



PUBLIC ACCOUNTS COMMITTEE

PARLIAMENT OF NEW SOUTH WALES

Annual Report

1992-93



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MEMBERS OF THE PUBLIC ACCOUNTS COMMITTEE

Members of the Public Accounts Committee of the 50th Parliament during 1992-93 were:

Mr Andrew Tink, BA, LLB, MP, Chairman

Before becoming Liberal Member for Eastwood in March 1988, Andrew Tink practised as a barrister in equity, commercial and shipping law. He has since served on numerous parliamentary and government committees, holding the position of Chairman of the Joint Committee on the Office of the Ombudsman prior to his appointment to the Public Accounts Committee. He is also a Temporary Chairman of Committees in the Legislative Assembly and its representative on the Macquarie University Council, and a member of the Committee on the Independent Commission Against Corruption.

Mr Ray Chappell, MP

Ray Chappell was elected National Party Member for Northern Tablelands in May 1987. He has worked in university administration and in the building and retail industries, and he served four terms as an alderman on Armidale City Council. Ray Chappell is the Legislative Assembly representative on the Board of Governors of the University of New England, and was a Temporary Chairman of Committees in the Legislative Assembly. He served as Vice-Chairman of the Committee until his appointment as Minister for Small Business and Regional Development on 24 May 1993.

Mr Geoff Irwin, ProdEngCert, DipTech, DipEd, MP

Geoff Irwin was elected to Parliament in March 1984 as the Labor Member for Merrylands, and he has been the Member for Fairfield since March 1988. Before entering Parliament he worked in industry as a planning and supply manager and taught business studies at TAFE. He served as a member of the Select Committee upon Small Business and as Opposition Spokesperson on Business and Consumer Affairs.

Mr Terry Rumble, FCPA, MP

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

Mr Ian Glachan, MP

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

Public Accounts Committee

chairmanship of the Minister's Advisory Committee on Health, and vice-chairmanship of the Minister's Advisory Committee on Roads and Transport.



The Public Accounts Committee during 1992–93

From left: Ray Chappell (Vice-Chairman), Terry Rumble, Andrew Tink (Chairman), Ian Glachan, Geoff Irwin

The following Member was appointed to the Public Accounts Committee on 9 September 1993 in place of Ray Chappell, and subsequently elected Vice-Chairman:

Mr Peter Cochran, MP

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



The present Public Accounts Committee

From left: Geoff Irwin, Ian Glachan, Andrew Tink (Chairman), Terry Rumble, Peter Cochran (Vice-Chairman)

CHAIRMAN'S FOREWORD

Sydney's Olympic 2000 win has seen intense public interest focussed on administrative and financial accountability in what will be a multi-billion dollar enterprise for New South Wales over the next seven years.

During the past year, the Public Accounts Committee has reported on three inquiries which should significantly improve Olympic accountability. These reports are on an inquiry into internal audit, an inquiry into infrastructure financing, and a review of the Auditor-General's special auditing function.

The relevance of these inquiries and reports to the Sydney Organising Committee for the Olympic Games (SOCOG) flows from Premier Fahey's decision to constitute SOCOG as a statutory body subject to the Public Finance and Audit Act, the Auditor-General, the Ombudsman and the Independent Commission Against Corruption—a decision the Committee strongly supports and welcomes.

Adoption of the Committee's report on *Internal Audit in the New South Wales Public Sector*, which has already been largely accepted by the Treasurer and has created keen professional interest nationwide and overseas, will ensure among other things, that the Chief Executive of SOCOG has in place a mandatory internal audit function reporting directly to him/her. In addition, the report will ensure that the Chief Executive's personal responsibility for this is written into his/her performance agreement.

The *Review of Special Auditing Function of NSW Auditor-General's Office* will ensure that any such audits carried out on SOCOG are broad-based and pay due regard to each of the key elements of economy, efficiency and effectiveness. That is, they will be full performance audits.

Preparations for the Olympics will involve a massive investment in infrastructure development across a broad range of government agencies, and the Committee's volume 1 report *From Concept to Contract—Management of Infrastructure Projects* and ongoing inquiry into infrastructure financing are of great importance to that investment. The Committee's report and ongoing inquiry have been well received by the private sector and have generated much international interest.

In particular, the Premier's decision to assume overall responsibility for the Olympic Games is in line with the Committee's view that the Premier, as Head of the Government, must have a co-ordinating role in infrastructure development. In addition, recent announcements by the Departments of Transport and Planning on a more integrated approach to planning go some way towards the Committee's view that there needs to be an integrated infrastructure development plan.

Most importantly, the Committee's *Management of Infrastructure* report has stressed the need for maximum transparency in public-private sector contracts and recommended that contract summaries be fully vetted against the primary contractual documents by the Auditor-General with a view to the summaries being made public. Again the Committee believes that the adoption of this proposal will provide a much better level of

accountability in the many public-private sector deals which come on stream in the next seven years. Whilst this report was in fact tabled a few days into the current financial year, the lion's share of the work in producing it was conducted in 1992-93.

Other major financial issues to arise in the last twelve months include the Central Sydney Area Health Service, HomeFund and the M5 Tollway.

The Committee considered the Central Sydney Area Health Service in its report on *Internal Audit*, and a number of its recommendations, including the importance of audit committees and direct lines of accountability between the internal auditor and the chief executive officer, arise directly from evidence given about this area health service. The Committee's recommendation to treat area health services as separate financial reporting entities under the Public Finance and Audit Act is also largely based on that evidence.

In the context of its study of infrastructure financing, the Committee has been very concerned that Loan Council guidelines have encouraged the development of highly artificially structured deals and contractual arrangements between the public and private sectors to get around the guidelines.

The result is the guidelines have encouraged schemes that camouflage the real risk to the taxpayer such as HomeFund, which the Auditor-General reported recently was artificially structured to get around them.

The Committee has pursued this matter most vigorously with the Federal Treasurer in its infrastructure financing inquiry, to encourage the development of new guidelines based on a full risk weighted approach. We were recently delighted to hear the Treasurer's announcement that a risk weighting approach is now to be introduced.

Much of the argument about the M5 Tollway turned on the question of public-private sector financial arrangements which media reports suggested had not been adequately disclosed to the public. The Committee believes that its recommendations relating to public-private contractual summaries will go a long way to addressing these concerns.

I am particularly proud of the Committee's *Report on the School Student Transport Scheme* where the Committee tackled a very difficult political issue which has been of great concern to successive Auditors-General.

Following a lengthy inquiry and debate within the Committee, we bit the bullet and recommended a parental contribution be imposed to bring some demand discipline to the Scheme. Although this recommendation was not ultimately accepted by the Government, I strongly believe it is a report that will stand the test of time in an area where an expenditure in the vicinity of \$300 million per annum will continue to blow out at an ever increasing rate.

