

Public Accounts Committee
Parliament of New South Wales

The Challenge of Accountability

Report Number 47

November 1989

1989-90
Parliament of New South Wales

Public Accounts Committee
of the Forty-ninth Parliament

Forty-Seventh Report

Inquiry pursuant to Section 57 (1) of the Public Finance
and Audit Act 1983, concerning Public Sector Accounting and Reporting.

(Transcripts of Evidence are printed in a separate volume to this Report.) October 1989



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, MBA, Dip. Ed, MP, Chairman

Mr 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 the 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, FAIM, FASA, CPA, MP, 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 7 years, 4 of which were as Deputy President. At University, he was a Rugby Blue, represented NSW Country, Aust. Universities and Australian Colts rugby teams. He is the NSW 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, BA, MP

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, **BA(Hons), Dip. Ed,MP**

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

Mr Terry Griffiths, MP

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 G. Souris, MP, Member for Upper Hunter was appointed to the Committee on 23rd February, 1989, and elected Vice-Chairman on 2nd March, 1989. Mr Souris replaced Ms W. Machin, MP, who was appointed to the position of Chairman of Committees, on 23 February, 1989

Secretariat

Amanda Bowden, B.A., Dip. Ed., LL.B., Acting Clerk to the Committee

Glenn Swafford, B.A.(Hons), Ph.D., Senior Project Officer

John Lynas, FASA, CPA (Auditing), Advisor on secondment from the Auditor-General's Office

Maria Hagispiro, Secretary/Word Processor Operator

Norma Rice, Secretary/Word Processor Operator

NSW Public Accounts Committee

Parliament House
Macquarie Street
Sydney NSW 2000

Telephone: (02) 230 2631

Fax: (02) 230 2831

THE CHALLENGE OF ACCOUNTABILITY

CONTENTS

	PAGE
CHAIRMAN'S FOREWORD	i
EXECUTIVE SUMMARY	ii
LIST OF RECOMMENDATIONS	iv
1. INTRODUCTION	1
Origins of the Study	
Terms of Reference	
Relevance of the Study	
Method of Investigation	
2. PREPARATION AND SUBMISSION OF FINANCIAL STATEMENTS	9
Introduction	
Punctuality	
Reasons for Late Submission	
Remedial Action	
Extensions of Time	
Financial Statements Returned for Adjustment	
Aboriginal Land Councils: Special Problems	
Suggested Changes to the Timeframe for Submission of Financial Statements	
3. AUDIT OPINIONS ISSUED BY THE AUDITOR-GENERAL: THE SPECIAL CASE OF QUALIFIED AUDITS	28
Introduction	
Auditing Practice: Types of Opinions	
Qualified Audit Certificates Issued by the Auditor-General in 1988	
Actions Following the Qualified Audit	
The Lord Howe Island Board: Special Problems	
Concluding Note	
4. ANNUAL REPORTS: TIMELINESS AND AVAILABILITY	37
Introduction	
Timeliness of Annual Reporting	
Departments' Annual Reports: Compliance with Tabling Dates	
Statutory Bodies' Annual Reports: Compliance with Tabling Dates	
Extensions of Time Sought by Department Heads and Statutory Bodies	
Reports to Parliament on Time: Measures to Improve Compliance	
Availability of Reports	
Future Examinations	

5.	ACCOUNTING AND REPORTING LEGISLATION: ADMINISTRATION AND SANCTIONS	54
	Introduction	
	Administration of the Legislation	
	Rewards/Sanctions	
6.	ACCOUNTABILITY OF COMMERCIALY-ORIENTED STATUTORY BODIES	60
	Introduction	
	Part 1	
	Reporting and Auditing Issues	
	Implications	
	Part 2	
	Reform in the NSW Public Sector	
	Implications	
	Future Review	
7.	ACCOUNTABILITY OF SUBSIDIARIES AND RELATED ORGANISATIONS	79
	Introduction	
	Financial Disclosure	
	External Audit	
	Annual Reporting	
	Future Review	
APPENDICES		
1.	Call For Submissions	92
2.	Submissions and Correspondence Received	93
3.	Witnesses at Public Hearings - 7th March, 1989	98
4.	Signed Financial Statements Received After the Due Date or Not Yet Received	99
5.	Applications For Extension of Time to Submit	Financial Statements
	105	
6.	Auditor-General's Report For 1988: Organisations Whose Financial Statements Were Returned for Adjustment But Revised Statements Not Yet Received	110
7.	Statement of Auditing Standards AUS 1 - Audit Conclusions and Reporting	111
8.	Basis of Qualified Opinions Expressed by the Auditor-General in 1988	112
9.	Applications For Extension of Time To Submit Annual Reports	115
10.	Public Sector Annual Reporting Requirements: Some Interstate Comparisons	118

CHAIRMAN'S FOREWORD

This Report examines issues of financial accountability and reporting associated with New South Wales Government departments and authorities. These public sector bodies are responsible for the annual expenditure of at least \$25 billion and the management of assets owned by the people of New South Wales which can only be valued in terms of hundreds of billions of dollars.

To date, too many Government departments and authorities have paid insufficient heed to standards of public accounting and reporting. These standards are prescribed in legislation and regulations. However, in 81 cases reported to the Committee in 1988, such standards were totally or partially ignored.

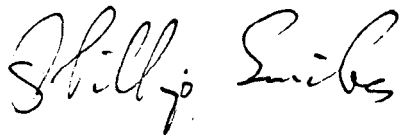
The people of New South Wales expect the Government to effectively manage their State-owned assets and associated expenditure - such an expectation is fundamental and must be met. Without appropriate and up to date financial and performance monitoring of government departments and authorities, and without such monitoring being adequately, and in a timely fashion, reported to the Parliament, a fundamental pillar of democracy is compromised.

I believe this Report demonstrates that such an expectation is not being met, and that in consequence, the Parliament is not fulfilling its democratic function.

The Committee examined the 40 qualified audit opinions for the year 1987/88 reported by the Auditor-General. In relation to annual reports, 40% of all reports were received in the Parliament after the due date. This cannot be regarded as acceptable.

Departments and statutory bodies, subsidiaries, including limited liability companies, joint ventures, partnerships and trusts are currently not being scrutinised adequately by the Parliament. This may be because their parent body is consciously or without thought burying information concerning their performance in reports, many of which are not even presented on time. With the more "commercial" government entities, more thought should have been invested in providing guidelines on structure, content, format and punctuality of financial and other reporting.

This Report is a signal to the people of New South Wales that the Public Accounts Committee will not tolerate unprofessional financial reporting. This Report should be regarded by the managers of *New South Wales Incorporated* and the Parliament as a signal that the highest standards of financial management and accountability are to be expected and demanded of all government bodies.



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



EXECUTIVE SUMMARY

More than five years have elapsed since the Parliament enacted legislation to improve the administration and audit of accounts of authorities of the State. The Public Finance and Audit Act 1983 standardised and improved accounting and financial disclosure requirements and the audit and review functions of the Auditor-General and the Public Accounts Committee. Legislation was subsequently enacted to prescribe the requirements for annual reporting to Parliament by government departments and statutory authorities.

The Committee investigation's found that, several years on, many authorities of the State are not meeting their obligations under the accounting and reporting legislation.

Approximately one in five of the organisations audited by the Auditor-General in 1988 failed to submit their financial statements on time. Moreover, the Committee found that the overwhelming majority of organisations whose signed financial statements were not received within the statutory period, had *not* applied to the Treasurer for an extension. The Committee sought an explanation from each defaulting organisation.

The Committee was also particularly concerned at the number of organisations which received a qualified audit result. The Auditor-General reported in 1988 that a total of 46 qualified certificates were issued in respect of the financial statements of 40 bodies, which as a percentage of total audits was double the figure for the previous year.

Analysis of the basis for the qualification indicates the majority were due to departure from accounting standards or uncertainty of financial information. The remainder were due to non-compliance with the Public Finance and Audit Act or the Auditor-General disagreeing with the authority over its accounting or reporting treatments.

Annual reporting to Parliament, specifically the timeliness and availability of annual reports, was another vital element of public sector accountability examined by the Committee. Promptly completed annual reports should provide the Parliament and the public with a full account of the objectives, activities, financial position and performance of each government department and statutory authority.

The Committee found a marked improvement in the performance of departments in presenting their annual reports on time over the years 1986-1988. Conversely, for statutory bodies the percentage of annual reports presented within the required period fell to only 57% in 1988.

The Committee has proposed that a number of legislative and procedural changes be made in the area of annual reporting. In particular, it is recommended that, in accordance with the Westminster tradition of Ministerial responsibility, Ministers should be required to explain to Parliament the circumstances surrounding the late tabling of annual reports. The Committee's recommendations would, if adopted, enable the reasons for such delays to be placed on public record and further encourage the timely submission and tabling of annual reports.

The Committee reviewed the efforts made by government to monitor, report on and improve the accounting and reporting performance of statutory authorities, and considered whether performance rewards or sanctions should be introduced. The Committee has recommended that the Treasury report more fully to Parliament on how it discharges its responsibility for administering major aspects of the accounting and reporting legislation.

On the question of sanctions, rather than propose that financial or other penalties for noncompliance be introduced, the Committee favours a positive approach, emphasising to Department Heads and statutory authorities their obligations and ultimate accountability to Parliament. To underline the seriousness of this point, the Committee has recommended that discharge of accounting and reporting obligations by Executive Service officers should form part of the annual formal review of their performance.

The Committee also examined selected aspects of the accounting and reporting environment for commercially-oriented statutory bodies. The Committee reviewed, in particular, the implications for accountability of the growing number of subsidiaries and involvement in companies, joint ventures, partnerships and trusts.

The Committee found that the accounting and reporting framework established by the Public Finance and Audit Act 1983 is not causing major problems for commercially-oriented statutory bodies. It is the Committee's view that there is a tendency amongst those who propose radical change to overstate the present difficulties relating to disclosure of financial and other information. The Committee was particularly concerned about arguments for change made on the basis of so-called "*industry standards and practices*". This is often a very vague notion and there is a risk of it becoming a convenient avenue for organisations to avoid full and proper disclosure.

The Committee's examination of the particular issue of subsidiaries and related organisations focused on three major dimensions of accountability that is, financial disclosure, external audit, and annual reporting. The Committee was far from satisfied with the financial and non-financial information about such arrangements being provided by many statutory bodies. Parliament must not be placed in a position where it is uninformed of the activities or commitments of any company or other business entity in which an authority of the State is involved.

The Committee's Report emphasises the fundamental difference between the principles of accountability and of public scrutiny when applied to the activities of individuals, partnerships and companies incorporated under the Companies Code, on the one hand, and the activities of Government agencies on the other.

The Committee has recommended, in line with its general position on the question of compliance exemptions, that exemptions or extensions relating to the appointment of the Auditor-General as external auditor of subsidiaries should be granted only in exceptional circumstances. The Committee, further, expects that the reasons for such exemptions be fully reported. Legislative amendments are required to bring within the Public Finance and Audit Act 1983, subsidiaries which have been established by budget sector government departments and jointly by departments and statutory authorities.

The Committee has also recommended a tightening of the requirement under the annual reporting legislation to disclose "*particulars*" as to the existence of, operations and arrangements with subsidiaries, partnerships, joint ventures and other associations. Consideration should also be given to legislating for public sector disclosure provisions relating to "*material right or investment in a business undertaking*" similar to those under Schedule 7 of the Companies (New South Wales) Code.

The Committee has, in the context of significant changes taking place in the public sector, reaffirmed its commitment to monitoring and working to improve the financial management and accountability of authorities of the State. In particular, the Committee will review after twelve months the corporatisation of selected government trading enterprises provided for by the recently enacted State Owned Corporations Act 1989, and the implications of the newly defined regime of accountability for state owned corporations.

LIST OF RECOMMENDATIONS

1. It is recommended that the Treasurer, after consulting with the Auditor-General, resolve the confusion which exists over what is meant by *submit* financial statements within six weeks and what is meant by date of lodgement; ariel, clarify for Department Heads and statutory bodies the deadline for preparation of financial statements. (Chapter 2, page 13.)

It is recommended that the Treasurer liaise with the Auditor-General to eliminate any discrepancies between the Annual Exemptions Reporting Register and the applications for extensions of time to submit financial statements as shown in the Auditor-General's Report. (Chapter 2, page 20.)

3. It is recommended that Section 41A of the Public Finance and Audit Act be amended to require the presentation of draft financial statements within six weeks.

It is recommended that the Treasurer consult with the Auditor-General and other interested parties and determine the most appropriate period within which the signed and audited statements must be completed, and that the Public Finance and Audit Act be amended accordingly. (Chapter 2, page 27.)

4. It is recommended that it be mandatory for a letter of transmittal to be included in an annual report prepared by a Department Head or statutory body.

It is recommended that the letter of transmittal include a statement signed by the Department Head or, in the case of statutory body, two Board Members stating:

- a) that the annual report is submitted to the responsible Minister for presentation to the Parliament;
- b) that the annual report has been in prepared in accordance with the provisions of the appropriate legislation (to be listed in each case):

Public Accounts Committee

- c) where the Treasurer has granted an extension of the period within which the report was to be completed and submitted to the Minister, the particulars of that extension; and
 - d) where a report was not prepared and submitted to the Minister within the statutory period and no extension was sought:
 - i) why no application for an extension was made; and
 - ii) setting out the reasons for the report not having been submitted within the required period. (Chapter 4, page 47.)
5. It is recommended that the Minister, when tabling annual reports, be required to make a concise statement to the Parliament which:
- a) draws attention to any report which is tabled later than the tabling deadline for the year to which the report relates;
 - b) states the length of the delay; and
 - c) explains the reason(s) for late tabling.

If a House of Parliament is not sitting at the time the Minister seeks to table the annual report later than the appropriate tabling deadline, the Minister provide the Clerk of a House of Parliament with the report and a written explanation for the late tabling.

When announcing receipt of the report, the Clerk to read the Ministerial statement. (Chapter 4, page 49.)

6. It is recommended that a system be established which reduces as far as possible any delay between tabling of an annual report and its availability to Members of Parliament and the public. (Chapter 4, page 52.)

The Challenge of Accountability

7. It is recommended that at the time an annual report is tabled, there be sufficient copies available for all Members of Parliament. (Chapter 4, page 53.)
8. It is recommended that whatever agency assumes the role of distributing annual reports, it be required to forward two copies of each annual report to the Public Accounts Committee no later than one week after the report is tabled. (Chapter 4, page 53.)
9. It is recommended that in future, the Treasury Annual Report fully disclose action taken to:
 - a) monitor compliance with the annual reports Acts;
 - b) follow up with individual authorities instances of non-compliance with those Acts;
 - c) improve the level of compliance with those Acts;
 - d) update and improve accounting systems and procedures; and
 - e) administer the Public Finance and Audit Act generally. (Chapter 5, page 57.)
10. It is recommended that non-compliance with the Public Finance and Audit Act or the Annual Reports Acts be held to be performance below the expected level of the responsible officer. (Chapter 5, page 59.)
11. It is recommended that the Treasurer, the responsible Minister and, where appropriate, the Auditor-General continue the practice of rigorously examining applications for exemptions from current reporting requirements and of granting exemptions in special circumstances only. It is recommended that the organisation, annual report describe any exemptions granted. (Chapter 6, page 69.)

Public Accounts Committee

12. It is recommended that the Treasurer review whether the public sector should adopt disclosure requirements relating to "*a material right or investment in a business undertaking*" similar to those set down under Schedule 7 (Clause 33) of the Companies (NSW) Code. (Chapter 7, page 83.)

13. It is recommended that exemptions or extensions relating to the appointment of the Auditor-General as external auditor of subsidiaries of statutory bodies be granted only in exceptional circumstances.

It is recommended that the reasons for such exemptions be fully reported. (Chapter 7, page 84.)

14. It is recommended that the Treasurer precisely define the *particulars as to the existence of, arrangements with and the operations of subsidiaries, partnerships, joint ventures and other associations ...* (Section 4 (1)(n), Annual Reports Regulation, 1985) which must be included in the annual report of each statutory body. (Chapter 7, page 89.)

15. It is recommended, following precise definition by the Treasurer of the *particulars* to be required under Section 4 (1)(n) of the Annual Reports (Statutory Bodies) Regulations, 1985, that:

a) resources be allocated within Treasury to monitor the level of compliance;
and

b) the Treasurer report the results to Parliament. (Chapter 7, page 90.)

16. It is recommended that where subsidiaries are established by budget sector Government departments and jointly by departments and statutory bodies that legislative amendment require the subsidiaries to be brought within the Public Finance and Audit Act, 1983. (Chapter 7, page 90.)

1. INTRODUCTION

ORIGINS OF THE STUDY

- 1.1 Compiling accurate, meaningful financial information; submitting financial statements promptly for independent external audit; and producing annual reports on objectives, activities, financial affairs and performance, are key elements of the accountability of government departments and statutory bodies.
- 1.2 Public pressure, and the financial climate of government and the state and national economies, demand more than ever before that these authorities account through Parliament to the electorate for their stewardship of public money and resources. Government must demonstrate that it has achieved sound financial management, efficiency and effectiveness of operation, and delivered value for money.
- 1.3 This report is part of the Public Accounts Committee's on-going program investigating public sector financial management and accountability. The Committee has a considerable interest, and indeed a long-standing involvement, in reviewing and working to improve public sector accounting and reporting and the overall level of accountability to Parliament of authorities of State.
- 1.4 In more specific terms, the report arose from the following considerations.

The Challenge of Accountability

FOLLOW UP TO PAST COMMITTEE INQUIRIES AND CONCERNS

1.5 The Committee wished to follow up a number of issues raised in previous reports relating to compliance with accounting and reporting standards:

1) in its *"Follow-up Report on Annual Reporting of Statutory Authorities"* (July 1986), the Committee stated that it was *"most dissatisfied with the attitude of many statutory authorities towards the annual reporting regulations"*¹. The Committee foreshadowed a future review of:

* the number of exemptions sought from the Treasurer; and
* the *"disturbing"* incidence of unauthorised non-compliance with the legislation.

2) the Committee's *Supplementary Report* (September 1987) examined the timeliness of annual reporting and the availability of annual reports to Members of Parliament. The Committee considered the performance of statutory bodies in lodging reports was *"unacceptable"* and was *"appalled"* at the level of compliance by departments². The Committee stated that it intended:

*"to monitor future lodgement performance of both statutory bodies and departments and gives notice of its intention to analyse overall compliance with annual reporting legislation"*³.

ISSUES ARISING FROM THE AUDITOR-GENERAL'S 1988 REPORT

1.6 One of the functions of the Committee, under Section 57(1)(c) of the Public Finance and Audit Act, 1983, (hereafter "the Act") is *"to examine the reports of the Auditor-General"*.

1 Public Accounts Committee Follow-Up Report on Annual Reporting of Statutory Authorities, Report No. 26, July 1986, page 27.

2 Public Accounts Committee Supplementary Report for the Year Ended 30 June 1987 Report No. 34, September 1987, page 12.

3 *Ibid.*, page 13.

Public Accounts Committee

- 1.7 The Committee was disturbed at the number of departments and statutory bodies shown in the Auditor-General's Report for 1988 as having failed to comply with the Act or the Annual Reports Acts and related regulations. In particular, a large number of financial statements were submitted late or had not yet been received by the Auditor-General, and many statements had been returned for major adjustment.
- 1.8 The Committee also noted the growing number of statutory bodies involved in subsidiary companies, partnerships, joint ventures and trusts. These entities were prominent among those in default of the accounting and reporting legislation. The Committee shared the Auditor-General's concern about the potential problems relating to the accountability to Parliament of these new public sector arrangements.

PROBLEMS WITH THE ACCOUNTS

- 1.9 In examining "*the accounts of authorities of the State*" pursuant to Section 57 (1) (b) of the Act, the Committee pays particular regard to any case where a qualified audit certificate is issued. Auditors do not issue a qualified opinion lightly - such action may indicate that there are major problems with the accounts.
- 1.10 The Committee was, therefore, very concerned to note a significant increase in the number of qualified opinions expressed about accounts during the 1987/88 financial year. Forty-six qualified accounts were shown in the Auditor-General's Report for 1988; as a proportion of total audits this was double the figure for the previous year.

