail of the matters to be included in annual reports. Over the years this legislation has been amended on numerous occasions and the annual reporting requirements have expanded. A checklist of annual reporting requirements published by the NSW Treasury in March 1994 is reproduced as appendix one.

The NSW Treasury is currently rewriting the financial and annual reporting legislation and it is envisaged that the annual reporting requirements will be incorporated into the new legislation.

The Public Accounts Committee believes that this is therefore an opportune time to review the effectiveness of annual reporting by NSW public sector agencies and to provide an opportunity for public discussion about what agencies should be required to include in their annual reports in future. This inquiry gives you a chance to tell the legislators what you would like to see included in the new annual reporting requirements.

The inquiry was commenced by the former Committee in 1994. Included as appendix three are the results of a survey of MPs which was conducted last year.

At its first meeting recently the new Committee formally resolved to conduct a comprehensive inquiry into annual reporting and adopted the terms of reference which are set out in full on the preceding page.

This *Issues Paper* is designed to focus attention on the key issues which will be considered by the Committee during this inquiry. A number of questions are posed under each of the terms of reference. Written submissions are invited addressing the terms of reference and the questions identified in this paper. The Committee will be holding public hearings and a Seminar in August.

To obtain further information about the Committee's inquiry please contact the Senior Project Officer, David Blunt, on 230 2521.

Terry Rumble MP

Public Accounts Committee

Chairman

1. The effectiveness of annual reporting under the current annual reporting requirements

- 1.1 Who are the users / readers of NSW public sector annual reports? If you are a user of annual reports - do you find them useful? If so, why and if not, why not? If you are responsible for preparing an annual report - what mechanisms do you have in place to determine whether readers find your report useful?
- 1.2 Are the information needs of key stakeholders met by annual reports? If you are a stakeholder - do you believe that your information needs have been adequately addressed in annual reports? If you are responsible for preparing an annual report - what mechanisms do you have in place for identifying and responding to the information needs of your key stakeholders?
- 1.3 Are annual reports effective as instruments of accountability to Parliament? To what extent do annual reports fulfil other purposes such as marketing and public relations, staff training and development, and historical records? If you believe that annual reports do fulfil these other purposes, how can we ensure that they continue to fulfil their primary role as instruments of accountability to Parliament?
- 1.4 How reliable is the information contained in annual reports? If you are a user of annual reports - how reliable do you find the information contained in them? If you are responsible for preparing an annual report - how do you ensure the reliability of the information which is contained in your report?
- 1.5 Are we getting value for money from annual reports? Is the high cost of production of some annual reports justified?

[NB Since 1992 the cost of production of annual reports has been required to be disclosed. The cost of 1994 annual reports varied from \$5.78 per copy for 3,000 copies of the ICAC report to \$43.94 per copy for 600 copies of the Education and Youth Affairs report.]

2. Any of the current annual reporting requirements with which there has been consistent inadequate compliance

Since 1991 the NSW Treasury has engaged the Audit Office to review a selection of annual reports each year. The Audit Office's findings are published each year in the Auditor-General's reports to Parliament. In his 1994 report (Volume 2, pp.59-60) the Auditor-General identified the following as some of the more common areas of inadequate compliance with the legislative requirements:

- *measures of performance;*
- *major works;*
- *consumer response;*
- *risk management and insurance activities;*
- *payment of accounts;*
- *equal employment opportunity strategies; and*
- *guarantee of service.*

Reviews of 1994 annual reports by Committee staff suggest that there has been inadequate compliance with the requirements to report on:

- *"Major problems and issues"; and*
- *"disclosure of controlled entities".*

2.1 Are there any other current annual reporting requirements with which there has been consistent inadequate compliance? Please give any examples of which you are aware.