Our other major ongoing inquiry during the year was the second phase of the Public Accounts Special Committee inquiry—looking into the wider aspects of financing health infrastructure and services following the review of the Port Macquarie hospital contract. Despite the best efforts of every member of the Special Committee and the consultants, the end results were modest. I strongly believe that this was due to the fact that

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Parliament had sent the Committee a "hot potato". The lesson to be learned is that a committee of the Parliament will not be able to sort out a problem which the Parliament itself is at the same time in fundamental and bitter conflict on.

The Committee's productivity over the last twelve months has been extraordinary due largely to the Committee staff headed by the Director—Patricia Azarias—and including Ian Clarke, Ian Thackeray, Caterina Seiera and Wendy Terlecki, who have at times worked on weekends and until 3 a.m. to get the job done.

I would also like to stress that our result of eight reports in this financial year was achieved within budget—careful stewardship enabled us to save \$5000.

I am grateful to the Auditor-General for the continuing secondment of John Lynas from his Office and to the Parliamentary Librarian for the secondment of Jozef Imrich.

Finally I would like to thank our consultants during the year who included Mike Smart; Joe Scuteri and Jim Hales from KPMG Peat Marwick (Adelaide), and Fergus Ryan, Brian Blood and Stuart Robertson from Arthur Andersen (Sydney).

It has been a great privilege for me to chair the Public Accounts Committee over the last twelve months, and I firmly believe that the Committee best adds value and justifies the expenditure of taxpayers' dollars on it when it concentrates on tasks which can produce a constructive bipartisan result rather than on tasks which simply generate headlines and divide the Committee along party lines. For this, my thanks go to my Parliamentary colleagues Ray Chappell, Peter Cochran, Ian Glachan, Geoff Irwin and Terry Rumble.



Andrew Tink, MP
Chairman
9 November 1993

HIGHLIGHTS OF THE YEAR

	DATE	REPORTS TABLED
1992	24 November	Report No. 65: <i>Ninetieth Anniversary</i>
	30 November	Report No. 66: <i>Annual Report for 1991-92</i>
	23 December	Report No. 67: <i>European Inspection Tour</i>
1993	15 January	Report No. 68: <i>School Student Transport Scheme</i>
	22 February	Report No. 69: <i>Proceedings of the 90th Anniversary Seminar on Internal Control and Audit</i>
	25 June	Report No. 70: <i>Review of Special Auditing Function of NSW Auditor-General's Office</i>
	29 June	Report No. 72: Report of the Public Accounts Special Committee on <i>Funding of Health Infrastructure and Services in NSW</i>
	30 June	Report No. 71: <i>Internal Audit in the New South Wales Public Sector</i>

	DATE	OTHER SIGNIFICANT EVENTS
1992	9-10 September	Country inspections for the inquiry into the School Student Transport Scheme
	18 September	Metropolitan inspections for the inquiry into the School Student Transport Scheme
	30 October	European inspection tour (to 12 November)
	19 November	Seminar held on <i>Internal Control and Audit</i>
1993	29-30 March	8th Biennial Conference of the Australasian Council of Public Accounts Committees
	2 April	Workshop on disclosure of infrastructure contracts to Parliament

CHARTER

The Public Accounts Committee is a committee of the Legislative Assembly of the New South Wales Parliament, established to exercise the Parliament's review powers over the efficiency, effectiveness and accountability of the State's public sector.

The Committee was established by the *Audit Act 1902*. However, until 1981 the Committee met only two to four times a year, each meeting lasting for only about half an hour. Committee reports during those years were a few pages long, confining themselves to instances of over-expenditure or financial impropriety and questions about procedures on contracts.

During those years and until December 1982 the Committee had only two functions:

- to inquire into matters relating to the Public Accounts referred to it by the Legislative Assembly, a minister or the Auditor-General;
- to inquire into expenditure by ministers which had not been sanctioned and appropriated by Parliament.

The first function was not exercised until November 1981, when the Committee received a reference to inquire into over-expenditure in public hospitals and the general accountability of the public hospital system.

The second function was performed only superficially until 1982, when public hearings were held and departmental witnesses examined for the first time about over-expenditures.

In commenting on the lack of references given to the Public Accounts Committee, the Joint Committee on Public Accounts and Financial Accounts of Statutory Authorities noted that this suggested:

“ . . . either a standard of efficiency in the financial administration of Departments stretching credulity to more than reasonable limits or alternatively—and more probably—a lack of understanding on the part of both the Legislature and the Executive of the need for vastly improved machinery for improvement in the control of public finance.”

The inactivity of the Public Accounts Committee was clearly the result of the latter—a lack of appreciation by successive governments of the need for a legislatively backed watchdog of public expenditure.

However, by the late 1970s there *was* a growing recognition in government of the need for enhanced accountability of the public sector to the Legislature.

Three successive reports from parliamentary committees appointed to examine the form of the Public Accounts and the accounts of statutory authorities recommended that:

- the Audit Act be amended to increase the functions of the Public Accounts Committee to allow it to initiate its own inquiries;
- the Public Accounts Committee be serviced by a permanent secretariat of parliamentary officers.

As a result of these recommendations, in December 1982 the *Audit (Public Accounts Committee) Amendment Bill 1982* was passed to expand considerably the powers of the Public Accounts Committee. Thus, in addition to its two former functions, the Committee was empowered:

- to examine the Public Accounts;
- to examine the accounts of statutory authorities;
- to examine the Auditor-General's reports and related documents;
- to report to the Legislative Assembly upon any items in or circumstances connected with those accounts, reports or documents;
- to report to the Assembly on any alteration the Committee thinks desirable in the form of the accounts, or in the method of keeping accounts, or the receipt, expenditure or control of money.

The Committee was precluded from inquiring into government policy unless it had received a reference from the Legislative Assembly or a minister.

The Audit Act of 1902 was replaced by the *Public Finance and Audit Act 1983* which retained the functions of the Committee acquired in December 1982.

A permanent secretariat was established in August 1983, thus strengthening the Committee's ability to exercise its new powers.

The strengthening of the Public Accounts Committee's statutory powers in 1982 received bipartisan support. Bipartisanship has underlain the way the

Public Accounts Committee has investigated problems in public sector administration. The Committee has been supported by all political parties and Independents, as well as the media. Its work has involved a search for common ground, the sharing of ideas and experience, and effective consultation and negotiation.

Inquiries by the reconstituted Public Accounts Committee have contributed to, and in many cases been entirely responsible for, restructuring of government agencies and systems. In the public health system, for example, the Committee has been behind the improvements in accountability of hospitals and in efficiency of the Home Care Service. In the public sector generally, the Committee has provided impetus to the adoption of annual reporting and accrual accounting, and strengthening of internal audit.