The Challenge of Accountability

TERMS OF REFERENCE

1.11 The Committee resolved, under Section 57(1) of the Act, to undertake an examination into selected aspects of the accounts of authorities of the State, with particular reference to:

- 1) the non-lodgement and/or late lodgement of financial statements;
- 2) applications by statutory authorities for extensions of time for the lodgement of financial statements;
- 3) the circumstances by which the Auditor-General returned financial statements for adjustment;
- 4) the qualified audit certificates issued by the Auditor-General and the reasons for such qualification;
- 5) the accountability of subsidiary companies, related companies, partnerships, trusts, joint ventures or other such associations; and
- 6) any other matter relating to the accountability of authorities of the State and their subsidiaries and related bodies.

1.12 The Committee's focus is on the accounts dealt with in the Auditor-General's Report for 1988.

RELEVANCE OF THE STUDY

MONITORING COMPLIANCE WITH LEGISLATION

1.13 More than five years have elapsed since the Parliament enacted legislation to improve the administration and audit of accounts of authorities of the State. The Act introduced standardised and improved accounting and financial disclosure requirements and defined a complex set of "accountability relationships", elements of which were the Auditor-General and the Public Account, Committee.

1.14 The Annual Reports (Statutory Bodies) Act, 1984 and the Annual Report (Departments) Act, 1985 and further amendments to the Act and the regulations thereunder, set out the requirements for annual reporting to Parliament.

Public Accounts Committee

- 1.15 The Committee was disturbed to find that many authorities of State are not complying with the spirit and letter of this important legislation. Problems which the Committee found in its earlier reviews have continued.
- 1.16 The Parliament and the public, on whose behalf departments and statutory bodies are operating, have the right to expect that those authorities will meet their accounting and reporting obligations.
- 1.17 This examination sought to:
- * "call to account" defaulting authorities;
 - * examine selected aspects of accounting and reporting on a case by case basis; and
 - * identify any general problems and whether there is a need for legislative or administrative change across the public sector.

CHANGES IN THE PUBLIC SECTOR

- 1.18 The Committee's examination of selected aspects of public sector accounting and reporting took place against the following background.

Pressure on Governments

- 1.19 Australian governments at all three levels - Commonwealth, State and Local - have become involved in providing a vast array of goods and services. There has been explosive growth in government spending and employment over the past decade. The NSW Commission of Audit reported that *the public sector in Australia now employs over 30% of all wage and salary earners and total public sector outlays now account for 42% of the nation's Gross Domestic Product*

4 New South Wales Commission of Audit (1988) Focus on Reform: Report on the State's Finances, Volume 1, page 1.

The Challenge of Accountability

- 1.20 The public expects, and the financial climate demands, that the public sector share of the State's resources is used with due economy, efficiency and effectiveness. Further, the public has increasingly inquired, often through Parliament, into the spending of taxpayer's money and whether it has been spent wisely and honestly.

Developments in Public Sector Management

- 1.21 Reforms begun under the NSW Labor Government and accelerated under the present Liberal Government have shifted public sector management away from a focus on inputs and processes, towards an interest in outputs, efficiency and effectiveness⁵. Responsibility for the management of individual enterprises is being devolved; "*let the managers manage*" is the catch-cry. Increasing emphasis is being placed on commercial management principles.

- 1.22 The greater emphasis on commercially-oriented management has already led statutory bodies to form a number of subsidiary companies and to have greater involvement in trusts, partnerships and joint ventures. These developments raise questions about the adequacy of existing arrangements for accountability to Parliament.

- 1.23 Under current State Government policy, agencies which provide services to the community but do not form part of the traditional inner budget sector are to be progressively converted from costs centres into profit centres through:

- * commercialisation;
- * corporatisation; and
- * privatisation⁶

- 1.24 Legislation has recently been enacted to provide for the setting up of an entirely new form of government organisation. The State Owned Corporations Act, 1989 establishes the framework for selected government trading enterprises to operate

5 P. Forward "Overview of Corporatisation - The Transition to Commercialisation" Paper presented at the Corporate Planning Group Seminar, Australian Institute of Management, Sydney, 22nd August, 1989.

6 R.G. Humphry "New Directions in Public Sector Management" Paper presented to the Australian Society of Accountants, State Congress and Exhibition, Sydney, 14th - 16th March 1989.

The Challenge of Accountability

METHOD OF INVESTIGATION

1.30 The Committee conducted its examination between February and September 1989, concurrent with a number of its other inquiries. The method of investigation included:

- * a review of submissions and correspondence received in response to advertisements issued in the *Sydney Morning Herald*, *Daily Telegraph* and *Financial Review* on 31st March, 1989 (Appendix 1);
- * requests for specific information from Ministers;

a review of explanations from certain departments or statutory authorities (Appendix 2);

- * public hearings (Appendix 3);
- * consultations with other State and Commonwealth Treasury, Public Accounts and Audit Office officials; and
- * extensive informal and formal discussions with a number of senior academics and professional bodies in the areas of accounting and business administration.

1.31 In addition, officials from a number of organisations, in particular Treasury, the Auditor-General's Office and the Corporate Affairs Commission, provided valuable information and advice to the Committee.

1.32 The Committee was very pleased with the level of cooperation received during its investigation.

Public Accounts Committee

as state owned corporations limited by shares under the Companies (New South Wales) Code. Provisions in the Act significantly redefine the notion of accountability and the processes by which it is to be achieved.

FOCUS ON ACCOUNTABILITY

- 1.25 There is considerable interest in whether government bodies are meeting their accounting and reporting obligations, and in the implications for accountability of the new forms and activities of government bodies. Since the Committee began its examination into the "*the challenge of accountability*" it has become aware that a number of other agencies are carrying out projects in related areas.
- 1.26 The Committee understands that the New South Wales Treasury, with the assistance of a consultant, is conducting a major review of the legislative framework for accounting and reporting by statutory bodies. This review appears to have arisen, at least in part, from the Commission of Audit Report which noted the differential reporting requirements in the public and private sectors and their implications in the context of moves toward commercialisation and corporatisation of selected State organisations.
- 1.27 The Inter-Departmental Committee on Government Publications in New South Wales is currently examining the purpose, preparation, costs and distribution of the whole range of government publications (including annual reports).
- 1.28 The Senate Standing Committee on Finance and Public Administration (SSCFPA) is currently holding an Inquiry into Commonwealth Government Companies. The SSCFPA is investigating the formation, operations and accountability of government companies.
- 1.29 The Commonwealth Joint Parliamentary Committee of Public Accounts (JCPA) has commenced a review of annual reporting guidelines for Commonwealth statutory authorities. The JCPA has also announced an inquiry into the issue of what the real or claimed social responsibilities of statutory authorities and government business enterprises are, and how their performance against these criteria can be measured.

Public Accounts Committee

2. PREPARATION AND SUBMISSION OF FINANCIAL STATEMENTS

INTRODUCTION

- 2.1 Preparation and submission of comprehensive, accurate financial statements within a certain time frame is a critical element in the intent and operation of accounting and reporting legislation.
- 2.2 Under the Public Finance and Audit Act, 1983 (hereafter "the Act"), a Department Head or statutory body has an obligation:
- 1) to keep proper accounts and records in relation to all of the organisation's operations; and
 - 2) within, *six weeks* after the end of the financial year concerned, to prepare and submit:
 - a) to the Minister; and
 - b) to the Auditor-General, for verification and certification,financial statements for the financial year then ended.
- 2.3 Within *ten weeks* of receiving the financial statements of a statutory body, the Auditor-General is required to audit the accounts of that body and furnish a certificate:
- 1) stating that the audit has been completed;
 - 2) indicating whether the financial statements meet statutory obligations; and
 - 3) setting out any qualifications subject to which the certificate is issued.

The Challenge of Accountability

- 2.4 Financial statements and the Auditor-General's certificate must be included in the annual report to be forwarded to the responsible Minister *within four months* and tabled *within five months* of the end of the organisation's financial year.
- 2.5 This tight timetable for the compilation and external audit of financial statements is designed to make available to Parliament and the public certified details of the financial affairs of public bodies as soon as practicable after the end of the organisation's financial year.
- 2.6 The Committee is, therefore, disturbed to find that many organisations are not meeting their obligations to submit their accounts to the Minister and to the Auditor-General within the statutory period.

PUNCTUALITY

- 2.7 The signed financial statements of 81 accounting entities under the Act were received after the due date (i.e. outside the normal period or period of approved extension) or had not yet been received, according to the Auditor-General's Report for 1988 (see Appendix 7).
- 2.8 The Committee considers that this figure is unacceptably high: it means, allowing for accounts outstanding from previous years, that the financial statements of approximately one in five of the organisations and activities audited by the Auditor-General, were not received within the statutory period.
- 2.9 Smaller statutory bodies and subsidiaries were the main offenders. Area Health Services and Health Professional Registration Boards were the two categories of statutory bodies most frequently listed. The largest number of defaulting subsidiaries were associated with the Maritime Services Board¹.

1 Auricle Pty Ltd, Bathys Pty Ltd, Maimon Pty Ltd, Nerval Pty Ltd, Saroyan Pty Ltd, Tulasne Pty Ltd, and Vambery Pty Ltd.

Public Accounts Committee

- 2.10 In the case of Area Health Services, 1987/88 was the first year they were required to submit accounts to the Auditor-General. In his first year as auditor, the Auditor-General reported a number of concerns, including late availability of financial statements. The Committee received assurances from the Acting Minister for Health, The Hon. J. R. Dowd, M.P., that the reorganised Areas had been advised of their reporting responsibilities.
- 2.11 Of the financial statements listed in the Auditor-General's 1988 Report *as 'due but not yet received'*, the following were still outstanding as at 31st August 1989:
- * Year Ended 30 June 1986
 - Central Coast Regional Aboriginal Land Council
 - Western Metropolitan Regional Aboriginal Land Council
 - * Year Ended 30 June 1987
 - Central Coast Regional Aboriginal Land Council
 - Leewood Industrial Estate Joint Venture
 - Western Metropolitan Regional Aboriginal Land Council
 - * Year Ended 30 June 1988
 - Leewood Industrial Estate Joint Venture
 - Western Metropolitan Regional Aboriginal Land Council²

PERIOD OVERDUE

- 2.12 An analysis of accounts for the year ended 30th June, 1988 received after the due date (11th August, 1988), including cases where an extension of time was granted, shows that over a quarter (27.3%) of the statements were received within seven days of the due date (see Table 2.1). Almost half of the statements, however, were more than four weeks late, and almost a quarter were more than four months overdue.

² New South Wales Auditor-General's Report for 1989, Volume 2, page 435.

The Challenge of Accountability

TABLE 2.1

Signed Financial Statements for the Year Ended 30th June, 1988 Received
After the Original Due Date: Number of Weeks Overdue

PERIOD OVERDUE	PERCENTAGE OF STATEMENTS RECEIVED	
	%	CUMULATIVE %
1 week or less	27	27
2 weeks	7	34
3 weeks	11	45
4 weeks	7	52
5 - 8 weeks	15	67
9 - 12 weeks	10	77
17 plus weeks	24	

EXPLANATORY NOTES:

1. Table is based on the Auditor-General's Report for 1988 and Volume 1 of his Report for 1989, and additional information supplied by the Auditor-General's Office.
2. Figures rounded upwards; do not total 100.
- 2.13 The Committee does not accept the proposition that *'it's not so bad if one is only a few days or weeks late'* It is important that signed financial statements be supplied to the Minister and be available for external audit on time.

CLARIFICATION OF THE DEADLINE

- 2.14 The Committee has found some ambiguity in the interpretation of the statutory period for the preparation of financial statements.
- 2.15 The Act states that a statutory body or Department Head (other than the Auditor-General) *"shall within the period of six weeks after the end of each financial year ... prepare and submit... financial statements for the financial year then ended"* (Sections 41A and 45D).

Public Accounts Committee

- 2.16 Some of the organisations contacted by the Committee suggested that their financial statements were *submitted* on time; that is, they were *sent* by post, courier or facsimile to the Auditor-General's Office within the six week period. The Auditor-General, however, reports the *date received*.
- 2.17 Facsimile communication is a special case, where it is usually assumed that the date of transmission and date of receipt will be the same. The Illawarra Technology Centre, for example, advised that their accounts were sent by facsimile on 11th August, 1988; date of receipt is, however, shown in the Auditor-General's 1988 Report (volume 3, page 368) as 15th August, 1988.
- 2.18 The arguments may be purely semantic. Any ambiguity about the reporting deadline should, however, be removed.

Recommendation

It is recommended that the Treasurer, after consulting with the Auditor-General, resolve the confusion which exists over what is meant by "submit" financial statements within six weeks and what is meant by date of lodgement; and, clarify for Department Heads and statutory bodies the deadline for preparation of financial statements.

REASONS FOR LATE SUBMISSION

- 2.19 The 31 written explanations provided to the Committee were summarised and examined on a case by case basis.
- 2.20 The Committee is satisfied that each organisation has been called to account and '*put on notice*'. The Committee was informed of the steps being taken to overcome problems and ensure the timely submission of accounts in future. It therefore resolved that no further action was necessary in respect of any individual organisation.

The Challenge of Accountability

2.21 Whilst it resolved not to pursue any individual case, the Committee is disturbed at some of the "*reasons*" offered for late submission. Those of particular concern are:

- * a lack of knowledge of reporting requirements;
- * inadequate financial information management systems; and *
- * poor planning and communication with other agencies.

2.22 To provide an overall analysis of reasons for late submission of financial statements, explanations provided to the Committee were grouped into a number of general categories - see Table 2.2.

Public Accounts Committee

TABLE 2.2

Late Submission of Financial Statements: Frequency of Reasons Given

REASON	FREQUENCY
Staffing	9
Relationships with other agencies	7
Inadequate or incorrect knowledge of reporting requirements	5
Changes requested by the Auditor-General	5
Computer-associated problems	2
Conveyance (post, collection)	2
Accounting problems	2
Abnormal work pressures	1
Submitted without proper signatories	1
Ready but delays in adopting/signing Auditor-General's request to trial a new accounting format	1
Impending privatisation	1
Complications arising from alleged fraud	1

EXPLANATORY NOTES:

* Excludes: subsidiaries of GIO, Maritime Services Board, State Superannuation Fund and State Bank of NSW; Regional Aboriginal Land Councils (discussed separately); Area Health Services (reorganised: no individual explanations able to be provided).

* Some organisations gave more than one reason.

* The nine Health Professional Registration Boards, whose explanations were identical, are counted only once.

The Challenge of Accountability

2.23 The problem most frequently referred to was staffing. For example:

small accounts sections;

- * key accounts personnel leaving the organisation, and difficulties in replacing them; and
- * the effects of appointing new staff members unfamiliar initially with the accounts or with reporting requirements.

2.24 Several bodies mentioned that problems were caused because of complex relationships with other agencies:

- * they had to rely on other agencies to supply information (some of which operated on a different financial year); or
- * they were responsible for preparing accounts for more than one agency; or
- * joint venture partners were unclear as to their responsibilities and the reporting requirements.

2.25 Misunderstandings or lack of knowledge of the statutory requirements, sometimes due to staffing problems or difficulties experienced by newly established organisations, was the next most frequently given explanation.

2.26 In the case of a number of subsidiaries of the Maritime Services Board the General Manager submitted evidence to the Committee not only of uncertainty about what was required but also of the impact of differential reporting requirements on the preparation and submission of financial statements:

Public Accounts Committee

'... there is some initial confusion because they were companies, registered under the Companies Act. Documents were lodged, as I understand it, with the Corporate Affairs Commission but because they were wholly owned subsidiaries of the board, the Auditor-General indicated also that he wanted financial statements lodged with him which differed in a number of respects from the way they are prepared for the Corporate Affairs Commission. So we had to take them back and rework them to fit with the requirements of the Auditor-General

- 2.27 It might, however, reasonably be expected that an organisation the size of the Maritime Services Board would possess the resources necessary to avoid such uncertainty and delay. The Committee expects that the accounts of the Maritime Services Board and its subsidiaries will be submitted on time in future.
- 2.28 In some cases, the Committee was advised that the Auditor-General required changes in substance or presentation of the financial statements. The extra work involved, and in some instances the difficulty of convening meetings to adopt and sign the amended statements, meant the final statements were not received within the six weeks' period.

REMEDIAL ACTION

- 2.29 The Committee was pleased overall to note the remedial actions taken and the commitment to timely submission of accounts in future which was expressed.
- 2.30 In some cases, the changes required were fairly straightforward, including:
- * informing staff of the reporting requirements;
 - * preparing an annual financial reports timetable;
 - * backing up computer files;
 - * checking that the accounts have actually been delivered; and
 - * ensuring key personnel are available to adopt and sign the statements.

3 Minutes of Evidence, 7th March, 1989, page 43.

The Challenge of Accountability

- 2.31 In other cases, more fundamental changes were required. With the Bathurst Trade Centre/Leewood Estate/Windradyne joint ventures, for example, new agreements had to be negotiated, clearly setting out the partners' responsibilities and statutory accounting and reporting obligations, and improving co-ordination with local councils.
- 2.32 Some organisations informed the Committee that a re-organisation of their Accounts sections was required; and, in a few instances, this included the appointment of additional staff.
- 2.33 Mitchellsearch Pty Ltd was one example of a body which advised that delays had occurred because its accounts for the year ended 31st December, 1987 were processed as a subset of another agency's ledger. Since then, the company has recruited additional staff and installed a separate computerised accounting system, and company staff are now wholly responsible for preparation of annual accounts.
- 2.34 The Committee will be following up by examining whether the required changes have been implemented. Any authority which has again failed to lodge financial statements on time (in 1988/89) will be subject to particularly close scrutiny.

EXTENSIONS OF TIME

PROCEDURE

- 2.35 There is provision within the Act for a statutory body or a Department Head (other than the Auditor-General) to apply to the Treasurer at any time within the period of six weeks after the end of the organisation's financial year for an extension to the lodgement period. The Treasurer may, after consultation with the appropriate Minister and the Auditor-General, grant an extension.

Public Accounts Committee

2.36 The Committee has been advised by the Treasury Secretary that:

"In evaluating applications for extensions of time for the submission of financial statements, the following criteria are considered relevant (though not necessarily exhaustive):

- 1) *exceptional circumstances beyond the control of the organisation, for example, the sudden closure of an administrative unit resulting in loss of key personnel,.*
- 2) *legislative changes which take effect shortly after the commencement of a financial year ...;*
- 3) *appointment of a new Board for a statutory body around the end of financial year. An extension of time is warranted where the previous Board has been financially inept. The new Board needs to be given adequate time to take stock of the financial situation,.*
- 4) *transfer of significant programs from one department to another towards the end of the financial year,;*
- 5) *start-up difficulties experienced in the first year of operation of a statutory body; and*
- 6) *significant change in accounting policies, for example, from cash or modified accrual accounting to full accrual accounting.*

Unacceptable reasons for an extension of time include continuing difficulties with management information and reporting systems, work overload in the organisation, and a history of requesting similar exemptions.

RECORDS HELD

2.37 The Treasury compiles an Annual Reporting Exemptions Register (a register of **all** applications and their outcomes) which includes extensions granted under Sections 41A, 42 and 45 of the Act.

2.38 The Auditor-General's Report for 1988 notes in the text and appendices where an application for an extension of time was made.

4 Letter to the Committee, 22nd September, 1989.

The Challenge of Accountability

- 2.39 The Committee found, however, discrepancies between the two sources.
- 2.40 The Auditor-General, for example, notes that Cumberland College of Health Sciences applied for an extension of time to submit its accounts for the year ended 31st December, 1987⁵. This application is not shown in the Treasury's List of Authorities and Exemptions Register (dated 17th July, 1989). Similarly, applications made by the Mines Rescue Board and Ministry of Transport⁶, are not listed.
- 2.41 The Treasury Register should be authoritative - not only for the purpose of the Treasury's monitoring role but to assist other bodies, such as the Committee, interested in the record of applications for exemptions.

Recommendation 2

It is recommended that the Treasurer liaise with the Auditor-General to eliminate any discrepancies between the Annual Exemptions Reporting Register and the applications for extensions of time to submit financial statements as shown in the Auditor-General's Report.

NUMBER OF APPLICATIONS

- 2.42 In the period 1983/4 to 1987/8, the Annual Reporting Exemptions Register (as at 17th July, 1989) records a total of 105 formal applications for extensions under Sections 41A, 42(3) and 45H(3) of the Act. (See Summary in Appendix 5.)
- 2.43 Table 2.3 shows the number of organisations which applied for an extension of time for the financial years 1983/84 to 1987/88.

⁵ New South Wales Auditor-General's Report for 1988, volume 1, page 49, page 167.

⁶ *Ibid.*, page 167; volume 2, page 470.

⁷ Table 2.2 does not include an application made by the Aboriginal Land Council NSW because no date is shown in the Treasury Register. In addition, four applications have been made for a permanent extension.