3. The form which the annual reporting requirements in the new financial and annual reporting legislation should take, including the extent to which it should be prescriptive

The NSW Treasury has indicated that in redrafting the Public Finance and Audit Act it will:

- *bring all current provisions into line with contemporary public finance, accountability, financial reporting and auditing standards;*
- *re-orient the Act away from its somewhat prescriptive and detailed approach to one written, wherever possible, in broad terms with statements of principles, and supported by statements of best principles issued by the Treasurer; and*
- *adopt a Plain English approach. (Office of Financial Management 1993-94 Annual Report, p.28)*

3.1 Is the Treasury's intention to move away from a "somewhat prescriptive and detailed approach" to "broad terms with statements of principles" the correct approach?

3.2 If the annual reporting requirements in the new financial and annual reporting legislation are set out in "broad terms with statements of principle" should more detailed and prescriptive requirements be set out somewhere else? If so, should this be done by way of regulations made under the Act, Treasurer's directions, best practice guidelines, accounting standards or some other means?

Since the introduction of the Annual Reports (Statutory Bodies) Act in 1984 and the Annual Reports (Departments) Act 1985 a number of alternative models for setting out annual reporting requirements have been introduced in various jurisdictions. These include:

- *the private sector annual reporting requirements set out in the Corporations law, supplemented by the Australian Stock Exchange listing requirements, and with much of the detail provided for in the relevant accounting standards;*
- *the judging criteria used in the Annual Reports Awards (which are reproduced in appendix two);*
- *the annual reporting requirements included in the State Owned Corporations Act 1988; and*

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- *the annual reporting requirements included in the Local Government Act 1992.*

3.3 To what extent could the annual reporting requirements in the new legislation be based upon any or all of the alternative models set out above? Are there any other models which should be considered for the form of the new annual reporting requirements?

4. The specific annual reporting requirements which should be included in the new financial and annual reporting legislation, including any new requirements which could improve the effectiveness of annual reporting

4.1 Are there any current annual reporting requirements which you would like to see dropped from the new legislation? If so, what are they and why should they be dropped?

4.2 Are there any new annual reporting requirements which you would like to see included in the new legislation which could improve the effectiveness of annual reporting? If so, what are they and why should they be included?

4.3 The Committee is particularly interested in comments on the following issues which are discussed below:

- executive summaries;
- comparisons with previous year's performance;
- response to political debate about the agency;
- interstate and federal comparisons;
- prescription of performance indicators and measures to be used;
- related party disclosure; and
- auditing of non financial performance information.

[The Public Accounts Committee survey of MPs in 1994, reproduced in appendix three, revealed strong support for the provision of executive summaries and comparisons with the previous year's performance.]

In a speech to a 1993 Royal Institute of Public Administration in Australia (RIPAA) seminar on annual reporting the current Treasurer, the Hon Michael Egan MLC, made a number of suggestions for improvements to the annual reporting requirements. These included:

"the preparation of high quality annual reports needs to be based on: ...

- *an awareness and acknowledgment of significant political debate*

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- *about major aspects of the authority's activities and the need to answer or provide information relevant to that debate; and increasing use of comparisons with other states or federal experience where possible, and medium to long term projections of various activities."*

Volume One of the Auditor-General's 1991 report discussed the current requirements for annual reports to include unspecified qualitative and quantitative measures and indicators of performance "where practicable". The Auditor-General's report called for the Annual Reports (Statutory Bodies) Regulation 1985 to be amended to specify the measures and indicators of performance to be included in annual reports.

The Committee has noted that the notes to the financial statements in private sector annual reports contain an important provision which is not present in public sector annual reports. This is related party disclosure, under which any benefits which flow from the reporting entity to entities with which its directors are involved is detailed. Consideration should be given to the question of whether related party disclosure may be useful for public sector agencies which have boards of directors.

Financial statements contained in public sector annual reports are audited by the Auditor-General. However, non financial information in NSW public sector annual reports, including performance information, is not subject to audit or external verification. The Committee understands that in Western Australian the Auditor-General has responsibility for auditing non financial performance indicators in annual reports. Consideration should be given to whether non financial performance information in NSW annual reports should be subject to audit.]