The Committee's achievement of its objectives through exercise of its powers is difficult to measure quantitatively. However, some assessments by external parties support the view that the Committee has been highly successful.

Over the last decade, a close working relationship has been forged between the Committee and the Auditor-General. The Auditor-General and Committee have complementary roles in which the Auditor-General identifies problems in government administration, and the Committee investigates the reasons behind the problems and works towards their rectification. Together, the Committee and the Auditor-General form a strong instrument of accountability to ensure that State finances are properly managed and reported.

CORPORATE PLAN

MISSION STATEMENT

The Public Accounts Committee serves the Parliament and thereby the community by:

- acting as parliamentary watchdog of government expenditure;
- promoting efficient and effective implementation of government policy;
- ensuring greater accountability of the executive government to Parliament and the public.

OBJECTIVES

The objectives of the Public Accounts Committee are:

- to increase the efficiency and effectiveness with which government policy is implemented;
- to increase the public sector's awareness of the need to be efficient, effective and accountable for its operations; and
- to increase the awareness and understanding of parliamentarians and members of the public of the financial and related operations of government.

STRATEGIES

The Public Accounts Committee works towards achieving its objectives mainly by conducting inquiries and reporting its findings and recommendations. Those reports which recommend change are followed up to ensure that the

Committee's recommendations are given serious consideration. The Committee also reviews proposals to amend legislation and regulations on accountability issues, and participates in public education.

Initiating inquiries

Public Accounts Committee inquiries may result from a reference from a minister, the Legislative Assembly or the Auditor-General, or inquiries may be initiated by the Committee itself. Inquiries initiated by the Committee usually result from matters raised in reports of the Auditor-General, or they review action taken on recommendations in previous reports.

Of the 72 reports which the Committee tabled to 30 June 1992, 6 arose from references from the Treasurer, 21 arose from references from other ministers, two from a Legislative Assembly reference, and 2 from references from the Auditor-General. The table on page 62 shows the origin of Committee inquiries and reports.

Examining Auditor-General's reports

The Auditor-General reports to Parliament, currently three times each year, on the results of the audit of the Treasurer's Public Accounts and the accounts of government agencies. These three volumes may include results of "special" performance audits, or results of such audits may be reported separately.

The Committee examines the Auditor-General's reports for problems in financial management experienced by

agencies. Such problems are often associated with a qualified audit opinion on the financial statements, late submission of statements, or issue of management letters.

The Committee identifies matters in the Auditor-General's reports which it considers to warrant further investigation. The Chairman writes to the relevant agencies and ministers seeking a response to the concerns. On receiving a response, the Committee may decide that some matters require no further action. If necessary, the Committee may call officers of an agency to give formal evidence before it in a hearing. In some cases the Committee may consider that a further investigation is needed through a full inquiry.

Follow-up of recent Auditor-General's reports is presented on page 42.

The examination of the Auditor-General's reports is an important part of the system of checks and balances in the Westminster style of government practised in New South Wales. This function of the Committee complements that of the Auditor-General and helps increase the accountability of the executive government.

The inquiry process

Once terms of reference are established, advertisements are placed in the press informing the public of the inquiry and seeking submissions from interested parties. Letters or questionnaires may be written to government agencies or private bodies seeking information or submissions. Organisations and interested parties may then be called to give evidence at a public hearing.

The Committee finds field inspections particularly useful in getting a first hand

view of an agency. For a number of inquiries the Committee has also sought information from other States and overseas in order to draw comparisons. The inspections carried out by the Committee during 1992-93 included a study tour to Europe for the inquiry into urban infrastructure financing. Report No. 67 documents the observations of the study tour.

Following the collection of all necessary information, a report is drafted and considered by the Committee in private meetings.

The completed report is tabled in Parliament and distributed to Members of Parliament, government agencies, libraries, witnesses, those who made submissions, and the Government Information Service.

Taking evidence

Witnesses are summoned to give evidence before the Committee by an order of the Committee, signed by the Chairman. In practice, witnesses are notified by telephone and in writing of the time, place and subject matter for the hearing, and the summons is handed to them before the hearing. Before giving evidence, witnesses must take an oath or make an affirmation.

Public hearings are often attended by members of the media. The Committee aims to ensure that its activities are as open and public as possible.

So far, the Committee has had the fullest co-operation of public officials in attending its hearings. It has never yet had to exercise its powers to compel a witness to attend through the issue of a warrant under the *Parliamentary Evidence Act 1901*.

Significantly, the Committee has found that deficiencies are often corrected during the investigation and before the Committee reports, testifying to the constructive nature of the inquiry process itself.

The Public Finance and Audit Act provides that, with some exceptions, the Committee takes evidence in public hearings. However, if the Committee considers that evidence relates to a confidential matter, the Committee may decide to take evidence in private. A witness can request a hearing in private and the Committee may agree.

All hearings are recorded by Hansard. Minutes of evidence from public hearings are published and tabled in the Legislative Assembly.

A document can also be treated as confidential. Evidence taken in private at the request of a witness is not to be disclosed or published without the written consent of the witness. Evidence taken where the Committee has decided to take evidence in private can only be disclosed with the authority of the Committee.

Witnesses are protected under the Parliamentary Evidence Act against legal action for any evidence that may be construed as defamatory.

The Committee is not subject to the *Freedom of Information Act 1989*.

Following up

It is not the Committee's role to compel the Government to implement its recommendations, although it is important to ensure that recommendations are given serious consideration. The Committee understands that the Government will not

always agree with its findings, and after further examination by the Government there may at times be practical or political reasons why its recommendations cannot or should not be implemented. However, the Committee's reports are based on extensive research and involve gathering evidence from a wide range of expert witnesses. These reports therefore warrant due consideration by the Government, and the Parliament should be fully informed of action taken on recommendations.

Reports on its inquiries which recommend change are therefore followed up by the Committee. In the first instance, the Committee requests an initial response to a report from the appropriate minister. Secondly, the Committee monitors action taken in response to recommendations, and thirdly, a formal review may be undertaken with further submissions and hearings.

The Committee is currently pursuing an amendment to Standing Orders in the Legislative Assembly to strengthen the requirement of the Government to respond in Parliament to reports of parliamentary committees.

Review of legislation

The Public Accounts Committee has a responsibility under section 16(2) of the *Annual Reports (Statutory Bodies) Act 1984* and section 19(2) of the *Annual Reports (Departments) Act 1985* to review and report to the Treasurer on proposed amendments to these Acts and proposed regulations under these Acts. Section 63A(3) of the *Public Finance and Audit Act 1983* similarly provides that the Treasurer shall refer to the Committee any proposal to amend Division 3 of Part 3 (relating to auditing of statutory bodies) of that Act or make a

regulation relating to the financial statements of a statutory body.

Reviews of legislative amendment proposals during 1992-93 are reported on page 51.