Public Accounts Committee

TABLE 2.3

Number of Applications for Extension of Time to Submit Accounts

FINANCIAL YEAR OF APPLICATION	NUMBER OF APPLICATIONS
1983/84	8
1984/85	23
1985/86	37
1986/87	28
1987/88	11

SOURCE: Compiled from the Treasury's Annual Reporting Exemptions Register, List of Authorities and Exemptions, 17/7/89

- 2.44 The Committee found that, as illustrated in Table 2.3, many organisations had difficulties meeting the deadline for submission of financial statements and other new accounting and reporting demands set out in the Annual Reports (Statutory Bodies) Act, 1984 and Annual Reports (Departments) Act, and related regulations; Public Finance and Audit Act (Statutory Bodies) Regulation, 1985 and Public Finance and Audit Act (Departments) Regulation, 1986⁸
- 2.45 In the Second Reading Speech of the Annual Reports (Statutory Bodies) Bill on 9 May 1984, the then Treasurer The Hon. K. G. Booth, M.P., said that he *"anticipated some of the new requirements could pose problems in the initial years and some tolerance will be needed"*:
- 2.46 It is pleasing to see that far fewer applications for an extension of time were made in 1987/88. Taken alone (as in Table 2.3), this would seem to represent an improved level of performance. The Committee found, however, that the overwhelming majority of organisations whose signed financial statements for the year ended 30th December 1987 or 30 June 1988 were not received within the statutory period, *did not* apply to the Treasurer for an extension.

⁸ See Public Accounts Committee Follow-Up Report on Annual Reporting of Statutory Authorities. Report No. 26, July 1986, page 26.

The Challenge of Accountability

FAILURE TO APPLY FOR AN EXTENSION OF TIME

- 2.47 The explanation most frequently given to the Committee as to why no application for an extension of time had been made was that the organisation believed that their accounts would be submitted on time; there had been, however, "*last minute*" problems and unanticipated delays.
- 2.48 Misunderstandings as to the auditing and reporting requirements and deadlines was another explanation put forward by some organisations.
- 2.49 Inadequate knowledge of reporting requirements, poor planning, and administrative oversight in not applying to the Treasurer for an extension of time are not acceptable explanations.
- 2.50 Some organisations failed to explain or justify to the Committee their failure to seek an extension of time. It would appear that some did not bother to apply for an extension; feeling that it was not important to do so. A number of respondents implied that they were "*only a few days late in any case*". The Committee finds this an unacceptable attitude toward the legislation.
- 2.51 Statutory bodies and Department Heads applying for an extension are required under the Act, to "*include detailed reasons and other relevant information in support of the application*". The Committee suspects that organisations may not be applying to the Treasurer for an extension where they feel they could only offer trivial explanations or where an application might suggest poor management on their part. The Committee noted advice from the Treasury that unacceptable grounds for requesting an extension of time include continuing difficulties with management information and reporting systems, work overload in the organisation, and a history of requesting similar exemptions.
- 2.52 The Committee notes that the Auditor-General will often report to Parliament on problems with individual statutory bodies submitting accurate financial accounts on time.
- 2.53 A number of organisations also advised the Committee that Treasury had sought explanations for the delay in forwarding accounts.

Public Accounts Committee

- 2.54 The Committee foreshadows its intention to examine all cases in the 1988/89 reporting year of *unauthorised* non-compliance with Sections 42(2) and 45H(2) of the Act.

FINANCIAL STATEMENTS RETURNED FOR ADJUSTMENT

- 2.55 The Committee investigated the cases listed in the Auditor-General's Report for 1988 (volume 3) of organisations whose financial statements were returned for adjustment but from whom revised statements had not yet been received (see Appendix 6).
- 2.56 Five Regional Aboriginal Land Councils were listed (their special situation is discussed in the final part of the Chapter). Issues in relation to the subsidiaries of the State Bank of NSW and the State Superannuation Board, were dealt with in public hearings conducted by the Committee. Written explanations were sought from the other bodies listed.
- 2.57 The Committee noted the explanations given and the measures designed to avoid problems in the future. The Committee resolved not to take any further action on the matters raised.

ABORIGINAL LAND COUNCILS: SPECIAL PROBLEMS

- 2.58 The failure of certain Regional Aboriginal Land Councils to submit financial statements within the statutory period was considered separately by the Committee.

The Challenge of Accountability

2.59 In his Report for 1986/87, the Auditor-General noted that the audit of Regional Councils had proceeded at a slow rate, attributable to:

- * failure by Councils to answer correspondence;
- * Councils not providing financial statements in a format which complied with relevant legislation; and
- * records not being in a form which enabled audits to be undertaken.

2.60 The Auditor-General did report that the majority of Regional Councils:

"have moved towards improving their financial management, notwithstanding that at the date of this Report only five sets of financial statements had been received for 1986/87"

2.61 The Committee is pleased to note further improvement in this aspect of financial management and accountability, as reported by the Auditor-General in 1988:

"All Regional Councils, with the exception of Western Metropolitan and Wiradjuri, submitted financial statements within the time required under Section 41A of the Act. The statements for Western Metropolitan are still to be presented."

The overall position is a marked improvement on the performance of previous years

2.62 Letters were sent by the Committee to three Aboriginal Land Councils (Central Coast, Western Metropolitan, Wiradjuri) seeking an explanation of statements received late or still outstanding. No replies were received.

2.63 In his Report for 1988, the Auditor-General also noted that the financial statements of six Regional Councils had been returned for adjustment but revised statements had not yet been received (see Appendix 6).

9 New South Wales Auditor-General's Report for 1986/87, Part II, page 205. 10 New South Wales Auditor-General's Report for 1988, Volume 2, page 19.

Public Accounts Committee

- 2.64 The Committee wrote to each Council seeking an explanation and update of the situation. No replies were received.
- 2.65 Numerous instances of Regional Councils failing to reply to correspondence and requests have also been reported by the Auditor-General.
- 2.66 The Committee recognises and is sympathetic to the many administrative difficulties faced by Regional Aboriginal Land Councils related to personnel, available expertise, information management resources and local priorities and pressing needs.
- 2.67 This does not, however, excuse the failure of some Councils to meet their statutory accounting and reporting obligations to Parliament and the public.
- 2.68 The Committee has been advised by Mr Neville G Perkins, OAM, Director of Aboriginal Affairs, that in light of concerns raised about financial management and accountability and "*other equally serious concerns*";

'... the NSW Government has stated its intention to repeal the present NSW Aboriginal Land Rights Act and to present draft legislation to the 1989 Budget Session of Parliament which will provide sweeping changes in the administration of Aboriginal Affairs in New South Wales. The proposed changes are outlined in the Government's Green Paper: "New Directions in Aboriginal Affairs":

- 2.69 Mr Perkins explained that, in summary:

"the Government intends to repeal the 1983 Land Rights Act ... and to establish an Aboriginal Affairs Commission ':

'The proposed Aboriginal Affairs Commission is expected to become solely responsible for meeting the reporting requirements of the Act in so far as they presently apply to 13 Regional and the N.S. W. Aboriginal Land Councils. "

11 Letter to the Committee, 13th July, 1989.

The Challenge of Accountability

- 2.70 The Committee understands that the Government is presently reconsidering these proposals. The Committee foreshadows its intention to monitor the implementation of improved financial management and accountability in Aboriginal affairs.

SUGGESTED CHANGES TO THE TIMEFRAME FOR SUBMISSION OF FINANCIAL STATEMENTS

- 2.71 Evidence was presented to the Committee suggesting that the requirement to submit signed financial statements within six weeks of the end of the financial year should be amended. This requirement poses a particular problem for smaller authorities with limited administrative and accounting personnel, and it is also often difficult for a statutory body to arrange for its board to meet and to adopt and sign the statements within six weeks. The timeframe under the Public Finance and Audit Act, 1983 may be compared with the Companies (New South Wales) Code which allows 14 weeks for preparation of signed audited statements.
- 2.72 The Committee is also aware that statements presently submitted within six weeks are often in practice merely draft figures and are subject to change frequently as a result of audit.
- 2.73 The Committee considers, therefore, that financial statements should be submitted in draft form to the Minister and to the Auditor-General within six weeks of the balance date, and that the signed and audited statements, subsequently, be completed by an appropriate date. The period for completion might well be 16 weeks, allowing 6 weeks for submission of the draft statement, and, as at present, 10 weeks for the Auditor-General to audit the accounts and furnish a certificate. This matter should however be reviewed by the Treasurer in consultation with the Auditor-General and other interested parties.
- 2.74 The Committee notes the experience and constitution of statutory authority boards is diverse, as are their financial management resources and, consequently, it may be appropriate to provide differential time-frames to recognise this diversity.

Public Accounts Committee

Recommendation 3

It is recommended that Section 41A of the Public Finance and Audit Act be amended to require the presentation of draft financial statements within six weeks.

It is recommended that the Treasurer consult with the Auditor-General and other interested parties and determine the most appropriate period within which the signed and audited statements must be completed, and that the Public Finance and Audit Act be amended accordingly.

3. AUDIT OPINIONS ISSUED BY THE AUDITOR-GENERAL: THE SPECIAL CASE OF QUALIFIED AUDITS

INTRODUCTION

- 3.1 An important part of the Auditor-General's function is the auditing of departments' and statutory bodies' annual financial statements and the issuing of an audit certificate (often referred to as an audit report or opinion) on the truth and fairness of those statements¹.
- 3.2 The Auditor-General reports that managers generally react positively to audit representations. The Auditor-General returns, for correction and re-lodgement, accounts which contain obvious errors or which require changes in presentation. *The "more sensitive issues" he has found, are often resolved by a balanced and pragmatic approach on the part of both auditors and auditees.*²
- 3.3 On occasions, however, an auditor is forced to qualify a certificate. Auditors in both the public and private sectors generally view this as a last resort. The Auditor-General notes that such action *"can strain the auditor's relationship with management and may even damage the organisation itself. Hence, qualification is not undertaken lightly"*³
- 3.4 The Committee was, therefore, very concerned at the number of qualified audit reports detailed in the Auditor-General's Report for 1988: 46 qualified certificates, in respect of the financial statements of 40 bodies, were issued out of a total of 318 audit opinions.

1 New South Wales Auditor-General's Report for 1988, Volume 2, page 94.

2 Ibid.

3 Ibid.

Public Accounts Committee

- 3.5 By comparison, fewer than half that number were issued in 1987:21 qualified certificates were issued to a total of 18 bodies (representing 7.2% in 1987 as against 14.5% in 1988).

AUDITING PRACTICE: TYPES OF OPINIONS

- 3.6 The Public Finance and Audit Act, 1983 (hereafter the Act), prescribes that the Public Accounts and such other accounts as the Auditor-General is authorised or required to audit, be audited *"in such manner as the Auditor-General thinks fit having regard to the character and effectiveness of the relevant internal control and recognised professional standards and practice"* (Section 34).
- 3.7 *The "recognised professional standards and practice"* in respect of *"The Auditor's Report on Financial Statements"* are set down in *"Statement of Auditing Practice A UP 3"*.
- 3.8 AUP 3 includes details of the types of opinions which may be expressed in the auditor's report:
1. An unqualified opinion is issued when the auditor is satisfied in all material aspects with the matters dealt with in paragraph 23, Statement of Auditing Standards AUS 1 (see Appendix 7).
 2. A qualified opinion may be either:
 - ** an exception opinion - issued when the auditor concludes that an unqualified opinion cannot be issued but that the effect of any disagreement, uncertainty or limitation on scope is not so material as to require an adverse opinion or a disclaimer of opinion;

The Challenge of Accountability

** an adverse opinion - issued when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that an exception opinion is not adequate to disclose the misleading or incomplete nature of the financial statements; or

** a disclaimer of opinion - issued when the possible effect of a limitation on scope or an uncertainty is so material that the auditor is unable to express an opinion on the financial statements taken as a whole.⁴

3.9 It is accepted within the profession that the primary object of an audit is to express an opinion on financial statements, not to detect every fraud and error. The auditor's opinion indicates that the financial statements have been audited in accordance with accounting standards and comply with appropriate legislation, and gives a reasonably high degree of assurance that the financial position exhibited is true and fair.⁵

QUALIFIED AUDIT CERTIFICATES ISSUED BY THE AUDITOR-GENERAL IN 1988

3.10 All of the qualifications issued by the Auditor-General were exception opinions.

3.11 An analysis of the basis for the qualification shows that the majority were due to departure from accounting standards or uncertainty of financial information - see Appendix 8. The remainder were due to non-compliance with the Public **Finance and Audit Act** or the Auditor-General disagreeing with the authority **over its accounting or reporting treatment**

4 "Statement of Auditing Practice" The Auditor's Report on Financial Statements, AUP 3. pages 3024 - 3025.

5 New South Wales Auditor-General's Report for 1988, Volume 2, page 109.

6 Disagreement as per paragraph 38, AUP 3.

Public Accounts Committee

DEPARTURES FROM ACCOUNTING STANDARDS

- 3.12 Departures from accounting standards were, by far, the most frequent type of qualification.
- 3.13 In a submission to the Committee, Professor Allen T. Craswell, Professor of Accounting at the University of Sydney, pointed out that this finding is consistent with experience in the private sector.
- 3.14 Professor Craswell argued that non-compliance with accounting standards can be interpreted as merely a consequence of *"attempts to fit heterogeneous firms into a single mould"*. Non-compliance may also be seen as a response to irrational accounting standards:

"For example, it seems to make little sense to require corporations to depreciate buildings when, in all probability, the value of the land and buildings is appreciating. Similar arguments can be advanced in respect of other standards such as AA 3 requiring tax-effect accounting":

- 3.15 The Committee noted that the standard most frequently departed from was AAS 4 Depreciation of Non-Current Assets. This is a matter of some concern because the thrust of AAS 4 is particularly apt for public sector *service* entities (such as water supply authorities) where there is usually no appreciation effect from the prospect of alternative *commercial* use. AAS 4 aims to progressively bring into account, by means of periodic charges against revenue, the using up or loss of a depreciable asset.
- 3.16 Advice received from the statutory bodies cited for non-compliance with AAS 4 indicated that they are now moving to compile much more adequate asset registers and calculate suitable depreciation charges.

UNCERTAINTY QUALIFICATIONS

- 3.17 Uncertainties as to payment allocations or resources are the more serious of these qualifications, as they suggest that accounting policies and procedures are not adequate or are not clearly defined.

The Challenge of Accountability

OTHER QUALIFICATIONS

- 3.18 The Committee considers that qualifications arising from failure to comply with statutory provisions are unacceptable - this situation should simply not arise.
- 3.19 A serious view is also taken of qualifications referring to *inadequate documentation*, *departure from provisions of trust deed* and *certain revenue items inadequately controlled*. The Committee concurs with the conclusion of Professor Craswell in his independent analysis of public sector audit reports, that this may *indicate significant control deficiencies*.

ACTIONS FOLLOWING THE QUALIFIED AUDIT

- 3.20 The Committee sought a written explanation from each organisation which had received a qualified audit certificate, with the exception of GIO and the State Bank whose accounts were investigated 'in a public hearing before the Committee. Each organisation was asked for its response to the concerns raised by the Auditor-General and to advise what changes, if any, had been made to accounting and/or reporting practices as a result of the Auditor-General's comments.
- 3.21 Replies were received from all organisations except the South Coast Aboriginal Land Council.
- 3.22 The advice given to the Committee on the action taken by each organisation since the issuing of the qualified audit certificate may be summarised in terms, a number of major categories of response, as set out below with examples:

Public Accounts Committee

1) Changes made to accounting policy or method of application so that the organisation now complies, as required by the Auditor-General, with Australian Accounting Standards.

Many organisations advised that they had made the changes required to comply with Australian Accounting Standards. The Broken Hill Water Board, for example, advised that it had introduced a structural depreciation policy during 1988 and now complies with AAS 4. The Teacher Housing Authority reported that it had produced a new depreciation schedule and was now in a position to depreciate non-current assets. The Water Supply authorities also moved to raise depreciation on Fixed Assets, including reservoirs, pipelines and mains. Macquarie University reported that it now complied with the standard on Stock Valuation (AAS 2).

2) Outstanding issues resolved or source of uncertainty removed.

Examples in this category included advice; that a dispute over the administration fee for services provided to the Public Servant Housing Authority by other agencies had finally been settled; that the Government Supply Office was now in a position to conduct physical stocktakes to cross-check computer valuations of stock at hand; and that the Police Department would have data from workload surveys needed to support the apportioning of salaries and related costs between programs.

3) Requirements under different legislation resolved.

Neither State Rail nor the Urban Transit Authority were required under the Transport Authorities Act, 1980 to raise depreciation or amortisation charges on fixed and leased assets. With the repeal of that Act and proclamation of the Transport Administration Act, 1988, depreciation of assets in line with Australian Accounting Standard AAS 4 has been introduced.

The Challenge of Accountability

- 4) Improvements in financial administration.

The Museum of Applied Arts and Science was one of the organisations which advised that since the Auditor-General's finding, it had moved to strengthen its accounting systems and management reporting.

- 5) **No change:** Auditor-General considers the accounting treatment appropriate in the circumstances.

There were also occasions when an exception opinion was expressed but where the Auditor-General considered that the policy adopted by the particular organisation, as disclosed in a Note to the Financial Statements, was appropriate.

For example, the C.B. Alexander Foundation did not raise a depreciation charge in accordance with Australian Accounting Standard AAS 4 for "*Tocal*" Homestead. The Auditor-General considered this to be appropriate in view of the cost to the Foundation in restoring and maintaining the building as a historical exhibit and to conform with the permanent conservation order issued under the NSW Heritage Act.

- 3.23 There were, in addition to these five major categories, individual instances of other responses. The Committee has examined each of these, and with one exception (the Lord Howe Island Board), is satisfied with the situation outlined.

THE LORD HOWE ISLAND BOARD: SPECIAL PROBLEMS

- 3.24 The Committee is concerned about the financial administration of the Lord Howe Island Board, especially in light of comments by the Auditor-General in Volume 1 of his Report for 1989.

Public Accounts Committee

3.25 The Committee sought advice from the Minister responsible, The Hon. T. Moore, M.P., Minister for the Environment, regarding both the very late submission of the Board's financial statements (due 11 August 1988, received 27 February 1989) and the qualification of the Board's accounts.

3.26 The Committee was advised that the more than six months delay in submitting financial statements resulted from the transfer of the management of the Board's accounts from the Premier's Department direct to the Board office on Lord Howe Island, the lack of trained accounting staff on the island, and arrears in accounting.

3.27 The audit certificate on the Board's financial statements was qualified by inclusion of the following:

"As in the previous year, the Board has departed from Australian Accounting Standards A/iS 1 and AAS 4 in relation to the capitalisation and depreciation of certain assets.... The effect of these departures on the financial statements cannot be quantified":

3.28 The Committee is pleased to note that the Board did bring to account in 1987/88 the costs of the airstrip, air terminal and airstrip reseal. It has been advised, however, that the Board's review of its depreciation policy and the policy for capitalisation, which was to be undertaken during 1987/88, has been deferred.

3.29 The Committee understands that the Board is again faced with a critical shortage of qualified, experienced accounting staff.

3.30 In an audit memorandum issued on 23rd March, 1989, the Auditor-General raised a number of serious issues with the Lord Howe Board management, including:

- 1) shortcomings in certain internal control, accounting and administrative practices;
- 2) lack of follow-up action on external debtors;
- 3) improvements needed in the General Ledger;

The Challenge of Accountability

- 4) the absence of an accounting manual; and
- 5) the need to implement a formal capitalisation policy for Board Expenditure.

3.31 The Committee is following up these matters and will seek further information from the Board.

CONCLUDING NOTE

3.32 The Committee is, in large measure, satisfied with the results of its examination of the comparatively large number of qualified audit certificates issued by the Auditor-General and shown in his Report for 1988.

3.33 The Committee welcomes the useful summary listings of the type of qualification and reason for qualification which now appear in the Auditor-General's Report. The Committee considers, however, that details of the particular Accounting Standard which has not been complied with might usefully be included as a matter of standard practice in future lists.

4. ANNUAL REPORTS: TIMELINESS AND AVAILABILITY

INTRODUCTION

- 4.1 Annual Reports to Parliament by Government bodies are a vital element of public sector accountability. They should provide the Parliament and the public with a full account of the objectives, activities, financial position and performance of each government department or statutory authority.
- 4.2 New South Wales has been one of the leaders in legislating common reporting requirements for public bodies, including prescriptions for the type of information to be presented, the time frame, and availability of annual reports. A former Treasurer, The Hon. Ken Booth, M.P., played a key role in these developments, as has the Public Accounts Committee.
- 4.3 In this Chapter, the Committee is concerned specifically with the timeliness of annual reports and their availability to members of Parliament and the public.