5. Mechanisms to monitor compliance with the new requirements and to achieve best practice standards in reporting

Since 1991 the NSW Treasury has engaged the Audit Office to review a selection of annual reports on its behalf. The primary objective of the review is to monitor compliance with the annual reporting requirements. The reviews are conducted by audit staff familiar with the relevant organisation. Instances of apparent inadequate compliance are followed up in writing, initially by the Audit Office. Significant matters are further followed up by the Treasury. Each year the Auditor-General's report to Parliament includes a brief summary of the major areas of inadequate compliance with the annual reporting requirements.

Approximately 60 reports are reviewed each year. Factors such as public interest and size are taken into account in determining the agencies whose reports are reviewed. The Audit Office is endeavouring to review a report of every agency every three to four years. A selection of the agencies whose reports are reviewed in one year subsequently have their reports reviewed again in the following year to ensure all matters previously raised have been corrected.

5.1 Are the current arrangements for monitoring compliance with the annual reporting requirements by the Audit Office on behalf of the NSW Treasury appropriate? Are there any steps which could be taken to improve these arrangements?

5.2 Are there any alternative mechanisms for monitoring compliance with the new annual reporting requirements which you would like to see established? If so, please provide details.

5.3 What mechanisms can be put in place to achieve best practice standards in annual reporting?

6. Measures to increase the level of parliamentary scrutiny of annual reports

There is currently no formalised procedure for parliamentary scrutiny of NSW public sector annual reports. Individual parliamentarians make use of annual reports on an ad hoc basis. Parliamentary committees which have a statutory monitoring and review function in relation to a particular agency (eg Joint Committee's on the ICAC and Office of the Ombudsman) make extensive use of the annual reports of those agencies. Parliamentary Committees undertaking short term inquiries into particular agencies (eg Select Committee on the Sydney Water Board, Public Accounts Committee inquiries into particular agencies) also make extensive use of the annual reports of the agencies being reviewed. The Legislative Council Standing Committees on State Development and Social Issues may also conduct inquiries into matters arising from annual reports but have not conducted any such inquiries to date.

The Public Accounts Committee has a statutory responsibility to consider proposed amendments to the annual reports acts and regulations. The Public Accounts Committee has also conducted a number of inquiries which have addressed specific areas of non-compliance with the annual reporting requirements. The conduct of this comprehensive review of the annual reporting legislation has further added to the Public Accounts Committee's expertise in this area and may lead to a more formalised role for the Public Accounts Committee in the scrutiny of annual reports in the future.

The Labor Party policy on Reviving and Improving Public Administration in NSW, launched in February 1995, stated that Labor will establish a Public Bodies Review Committee. One of the functions suggested for this Committee is to "review annual reports each year, that is, act as an Estimates Committee for annual reports".

Another model which has been developed in the Senate is the referral of annual reports for review by general purpose committees which are responsible for a particular area of public policy. Of course, this model necessitates the establishment of a system of general purpose committees which do not exist at present in the NSW Parliament.

A further model discussed by the Committee would involve a list of annual reports tabled in Parliament being circulated to M.Ps, through the Party's Whip. Interested M.Ps could then request verbal briefings from the C.E.Os of any public sector bodies which have produced annual reports.

6.1 Do you support any of the options outlined above to increase the level of parliamentary scrutiny of annual reports? If so, why? If not, why not and what alternative mechanism would you suggest?

7. Any other matter concerning public sector reporting in NSW.

7.1 Are there any other matters concerning public sector annual reporting in NSW on which you would like to make submissions? If so, please provide details.

Appendix One -

Checklist of Annual Reporting Requirements

**reproduced from NSW Treasury,
*Excellence in Financial Management - Annual
Reports:*
A Guide for the NSW Public Sector
March 1994**

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Appendix Two -

Annual Report Awards 1996 Criteria

**reproduced with permission from
Annual Report Awards (ARA) Australia Inc.**

**from Annual Report Awards
*1996 Criteria Booklet***

**NB. Details of the Annual Reports Awards
are set out on the next page,
including objectives and contact details**

Appendix Three -

**Results of Survey of Members of Parliament
on Annual Reports**

**conducted in 1994
by the Public Accounts Committee**