Public education

The Public Accounts Committee gives lectures at universities and other venues to increase the community's awareness and understanding of the financial and related operations of government. Additionally, all of the Committee's reports are written so that they are suitable for reading by the general community, as well as by parliamentarians and those in the public sector.

Details of public education initiatives of the Committee during 1992-93 are given on page 52.

Deliberative meetings

The Committee meets in closed sessions when it deliberates, receives briefings, or reviews draft reports. Meeting dates for 1992-93 are shown in the table on page 16.

TARGETS FOR 1992-93

For 1992-93 the Committee set the following targets:

- Complete the inquiry on urban infrastructure financing.
- Conduct an inquiry into the School Student Transport Scheme.
- Hold a seminar on internal auditing in the New South Wales public sector.

- Conduct an inquiry into internal auditing in the New South Wales public sector.

- Conduct the Phase II inquiry of the Public Accounts Special Committee into funding of health infrastructure and services.

- Complete the report on debt write-offs.

- Complete the report on follow-up of previous reports on health-related issues (No. 2, 3, 21, 32, 44 and 45).

- Conduct a review of action taken in response to Report No. 52 on the Forestry Commission and Report No. 59 on the National Parks and Wildlife Service.

- Conduct a review of action taken in response to Report No. 60 on dividends paid by statutory authorities.

- Monitor action taken in response to previous reports on auditing of local government (No. 53) and legal services used by local government (No. 57).

Most of these targets were met during the year, and these are reported as achievements on page 26. However, the Committee also responded to other developments in Parliament and in the public sector, and this meant that some targets had to be postponed. The Committee's exception report is presented on page 53.

ACTIVITIES IN 1992-93

HEARINGS, MEETINGS AND INSPECTIONS

DATE	SUBJECT	ORGANISATION	WITNESSES/ IN ATTENDANCE
24 Aug	Deliberative meeting		
3 Sept	Deliberative meeting		
9-10 Sept	Inspection: Goulburn, Armidale, Lismore, Carathool, Hay, Booligal, Hillston, Brewarrina	<i>Inquiry into School Student Transport Scheme</i>	
15 Sept	Deliberative meeting		
16 Sept	Deliberative meeting		
17 Sept	Deliberative meeting		
18 Sept	Inspection: Sydney metropolitan area	<i>Inquiry into School Student Transport Scheme</i>	
22 Sept	Deliberative meeting		
23 Sept	Deliberative meeting		
24 Sept	Deliberative meeting		
8 Oct	Deliberative meeting		
12 Oct	Public hearings	<i>Inquiry into School Student Transport Scheme</i>	
		Department of Transport	Mr M Moore-Wilton Mr R Gilmour Ms P Sayers
		NSW Treasury	Dr P Moy Ms E Chesterman
		Department of School Education	Mr K Boston Mr D Rowland Mr G Egan Mr K Sykes
		Bus and Coach Association (NSW)	Mr R Graham Mr B Macdonald
		Catholic Education Commission	Br J Taylor Ms M Donovan Br K Canavan Mrs L Clifton
		Federation of Parents' and Citizens' Associations NSW	Mr T Betttle Ms J Barker Ms E McGill Mr W Johnson
		Isolated Children's Parents' Association	Mr A Swales Mrs J McLellan
14 Oct	Deliberative meeting		
15 Oct	Deliberative meeting		
16 Oct	Public hearings	<i>Inquiry into School Student Transport Scheme</i>	
		NSW Parents Council Inc	Mr D Macaulay Ms J Lonergan Mr D McInnes Ms V Paton

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DATE	SUBJECT	ORGANISATION	WITNESSES/ IN ATTENDANCE
		Association of Executives of Christian Schools	Mr R Johnston Mr N Cannon Mr G Bowser
		Department of Transport	Mr R Gilmour Mr R Fisher Mr A Wilkinson
		Ministry of Health and Community Services (Office on Ageing)	Ms G McFee Mr D Kilsby
		State Transit Authority	Mr G Thurston Mr K Drew Mr J Phippard
		State Rail Authority	Mr C Ailwood Mr T Gable
		NSW Council of Social Service of New South Wales	Rev H Herbert Ms D Tipper
20 Oct	Public hearing	Regny Holdings Pty Ltd <i>Inquiry into financing of infrastructure</i>	Mr K Rampal
		Mercer Campbell Cook & Knight, Solicitors	Mr M Stevenson
		Blake Dawson & Waldron, Solicitors	Mr T Burke
		Hunter Water Corporation Sydney University	Mr P Broad Prof. S Watson Assoc. Prof. F Stilwell
		Rouse Hill Infrastructure Consortium	Mr Nedeljkovic
		Solicitor	Mr J Mant
27 Oct	Deliberative meeting		
28 Oct	Deliberative meeting		
30 Oct	European study tour	<i>Inquiry into Financing of Infrastructure</i>	
		Price Waterhouse	Mr J Carr
31 Oct	European study tour	Dartford River Crossing Pty Ltd	Mr R West
		QDM Ltd	Mr M Call
2 Nov	European study tour	W S Atkins International Ltd	Mr J Mobsby
		National Westminster Bank—Natwest Finance	Mr P Phillips Mr R Brown
		Touche Ross Management Consultants	Mr J Everett Ms T Bey Mr D Masson
		Office of Electricity Regulation, London Region	Ms D Thorpe
		Prudential Portfolio Managers Ltd	Mr D Collins

Public Accounts Committee

DATE	SUBJECT	ORGANISATION	WITNESS / IN ATTENDANCE
3 Nov	European study tour	Tolled Roads and Crossings Division, British Department of Transport	Mr R W Linnard
		Finance for Rail Transport Industries, British Department of Transport	Mr M Jones
		Member for West Bromwich East and Opposition spokesman on rail transport	Mr P Snape, MP
		Members of British Parliament	Mr R Banks, MP Mrs T Gorman, MP Dr N Godman, MP
		Public Enterprises Group, HM's Treasury	Mr S Robson
		Advisor to HM's Treasury	Mr A Benson
		Barclays de Zoete Wedd Ltd	Mr C Elliott Ms S Butcher
4 Nov	European study tour	Chairman of Bundestag Budget Committee	Herr R Walther, MP
		Chairman of Bundestag Public Accounts Committee	Herr K Deres, MP
		German Ministry of Transport	Herr S Vogt
		Hauptverband der Bauindustrie	Herr H Weitz Herr A Wunschel
5 Nov	European study tour	Deputy Chairman of Bundestag Transport Committee	Herr Dr K Rohl, MP
		Dresdner Bank	Herr W Seibert Ms M Relles Herr K Muller Herr K Wolter Herr U Eberlein
		Deutsche Bank	Count F Graf zu Ortenburg Dr N Schraad Dr U Paehler Mr R Bleathman
6 Nov	European study tour	Danish Ministry of Transport	Mr N Remmer
		Great Belt Holding Company	Ms K Fjord
7 Nov	European study tour	International Commercial Division of Lyonnaise des Eaux Dumez	Mr J Moss
9 Nov	European study tour	MATRA Transport	M. M Berkowicz M. J-M Dupont