TIMELINESS OF ANNUAL REPORTING

- 4.4 The issue of timeliness in annual reporting was first addressed by the Public Accounts Committee in its Report on "*Accountability of Statutory Authorities*" (June, 1983).
- 4.5 The Committee found then that "*too many annual reports are presented too late to be useful*", and argued "*The value of information declines with age. Timeliness is therefore a cornerstone of accountability*".¹

¹ Public Accounts Committee Accountability of Statutory Authorities Report No. 7. June 1983, page 37.

The Challenge of Accountability

- 4.6 Following the Committee's Report, the then Treasurer, The Hon. K. Bootle, M.P., introduced annual reporting legislation which prescribed time limits for reporting by statutory bodies. Shortly thereafter, similar legislation was passed in respect of government departments.
- 4.7 The annual reporting legislation, the Annual Reports (Statutory Bodies) Act, 1984 and the Annual Reports (Departments) Act, 1985 require:
- * that a statutory body or department shall submit its annual report not later than four months after the end of its financial year. The report is submitted to the appropriate Minister and, where the appropriate Minister is not the Treasurer, to the Treasurer.
 - * that the appropriate Minister table the report in Parliament within one month of its receipt (when Parliament is not in session, there is provision for the annual report to be deemed to have been tabled).
- 4.8 The Committee monitored the lodgement performance of statutory bodies during 1986, the second year of the new legislative requirement. In its *"Supplementary Report for the Year ended 30 June 1987"* the Committee expressed its dissatisfaction at the high number of reports which were tabled late, describing this situation as *"unacceptable"*².
- 4.9 The performance of departments in 1986, though, was even worse. Due to the late promulgation of Regulations under the Annual Reports (Departments) Act, 1985, the Treasurer granted a general three month extension in relation to 1986 reports. Yet fewer than half of the reports were tabled within the extended period. The Committee was *"appalled at the level of compliance with the legislation"* and the number of departments which applied for an extension of time beyond the general exemption granted by the Treasurer³.

2 Public Accounts Committee Supplementary Report for the Year Ended 30 June 1987 Report No. 34, September 1987, page 11.

3 Ibid., pages 11-12.

Public Accounts Committee

- 4.10 The Committee stated that it intended to monitor future lodgement performance of both statutory bodies and departments.⁴ The results are discussed below.

DEPARTMENTS' ANNUAL REPORTS: COMPLIANCE WITH TABLING DATES

- 4.11 The Committee compiled a record of the monthly presentation to the Legislative Assembly of departmental annual reports within each of the financial years ended 30 June, 1986 to June 1988. Month of presentation was defined in terms of the date on which the Report was tabled in the Legislative Assembly or the date of receipt as announced by the Clerk of the Assembly.
- 4.12 Reports should be received no later than the end of November, that is, within five months of the end of the financial year ended 30 June.

4 Ibid., page 13.

The Challenge of Accountability

TABLE 4.1

Monthly Presentation to the Legislative Assembly of Departmental Annual Reports on the Financial Years Ended 30 June, 1986-88

YEAR ENDED	ON TIME				LATE		
	Sep %	Oct %	Nov %	Dec %	Jan %	Feb %	Later %
30 June 1986			9	3	3	34	51
30 June 1987	--	6	61	12	--	15	6
30 June 1988	3	3	74	15	5		

EXPLANATORY NOTES:

1. Reports should be presented no later than the end of November. General Extension to February for reports on the year ended 30 June 1986.
2. Monthly presentation defined in terms of the date on which the Report was tabled in the Legislative Assembly or the date of receipt as announced by the Clerk of the Legislative Assembly.
3. Excludes the Department of Education and the Department of TAFE which report for the year ending 31 December.

SOURCE: Compiled from Draft Index to the Votes and Proceedings and Papers Laid Upon the Table, and from data held in the Legislative Assembly Office.

- 4.13 **As shown in Table 4.1, there has been a marked improvement in the performance of departments in presenting their annual reports on time.**
- 4.14 In the June 1986 reporting year, fewer than half the departments' reports were received even within the extended period. The following year, over two-thirds of the annual reports were received by November. That figure rose to 80% for reports on the financial year ended 30 June 1988.

Public Accounts Committee

- 4.15 Whilst the progress overall since 1987 is gratifying, there is still further room for improvement. As shown in Table 4.1, one in five reports on activities and performance to *June* 1988 were not presented to the Legislative Assembly until *December* or later.
- 4.16 The Committee considers that all departmental annual reports should be tabled within the statutory period except in the most extraordinary circumstances. Recognition of such circumstances, provided for in Section 16 of the Annual Reports (Departments) Act, 1985, is discussed later in the section entitled "*Extensions of time sought by Department Heads and statutory bodies*".

STATUTORY BODIES' ANNUAL REPORTS: COMPLIANCE WITH TABLING DATES

- 4.17 The Committee compiled a record of the monthly receipt by the Legislative Assembly of statutory body annual reports, for the period 1986 to 1988. The financial years of statutory bodies, unlike departments, vary quite widely (ending March, June, October, December or other).
- 4.18 Reports should be presented within five months from the end of the financial year of each organisation. Table 4.2, therefore, shows the number of months after the end of the financial year within which reports were received.

The Challenge of Accountability

TABLE 4.2
Presentation to the Legislative Assembly of Statutory Body Annual Reports,
1986-88: Percentage of Reports Presented or Not Yet Presented

YEAR END	NUMBER OF MONTHS AFTER FINANCIAL YEAR END					NOT YET PRESENTED	
	On Time	Late					
	4	5	6	7	8	9 or more	
	%	%	%	%	%	%	%
1986	1	41	24	15	5	14	1
1987	4	61	9	4	4	16	1
1988		57	11	8	6	4	14

EXPLANATORY NOTES:

1. Reports should be presented within 5 months.
2. Monthly presentation defined in terms of the date on which the Report was tabled in the Legislative Assembly or the date of receipt as announced by the Clerk of the Legislative Assembly.
3. Not included in this analysis are reports from Regional Aboriginal Land Councils or County Councils.
4. Figures rounded; may not total 100.
5. Not presented as at 9 August 1989.

SOURCE: Compiled from Draft Index to the Votes and Proceedings and Papers Laid Upon the Table, and from data held in the Legislative Assembly Office.

- 4.19 Table 4.2 reveals that of the reports for financial years which ended during 1986, only 42% were received within the statutory period of five months. For 1987 reports, that figure rose to 65%.

Public Accounts Committee

- 4.20 In 1988, however, the percentage of annual reports presented to the Legislative Assembly within the required statutory period fell to only 57%. In other words, more than four out of every 10 reports were not received within the required period. Fourteen per cent had yet to be presented to either House as at 9 August 1989 and were overdue.
- 4.21 A number of measures which the Committee believes should be adopted in response to this most unsatisfactory situation and the extent of unauthorised non-compliance are set out in final part of this Chapter.

EXTENSIONS OF TIME SOUGHT BY DEPARTMENT HEADS AND STATUTORY BODIES

- 4.22 The Annual Reports legislation recognised that there may be extraordinary circumstances which prevent a Department Head or statutory body from preparing and submitting an annual report to the responsible Minister within four months of the end of the financial year:
- * Department Heads or statutory bodies may apply to the Treasurer for an extension of time within which their annual report must be submitted.
 - * Such an application must be made within three months of the end of the financial year and include "*detailed reasons*" and other relevant supporting information.
 - * The Treasurer may, after consultation with the appropriate Minister, grant an extension, details of which are to be included in the appropriate annual report.
- 4.23 The Treasury Secretary has advised the Committee that criteria are used in evaluating applications for extensions of time to submit similar financial statements (see paragraph 2.37) and to submit annual reports.

The Challenge of Accountability

- 4.24 The Annual Reporting Exemptions Register, compiled by the Treasury, records that up to 17th July 1989, nine departments lodged a total of 12 applications for an extension under Section 16 of the Annual Reports (Departments) Act. Four of those applications were denied. The one permanent extension was granted to the Liquor Administration Board.
- 4.25 The Register also records applications made by statutory bodies under Section 13 of the Annual Reports (Statutory Bodies) Act, 1984: a total of 42 such applications from 37 different bodies are listed. Six of those applications were not approved. Only two permanent extensions have been granted by the Treasurer - to the Albury-Wodonga (NSW) Corporation and the Government Insurance Office.
- 4.26 A summary listing of these applications appears in Appendix 9.
- 4.27 The Committee does not view the number of applications lodged by department heads or statutory bodies in recent years as excessive. The number of applications made each year has declined⁵.
- 4.28 The Committee is, however, particularly concerned at the number of cases where annual reports were submitted late but no application was made for an extension of time.
- 4.29 Legislative provision was made for an extension of time to be granted on the approval of the Treasurer and the appropriate Minister. Unauthorised non-compliance with the reporting and tabling deadline is, in the Committee's view, a serious breach of both the letter and spirit of the annual reports legislation.

⁵ Number of applications: 1987/88- 9; 1986/87- 13; and 1985/86- 16.

Public Accounts Committee

REPORTS TO PARLIAMENT ON TIME: MEASURES TO IMPROVE COMPLIANCE

- 4.30 The Committee believes that further legislative expression must be given to the importance of comprehensive, accurate annual reports being prepared and tabled in Parliament on time.
- 4.31 Department Heads and statutory bodies are presently required to include in their annual report '*particulars*' of any extension granted by the Treasurer for preparation or submission to the Minister. Upon examining a small random sample of eight reports for 1987/88, the Committee found, however, that in only two of the eight sample cases where an extension had been given was this information reported and an explanation provided.
- 4.32 Enquiries made with the largest of those defaulting bodies revealed that senior management were, they said, "*unaware*" that such an explanation was required. This is despite clear statement in the Annual Reports (Statutory Bodies) Act, 1984 (Section 13) and the advice contained in the booklet "*Annual Reporting by Statutory Bodies: Information on the Responsibilities of Members & Boards*" (reprinted December, 1987), prepared by the Treasury.
- 4.33 The Committee has examined possible changes to the explanatory notes which must be included in the annual report and to the procedure for tabling of reports which are late.

EXPLANATION BY A DEPARTMENT HEAD OR STATUTORY BODY

- 4.34 An explanation as to why the annual report was not presented to the Minister on time should be included in the annual report. The proper place for such an explanation, and for the particulars of any extension granted by the Treasurer, is the letter of transmittal to the Minister, the core content of which must be prescribed.

The Challenge of Accountability

- 4.35 Currently, the use of letters of transmittal⁶ of reports to Ministers from Department Heads or statutory bodies varies widely:
- * copies of such letters appear in some reports and not others;
 - * some show the precise date; others the month; and others no date at all;
 - * some show the statute(s) under which the report is lodged, and some do not; and
 - * some contain notes explaining any delays in submitting the Report, including any extensions granted by the Treasurer, while most do not.
- 4.36 Further, the location of explanatory notes on delays or extensions varies in the Report.

⁶ A letter formally presenting the report to the Minister.

Public Accounts Committee

Recommendation 4

It is recommended that it be mandatory for a letter of transmittal to be included in an annual report prepared by a Department Head or statutory body.

It is recommended that the letter of transmittal include a statement signed by the Department Head or, in the case of statutory body, two Board members stating:

- a) that the annual report is submitted to the responsible Minister for presentation to the Parliament;
- b) that the annual report has been in prepared in accordance with the provisions of the appropriate legislation (to be listed in each case);
- c) where the Treasurer has granted an extension of the period within which the report was to be completed and submitted to the Minister, the particulars of that extension; and
- d) where a report was not prepared and submitted to the Minister within the statutory period and no extension was sought:
 - i) why no application for an extension was made; and
 - ii) the reasons for the report not having been submitted within the required period.

EXPLANATION BY THE APPROPRIATE MINISTER

- 4.37 The Committee further considers that, in accordance with the Westminster tradition of Ministerial responsibility, Ministers should be required to explain to Parliament the circumstances surrounding the late tabling of annual reports.

The Challenge of Accountability

- 4.38 Ministers are currently required, within one month of receipt of an annual report, to lay the report or cause it to be laid before both Houses of Parliament.
- 4.39 The Committee considers this to be an appropriate time frame, given the breadth of Ministerial responsibilities.
- 4.40 It is noted that the period of onemonth is longer than in other States, where it ranges from 6 to 21 days (see summary in Appendix 10).
- 4.41 It is imperative that the Minister table the report as soon as possible, and certainly no later than one month after receipt. Whilst it is usually assumed whenever an annual report is tabled late that it was not presented to the Minister on time, this may not always be the case.
- 4.42 The Committee understands, for instance, that the 1988 Annual Report of the Department of Technical and Further Education (TAFE) was submitted to the Minister on 28th April, 1989.⁷ This was within the required four month period.
- 4.43 Yet the Report was not received by the Clerk of the Legislative Assembly until 18th August, 1989⁸
- 4.44 The Committee also understands that the Department of Education 1988 Annual Report, which was received by the Clerk of the Legislative Assembly on 18th August, 1989, was submitted to the Minister more than a month earlier.
- 4.45 The Committee was most concerned at his late completion of the Department of Education's Annual Report for the year ending 31st December, 1988. The Committee will be pursuing the matter and requiring an explanation from the Head of the Department of Education as to why he was not able to meet his responsibility to submit the report to his Minister on time.

7 Letter of transmittal in the report was dated March 1989. It was signed by the Director-General before he left for overseas.

8 Receipt announced on 12th September, 1989.

Public Accounts Committee

- 4.46 The Committee will also be seeking further information from the Director-General of TAFE. The Committee understands that the TAFE Report, initially submitted to the Minister within the statutory period, was incomplete - the Tables were not included nor was the report in the required B5 size⁹.

Recommendation 5

It is recommended that the Minister, when tabling annual reports, be required to make a concise statement to the Parliament which:

- a) draws attention to any report which is tabled later than the tabling deadline for the year to which the report relates;
- b) states the length of the delay; and
- c) explains the reason(s) for late tabling.

If a House of Parliament is not sitting at the time the Minister seeks to table the annual report later than the appropriate tabling deadline, the Minister provide the Clerk of the House of Parliament with the report and a written explanation for the late tabling.

When announcing receipt of the Report, the Clerk to read the Ministerial statement.

- 4.47 The Committee's recommendations, if adopted, would enable the reasons for such delays to be pieced on public record in future and further encourage the timely submission and tabling of annual reports.

⁹ The Electricity Commission is one of a number of authorities which advised of production difficulties and additional costs associated with the B5 rather than A4 standard.

The Challenge of Accountability

- 4.48 Punctual completion and tabling of annual reports is the vital first element in making these annual accounts of the operation and performance of government bodies available for scrutiny by members of Parliament and the public. Improvements are also required to the system of distribution, as discussed below.

AVAILABILITY OF REPORTS

- 4.49 The Committee was disturbed to find that the problem of inadequate availability of reports, to which it drew attention in its *Supplementary Report* (September 1987), has continued.¹⁰ There are often long delays between the tabling of a report and the time at which it becomes available to Members of Parliament (as advised through the regular notices prepared by the Clerks).
- 4.50 The Committee's study of these and other problems, and consideration of possible solutions, was largely overtaken by events, with the announcement that the Government Printing Office was to be closed.
- 4.51 The Government Printing Office had a key role in distributing annual reports. At the same time as reports were tabled or forwarded to the Clerks, 170 copies were to be forwarded to the Government Printing Office for parliamentary distribution. The Government Printer was frequently blamed for failing to distribute reports as required.
- 4.52 For reports printed at the Government Printer, the necessary copies were immediately available. More and more government bodies, though, arranged for their reports to be prepared and printed elsewhere. The Government Printer advised that many government bodies failed to deliver to the 170 copies required for distribution, with the Printing Office spending an inordinate amount of time, often unsuccessfully "chasing up" entire reports or the required number of copies.

¹⁰ Public Accounts Committee, Report No. 34, op.cit., pages 21-24.

Public Accounts Committee

- 4.53 The Committee had found that each of the parties to the printing and distribution 'system' tended to lay the blame at someone else's door.
- 4.54 In Committee hearings, for example, the Managing Director of GIO advised that the Office's Report for the year ended 30 June 1988 was submitted to the Minister on 30 December 1988. He was informed that as at 28 February copies had not been distributed to Members of the Parliament and copies were not available at the Government Information Centre, and was asked, "Do you have any explanation for that?" He replied:

'... I don't have any explanation for it. Certainly plenty of copies are available ... a similar problem occurred last year and it emerged that arose in the then Treasurer's office whose responsibility it is to lodge copies with the Parliament, as I understand it. There is certainly no lack of copies on our account. Anyone who comes to the GIO is welcome to get them.

'Where there is a fall down between us and the areas of availability I don't know. I suspect there was - I wasn't aware until you raised it that this was a problem but last year when we investigated we found that the Minister and his staff had simply forgotten to lodge them!'

- 4.55 The Government Printing Office was the target of most criticism; in one person's words, it was the *'favourite whipping boy'*:
- 4.56 In terms of availability of reports and their use by the general public, the Committee found that the Government Information Centre had very few annual reports on display. No figures were readily available on the number of annual reports stocked, when the copies were received, or how many were sold because the Bookshop still operates a manual accounting and sales system. The Committee was informed that there was *"very little demand"* for annual reports. The reports on display had come not from the Government Printing Office but from individual departments. Some reports were supplied free, some were invoiced; most departments had not established a sale price. The Information Centre recently moved to smaller premises in the Goodsell Building and has very

11 Minutes of Evidence, 7th March 1989, pages 6-7.

The Challenge of Accountability

limited display areas. It was submitted to the Committee that the present system was *a fairly messy arrangement*".

- 4.57 Enquiries also revealed that some government bodies displayed copies in their public offices and used a regularly updated mailing list to forward copies of annual reports. Others, however, made no comparable effort and had no idea of the number sold or distributed free.
- 4.58 The Committee understands that senior parliamentary officers are presently examining issues related to the printing and distribution of all parliamentary bills, papers, reports, and annual reports. There would seem to be an urgent need to install a computerised information system at Parliament to more effectively monitor and compile statistics related to tabling, printing, distribution, requests for copies, and stocks held of annual reports.
- 4.59 The Committee intends to review the operation of any system which is established, with regard to the availability of reports and the information available on tabling, distribution, and parliamentary enquiries and stocks held of annual reports.
- 4.60 The Committee wishes to emphasise to the parties involved in developing the new printing and distribution system that annual reports are a particularly important information resource for organisations such as the Public Accounts Committee.

Recommendation 6

It is recommended that a system be established which reduces as far as possible any delay between tabling of **an annual report and its** availability to Members of Parliament and the public.

Public Accounts Committee

Recommendation 7

It is recommended that at the time **an annual** report is tabled, there be sufficient copies available for all Members of Parliament.

Recommendation 8

It is recommended that whatever agency assumes the role of distributing annual reports, it be required to forward two copies of each annual report to the Public Accounts Committee no later than one week after the report is tabled.

FUTURE EXAMINATIONS

- 4.61 The Committee has limited its discussion on annual reports to the questions of timeliness and availability. The Committee considers that annual reports are a vital element of the accountability of government departments and statutory authorities, and has, therefore, resolved to undertake a further study of annual reporting. That study will include consideration of the *cost-effectiveness* and *quality* of annual reports presented to Parliament. The Committee will focus, in particular, on the reviews of "*performance*" contained in annual reports and the extent to which they provide Members of Parliament with an accurate, comprehensive evaluation of achievements against performance targets.

**5. ACCOUNTING AND REPORTING
LEGISLATION: ADMINISTRATION AND
SANCTIONS**

INTRODUCTION

- 5.1 This Chapter deals briefly with two general issues which arose from the Committee's examination of problems with the submission of financial statements, of qualified audit results, and the timeliness and availability of annual reports:
1. administration of the legislation, that is, what effort government is making to monitor, report on and improve the performance of departments and statutory authorities; and
 2. whether performance rewards/sanctions should be introduced.

ADMINISTRATION OF THE LEGISLATION

- 5.2 In New South Wales, as is common practice under the Westminster System. Ministers of the Crown are allocated responsibility for the administration of various acts of the Parliament. The Treasurer has Ministerial responsibility for the administration of the Public Finance and Audit Act, 1983 (hereafter the Act), and the annual reporting requirements under the Annual Reports (Statutory Bodies) Act, 1984, and the Annual Reports (Departments) Act, 1985.
- 5.3 The Treasury (Office of Financial Management) 1987/88 Annual Report state, that:

"The objectives of the Accounting and Funds Division of Treasury are to ensure the efficient administration of the provisions of the Public Finance and Audit Act and to update and improve accounting systems and procedures in the NSW public sector" (page 25).