Annual Report for 1992-93

DATE	SUBJECT	ORGANISATION	WITNESS / IN ATTENDANCE
		French National Assembly Finance Committee	M. G Gantier M. C Germon M. X Pinon
		Credit Lyonnais	M. G Schuijers M. X Rouz
10 Nov	European study tour	International Affairs Department, SNCF	Ms F Bruchig M. J-M Gayon
		French Ministry of Equipment, Housing, Transport and Space	Mme M-P Devacquet Mme C Lecomte M. Rince
		French Ministry of Finance	M. B Teman M. T Lange
17 Nov	Deliberative meeting		
18 Nov	Deliberative meeting		
24 Nov	Deliberative meeting		
25 Nov	Deliberative meeting		
30 Nov	Public hearing		
		<i>Inquiry into financing of infrastructure</i>	
		Premier's Department	Mr J Pash Mr P Wheeler
		Lyonnaise des Eaux-Dumez	Mr P Alla
		Treasury Corporation	Mr A Watt Mr D Pidcock
		Department of Corrective Services	Mr P Hoare Mr N Daines
		Pacific Power	Mr R Bunyon
		Sydney Electricity	Mr A Gillespie Mr A Smith Mr K McIlwraith
1 Dec	Public hearings		
		<i>Inquiry into financing of infrastructure</i>	
		Private Policy Adviser	Mr G Sturgess
		Roads and Traffic Authority	Mr P Wolfe Mr K Ford Mr R Balding Mr P Gallagher
		Department of Transport	Mr J Walker Mr Ian Robinson
		Maritime Services Board	Mr G Murphy Mr J Kitney Mr J Hayes
		NSW Treasury	Mr I Neale Mr P Moy Mr F Jordan Mr M Ronsisvalle
		ICAC	Ann Reed
3 Dec	Public hearings		
		<i>Inquiry into infrastructure financing</i>	
		Water Board	Mr Wilson Mr Cameron Mr Bawtree Mr Manzi

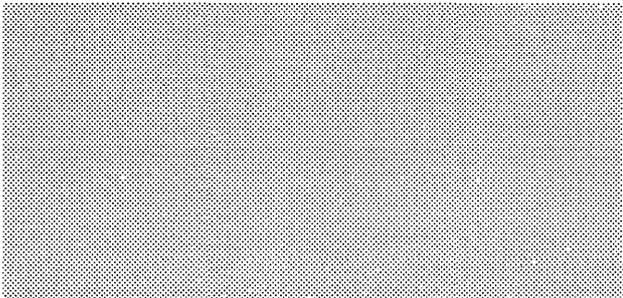
Public Accounts Committee

DATE	SUBJECT	ORGANISATION	WITNESS / IN ATTENDANCE
		Department of Planning Chartered Accountants Mallesons Stephen Jaques	Ms M Vipond Mr D Green Mr R Oser Mr P Clark Mr R Nettleton
4 Dec	Deliberative meeting		
4 Dec	Public hearings	<i>Inquiry into internal audit in the NSW public sector</i>	
		Institute of Internal Auditors-Australia	Mr J Holmes Mr B Baylis Mr D Byron
		Australian Society of Certified Practising Accountants	Mr I Smith Mr J Spencer
		Department of Water Resources	Mr D Clements Ms S Kemp Ms J Eberhardt Mr K Hawkins Mr R Stanton Mr J Gilory
		NSW Auditor-General's Office	Mr A Harris Mr K Fennell Mr G Rowling Mr L Slack
		Department of Health	Dr B Amos Mr A Clarke Mr K Barker
11 Dec	Deliberative meeting (Public Accounts Special Committee)		
11 Dec	Public hearings	<i>Inquiry into funding of health infrastructure and services in NSW</i>	
		Hastings Hospital Action Group	Ms E Hall Mr R McClelland Mr S Williams
		University Teaching Hospitals Association	Ms J Fisher Mr B Johnston
		Consumer's Health Forum of Australia	Ms K Moore
		NSW Treasury	Mr M Lambert Mr L Powrie
		NSW Nurses Assoc Evatt Foundation	Ms P Staunton Dr P Botsman
		Hospital Extension Services Pty Ltd	Mr L Wilson
21 Dec	Deliberative meeting		
22 Dec	Deliberative meeting		
23 Dec	Deliberative meeting (Public Accounts Special Committee)		

Annual Report for 1992-93

DATE	SUBJECT	ORGANISATION	WITNESS / IN ATTENDANCE
9 Feb	Deliberative meeting (Public Accounts Special Committee)		
9 Feb	Public hearings	<i>Inquiry into infrastructure financing</i>	
		Schroders Australia Limited	Mr D Lennon Mr S Morris
22 Feb	Public hearings	<i>Inquiry into internal audit in the NSW public sector</i>	
		NSW Police Service	Chief Sup J Jarratt Dep Comm L Stirton Mr C Brown Asst Comm C Cole Mr A Abraham
		Department of Industrial Relations, Employment, Training and Further Education	Dr C Gellatly Mr C Ballantine
		Roads and Traffic Authority	Mr P Wolfe Mr R Balding
		University of Sydney	Prof. A Craswell
		Department of Health	Dr B Amos Mr K Barker Mr A Clarke
		Department of Community Services, Home Care Service of NSW	Mr D Marchant Mr M Schlosser
23 Feb	Public hearings	<i>Inquiry into internal audit in the NSW public sector</i>	
		Internal Audit Bureau of NSW	Mr P Roeleven Mr W Middleton Mr R Scullion Mr S Vidovic
		University of Technology, Sydney	Prof. D Fraser
		NSW Auditor-General	Mr A Harris
		Department of Water Resources	Mr P Millington Ms J Eberhardt Mr J Gilroy Ms S Kemp
		Department of Sport, Recreation and Racing	Mr K Brown Mr K Critchley Mr M Drogh
		Price Waterhouse	Mr J Kropp
4 Mar	Deliberative meeting		
9 Mar	Deliberative meeting		
11 Mar	Deliberative meeting		
17 Mar	Public hearings	<i>Inquiry into funding of health infrastructure and services in NSW</i>	
		University of NSW	Prof. I Webster

Public Accounts Committee

DATE	SUBJECT	ORGANISATION	WITNESS / IN ATTENDANCE
		Department of Health	Mr R Wraight Mr A Keith Mr D Gates Mr W Jurd
		Northern Sydney Area Health Services	Dr S Spring
		School of Community Medicine, University of NSW	Prof. P Baume
		Australian College of Health Service Executives, NSW Branch	Mr J Rasa Mr R Watson Ms K Chant Mr W Westcott
18 Mar	Public hearings	<i>Inquiry into funding of health infrastructure and services in NSW</i>	
		Private Hospitals Association of NSW	Mr B Semmler
		NSW Community Health Association	Mr A Owen Mr M Allerton
		Australian Health Insurance Assoc	Mr R Schneider
		Health Services Assoc of NSW	Mr R Young Dr S Spring
		AMA, NSW Branch	Prof. R Lusby Dr M Nicholson Dr J Lee Dr P Arnold
24 Mar	Public hearings	<i>Inquiry into internal audit in the NSW public sector</i>	
		University of Sydney	Ms L English
		State Sports Centre	Mr P Johnston Mr J Elliott
		Australian National Audit Office	Mr M Jacobs Mr D Worthy
1 April	Deliberative meeting		
20 April	Deliberative meeting		
21 April	Deliberative meeting		
29 April	Deliberative meeting		
12 May	Deliberative meeting (Public Accounts Special Committee)		
13 May	Deliberative meeting		
24 May	Public hearings	<i>Review of special auditing function of NSW Auditor- General's Office</i>	
		Department of Housing	Mr G French Mr W Brailey
		NSW Police Service	Asst Comm J Jarratt Dep Comm N Taylor Mr D Leys

Annual Report for 1992-93

DATE	SUBJECT	ORGANISATION	WITNESS / IN ATTENDANCE
		Department of Corrective Services	Major-Gen N Smethurst Mr P Crossley Mr R Hannah
		Ambulance Service	Mr C Field
		State Emergency Service	Mr B Howard
		Fire Brigade	Mr P Rath
		Bush Fire Services	Mr P Koperberg
		Teacher Housing Authority	Mr J Allsopp Mr C De Plater
		State Rail Authority	Mr P Middlebrook
		Department of Water Resources	Mr J Gilroy
		Roads and Traffic Authority	Mr R Montgomery Ms C Doepel
		Department of Health	Mr K Barker Ms A Loevendie
2 June	Deliberative meeting (Public Accounts Special Committee)		
3 June	Public hearings	<i>Review of special auditing function of NSW Auditor-General's Office</i>	
		Auditor-General's Office	Mr A Harris Mr D Streater Mr S Horne Mr W Baker
		NSW Treasury	Mr P Broadfoot Mr J Chan-Sew Ms T Mellor
10 June	Deliberative meeting		
10 June	Public hearings	<i>Inquiry into internal audit in the NSW public sector</i>	
		NSW Treasury	Ms M Mellor Mr J Chan-Sew
		Roads and Traffic Authority	Mr B Fisk Mr R Balding Mr A Waldon
18 June	Public hearings	<i>Inquiry into infrastructure financing</i>	
		State Rail Authority	Mr G Pedersen Mr J Koutsis Mr B Garnham
		Maritime Services Board	Mr J Hayes Mr M Fox
		Sydney Water Board	Ms R Goyal Mr A Butler
		NSW Treasury	Mr M Lambert Mr M Ronsisvalle
		Pacific Power	Mr R Schmid Mr S Graham

Public Accounts Committee

DATE	SUBJECT	ORGANISATION	WITNESS / IN ATTENDANCE
24 June	Deliberative meeting (Public Accounts Special Committee)		

SUMMARY

37 deliberative meetings

18 days of hearings

193 witnesses appearing 212 times

one overseas study tour comprising 32 meetings

three days of intrastate inspections

CONFERENCES, SEMINARS, SYMPOSIA

The Committee and/or Secretariat was represented at the following external conferences and seminars:

DATE	CONFERENCE/SEMINAR
28 July	Construction Project Law (International) Pty Ltd conference on <i>Privately Funded Infrastructure</i> .
15 Oct	University of Sydney seminar on <i>Financial Management in the Public Sector</i> : Director presented a lecture on the role of the Public Accounts Committee.
16 February	The Institute of Chartered Accountants in Australia seminar on <i>Auditing the Performance of the Public Sector</i> : Chairman gave an address on the role of the Public Accounts Committee.
29 & 30 March	8th Biennial Conference of the Australasian Council of Public Accounts Committees: Chairman presented the Committee's report and an address on <i>Government and Business in Partnership: Private Funding of Public Infrastructure</i> .
27 April	Royal Institute of Public Administration Australia seminar on <i>Annual Reporting—an Accountability Tool</i> : Chairman presented the keynote address on <i>Satisfying the Criteria—the Public Accounts Committee View</i> .
3 & 4 May	IIR conference on <i>Internal Control and Audit—Improving Government Accountability and Management</i> : Chairman presented an address on the Committee's inquiry into internal audit.
18 May	The Institute of Internal Auditors—Australia lunch: Chairman spoke on the Committee's inquiry into internal audit.
23 June	University of Sydney Graduate School of Business <i>Executive Development Program for Women</i> . Director presented a lecture on the role of the Public Accounts Committee.

ACHIEVEMENTS IN 1992-93

REPORTS TABLED

The Public Accounts Committee tabled eight reports in 1992-93.

65. *Ninetieth Anniversary* (November 1992)

1992 was the 90th anniversary of the Public Accounts Committee, and the Committee celebrated the event with a seminar on internal control and audit to launch a new inquiry into internal audit. The seminar proceedings were reported later, but for the seminar the Committee produced a report which looked back at the evolution of the Committee and its achievements over 90 years, especially since the Committee was revamped in the early 1980s, and presented an outline of the current Committee and its functions. A review of some comments on the achievements of the Public Accounts Committee was included, as well as an indication of the new direction the Committee was taking in ensuring the success of financial management reform in the New South Wales public sector.

The Committee was delighted when news of its 90th anniversary was reported in the October 1992 issue of *Directions in Government*. The esteem in which the Committee is held was exemplified by a reference to a recent review by the Queensland Electoral and Administrative Review Commission, which noted that the New South Wales Public Accounts Committee:

has proved to be a launching pad to the cabinet and shadow ministry. Appointment to the committee is highly prized.

66. *Annual Report for 1991-92* (November 1992)

Although the Public Accounts Committee is not required by the legislation to produce an annual report, it has done so since the annual reporting legislation was introduced for statutory authorities in 1984. The Committee has tried to follow as faithfully as possible the legislative requirements for annual reporting as an example of public sector accountability.

67. *Inquiry into Financing of Urban Infrastructure—Report on European Inspection Tour* 30 October - 12 November 1992 (December 1992)

This report provides an account of the 32 meetings, briefings and inspections conducted by the Committee on its study tour of several capital cities of Europe. It is intended primarily as a reference and accountability document, and the Committee fervently believes that it should be used as a model for parliamentary committees which spend considerable amounts on overseas travel.