Public Accounts Committee

- 5.4 That Division is also responsible for "*major aspects*" of the annual reports Acts. ¹
- 5.5 The Committee found, however, that the Office of Financial Management 1987/88 Annual Report provided very little information on how the Accounting and Funds Division administers the Act or works to "*update and improve accounting systems and procedures in the NSW public sector*,"² No measures of the efficiency of its more general "*administration*" were reported.
- 5.6 Further, no details were provided about how Treasury actually discharges its responsibility for the annual reports Acts. The Treasury Annual Report simply states that "*the level of compliance with the legislation in respect of timeliness [of annual reports] continued to improve*"³, but gives no performance data. Only a list of authorities which had not tabled their annual reports within 12 months of the end of the 1986/87 reporting period is provided (without comment). No information is given about compliance with other elements of the annual reports Acts.
- 5.7 The Office of Financial Management Annual Report may be contrasted with the annual report presented by the other Treasury cost centre, the Office of State Revenue. State Revenue reported more clearly on its activities with regard to its objectives and used precise performance measures.
- 5.8 The Committee also notes that the Department of Business and Consumer Affairs Annual Report 1988 describes in detail the regulatory activities undertaken by the Corporate Affairs Commission relating to compliance with the Companies (NSW) Code. That Report includes statistical analysis of work undertaken; information on extensions of time to hold annual general meetings; lists of documents reviewed; and notes on individual cases examined.

1 Treasury: Office of Financial Management Annual Report 1987/88, page 25.

2 Ibid.

3 Ibid., page 28.

The Challenge of Accountability

- 5.9 It should be emphasised that the Committee's primary criticism is of the manner in which Treasury *reported* on its administration of these Acts not of its administration as such. The Committee's enquiries indicate that Treasury's activities in this area include:
- * preparing Treasurer's Directions on accounting matters;
 - * preparing guidelines on annual reporting responsibilities;
 - * preparing guidelines on internal audit;
 - * compiling a computer-based register of statutory authorities;
 - * processing applications for exemptions from provisions of the legislation;
 - * compiling a register of applications and outcomes;
 - * receiving "*red rule*" reports from the Auditor-General concerning the findings of each audit, "*and any areas of non compliance with the act are followed up ... by Treasury officers' A*and
 - * reviewing the Auditor-General's Report and preparing a response. from the Treasurer to the Auditor General.
- 5.10 The Committee considers it is important that the Treasury *report more fully to Parliament* on its role in administering the accounting and reporting legislation. Compliance with this legislation is vital to public sector accountability.

4 Letter from the Treasury Secretary to the Committee. 18th April 1989.

Public Accounts Committee

Recommendation 9

It is recommended that in future, the Treasury Annual Report fully disclose action taken:

- a) monitor compliance with the annual reports Acts;
- b) follow up with individual authorities instances of non-compliance with those Acts;
- c) improve the level of compliance with those Acts;
- d) update and improve accounting systems and procedures; and
- e) administer the Public Finance and Audit Act generally.

5.11 The Treasury report should, further, include appropriate performance indicators.

REWARDS/SANCTIONS

5.12 The Committee has considered the question of whether penalties or sanctions should be applied to entities which fail to meet their obligations under the accounting and reporting legislation.

5.13 It is timely to note, as the Government encourages the public sector to move toward "*commercial management*" principles, that failure by managers in the private sector to carry out their reporting responsibilities carries certain penalties:

The Challenge of Accountability

- * Under the Companies (NSW) Code, for example, failure to lodge an Annual Return within one month of the company's annual general meeting can result in legal action being taken by the Corporate Affairs Commission against the company and any officer of the company who is in default. The Committee has been advised that fines imposed by the Court range from \$100 to \$300.

Under the Securities Industries legislation, organisations offering financial services to the general public are subject to penalties for breach of the legislation including,

- failure to prepare and lodge accounts \$250; and
- failure to lodge a report within the prescribed time \$250.

- * Breaches of Stock Exchange Listing Requirements can result in the removal of the offending company from the Official List and the company's securities losing Official Quotation Facility.

- 5.14 The Committee's enquiries interstate indicate that financial penalties for non-compliance in the public sector operate only in the Northern Territory and at Commonwealth level. In the Northern Territory, a general penalty of \$400 applies for non-compliance with the Financial Administration and Audit Act. At Commonwealth level, certain financial management and reporting offences carry a penalty of up to \$10,000, and failure to meet annual reporting obligations might in certain circumstances be construed as failure to perform duties under the Public Service Act (failure to perform may lead to suspension from duty).
- 5.15 The Committee is reluctant to recommend that pecuniary penalties be imposed on defaulting authorities. This would result in a situation where one agency of government "*fines*" another agency. A cash penalty or a reduction in budget allocation might affect the user of a government service rather than the authority itself. A "*penalty system*" also implies a centralised "*policing unit*", which would mean, in turn, establishing a set of checks and balances, including the right to full review of any decisions, thus creating another expensive bureaucratic system.

Public Accounts Committee

- 5.16 The Committee prefers a positive approach - Department Heads and boards of statutory authorities must be encouraged to meet the accounting and reporting obligations clearly set down by Parliament and by Government.
- 5.17 The Committee notes that changes currently being introduced into the public sector involve the formation of a Chief Executive Service and Senior Executive Service, which includes a bonus remuneration system linked to performance. The Committee considers that the discharge of accounting and reporting obligations by Executive Service officers should form part of the annual formal review of their performance.

Recommendation 10

It is recommended that non-compliance with the Act or the Annual Reports Acts be held to be performance below the expected level of the responsible officer.

6. ACCOUNTABILITY OF COMMERCIAL-ORIENTED STATUTORY BODIES

INTRODUCTION

- 6.1 The past decade or so has seen an increasing concern with "*the cost of government*" and the apparent inefficiency of the public sector. Governments world-wide have sought to improve performance by exposing many public sector bodies to market forces and generally creating both an internal and external operating environment more closely resembling that of private enterprise.
- 6.2 In New South Wales, an increasing number of government organisations are developing a commercial profile with all that implies in terms of competitiveness and "*bottom line*" financial measures of performance. Several statutory bodies have set up subsidiaries, and there has been a trend to greater public sector involvement in companies, joint ventures, partnerships and trusts.
- 6.3 The Committee sought to examine where these "*commercial*" activities and new forms of organisation fitted in terms of the public sector accounting and reporting environment defined in the Public Finance and Audit Act, 1983 and the annual reports Acts. Public hearings were held with officials from four large commercial bodies which have established subsidiary companies and are variously involved in trusts, joint ventures and partnerships:
- * the Maritime Services Board and the State Authorities Superannuation Board, both large "*commercial service*" agencies; and
 - * the Government Insurance Office and State Bank of New South Wales, both "*financially self-sufficient fully competitive bodies*" (terminology as per "*Classification and Control of State Organisations*").

Public Accounts Committee

- 6.4 During the course of the Committee's work, the State Government signalled major changes to the management of government owned bodies, and in particular to the "*accountability controls*"^I set up to monitor their activity, expenditure and performance.
- 6.5 In June 1989, Cabinet adopted a Treasury policy document establishing a new framework for the "*Classification and Control of State Organisations*". On 2nd August 1989, the Government introduced the State Owned Corporations Bill to provide for the corporatisation of selected government enterprises as companies limited by shares under the Companies (New South Wales) Code. The State Owned Corporations Act was assented to on 15th September 1989.
- 6.6 The first part of this Chapter looks at the major issues addressed by the Committee in its public hearings relating to the accountability of commercially-oriented statutory bodies operating within the Public Finance and Audit Act and the annual reports Acts. The specific question of the accountability of subsidiaries and related organisations within that legislation is discussed in Chapter 7. The second part of this Chapter looks briefly at the changes proposed in the "*Classification and Control of State Organisations*" and at how "*accountability*" has been redefined under the State Owned Corporations Act.

PART I

REPORTING AND AUDITING ISSUES

- 6.7 Evidence presented to the Committee focused on the following reporting and auditing issues:

- * Deciding what to report
- * Commercially Sensitive Information
- * Industry Standards and Practices
- * Specialist Audits

I "*Classification and Control of State Organisations*", June 1989, page 22.

The Challenge of Accountability

- 6.8 Each of these issues is examined below.
DECIDING WHAT TO REPORT
- 6.9 The annual reports legislation, regulations and Treasurer's directions prescribe that certain types of financial and non-financial information be reported. Many of the requirements are inevitably open to interpretation. Individual organisations also decide what additional material to include. All reporting entities face the problems of deciding how much detail can or should be included in an annual report, and anticipating the reader's interest in certain information.
- 6.10 Witnesses were questioned by the Committee about particular aspects of the accounts or operations of their organisations which were not reported in their 1987/88 annual reports.
- 6.11 The Committee considered, for example, that insufficient information was provided about the accumulated losses of \$13M sustained by GIO Holdings Ltd. The Managing Director of GIO, Mr Jocelyn, explained that, in part, it is *question of how much you can and should put into a single document²*.
- 6.12 It was submitted to the Committee that it was also a question of the report reader's likely interest in specific areas.
- 6.13 The Managing Director of GIO informed the Committee that he was "sorry." if the \$13M loss by GIO Holdings Ltd *hasn't received sufficient attention in our accounts*"but *"it is very difficult for me to know in advance which individual items you would be concerned about if you knew³*:
- 6.14 Deciding what to report also involves the issue of *"significance"*.

2 Minutes of Evidence, page 12. 3 Ibid.

Public Accounts Committee

- 6.15 The Maritime Services Board was asked whether it would report expenditure on consultancies of, for example, \$2M. The General Manager, Mr McDonald, stated it would *"depend ... on the nature of the consulting exercised"* but that consultants are used on a *"pretty regular basis"* and even \$2M is a *"relatively limited sum"* in terms of the Boards' overall expenditure of about \$250M⁴.
- 6.16 The Managing Director of GIO explained that one \$13M re-insurance loss had to be seen in the context of a business where *"we are accepting individual risks \$10M at a time"*; where *"we talk about"* a profit of \$100M in terms of losses of \$250M and profits of \$350M. In such a situation, he argued, items of the size of \$13M *"are not regarded as losses but as part of our continuing business"*⁵.
- 6.17 Similarly, the Secretary of the State Bank, Mr Turner, said the loss of \$52,000 by its operation in the Cook Islands was not explained in its Report because *"that \$52,000 in a \$12.5B operation is getting to the verge of immateriality"*⁶.
- 6.18 The Committee considered, however, that it was particularly important such information be reported and commented upon, thus allowing Members of Parliament to judge for themselves the significance of individual items.

COMMERCIALLY-SENSITIVE INFORMATION

- 6.19 It has been suggested that statutory bodies competing with private enterprise in an open market are being placed at a competitive disadvantage through being required to publicly disclose certain aspects of their operations or financial status.
- 6.20 The Committee found, however, that very few people were able to define *"commercially sensitive information"* or provide specific examples of public sector bodies being required to disclose such information.

4 Ibid., page 66, 5 Ibid., page 12. 6 Ibid., page 34.

The Challenge of Accountability

- 6.21 Most of the evidence presented to the Committee relating to the "tread" for confidentiality referred to the taxation implications of reporting certain "business decisions", in particular the performance of subsidiaries and off-shore operations.
- 6.22 It has been argued that increased provision may need to be made for "sensitive" types of information to be forwarded to the responsible Minister only. This raises a number of difficulties, including how to define "commercially sensitive information", the conditions under which a Minister must act upon such information, and knowing what action has been taken and with what result.
- 6.23 The Managing Director of GIO suggested to the Committee that there were problems for an organisation which is answerable to Parliament also being in the competitive world:

'... something that you may report to Parliament as being appropriate, given their needs, is not necessarily the sort of thing that a private sector company would report publicly because of the negative effect on the people who deal with it.

"In fact (with) most of these, or a lot of ... (these) company failures you'll find the truth doesn't emerge until things have gone really bad and in a lot of cases, things are kept under the carpet and they manage to recover and the public never knows and that's the way in which the private sector operates.

"We have to tread a very fine line between informing Parliament as fully as they might expect and informing the public and the press in a way that is consistent with maximising profit and operating the way the private sector does."

- 6.24 The Committee is not convinced on the basis of the evidence presented to it, however, that there is a real problem of public sector bodies being forced to reveal "commercially-sensitive" information and of therefore being placed at a "commercial disadvantage". Further, if there is any conflict between so-called "commercial confidences" and reporting fully to Parliament, between "keeping things under the carpet" or advising that things "are going bad", the Parliament and the public's right to know must take precedence.

Public Accounts Committee

INDUSTRY STANDARDS AND PRACTICES

- 0.25 The Committee found that commercially-oriented statutory bodies often refer to so-called "*industry standards*" when defending or advocating a special form or degree of reporting from that generally required.
- 6.26 The specific cases examined in the Committee's public hearings were:
- a) the State Bank, which followed a "*mark to market*" valuation policy that is not recognised by the "*Australian Accounting Standards Review Board*" but which is "*industry practice within the banking industry*".⁸
 - b) the GIO Life Insurance Division, which calculated asset values in line with life insurance accounting conventions rather than the Australian Accounting Standards; and
 - c) the Superannuation Board which also adopted full market value accounting "*on a par with other financial investment institutions in the private sector*".⁹
- 6.27 The Committee recognises that differences exist between the Australian Accounting Standards and certain "*industry standards*" (accounting policies or procedures generally followed in certain industries).
- 6.28 There are also cases where there are no standards suitable for a particular industry. In a submission to the Committee, the Association of Superannuation Funds, for example, pointed out that at present (May 1998) there are no Australian Accounting Standards in force which specifically apply to the accounts or financial statements of superannuation funds, whether public sector (under statute) or private sector (under trust deed). The Association advised that in the absence of superannuation-specific accounting standards, "*it is very common for superfunds/schemes*" not to comply "*on the basis that the remaining standards are*

⁸ Ibid., page 26.

⁹ Ibid., page 72.

The Challenge of Accountability

those which relate to companies and other trading entities, viz.; AAS 1..AS 4. AAS 10".

- 6.29 The Committee was pleased to receive advice that the Association of Superannuation Funds was negotiating with the accounting profession (through the Australian Accounting Research Foundation) with the purpose of producing a set of accounting standards which are suitable to the superannuation scheme/fund situation.
- 6.30 This type of approach must be adopted by all organisations or industry groups which believe that changes are required to the accounting standards.
- 6.31 Notwithstanding that there are difficulties in applying accounting standards across heterogeneous industries and that there will be need for revisions and additions, the Committee shares the Auditor-General's concerns that "*industry practices*" are often very vague notions. There is a risk of their becoming a convenient avenue for organisations to avoid full and proper disclosure.¹⁰ Appeals to "*industry practices*" may become excuses for "*creative accounting*".
- 6.32 The notion of "*industry standards*" was also raised, in a different context, by the Secretary of the State Bank, in responding to Committee criticism that the Bank's 1988 Annual Report did not provide Parliament with a sufficient understanding of the Bank's performance. The Secretary responded that "*the bank is meeting industry standards*" in its reporting; "*... if you open Westpac's annual report you would not see that they have a subsidiary in the Netherlands Antilles and it made a 'X' dollars contribution to profit*".¹¹
- 6.33 The Committee was concerned about the comparison which the State Bank drew with Westpac in defending the level of disclosure in its 1988 Annual Report. Westpac shareholders can go to that company's annual general meeting and put questions to the bank's management; the so-called "*shareholders*" in the State Bank, the taxpayers of New South Wales, and their elected representatives, have no such opportunity and for information must rely much more on the Bank's

¹⁰ New South Wales Auditor-General's Report for 1988, Volume 2, page 115.

¹¹ Minutes of Evidence, page 35.

Public Accounts Committee

annual report. Furthermore, shareholders in business ventures participate voluntarily and can exercise choice in realising their investment.

- 6.34 The Committee considers that the position of taxpayers and electors with regard to public sector bodies is not analogous with that of shareholders in private enterprise.
- 6.35 Government bodies should aim to set the standards on reporting, and accept that on occasions those standards may be higher than in the private sector; there should be no "levelling down" as a matter of principle.

SPECIALIST AUDITS

- 6.36 The major auditing issue to emerge from the Committee's hearings concerned who should audit commercial and highly specialised government agencies.
- 6.37 The Committee sought advice from the representatives from the State Bank as to whether they saw any problems in having the Auditor-General as the Bank's auditor. The Secretary of the Bank, Mr Turner, said that he did see *problems arising because of the limitation [the Auditor-General] has on staffing numbers and salaries*: State Bank was no longer just a retail bank requiring a simple *"straight up and down audit"*¹².
- 6.38 The Secretary of the Bank felt that *"We suffer because he audits only this bank, he doesn't audit other banks"* and the Auditor-General does not have the resources to identify possible solutions as well as problems. The Assistant General Manager, Finance, Mr Ellis, later commented:

'... the significance of it is if there was a big eight firm doing it, even within the big eight firms they specialise, and you would have on the audit people who were doing banking and finance industry audits all throughout the year, whereas it is unfair, I believe, to expect the Auditor-General with the scope of his audit briefs to have a specialist team that is up to date and able to understand the leading edge of some of the financial mathematics involved ...',¹³

¹² Ibid., page 38.

¹³ Ibid.

The Challenge of Accountability

- 6.39 The Auditor-General is able to sub-contract specialist finance auditing. The major problem with private auditing, however, is the potential conflict of interest arising from:
- a) the need to seek continuing business; and
 - b) the situation where one section of the audit agency provides a consultancy to a client, (for example on taxation, management practices or computer systems), and later another section of the agency audits that same system; in effect, indirectly auditing itself¹⁴.
- 6.40 The Committee has resolved to undertake an inquiry in 1989/90 into the role and functions of the New South Wales Auditor-General's Office. The audit of large, specialised commercial public bodies, including the use by the Auditor-General of consultant or contract specialist auditors, will be examined as part of that Inquiry; hence the Committee does not propose to comment further on that issue in this report.

IMPLICATIONS

WHOLESALE CHANGE JUSTIFIED?

- 6.41 On the basis of the evidence presented, the Committee is not convinced that the current accounting and reporting framework is causing major problems for commercially-oriented statutory bodies listed in Schedule 3 of the Public Finance and Audit Act, 1983. There is a tendency amongst those who propose major change to overstate the present difficulties.**

14 Commonwealth Joint Parliamentary Committee of Public Accounts. The Auditor-General: Ally of the People and Parliament 1989, Report No. 296, page 116.

Public Accounts Committee

- 6.42 The Committee considers that any call for wholesale change, such as moving commercially-oriented statutory bodies completely outside the Public Finance and Audit Act, should be vigorously examined by Parliament. Such proposals often ignore the fact that where specific difficulties or shortcomings are identified, the Public Finance and Audit Act and the regulations and Treasurer's directions may be, and have been, amended. Further, the Treasurer, in consultation with the responsible Minister and or the Auditor-General, as appropriate, has the power to grant exemptions from particular requirements.
- 6.43 When asked whether the GIO, as a fully commercial enterprise competing in an open market with the private sector, encountered any problems in accountability to the Parliament, the Managing Director, Mr Jocelyn, replied that it did "*largely because of the extent to which the Public Finance and Audit Act is designed to cope with monopoly statutory authorities rather than an international insurance company*". He added, however:

"Most of the problems are irritating rather than serious, and to a large extent we have got over the problems by a series of exemptions from the Premier and Treasurer".

- 6.44 The Committee supports the legislative provision for exemptions to be granted from certain reporting requirements.

Recommendation 1

It is recommended that the Treasurer, the responsible Minister and, where appropriate, the Auditor-General continue the practice of rigorously examining applications for exemptions from current reporting requirements and of granting exemptions in special circumstances only. It is recommended that the organisation's annual report describe any exemptions granted.