In seeking to identify sources of infrastructure financing and ways of managing infrastructure projects, the Committee benefited from innovative arrangements and ideas being explored in Germany and Denmark, from Britain's decade-long experience of private financing of infrastructure, and from France's experience of mixed private-public infrastructure financing for about 100 years. In the report, the Committee deliberately refrained from reaching even tentative conclusions regarding the financing of infrastructure, since any such conclusions must be the result of

careful consideration of *all* forms of evidence obtained during this inquiry.

68. Report on the School Student Transport Scheme (January 1993)

The Committee received a reference from the Minister for Transport to inquire into the School Student Transport Scheme. This scheme was originally designed long ago to provide special assistance to students in rural and remote areas. However, the scheme's benefits have been extended to more and more urban students as the qualifying criteria were progressively made more generous. The cost of the scheme has been rising dramatically, and is now in the vicinity of \$300 million per year.

In examining the equity and fairness of the Scheme, the Committee made extensive field trips to urban, regional and remote rural areas. This revealed that the parents of students in regional and remote areas who transport their children themselves are being compensated at only a small fraction of the costs incurred by them, whereas in urban areas eligible children travel free on widely available public transport. Thus the students the system was originally designed to assist are now very significantly disadvantaged relative to those in urban areas.

This was an example of a potentially very divisive issue, but both sides of politics recognised that the cost of the scheme had to be contained. After considering many options, the Committee recommended that the cost overrun and inequity could both be redressed through a parental contribution of \$10 per student participating in the Scheme via public transport per term, subject to welfare and family allowance supplement exemptions.

This works out at about \$1 per student per week. The Committee believed that the parental contribution would discourage occasional users (mostly in urban areas) from taking passes, and would therefore help significantly to focus the scheme for the benefit of the taxpayers who are currently paying for services which are not used.

This will also provide a fund which could be used to overcome the inequity that has developed for country students, through increasing private vehicle conveyance rates paid to such parents to reflect the costs actually incurred by them.

While changes in education policy have contributed significantly to the cost increases of the Scheme, it is impossible on the basis of available information to determine the precise impact of particular policies on the Scheme. Accordingly, the Committee believes that surveys should be conducted to better understand and plan for the transport impact of such policies.

In particular, surveys should be conducted to determine actual usage of transport passes. If actual usage is well below the number of passes on issue, as the Committee strongly suspects for many bus runs in urban areas, then electronic counting systems should be used to accurately measure usage, and bus companies should be paid accordingly. If it is then decided to subsidise bus companies above actual usage, at least the subsidy will be transparent.

At the same time, the Scheme should, as far as possible, complement the general transport needs of the community in off-peak periods, especially needy groups such as senior citizens. Hence the planning of future schools, school bus

routes and transport infrastructure should take full account of wider community use.

Finally, the Committee believes that it is most important for the Government to spell out the objectives of the Scheme rather than to allow it to develop in an ad hoc fashion where performance is difficult to monitor.

This was an important inquiry because it had the potential to make a real contribution to saving public funds while improving social equity. An editorial in the Sunday Telegraph claimed that:

The Parliamentary committee which investigated the \$300 million-a-year system has served taxpayers well in identifying problems which would see costs spiral alarmingly if they were not addressed.

The bipartisan support within the Committee was a cornerstone of the inquiry's success. However, following State Cabinet consideration of the Committee's recommendations in August 1993, the Premier announced that in view of the negative financial impact of the Commonwealth Government's 1993-94 Budget on NSW families, the parental contribution would not be levied. The Committee understands that the Government is still considering the other 17 recommendations in the report, but no official response has been received. This will be followed up in the current year.

69. *Proceedings of the 90th Anniversary Seminar on Internal Control and Audit (January 1993)*

A panel of leading experts was brought together to focus the interest of a capacity audience of 200 participants at

the Committee's seminar on internal control and audit. It is important to note that interest in the topic was so strong that numbers of representatives from agencies had to be limited so that as many agencies as possible could be represented.

Mr Ian Temby, QC—the Independent Commissioner Against Corruption—has been a long time proponent of internal audit. In his investigations into allegations of corruption, Commissioner Temby has found evidence that ineffective or inefficient internal audit can be a catalyst for corruption. With this in mind, he outlined four essential requirements for effective internal audit—independence, adequate resources, a helpful attitude from auditors, and a recognition that internal audit is not a substitute for good management.

Sir Harold Knight—a retired Governor of the Reserve Bank—shared his experiences of the importance of internal audit from the perspective of chairman of boards of directors of large businesses in both the public and private sectors.

Mr Jim Kropp—a partner with Price Waterhouse—has wide ranging experience in internal audit in both the public and private sectors. Mr Kropp spoke on the need for an independent approach by internal audit and the need for the external auditor to also address the issue of independence. He used the recent AWA case to illustrate his talk.

Mr Tony Harris—the newly appointed New South Wales Auditor-General—spoke on the role of internal auditors as allies of the external auditors. The total audit coverage in any organisation can only be enhanced if effective co-operation and collaboration are achieved between external and internal auditors.

Mr Paddy McGuinness gave a refreshing overview from the perspective of a journalist trained as an economist who has had wide experience both in Australia and overseas.

70. Review of Special Auditing Function of NSW Auditor-General's Office (June 1993)

This report is a follow-up to part of Report No. 49 on the Auditor-General's Office. Recommendations from that earlier report included giving the Auditor-General a power to conduct performance audits and \$1,000,000 to fund the development work required for the Auditor-General to move towards a comprehensive audit approach. A subsequent change to the Public Finance and Audit Act provided for performance audits, called "special audits", and seed funding was provided by the NSW Treasury as recommended.

The report on special auditing arises out of the Committee's further recommendation that the method and level of recurrent funding and progress achieved in moving towards comprehensive auditing be reviewed after two years.

To assist with this review, the Committee engaged the firm of Arthur Andersen as consultant. The review found that notwithstanding the Auditor-General's written claim that he had "conducted 3 special audits in terms of the Act", this was not so, and was later conceded by him in evidence. The Committee believes that in particular, the Auditor-General needs to give much greater emphasis to the issue of effectiveness in such special audits, as required by the Act. Indeed, the Auditor-General should carry out special audits which specifically address effectiveness

as a primary audit objective, as the importance of effectiveness is stressed in the Auditor-General's own manual.

The Committee recommended that the NSW Treasury provide \$1,000,000 to the Auditor-General for each of the next two years specifically for conducting special audits incorporating each of economy, efficiency and effectiveness, after which a further review should be carried out. This recommended funding was to be instead of the Auditor-General's request for \$6m further funding over four years. The Committee notes that the 1993-94 New South Wales Budget provides for a further funding of \$500,000 this year.