15 Minutes of Evidence, page 2.

The Challenge of Accountability

CONTINUING EVALUATION OF ACCOUNTING AND REPORTING FRAMEWORK

- 6.45 Notwithstanding its view that wholesale change is not required, the Committee does recognise that the profile of a number of government organisations is changing and that there is a need for continuing evaluation of their accounting and reporting environment.
- 6.46 To this end, it welcomes the current Treasury Review, referred to in Chapter 1, and in particular the Treasury's analysis of the differences between the requirements of State public sector legislation and the Companies Code requirements. Such an analysis was commended by the Australian Society of Accountants (NSW Division) in its submission to the Committee, with *a view to amendment of the public sector legislation in the interest of consistency and uniformity*:
- 6.47 The Committee does not, however, accept that the requirements under the public sector legislation should necessarily be *wound back*. It could equally mean that where those reporting requirements go beyond those of the private sector:
- a) there is a valid reason for different reporting requirements; or
 - b) that the private sector requirements should be adjusted.
- 6.48 Whilst there are some similarities in the issues they face, the fundamental differences between commercially-oriented statutory bodies and *private enterprise* organisations should not be overlooked.
- 6.49 A view often expressed, for example, is that in the interests of greater efficiency and effectiveness, government organisations must be freed from *cost-ineffective* bureaucratic controls¹⁶. A related argument is that the *commercial* practice of risk management must be adopted in the public sector.

16 SSCFPA, op.cit., page

Public Accounts Committee

6.50 The fact is that some of those so-called "*shackles*", as Senator Coates, the Chairman of the Senate Standing Committee on Finance and Public Administration has argued, are:

'... agreed to be reasonable rules for a publicly owned operation, whether we are talking about equal employment opportunity, environmental considerations or whatever': ' t

6.51 "*Risk management*" raises a host of questions, such as:

- a) What impact has the traditional system of accountability had on government organisations? Has it really operated at the expense of effectiveness and efficiency?
- b) What will replace the traditional mechanisms of accountability?
- c) How do we even assess what the risks are, whether to the public purse or perhaps to the public interest?; and
- d) Who has the right to take risks with public resources? Line managers, chief executives, the Minister? 18

6.52 Commenting on the claim that government organisations and the private sector should be subject to the same regime of accountability, Professor R. G. Walker, Professor of Accounting at The University of New South Wales has rightly argued:

'I would suggest that you as politicians might be somewhat distressed if it were revealed that a government-owned company had lent \$300M to a director.

'I think there is a different expectation within the public sector as to the style and nature of accountability relationships that might be designed for dealing with taxpayers' money':

17 Ibid.

18 See J. Waterford "PS Faces Risks in Risk Management" The Canberra Times, 13th August 1989, page 7.

19 SSCF'PA, op.cit., page 504.

The Challenge of Accountability

- 6.53 The Committee further notes that there is, in fact, no unitary "*private sector accountability framework*". There are different reporting and accountability requirements for public companies, proprietary companies and exempt proprietary companies; other differences in accounting and reporting requirements beyond the class of company; and various and complex control mechanisms and agencies. The question then becomes which regime of accounting and reporting or combination thereof, if any, should be prescribed.
- 6.54 The general point to be made is that changing the internal or external operating environment of government organisations is not a simple matter. Nor is it just a "technical" or "managerial issue." Reform of the public sector inevitably involves political and philosophical (or value) decisions about the role and objectives of government and of Parliament, and about accountability.
- 6.55 This is apparent in initiatives taken to reform public administration not only in New South Wales but at the Federal level and overseas, most notably in New Zealand and the United Kingdom.²⁰

PART 2

REFORM IN THE NSW PUBLIC SECTOR

CLASSIFICATION AND CONTROL OF STATE ORGANISATIONS

- 6.56 In June 1989, Cabinet adopted a Treasury policy document entitled "*Classification and Control of State Organisations*" which established a "*philosophical framework for rationalising and reducing, where appropriate, the controls imposed by Ministers and the central agencies on departments and authorities*":²¹

²⁰ See G. Hogbin, "Will Corporatisation Work in Australia?", Business Council Bulletin, September 1989, pages 29-33. A. Davies, "GBE Reform is Going Slowly Off the Rails", Financial Review, 12th September, 1989, page 13.

²¹ "Classification and Control of State Organisations". op.cit., page 1.

Public Accounts Committee

6.57 This document sets out a series of principles for classifying State Government organisations and the controls which are appropriate for each category of organisation.

6.58 Six basic types of State organisations were identified, depending on:

- a) the extent of the organisation's dependence on the public purse (financial status); and
- b) the level of its price competition and the private sector (market status).

6.59 Controls would be variously applied to:

- a) organisational process (for example, chief executive officer appointment);
- b) inputs (for example, staff numbers);
- c) outputs (for example, pricing of services/goods); and
- d) accountability mechanisms (for example, accounting and reporting systems).

6.60 The Government's aim is *"to impose on each class only the minimum controls necessary for operational success and public accountability"*²²

STATE OWNED CORPORATIONS

6.61 In August 1989, the Government introduced legislation complementing the changes set out in *"Classification and Control of State Organisations"* to provide for the establishment and operation of selected government enterprises as State owned corporations.

²² Ibid., page 5.

The Challenge of Accountability

- 6.62 The State Owned Corporations Act, assented to 15th September, 1989 sets out:
- a) how State Owned Corporations (SOCs) will be established;
 - b) basic operating principles and structures;
 - c) the relationship between the Government and SOCs; and
 - d) the lines of accountability.
- 6.63 SOCs will be companies limited by shares. Those shares are held for and on behalf of the State by the "voting shareholders", namely the Treasurer and the other "eligible Ministers". The Boards of SOCs "will be ultimately responsible"²³ for achieving the principal objective of every corporation, which is *to be a successful business*".²⁴
- 6.64 The Premier and Treasurer, The Hon. N. F. Greiner, M.P., said in the Second Reading Speech that the aim is to "*reflect the structures which encourage efficiency in the private sector*" and to:

'... provide, as far as possible, for a level playing field. That is, it aims to put State-owned corporations in the same position as their private sector competitors. The concept of the level playing field is a central element of corporatization policy':

- 6.65 Accordingly, SOC's financial statements and the Auditor-General's report thereon, are to conform to the requirements of the Companies (NSW) Code. SOCs are not covered by the Public Sector Management Act, the GREAT Act, the Statutory and other Offices Remuneration Act, the Freedom of Information Act, Part IXA of the Anti-Discrimination Act, the annual reports legislation or the Public Finance and Audit Act, except part 4 which relates to the Public Accounts Committee.

²³ The Hon. N. F. Greiner, M.P., Second Reading Speech, 2nd August, 1989. ²⁴ Clause 8, State Owned Corporations Act, 1989.

Public Accounts Committee

- 6.66 The SOC legislation requires that a statement of corporate intent be tabled in Parliament, setting out the organisation's corporate objectives, and a statement of their main undertakings, the nature and scope of their activities, statements of accounting policies and performance targets. Six-monthly reports are to be tabled which detail actual performance against targets for that half year. Annual reports are to include a report from the Auditor-General on the accounts.
- 6.67 Specific legislation to establish the first SOC was introduced by the Government on 19th September, 1989. The Grain Handling Authority (Corporatisation) Act, 1989 was assented to on 27th September 1989.

IMPLICATIONS

- 6.68 The extent of change in both the management and the form of accountability of State organisations under the "*Classification and Control ...*" policy and the State Owned Corporations Act should not be underestimated.
- 6.69 Matthew Moore, writing on the SOC legislation for The Sydney Morning Herald (5th August, 1989), talked, for example, of:

'... a whole new theory of government for New South Wales, in which ministers will no longer be directly responsible for the actions of the corporations they oversee

- 6.70 This comment highlights the fact that where a Minister wishes a SOC to operate in a way that the board considers "*is not in the commercial interests of the corporation*"²⁵ the Minister must issue a written directive and the corporation is entitled to be reimbursed for such activities.
- 6.71 The Committee notes that a number of questions and concerns have been raised about corporatization and specifically about the state owned corporations legislation and its implications for accountability.

²⁵ Clause 11, State Owned Corporations Act, 1989.

The Challenge of Accountability

- 6.72 One of the key issues raised has been the extent to which SOCs will, in fact, be as the Premier said in his Second Reading Speech, "*accountable*" in terms of the "*ordinary laws*" and customs of commerce.
- 6.73 Whereas the performance of listed companies is judged by the sharemarket, there is no comparable mechanism for SOCs; nor will there be annual general meetings to provide an opportunity for the public to directly question the directors. Further, SOCs will not be subject to other forms of market discipline, such as the threat of takeover or, presumably, insolvency.
- 6.74 The emphasis in the legislation on measuring and reporting achievements against clearly defined performance targets is a key element of the new managerial accountability. Successful implementation will depend on the extent to which performance can, in fact, be measured; the provision for public scrutiny of target setting and performance reviews; the information available to Parliament about performance contracts with individual managers; and the ability of SOCs to change performance targets.
- 6.75 Evidence presented to the Committee by Professor R. G. Walker, Professor of Accounting at the University of New South Wales, raises a host of other questions relating to the State Owned Corporation legislation, including:
- * the basis on which assets and liabilities transferred to SOCs will be valued and the impact on "*rate of return*" measures;
 - * the borrowing provisions that will apply;
 - * the absence of any restriction of the formation of trusts or joint ventures and the reduced reporting requirements related to "*trusts*" under the Companies Code;
 - * the impact of the change in applicable accounting standards by operating under the Companies Code;
 - * how the Auditor-General's power to make special reports "*on any matter arising from the audit*" will be interpreted;

Public Accounts Committee

- * how the liability provisions will be worked out; and
- * the Commonwealth's likely response to the claim for tax-exempt status for SOCs.²⁶

6.76 It remains to be seen, more generally, how far the Government's aim of creating an "arm's-length relationship" between the Minister and the corporation will be, indeed can be, achieved.

6.77 The deeper the "wedge between the interests" of the Minister and the corporation²⁷, of course, the greater the change to the traditional lines of responsibility and accountability.

6.78 In practical terms, the principle of responsible government under the Westminster system means that ministers are accountable to Parliament for their actions and their day-to-day running of the nation's affairs is subject to exhaustive scrutiny by members on behalf of the citizens.²⁸ Prudence Anderson, writing in the Bulletin on 6th June, 1989 argued that:

The biggest pitfall faced by corporatisation is the clash between its fundamental assertion that managers should be trusted to run their own show and the fact that, under the Westminster System, politicians are accountable for government owned businesses.

26 See also Professor R. G. Walker, "NSW Jumps the Gun on Corporatisation" New Accountant, 5th October, 1989, page 11.

27 P. Allan, "Corporatisation - The NSW Experience". Paper presented at the National Accountants in Government Convention, Melbourne, 2nd - 4th March, 1989.

28 "Australia and the Westminster System" Australian Financial Review, 9th October, 1989, page 16.

The Challenge of Accountability

- 6.79 The most distinctive feature of government organisations is their stewardship of public resources and accountability to Parliament *"for actions and decisions relating to the receipt, expenditure and the control of public funds and other assets as well as liabilities"*²⁹. This stewardship, as the Auditor-General notes, *"is a philosophy which has formed the basis for parliamentary, administrative and audit practices for centuries"*³⁰
- 6.80 The Committee considers that the accounting, reporting and auditing framework for all government bodies must be consistent with this philosophy.

FUTURE REVIEW

- 6.81 The Committee notes that the Government has stated its initial intention to corporatise six government trading enterprises (GTEs) plus the State Bank, and the GIO³¹; legislation to establish the NSW Grain Handling Authority as a SOC has already been passed.
- 6.82 The Committee has resolved to examine in 12 months time the accounts of state owned corporations, with particular focus on the information laid before Parliament under Clause 26 of the State Owned Corporations Act and the overall level of accountability to Parliament.

29 Submission - Australian Society of Accountants (NSW) Division.

30 New South Wales Auditor-General's Report for 1988, Volume 1, page 101.

31 Reforming the State's Finances: The First Year, March 1989, page 14.

7. ACCOUNTABILITY OF SUBSIDIARIES AND RELATED ORGANISATIONS

INTRODUCTION

7.1 An increasing number of statutory bodies in New South Wales are setting up subsidiaries, the total number of subsidiaries is growing, and public sector involvement in companies, partnerships, joint ventures and trusts is increasing.

7.2 Such arrangements may well bring commercial benefits to the parent body through, for example, increased flexibility, concentration of related activities, acquisition of private sector funds and expertise and improved competitiveness. The potential problem, however, is that the form and corporate structure of these arrangements might result in a public sector activity becoming removed from the usual Parliamentary scrutiny and the accountability process.

7.3 Some statutory bodies are, as the Auditor-General reports, "*getting further away from being accountable to Parliament*" Methods used include:

* "*Sponsoring*" a private company whose directors have no connection with the statutory body but which is staffed by officers of the body;

* Creation of subsidiaries of subsidiaries;

* Registration of companies interstate and overseas;

* Taking part in a joint venture under a trust deed with a private sector trustee nominally in control of the trust, where a statutory body holds at least 50% of the trust units and the joint venture capital; and

* Appointing a trustee to operate a scheme for which the statutory body handles the day to day transactions as agent for its appointed trustee. 1

1 New South Wales Auditor-General's Report for 1986/87 Volume 1, page 14.

The Challenge of Accountability

- 7.4 The Committee's concern is that Parliament must not be placed in a position where it is uninformed of the activities or commitments of any company or other business entity in which an authority of State is involved.
- 7.5 This concern is shared not only by the New South Wales Auditor-General but by Auditors-General throughout Australia and by other bodies considering the implications for accountability of these new forms of public sector activity.
- 7.6 At the Commonwealth level, for example, the Senate Standing Committee on Finance and Public Administration (SSCFPA) is currently investigating the accountability to Parliament of government companies in the context of an increasing tendency to form companies to carry out functions previously undertaken by statutory authorities.
- 7.7 In a joint submission to the SSCFPA Inquiry, the National Presidents of the Australian Society of Accountants (ASA) and the Institute of Chartered Accountants in Australia (ICA) argued that:

"The growth in recent years of the number of government owned companies and subsidiaries has meant that there is now an urgent need to identify such companies, to provide some means of enabling public scrutiny thereof and to ensure that they are ultimately accountable to the respective Federal or State Parliaments. (emphasis added)

- 7.8 The Committee's examination of subsidiaries and related organisations has focused on three major dimensions of accountability: (1) financial disclosure; (2) external audit; and (3) annual reports. Each is discussed below.

2 SSCFPA, op.cit., page 90.

Public Accounts Committee

FINANCIAL DISCLOSURE

THE ISSUE OF "CONTROL"

- 7.9 In a joint submission to the Committee, the National Presidents of the ASA and ICA argued that in order to avoid excessive fragmentation and to improve the quality of financial information reported to Parliament, "*Authorities should be required to prepare financial reports which consolidate the partnerships, companies, trusts or other entities which they control*" (emphasis added).
- 7.10 The Committee strongly supports this view. In so doing, it is assumed that the reference to "trusts" is in terms of entities used as vehicles for carrying on business activities, otherwise known as trading trusts or discretionary trusts³. The Committee has been advised that there is no clear case for consolidating "trusts" which are only used to hold "trust moneys" within a trustee relationship; indeed such an approach may produce misleading information. For example, if an entity has a special purpose superannuation fund whereby trustees hold moneys in trust for beneficiaries, it would be misleading to include those assets as part of the financial position of the reporting entity.
- 7.11 The long-standing difficulty is how to define and measure 'control': In practice, voting rights rather than the ownership interest are the key to "control". Even then, it may be possible to control the voting rights of another organisation without holding a majority of those votes. This would occur where the composition of a board is not dominated by another business entity and where the voting rights of a party, while less than 50%, represent the majority of voting rights that are exercised. A simple "control" test can be avoided by, for example, issuing two classes of shares, one with all the rights to dividends, and the other held by a third party (for example, a bank) which has all the votes; holdings of those voting shares may be subject to call options by the holder of the shares with dividend rights.

³ For example, two State Bank Trusts: HPAA/FANMAC Trust (Overseas) No. 1 and HPAA/FANMAC Trust (Australia) No. 1. Total assets \$63.7M (June 1988).

The Challenge of Accountability

- 7.12 In addition, "*control*" in the public sector might be exercised by other means altogether, such as legislative or executive authority or by other administrative arrangements providing influence over policy.
- 7.13 It would seem that whatever criterion, level of interest, involvement or exposure is established, corporate advisors and managers can quickly devise new structures to "*work creatively within*" or circumvent the definition of "*control*":
- 7.14 The Committee understands that the Australian Accounting Research Foundation is currently redrafting its exposure draft (ED40) on "*Consolidated Financial Statements*". The Committee will be interested to examine what definition of "*control*" is proposed and the ramifications for the financial picture which is presented.

NOTES ON "BUSINESS UNDERTAKINGS"

- 7.15 As part of its examination of reporting on subsidiaries and related organisations, the Committee sought information from several major Australian companies which had rated highly in Lafferty's World Survey of Published Accounts⁴.
- 7.16 The Committee found that the published accounts which it reviewed contained clearly set out information about subsidiaries, companies, associated companies and joint venture interests in accordance with the rules appropriate for "*listed companies*" under Schedule 7 of the Companies (NSW) Code. The Committee believes that Parliament should require statutory bodies, where applicable, to present this type of information in their accounts and annual reports to Parliament.
- 7.17 The Committee therefore proposes that consideration be given to the idea that disclosure provisions relating to "*right or interest in a business undertaking that is material to the accounts*" similar to those under Schedule 7 (Clause 33) of the Companies Code, be mandated for the public sector.

⁴ See Business Review Weekly, 17th March 1989, page 129.

Public Accounts Committee

- 7.18 It should be noted that Australian Accounting Standard AAS 5 sets out notions of "materiality" applicable to "companies and other business undertakings and other reporting entities" in the public and private sector. It would be necessary to define the appropriate measures of materiality for the various types of government organisations. It may well be appropriate to have a lower threshold of "materiality" given the special nature of accountability of government organisations.

Recommendation 12

It is recommended that the Treasurer review whether the public sector should adopt disclosure requirements relating to "a material right or investment in a business undertaking" similar to those set down under Schedule 7 (Clause 33) of the Companies (NSW) Code.

EXTERNAL AUDIT

AUDITOR-GENERAL AS AUDITOR

- 7.19 One of the key issues raised by the new forms of public sector activity has been the Auditor-General's status as external auditor.
- 7.20 The Auditor-General's impartial and independent examination of government financial records and practices and his reporting directly to Parliament have traditionally been a critical link in the public sector accountability process.
- 7.21 The Committee notes that the Commonwealth Joint Parliamentary Committee of Public Accounts, in its recent report on the Australian Audit Office, recommended at Commonwealth level, that:

"the subsidiaries of all statutory authorities, government owned companies and Government Business Enterprises be subject to audit by the , "Auditor-General¹⁰

5 Commonwealth Joint Parliamentary Committee of Public Accounts, op.cit., page 109.

The Challenge of **Accountability**

- 7.22 In his Report for 1986/87, the NSW Auditor-General expressed concern about his position as auditor in respect of some statutory bodies' subsidiaries.
- 7.23 The Committee is pleased to note that the situation has been clarified to provide for audit by the Auditor-General of subsidiaries of statutory bodies. Section 63B of the Public Finance and Audit Act 1983 provides for a three year transition period for a subsidiary to replace its private auditor (if applicable) with the Auditor-General. There is provision for the Treasurer, after consultation with the Auditor-General and the Minister, to exempt the statutory body or extend the time for compliance.

Recommendation 13

It is recommended that exemptions or extensions relating to the appointment of the Auditor-General as external auditor of subsidiaries of statutory bodies be granted only in exceptional circumstances.

It is recommended that the reasons for such exemptions be fully reported.

ANNUAL REPORTING

- 7.24 The Auditor-General has expressed his concern that although "parent" statutory bodies are required to include in their annual report the "*particulars*" of subsidiaries and other arrangements, direct Parliamentary scrutiny is limited because the latter are not required to report to Parliament⁶.
- 7.25 The Committee holds the view that it is quite properly the "parent" statutory body which must report on its subsidiaries and involvement in other organisations. The problem is that the clarity and degree of detail about such arrangements currently provided in the annual reports of many statutory bodies is unacceptable.

⁶ New South Wales Auditor-General's Report for 1986/87, Part 1, page 14.

Public Accounts Committee

UNSATISFACTORY REPORTING OF "PARTICULARS"

7.26 Under Section 4 (1) (n) of the Annual Reports (Statutory Bodies) Regulations, 1985, statutory bodies are required to report:

'... particulars as to the existence of, arrangements with, and the operation of subsidiaries, partnerships, joint ventures and other associations within the meaning of section 39(1) (c) and (d) of the Public Finance and Audit Act, 1983.'

7.27 The Committee found, however, examples of annual reports where:

- * there was no readily identifiable overview of such arrangements;
- * little or no information about the *"operation"* of these entities was provided;
- * *'particulars'* on subsidiaries and related organisations were reported only in often very technical notes to the financial statements;
- * the stake held in *"other associations"* was not reported; or
- * the inclusion of separate accounts for some operations but not others was not explained.

7.28 The Committee spent considerable time during its hearings attempting to identify subsidiaries and related organisations and how these activities were reported in the 1987/88 Annual Reports presented to Parliament; and which accounts had been consolidated and which reported separately.

The Challenge of Accountability

7.29 The GIO Annual Report for 1987/88, for example, included the major heading "*Financial Statements for Subsidiary and Associated Companies*". The reader might reasonably expect, on the basis of such a heading and in the absence of any introductory note, that this section contained the financial statements for each subsidiary and associated company. This, however, was not the case. Results from some subsidiaries, such as the wholly owned GIO (UK) Ltd, were included in General Division accounts.

7.30 Even the Managing Director himself had considerable difficulty interpreting the Report. For example, when it was put to him by the Committee that the accounts for GIO Holdings did not appear to be in the Report at all, he did not dispute this, saying:

'...I am a little surprised that the accounts themselves ... aren't in here. I know that the figures in the accounts for GIO Holdings certainly flow through to the reinsurance division and to the lending division. If they are not in there, there is no reason for them not being in there

7.31 The accounts were in fact incorporated into the Profit and Loss Statement and Balance Sheet of the General Division (as set out in the Statement of Accounting Policies). Not only was the Managing Director uncertain about aspects of the report, but also the Committee found no explanation for the inclusion of GIO Holdings in the General Division and noted that this treatment was at odds with the Managing Director's comments on "*flow through*".

7.32 It should be emphasised that the GIO's Annual Report was by no means the only one which raised questions about the extent to which members of Parliament are provided with a clear and comprehensive picture of the activities and commitments of statutory bodies. The GIO's Annual Report was, however, one of the worst examples in terms of its poor layout, design and readability.

7 Minutes of Evidence, page 10.

Public Accounts Committee

7.33 In the case of the State Bank, the Committee was concerned initially that the Bank did not include in its 1988 Annual Report separate accounts of each of its overseas subsidiaries, and therefore did not publicly disclose individual performance in its report to Parliament. The Bank argued, however, that there are separate reports and separate statements which are audited by the Auditor-General; that management constantly monitors each subsidiary and its contribution to the Bank's position; and that the consolidated figures, the *overall bank group position ... is essentially the entity that you ought to be assessing in terms of profitability*⁸. The Secretary of the State Bank added:

'The Bank's board is fully informed as to what's going on and it's up to them to decide whether a certain subsidiary's business ought to be pursued on a commercial basis:'

7.34 The Committee recognises that the State Bank Report is just one illustration of the point that there are *'limitations'* as well as *"benefits"* associated with consolidating financial statements and also, as acknowledged in Chapter 6, that only a certain amount of material can be included in any report before a situation of *"information overload"* is reached.

7.35 What the Committee noted during its hearings, however, was the apparent tension which a number of witnesses perceived between disclosure and commercial considerations, and between *'letting the managers manage'* and accountability to Parliament.

7.36 Witnesses from the Bank and from other organisations advised that subsidiaries were set up and partnerships established in pursuit of commercial interests, and that reports of these activities needed to be consistent with the commercial and taxation advantages such arrangements offered.

8 Ibid., page 33. 9 Ibid., page 33.

The Challenge of Accountability

ACCOUNTABILITY TO PARLIAMENT IS IMPERATIVE

- 7.37 Whilst the Committee acknowledges that subsidiary and other arrangements can provide benefits to a statutory body, there should be no diminution in accountability to Parliament. As the Auditor-General has stated in his latest report:

*'What needs to be guarded against is a loss of accountability due to disclosure of operations at a lower level than would be case if the operations were conducted by the parent in the normal course of events'*¹⁰.

- 7.38 The argument was put to the Committee that if subsidiaries are established and their separate accounts are presented in the "parent's" annual report, this can increase the level of information about the statutory body's operations and performance. In practice, however, disaggregation mostly depends on whether the information is thought to be "commercially sensitive" and even more importantly, on perceived "taxation implications":
- 7.39 The fundamental point is that authorities of State must be, by their very nature, accountable to Parliament. It is not a case of calling into question the competence of management, the role of a statutory board or commercial elements in decision-making. Rather, it is simply that Parliamentarians must be provided with the information necessary to enable them to make informed judgements about such matters as the performance, financial position and financing and investing activities of each authority of State - this is fundamental to the notion of accountability.
- 7.40 The Western Australian Commission on Accountability rightly argued that each government agency which "invests public moneys" or has the capacity to create liabilities which, at the end of the day, may be a charge upon Consolidated Revenue:

¹⁰ New South Wales Auditor-General's Report for 1989, Volume 2, page 107.

Public Accounts Committee

"shoud at all times be ready and able to account to Parliament for all that it has done in the exercise of its statutory authority; for the manner in which it has done it; and for the ends sought to be achieved by the doing of

"PARTICULARS" REQUIRED

- 7.41 The Committee considers that the reporting requirement relating to subsidiaries under Section 4 (1)(n) of the Annual Reports (Statutory Bodies) Regulation, 1985 is not sufficiently well defined.
- 7.42 The Committee believes that a statutory body should at least include in its annual report a single list with a brief summary description of all subsidiaries and the nature and extent of any involvement in companies, joint ventures, partnerships, trusts or other such associations (and the principal activity of each body). That listing should also specify whether the audited accounts for each of these entities appears in the report (either separately or consolidated), and if so in what section of that report.

Recommendation 14

It is recommended that the Treasurer precisely define the "particulars as to the existence of, arrangements with and the operations of subsidiaries, partnerships, joint ventures and other associations ..." (Section 4 (1)(n), Annual Reports Regulation, 1985) which must be included in the annual report of each statutory body.

11 Commission on Accountability, op.cit., page 3.

The Challenge of Accountability

Recommendation 15

It is recommended, following precise definition by the Treasurer of the "particulars" to be required under Section 4 (1)(n) of the Annual Reports (Statutory Bodies) Regulations, 1985, that:

a) resources be allocated within Treasury to monitor the level of compliance;

and

b) the Treasurer report the results to Parliament.

FUTURE REVIEW

7.43 It is vital that Parliament and the public be fully aware of the nature and extent of the State's involvement in companies, partnerships, trusts, joint ventures and related forms of operation. The Committee will, therefore, continue to review the level of disclosure and accountability being achieved.

7.44 This investigation focused on selected aspects of the accountability of statutory body subsidiaries and related organisations. The Committee has become aware that subsidiaries have recently been established by budget sector government departments and jointly between departments and statutory bodies. Legislative amendment will be necessary to bring them within the accounting and reporting requirements of the Public Finance and Audit Act, 1983. The Committee considers that all other principles of accountability set out in this Chapter should also apply to these new arrangements.

Recommendation 16

It is recommended that where subsidiaries are established by budget sector Government departments and jointly by departments and statutory bodies that legislative amendment require the subsidiaries to be brought within the Public Finance and Audit Act, 1983.

Public Accounts Committee

- 7.45 The Committee will be closely reviewing the forthcoming Senate Standing Committee on Finance and Public Administration (SSCFPA) Report on Government Companies, and will assess its implications for New South Wales. The SSCFPA has argued that subsidiary and associated companies for a statutory authority may create difficulties for parliamentary scrutiny:

*"Not only can these companies take on a life of their own, but the Parliament is often unaware that such companies have been established"*¹²

- 7.46 The SSCFPA's recommendations on how best to compile information on government companies and related ventures will, therefore, be of particular interest. The SSCFPA has in the past argued for a register of Commonwealth Government non-statutory bodies (NSBs), but Commonwealth Government policy is to require that information regarding certain types of NSBs be provided in annual reports of NSBs themselves or those of their parent bodies.¹³

- 7.47 The Committee understands that in its current Inquiry, the SSCFPA has found numerous examples of organisations, such as companies limited by guarantee, that have been set up by Commonwealth bodies whose existence has not been reported to Parliament.

- 7.48 The Committee considers that it is imperative that in New South Wales the Treasury, as the central agency responsible for the administration of the Public Finance and Audit Act, 1983 and the annual reports Acts, monitors and works to improve the quality of information provided to Parliament about the increasing number of subsidiary and related organisations. The Parliament should consider appropriating additional resources in this area, should they be required.

¹² SSCFPA, Non-Statutory Bodies, Canberra: AGPS 1986, page 7.

¹³ SSCFPA, Non-Statutory Bodies - Further Report, Canberra: AGPS 1988, pages 20-21.

The Challenge of Accountability

APPENDIX 1

CALL FOR SUBMISSIONS

Public Sector Accounting & Reporting

The Public Accounts Committee has resolved to conduct an examination under Section 57 (1)(b) of the Public Finance and Audit Act 1983, of the accounts of authorities of the State.

The terms of reference for the examination are as follows: TO EXAMINE THE ACCOUNTS OF AUTHORITIES OF THE STATE FOR THE 1988 REPORTING YEAR WITH PARTICULAR REFERENCE TO:

1. The non-lodgement and/or late lodgement of financial statements.
2. To examine the circumstances by which the
Audit or-General returned financial
statements [or adjustment.
3. To examine qualified audit certificates
issued by the Auditor-General and the
reasons for such qualifications.
4. Applications by Statutory Authorities for extensions of time for the lodgement of financial statements.
5. The accountability of subsidiary companies, related companies, partnerships, trusts, joint ventures or other associations.
6. Any other matter relating to the

accountability of Authorities of the State'
and their subsidiaries and related bodies.
Submissions relevant to this examination are
invited from interested parties and members of
the public. Submissions will be treated as public
documents unless otherwise requested and
should be sent to:

The Clerk,
Public Accounts Committee,
Parliament House,
Macquarie Street,
SYDNEY, NSW 2000

Closing Date For Submissions: 28 April,
1989.

Inquiries should be directed to Mr. John
Hotder on (02) 230 2631 or Mr. John Lynas on
(02) 230 2632.

Philip Smiles, LIB, BEc, HBA, DipEd, MP, [CHAIRMAN

Public Accounts Committee

APPENDIX 2

SUBMISSIONS AND CORRESPONDENCE RECEIVED

DATE RECEIVED	NAME (AS ON LETTERHEAD OR BELOW SIGNATURE)
13.3.89	Mr A. Froud, Assistant Director (Administration) Art Gallery of New South Wales
31.3.89	G. Matheson, MP Member for Penrith
3.4.89	K.J. Robson, Auditor-General New South Wales Auditor-General's Office
5.4.89	F. Arkell, MP Member for Wollongong
6.4.89	C.R. Faggotter, Secretary Elders IXL Limited
7.4.89	R. Chappell, MP Member for Northern Tablelands
12.4.89	D. Page, MP Member for Ballina
18.4.89	P. Allan, Secretary New South Wales Treasury
18.4.89	The Hon. G. B. Peacocke, MP Minister for Business and Consumer Affairs
18.4.89	J.C. Price, MP Member for Waratah
24.4.89	The Hon. W. T. J. Murray, MP Deputy Premier, Minister for State Development and Minister for Public Works
27.4.89	The Hon. R. B. Rowland Smith, MLC Minister for Sport, Recreation & Racing
28.4.89	J.I. Wilkinson, B.Ec., FASA, CPA
1.5.89	The Hon. W. T. J. Murray, MP Deputy Premier and Minister for Public Works

The Challenge of Accountability

- 1.5.89 The Hon. N. Pickard, MP
Minister for Minerals & Energy
- 1.5.89 R.E. Wilson, Managing Director
Water Board Sydney-Illawarra-Blue Mountains
- 2.5.89 The Hon. I. Causley, MP
Minister for Natural Resources
- 2.5.89 The Hon. R. J. Jones, MLC
- 2.5.89 P. Shevchenko, Acting Director of Public Finance Section
Australian Bureau of Statistics
- 8.5.89 S.J. Droder
- 12.5.89 C.F. Dodds, Divisional Director
Australian Society of Accountants
- 19.5.89 T.J. Graham, President
The Institute of Internal Auditors - Australia, NSW Branch
- 29.5.89 B. Cart, MP
Leader of the Opposition
- 29.5.89 G. Souris, MP
Member for Upper Hunter & Vice Chairman of NSW Public Accounts
Committee
- 29.5.89 E.B. Turner, Director - Administration
BTR NYLEX Limited
- 31.5.89 The Hon. J. J. Schipp, MP
Minister for Housing
- 1.6.89 The Hon. R. Webster, MP
Minister for Administrative Services
- 2.6.89 J. McCrory, Federal President
The Association of Superannuation Funds of Australia Limited
- 5.6.89 The Hon. Virginia Chadwick, MLC
Minister for Family & Community Services
- 13.6.89 The Hon. Michael Yabsley, MP
Minister for Corrective Services
- 15.6.89 G.F. Thomas, FCA
- 15.6.89 The Hon. M. Yabsley, MP
Minister for Corrective Services
- 19.6.89 Mr J. S. Abraham, President
Australian Society of Accountants

Public Accounts Committee

21.6.89	The Hon. T. J. Moore, MP Minister for the Environment
5.7.89	The Hon. G. Peacocke, MP Minister for Business & Consumer Affairs
12.7.89	Professor P. Parr, Alternate Chairman Sydney Educational Broadcasting Ltd
13.7.89	The Hon. I. Armstrong, MP Minister for Agriculture and Rural Affairs
13.7.89	G. Rowlands, President The Broken Hill Water Board
13.7.89	Ian J. Walker, Managing Director Searchtech
14.7.89	Mr M. Hatcombe, Secretary Board of Veterinary Surgeons of NSW
17.7.89	Graham Andersen Bathys Pty Limited
17.7.89	Roger Brandy, Regional Representative South Coast Regional Aboriginal Land Council
17.7.89	J.R. Brew, Chief Executive State Transit Authority of NSW
17.7.89	Mr Neville G. Perkins, Director Aboriginal Affairs, Premier's Department
18.7.89	Mr R. D. Christie, Administrator South West Tablelands Water Supply
18.7.89	Mr David Iverach, Secretary Ministry of Transport
18.7.89	Mr Stuart McGrath-Kerr, Executive Officer (and Secretary for WGMB Holdings Pty Ltd)
18.7.89	Professor P. Parr, Alternate Chairman Sydney Educational Broadcasting Ltd
18.7.89	Secretary Cobar Water Board
19.7.89	Chancellor Gordon J. Samuels University of New South Wales
20.7.89	The Hon. B. G. Baird, MP Minister for Transport

The Challenge of Accountability

- 20.7.89 The Hon. Virginia Chadwick, MLC
Acting Minister for Police & Emergency Services
- 24.7.89 Judge B. R. Thorley, Chairman
State Drug Crime Commission of NSW
- 24.7.89 Mr H. N. Bowman, Chief Executive Officer
Coal Compensation Board
- 24.7.89 Danny Chapman, Secretary
Far South Coast Regional Aboriginal Land Council
- 24.7.89 Mr M. Harcombe, Secretary
Board of Veterinary Surgeons of NSW
- 24.7.89 Mr P. C. Koperberg, Chairman
Bush Fire Council of N.S.W.
- 24.7.89 Mr Stuart McGrath-Kerr, Executive Officer
(and Secretary for Wine Grapes Marketing Board Holdings Pty Ltd)
- 24.7.89 Mr M. E. McMichael, Chairman
Mitchell!search Limited, Mitchell College of Advanced Education
- 24.7.89 Dr J. O. Miller, Principal
Cumberland College of Health Sciences
- 24.7.89 Chancellor Gordon J. Samuels
The University of New South Wales
- 24.7.89 Professor Di Yerbury, Vice-Chancellor
Macquarie University
- 27.7.89 J.G. Bailey, Chairman
Mines Rescue Board
- 27.7.89 IC P. Baxter
Office of Public Management, Premier's Department
- 27.7.89 F.W. Millar, President of Trustees
Museum of Applied Arts & Sciences
- 31.7.89 Mr J. E. Allsopp, Chairman
Teacher Housing Authority of NSW
- 1.8.89 Mr R. G. Biancardi, Financial Controller
First State Securities Limited
- 1.8.89 M.J. Boss, Town Clerk
Orange City Council
- 1.8.89 Michael Crook, Chairman
MIA Citrus Fruit Marketing Committee

Public Accounts Committee

1.8.89	Dr Fred Guilhaus, Chairman Techwa Corporation Pty Limited
1.8.89	R.E. Howell, Chairman Albury-Wodonga (NSW) Corporation
1.8.89	Mr E. P. Shawyer, Chairman Barley Trading Company Pty Limited
1.8.89	S. Victor Sullivan, Chief Executive The Murray Valley (NSW) Citrus Marketing Board
1.8.89	Peter Watts, Director Historic Houses Trust of NSW.
2.8.89	Mr J. E. Allsopp, Chairman Teacher Housing Authority of NSW
2.8.89	Mr B. P. Flanagan, General Manager The Electricity Commission of NSW
2.8.89	Mr Ross Sayers, Chief Executive State Rail Authority of NSW
3.8.89	The Hon. J. Dowd, IMP Acting Minister for Health
9.8.89	The Hon. T. A. Metherell, MP Minister for Education & Youth Affairs
17.8.89	Mr D. E. Landa Ombudsman
18.8.89	Dr A. Forsyth The University of Newcastle Research Associates Limited
18.8.89	Mr T. W. Jones, General Manager Darling Harbour Authority
25.8.89	C. Pitkin, Town Clerk Bathurst City Council
7.9.89	A.T. Crasweil, Professor of Accounting The University of Sydney
7.9.89	The Hon. G. West, MP Chief Secretary & Minister for Tourism
22.9.89	P. Allan, Secretary NSW Treasury

The Challenge of Accountability

APPENDIX 3

WITNESSES AT PUBLIC HEARING - 7TH MARCH, 1989

ORGANISATION/NAME OF WITNESS

Government Insurance Office

Mr W. J. Jocelyn, Managing Director

State Bank of New South Wales

Mr R. W. Turner, Secretary and Assistant General Manager

Mr M.D. Ellis, Assistant General Manager - Finance

Maritime Services Board of New South Wales

Mr A. MacDonald, General Manager

Mr D. L. Morton, Manager - Operations Support Unit

Mr J. C. Thorns, Director - Finance Administration

Mr G. E. Andersen, Associate Director - Midland Montagu (Australia)

State Authorities Superannuation Board

Mr G. J. Bunbury, President

Mr **W. H.** Barber, Director - Investment Accounting

Mr R. I. W. Macleod, Director - Investment Strategy and Planning

Public Accounts Committee

APPENDIX 4

SIGNED FINANCIAL STATEMENTS RECEIVED AFTER THE DUE DATE OR NOT
YET RECEIVED

Organisations listed in the Auditor-General's Report for 1988

(A) WRITTEN EXPLANATIONS SOUGHT BY THE COMMITTEE

	DUE DATE EXTENSION	DATE RECEIVED	
Art Gallery of NSW Foundation	11.8.88	13.9.88	
Art Gallery of NSW Trust	11.8.88	13.9.88	
Barley Trading Co Pty Ltd	9.12.87	16.2.88	
Bathurst Trade Centre Joint Venture	11.8.88	24.4.89	
Bicentennial Park Trust	11.8.88	18.8.88	Note 1
Board of Optometrical Registration	11.8.88	23.8.88	
Board of Veterinary Surgeons	11.8.88	17.8.88	
Bush Fire Council	11.8.88	9.9.88	Note 2
Business & Consumer Affairs (Department of)	11.8.88	29.8.88	25.8.88
Central Coast Citrus Marketing Board	11.8.88	13.10.88	
Central Coast Regional Aboriginal Land Council	11.8.86 11.8.87	NYR NYR	Note 3
Chiropodists Registration Board	11.8.88	19.8.88	
Chiropractors Registration Board	11.8.88	19.8.88	
Coal Compensation Board	11.8.88	18.8.88	
Cobar Water Board	11.2.88	5.4.88	
Cumberland College of Health Services	11.2.88	10.3.88	Note 4
Dental Board	11.8.88	19.8.88	
Dental Technicians Registration Board	11.8.88	19.8.88	

The Challenge of Accountability

	DUE DATE EXTENSION	DATE RECEIVED	
Forestry Commission of NSW	11.8.88	16.8.88	Note 5
Historic Houses Trust	11.8.88	16.8.88	
Home Care Service	11.8.88	23.9.88	To 8.9.88
Illawarra Technology Centre Ltd	11.8.87 11.8.87	20.1.88 15. 8.88	
Leewood Industrial Estate	11.8.87 11.8.88	NYR NYR	Note 6
Lord Howe Island Board	11.8.88	27.2.89	
Macarthur Development Corporation	11.8.88	23.8.88	
M.I.A. Citrus Marketing Committee	11.8.88	1.9.88	
Mines Rescue Board	11.2.88	15.4.88	To 11.3.88
Ministry of Transport	11.8.88	26.8.88	Note 7
Mitchellsearch Ltd	11.2.88	19.5.88	
Murray Valley (NSW) Citrus Marketing Board	11.2.88	20.3.88	Note 8*
National Engineering Information Service Pty Ltd	11.8.88	15.8.88	
National Parks & Wildlife Service	11.8.88	1.9.88	
NSW Investment Corporation	11.8.88	14.9.88	
Nurses Registration Board	11.8.88	19.8.88	
Office of the Minister for the Environment	11.8.88	31.8.88	
Optical Dispensers Licensing Board	11.8.88	23.8.88	
Pharmacy Board of NSW	11.8.88	19.8.88	
Physiotherapists Registration Board	11.8.88	19.8.88	
Small Business Development Corporation	11.8.88	19.8.88	

Public Accounts Committee

	DUE DATE EXTENSION	DATE RECEIVED	
State Drug Crime Commission	11.8.88	15.8.88	
Sydney Educational Broadcasting Ltd	11.2.88	27.9.88	Note 9
Techwa	11.8.88	29.11.88	
University of Newcastle Research Associates Ltd	11.8.88	12. 9.88	
Western Metropolitan Regional Land Council	11.8.86 11.8.87 11.8.88	NYR NYR NYR	Note 10
WGMB Holdings Pty Ltd	12.7.88	21.7.88	
Windradyne Estate Joint Venture	11.8.88	24.4.89	
Wiradjuri Regional Aboriginal Land Council	11.8.88	1.9.88	

(B) RAISED IN COMMITTEE PUBLIC HEARINGS

	DUE DATE EXTENSION	DATE RECEIVED
Auricle Pty Ltd	11.8.88	6.2.89
Bathys Pty Ltd	11.8.88	6.2.89
Gila Pty Ltd	11.8.88	19.12.88
GIO Act Employees Superannuation Board	11.8.86	10.10.88
GIO Act Employees Superannuation Plan	11.8.87	10.10.88
GIO Administrative Employees Superannuation Plan (1985)	11.8.88	10.10.88
GIO Administrative Employees Superannuation Plan (1988)	11.8.88	10.10.88
GIO Cash ADF	11.8.88	10.10.88

The Challenge of Accountability

	DUE DATE EXTENSION	DATE RECEIVED
GIO Commercial Employees Superannuation Plan	11.8.88	10.10.88
GIO Life ADF	11.8.88	10.10.88
GIO Nominees Pty Ltd	11.8.87 11.8.88	7.11.88 7.11.88
GIO Personal Superannuation Fund	11.8.87 11.8.88	22.11.88 22.11.88
GIO Workers' Compensation Managed Fund	11.8.88	2.11.88
Maimon Pty Ltd	11.8.88	6.2.89
Martin Place Management Ltd	12.5.88	5.8.88
MP Property Fund	12.5.88	5.8.88
Nerval Pty Ltd	11.8.88	6.2.89
Saroyan Pty Ltd	11.8.88	6.2.89
SBNSW (Cook Islands) Pty Ltd	11.8.88	19.4.89
Tulasne Pty Ltd	11.8.88	6.2.89
Vambery Pty Ltd	11.8.88	6.2.89
Vistajura Pty Ltd	11.8.88	19.12.88
Zenith Centre Management	11.8.86 11.8.87 11.8.88	25.1.89 25.1.89 25.1.89

Public Accounts Committee

(C) OTHER

	DUE DATE EXTENSION	DATE RECEIVED
<u>Year Ended 30 June 1988</u>		
Area Health Services		Note 11
Blue Mountains Greater Newcastle Lower Hunter Macquarie Manly Warringah Northumberland Prospect St George Sydney Upper Hunter		
Sydney College of the Arts		Note 12

NOTES ACCOMPANYING APPENDIX 4

1. The Trust informed the Committee that the Auditor-General advised on 4.8.88 that an extension could not be sought.
2. *"Not as yet appearing in Schedule 2 of the Public Finance and Audit Act"* (Auditor-General's Report for 1988, volume 2, page 473).
3. Auditor-General's Report for 1989, volume 1, page 273.
4. *"College requested the Treasurer for a 10-day extension on 5.2.88 Extension not granted"*: (Auditor-General's Report for 1988, volume 1, page 167). Request not listed in Treasury Register.

College advises request made 5.2.88 was denied in Treasury letter of 10.4.88 received 12.5.88.
5. *"Extension sought but not granted"* (Auditor-General's Report for 1988, volume 2, page 474). Request not listed in Treasury Register.
6. Auditor-General's Report for 1989, volume 1, page 273.
7. *"Extension of time sought but not given"* (Auditor-General's Report for 1988, volume 2, page 470). Request not listed in Treasury Register.
8. The Board advised the Committee that the statements were sent by facsimile on 17.2.88. The Auditor-General's Report for 1989 (volume 1, page 274) states *"received 20 March 1989"*.
9. Extension approved to 11.5.88. Received 11.5.88.
Accounts returned, and resubmitted 25.7.88.
Accounts again returned, resubmitted 27.9.88.

The Challenge of Accountability

10. Auditor-General's Report for 1989, volume 1, page 273.
11. The Areas were abolished with effect from 30th June, 1988. Ten new Area Health Services were created to replace 23 former Areas. The Committee consequently resolved not to pursue these individual cases.
12. Dissolved on 25 January 1988.

GENERAL:

- * Not included are organisations whose statements were submitted within the period of extension approved.
- * Statements marked NYR (Not Yet Received) are as at 10.8.88.

Public Accounts Committee

APPENDIX 5

**APPLICATIONS FOR EXTENSION OF TIME TO SUBMIT
FINANCIAL STATEMENTS**

APPLICANT	DETAILS	YEAR (S)
Aboriginal Affairs (Ministry of)	Corp. Sole - 25.9.84	1983/4
Aboriginal Land Council NSW	Extension to 11.9.84, 30.9.86 Not granted	83/84+85/6 n.d.
Advanced Technology Development Assistance Fund	25.9.87	1986/7
Agriculture & Fisheries, Dept of	Extension of time - 1 month	1986/7
Albury-Wodonga (NSW) Corporation	22.9.84, 22.9.85 & 8/9 each year after	Permanent
Art Gallery of NSW Trust	12 weeks	1984/5
Auctioneers & Agents, Council of	2 weeks	1984/5
Barristers Admission Board	7.9.84	1983/4
Building & Construction Industry Long Service Pay Corp	2 weeks	1984/5
Central RALC	6 months	1985/6
Central Coast Citrus Marketing Board (NSW)	1.9.86 Extension to 30.9.87 requested - not granted	1985/6 1986/7
Central Coast RALC	10 week	1983/4
Central West County Council	26.8.88	1987/88
Chiropodists Registration Board	2 weeks 3 weeks	1985/6 1986/7
Chiropractors Registration Board	2 weeks 3 weeks	1985/6 1986/7

The Challenge of Accountability

APPLICANT	DETAILS	Y EAR (S)
CLANN Ltd	6.3.86	1985
Coal Compensation Board	2 weeks	1984/5
Compensation Court	11.10.86	1985/6
Conservatorium of Music, Board of Governors	3 months	1985/6
Consumer Affairs, Department of	25.8.88	1987/8
Country Industries Assistance Fund	25.9.87	1986/7
Dental Board	2 weeks 3 weeks	1985/6 1986/7
Dental Technicians Registration Board	2 weeks 3 weeks	1985/6 1986/7
Environment & Planning, Dept of	1 month	1986/7
Environment Planning & Assess Act, Minister	1 month	1986/7
Far South Coast RALC	30.9.86	1985/6
GIO	15.10.	Permanent
GIO UK	31.8.87 31.8.88	1986/7 1987/8
GIO Holdings Ltd (formerly GIFC LTD)	31.8.87 31.8.88	1986/7 1987/8
GIO Life	31.8.87	1986/7
GIO Cash	31.8.87	1986/7
GIO Sup.	31.8.87	1986/7
Government Printing Office	4 weeks	1985/6
Greyhound Racing Control Board	Extension not approved	1986/7
Health Foundation NSW	31.10.85	1984/5
Home Care Service of NSW	25.9.85 4.9.86 8.9.88	1984/5 1985/6 1987/8

Public Accounts Committee

APPLICANT	DETAILS	YEAR(S)
Insearch Ltd	7 working days	1986
Insurance Premiums	2 days	1985/6
Jecha Pty Ltd	31.8.88	1987/8
Jecha Unit Trust	31.8.88	1987/8
Lord Howe Island Board	5 weeks 4 weeks	1984/5 1986/7
Medical Board NSW	2 weeks 3 weeks	1985/6 1986/7
Mines Rescue Board	1 month	1986
Murray River RALC	Request for extension (unspecified) not granted	1986/7
Murray Valley (NSW) Citrus Marketing Board	7.3.86	1984/5
National Parks & Wildlife Service	30.8.85	1984/5
New South Wales Investment Corp	25.9.87	1986/7
Northern Tablelands RALC	17.11.86	1985/6
North West County Council	2 weeks requested - not granted	Permanent
North Western RALC	17.11.86	1985/6
Nurses Registration Board	2 weeks 3 weeks	1985/6 1986/7
Optical Dispensers Licensing Board	2 weeks 3 weeks	1985/6 1986/7
Optometrical Registration Board	2 weeks 3 weeks	1985/6 1986/7
Peel Cunningham County Council	Extension of 2 weeks requested - not granted	Permanent
Pharmacy Board	2 weeks 3 weeks	1985/6 1986/7

The Challenge of Accountability

APPLICANT	DETAILS	YEAR(S)
Physiotherapists Registration Board	2 weeks	1985/6
	3 weeks	1986/6
Public Authorities Superannuation Board	28.5.85	1984/5
Royal Botanic Gardens & Domain Trust	19.8.88	1987/88
Soil Conservation Service of NSW Commission	31.8.84	1983/4
	6.9.85	1984/5
	11.11.86	1985/6
	10 weeks	1984/5
Solicitors Admission Board	7.9.84	1983/4
State Bank of NSW	3 weeks	1984/5
	3 weeks	1985/6
	3 weeks	1986/7
	30.9.88	1987/8
State Compensation Board	18 days	1985/6
State Pollution Control Commission	2 weeks	1984/5
State Rail Authority of NSW	4 weeks	1984/5
Sydney Educational Broadcasting Ltd	7 working days	1986
	3 months	1987
Sydney & Newcastle RALC	30.9.86	1985/6
	Extension to 31.10.87 requested - not granted	1986/7
Sydney Opera House Trust	2 weeks	1984/5
Teacher Housing Authority of NSW	2 weeks	1984/5
Travel Agents Registration Board	5.9.86	1985/6
University of Wollongong, Council of	8.3.85	1984

Public Accounts Committee

APPLICANT	DETAILS	YEAR (\$)
Urban Transit Authority of NSW	2 weeks	1984/5
Water Resources Commission	6.12.85	1984/5
West Scholarships Trustees	2 weeks	1984/5
Western Metropolitan RALC	30.9.86	1985/6
Western RALC	30.9.86	1985/6
Wild Dog Destruction Board	31.5.85	1984
Wiradjuri RALC	4.9.86	1985/6
Zoological Parks Board of NSW	25.8.85 15.8.86	1984/5 1985/6

KEY: RALC - Regional Aboriginal Land Council

SOURCE: Compiled from Annual Reporting Exemptions Register, List of Authorities and Exemptions, NSW Treasury, 17.7.89. Variable notation as per the Registry.

APPENDIX 6

AUDITOR-GENERAL'S REPORT FOR 1988: ORGANISATIONS WHOSE FINANCIAL STATEMENTS WERE RETURNED FOR ADJUSTMENT BUT REVISED STATEMENTS NOT YET RECEIVED

A. WRITTEN EXPLANATION SOUGHT BY THE COMMITTEE

Year Ended 30 June 1987

North West Regional Aboriginal Land Council

Year Ended 30 June 1988

Automation and Engineering Applications Centre Ltd Automation Extension Services Pty Ltd

Central Regional Aboriginal Land Council

Darling Harbour Authority

First State Securities Pty Ltd

Government Printer

Murray River Regional Aboriginal Land Council North West Regional Aboriginal Land council

Royal Botanic Gardens and Domain Trust

Search Tech Pty Ltd

The University of Newcastle Research Associates Ltd Western Regional Aboriginal Land Council

Wiradjun Regional Aboriginal Land Council

B. RAISED IN COMMITTEE PUBLIC HEARINGS

Deferred Payments Co-ordinators Pty Ltd

Martin Place Management Ltd

MP Property Fund

State Bank Minder Approved Deposit Growth Fund

APPENDIX 7

STATEMENT OF AUDITING STANDARDS AUS 1 - AUDIT CONCLUSIONS AND REPORTING

- "23 Auditors shall review and assess the conclusions drawn from the audit evidence obtained as the basis for expressing their opinion on the financial information. This review and assessment involves forming an overall conclusion as to whether:
- (a) the financial information has been prepared in accordance with Statements of Accounting Standards issued by the Australian Society of Accountants and The Institute of Chartered Accountants in Australia, which have been consistently applied;
 - (b) the financial information complies with relevant regulations and statutory requirements;
 - (c) the view presented by the financial information as a whole is consistent with the auditor's knowledge of the business of the entity; and
 - (d) there is adequate disclosure of all material matters necessary to give a true and fair view."

APPENDIX 8

BASIS OF QUALIFIED OPINIONS EXPRESSED BY THE AUDITOR-GENERAL IN 1988

1. DEPARTURE FROM ACCOUNTING STANDARDS

AAS 1 Profit and Loss Statements

Public Authorities Superannuation Board*
(Year End 3/88)
State Public Service Superannuation Board* (3/88) State Rail Authority* (6/88)
State Superannuation Board* (3/88)
The Automation and Engineering Applications Centre
Ltd (6/87)
Urban Transit Authority* (6/88)

AAS 2 Valuation and Presentation of Inventories

Soil Conservation Service (6/87)
Macquarie University* (12/87)

AAS 3 Tax-effect Accounting Newcorn Collieries (6/88)

AAS 4 Depreciation of Non-Current Assets

Broken Hill Water Board (12/87)
C.B. Alexander Foundation (6/88)
Cobar Water Board (12/87)
Fish-River Water Supply (12/87)
Lord Howe Island Board* (6/87)
Muiwala River Supply (12/87)
South-West Tablelands Water Supply (12/87) State Rail Authority* (6/88)
Teacher Housing Authority* (6/87, 6/88)
Urban Transit Authority* (6/88)
Zoological Parks Board (6/88)

Public Authorities Superannuation Board* (3/88) State Public Service Superannuation
Board* (3/88) State Superannuation Board* (3/88)

Public Accounts Committee

AAS \$ Materiality in **Financial** Statements

Lord Howe Island Board* (6/87)

AAS 10 Revaluation of Non-Current Assets

GIO Investment Trusts (6/88)

SBNSW General Banking Business (6/88) State Sports Centre (6/88)

2. **UNCERTAINTY AS TO:**

allocation of receipts and or payments between programs

Youth and Community Services (6/87)

Family and Community Services (6/88)

Police Department (6/87, 6/88)

National Parks and Wildlife Service (6/87, 6/88)

ownership of assets

Far South Coast Regional Aboriginal Land Council* (6/87, 6/88)

value of stock on hand

Government Supply Office (6/87)

depreciation charges for buildings

NSW Land and Housing Corporation (6/87, 6/88) Public Servant Housing Authority* (6/87, 6/88)

administrative charges

Public Servant Housing Authority* (6/87, 6/88) Teacher Housing Authority* (6/88)

The Challenge of Accountability

3. DEPARTURE FROM PROVISIONS OF PUBLIC FINANCE AND AUDIT ACT

GIO (UK) Ltd (6/88)
MP Property Fund (3/87)
SBNSW (London) Nominees Pty Ltd (6/88)

4. DISAGREEMENT AS TO CLASSIFICATION OF INCOME

Macquarie University* (12/87)
University of New South Wales (12/87)

5. INADEQUATE DOCUMENTATION

Far South Coast Regional Aboriginal Land Council*
(6/87, 6/88)
South Coast Regional Aboriginal Land Council;
unavailability of Council minutes (6/88)
Museum of Applied Arts and Sciences* (6/88)

6. INADEQUATE DISCLOSURE OF EQUITY IN A RELATED COMPANY

Murray Valley (N.S.W.) Citrus Marketing Board (12/87)

7. NON-ACCRUAL OF CERTAIN EXPENSES

SBNSW Cook Islands Ltd (6/87)

8. DEPARTURE FROM PROVISIONS OF TRUST DEED

GIO - Kurts Trust No. 1 (6/88)

9. LIMITATION ON SCOPE OF AUDIT

Coal Compensation Board (688)

10. CERTAIN REVENUE ITEMS NOT ADEQUATELY CONTROLLED

Museum of Applied Arts and Sciences* (6/88)

* more than one reason given

SOURCE: Compiled on the basis of Auditor-General's Report for 1988, audited financial statements, and responses to Committee inquiries.

Public Accounts Committee

APPENDIX 9

APPLICATIONS FOR EXTENSION OF TIME TO SUBMIT ANNUAL REPORTS

ORGANISATION	DETAILS	YEAR (S)
Advanced Technology Development Assistance Fund	18.12.87	1986/7
Agriculture & Fisheries, Department of	1 month	1986/7
Albury-Wodonga (NSW) Corporation	to 15.11.85 and 30/11 each year thereafter	1984/5
Arts, Ministry for the	to 23.12.88	1987/8
Central Coast (NSW) Citrus Marketing Board	to 21.11.86 to 14.12.87 not granted	1985/6 1986/7
Central West County Council	15 days	1987/8
Chiropodists Registration Board	1 month	1985/6
Chiropractors Registration Board	1 month	1985/6
Compensation Court of NSW	to 31.12.86 further delay advised	1985/6
Conservatorium of Music, Board of Governors	3 months	1985/6
Consumer Affairs, Department of	3 weeks	1987/8
Country Industries Assistance Fund	to 18.12.87	1986/7
Dental Board	1 month	1985/6
Dental Technicians Registration Board	1 month	1985/6
Environment & Planning, Department of	1 month	1986/7

The Challenge of Accountability

ORGANISATION	DETAILS	YEAR(S)
Environment Planning & Assessment Act, Minister	1 month	1986/7
Forestry Commission of NSW Government Insurance Office	1 month to 31.12	1986/7 Permanent
Government Printing Office	Extension denied (out of time)	1987/8
Grape Marketing Board	3 weeks	1985/6 & 1986/7
Home Care Service of NSW	7 weeks 1 month	1984/5 1987/8
Liquor Administration Board	2 months 2 months	1984/5 Permanent
Lord Howe Island Board Medical Board	to 24.12.87 1 month	1986/7 1985/6
National Parks & Wildlife Service	to 30.11.85 6 weeks	1984/5 & 1987/8
Nurses Registration Board	1 month	1985/6
Optical Dispensers Licensing Board	1 month	1985/6
Optometrical Registration Board	1 month	1985/£
Pharmacy Board of NSW	1 month	1985/6
Physiotherapists Registration Board	1 month	1985/6
Police Department	1 month further month 3rd one month extension not granted	1986/?
Public Servants Housing Authority of NSW	4 weeks	1987/8
Royal Botanic Gardens & Domain Trust	8 days	1987/8

Public Accounts Committee

ORGANISATION	DETAILS	YEAR(S)
Soil Conservation Service of NSW	2 weeks to 31.1.87	1984/5
State Bank of NSW	3 weeks	1984/5
State Emergency Services Civil Defence	Request for 1 month extra denied	1987/8
Sydney County Council Broadcasting Ltd	12 months	1986/7
Tourism Commission of NSW	Request denied	n.d. (file date 1986)
Tourism Commission of NSW	Request denied	
Travel Agents Registration Board	6 weeks Report late (late application)	1984/5 1985/6
University of Newcastle, Council of the	3 months	1985
University of NSW, Council of the	6 weeks	1987
Urban Transit Authority of NSW	2 weeks	1984/5
Wild Dog Destruction Board	Not able to approve - 1985	1985
Zoological Parks Board of NSW	2 month extension not approved.- report delayed	n.d. (file date 1987)

SOURCE: Compiled from Treasury's Annual Reporting Exemptions Register, List of Authorities and Exemptions, 17/7/89.

Details as listed.