The Auditor-General has responded to the Committee's report in volume 2 of his report to Parliament for 1993. The Auditor-General has suggested changing the legislation so that his special audits can assess economy and/or efficiency and/or effectiveness, in line with professional guidelines. The Committee's view was that until the Auditor-General has conducted at least one special audit in terms of the Act as originally intended by Parliament, the Committee cannot support such legislative change. If necessary, the Auditor-General should change the conduct of his special audits so that they comply with Parliament's intention.

Since the Committee's review, the Auditor-General has tabled a report on the HomeFund program, which specifically addressed all of the issues of effectiveness, efficiency and economy, as well as the terms of reference given by the Legislative Assembly. This is therefore the first special audit conducted fully under the terms of the Act.

While the Committee has not formed a concluded view on all of the issues raised

by the Auditor-General regarding HomeFund, it has found the way in which he has specifically addressed the three “e”s most useful, particularly in the Committee’s inquiry into infrastructure financing, and particularly about its concerns regarding Loan Council guidelines. In these circumstances, the Committee is firming to the view that audits which address the three “e”s as provided for by the Act are useful and should be persevered with. However, the Committee accepts that the Act—requiring as it does consideration of compliance with all relevant laws—is too onerous, and should be amended.

71. Internal Audit in the New South Wales Public Sector (June 1993)

On a reference from the Hon. George Souris, MP, then Minister for Finance and Assistant Treasurer, the Committee undertook a comprehensive inquiry into internal audit in this State’s public sector. The resulting report was the largest to date produced by the Public Accounts Committee, and presented 45 recommendations to raise the profile of internal audit in government agencies.

The inquiry arose mostly out of a recognition that ineffective internal audit was a major factor in some significant corporate losses, including AWA, Tricontinental, and the Victorian Economic and Development Corporation. The Committee’s studies of several NSW government agencies revealed a wide range of internal audit issues in which there is considerable room for improvement in practice.

Over the past ten years, the NSW public sector has been reshaped by a series of reforms of financial and operational management. Many of these reforms

have increased the need for government agencies to be accountable to the community through the Parliament, and there is clear evidence that parliamentary scrutiny of the executive government is indeed increasing. The Committee believes that internal audit has much more potential to assist chief executive officers in responding to this increasing need to be accountable than was previously recognised. Internal audit can provide a valuable assurance to chief executive officers that their agencies are achieving their objectives efficiently and effectively, in compliance with all legal requirements, and in accordance with government policy.

The current legislative requirement that chief executive officers should establish an effective internal audit organisation *wherever practicable* is just not good enough—it should be *mandatory* with very limited exemptions and should be expanded to cover fraud control.

Chief executive officers must be and must be seen to be the focal point of effective internal audit. The Committee recommended that chief executive officers should:

- have their internal audit responsibilities written into their Senior Executive Service contracts;
- have internal audit report directly to them, not to a deputy;
- ensure that audit results for the past year and the program for the next year be published in the annual report to allow independent verification of effectiveness;
- ensure that internal audit has full access to all parts of the agency—no areas should be off-limits;

- ensure internal audit is deployed in a timely fashion—information technology auditors must be involved when information systems are being planned and developed, not when they have failed.

The Committee also proposed a much greater role for the NSW Treasury by:

- vetting internal audit exemption;
- overseeing internal audit reporting in annual reports;
- developing standards and guidelines on internal audit;
- encouraging the creation of audit committees and executive audit committees.

A \$1 billion exposure by the New South Wales Government to potential fraud liability has recently been identified by the Auditor-General, and the Public Accounts Committee therefore believes that reviews of fraud and corruption prevention strategies should be a top priority of internal audit.

Following discussions on audit independence in the seminar on internal control, the Committee also recommended a legislative amendment to prevent private accountancy firms or the Auditor-General from conducting both the internal and external audit of the same agency, except on rare occasions when it is clearly in the public interest to do so.

Response to the Committee's report has been overwhelming. Over 1000 copies of the report have been distributed, with many requests also coming from interstate. It was well received by the mainstream press and professional journals. Complimentary letters have been received from the Auditor-General—who responded positively on all relevant recommendations—as well as

accounting firms, academics and professional bodies. The Auditor-General wrote that:

The Committee's Report No. 71 and its forty-five recommendations will be quickly seen as a seminal document that guides the sound development of public sector management. It will also, I believe, be influential in the thinking of those who regulate private sector corporations.

The Auditor-General has also published his strong support for the Committee's report in volume 2 of his report to Parliament for 1993.

On an invitation from Deloitte Touche Tohmatsu, the Chairman presented an address on the report to a business update meeting attended by over 100 public sector executives. From the event feedback survey, the presentation was exceptionally well received. The Chairman also spoke about the report at functions organised by KPMG Peat Marwick, Price Waterhouse, the Institute of Internal Auditors - Australia, Macquarie University, and the Australian Society of Certified Practising Accountants.

The most satisfying response to the report came from the Treasurer, the Hon. Peter Collins, QC, MP, who addressed each recommendation on behalf of the Government. Most of the recommendations were considered to have merit and have been endorsed by the Government. In respect of a few of the recommendations, alternative approaches were devised taking into account the intent of the Committee. The Treasurer indicated that implementation of the recommendations will essentially involve the issue of new guidelines on internal audit in the form of Treasurer's Directions and the making of appropriate

legislative amendments. The Committee was advised that preliminary work on the guidelines had already commenced, and the legislative amendments will be dealt with in the comprehensive legislative review currently being conducted by the NSW Treasury. Further consultation with the Auditor-General's Office, the Internal Audit Bureau and the Premier's Department was planned on a few of the recommendations relating to these bodies.

Such a speedy and comprehensive response confirms that the Committee's inquiry was right on track and timely by attempting to raise the profile of public sector internal audit at this stage of the NSW Treasury's financial reform program.

A follow-up seminar on internal audit was jointly held by the NSW Treasury and the Public Accounts Committee to consider the implementation of the Committee's recommendations.

72. Funding of Health Infrastructure and Services in New South Wales (June 1993)

This is the second report of the Public Accounts Special Committee, which was set up by Parliament based on the Public Accounts Committee, and augmented by a member each from the Liberal, National and Labor Parties, as well as a non-aligned Independent member. The first report examined the proposal for a new privately funded, built and operated hospital at Port Macquarie, and was tabled in June 1992.

The second report considered broader issues relating to State and Commonwealth funding for health infrastructure and services in NSW. The Committee came to the view that the

community should have a greater role in determining the range of services to be provided within the limits set by Government for the overall level of funding of health care. The Committee saw a role for greater public participation in the strategic planning process and determination of priorities for health services. Issues papers on relevant topics should be developed and circulated widely, with comments sought from expert bodies and the general public.

The Committee also believed that area health boards and district health boards should be required to develop a dynamic working relationship with the community in developing policies and programs to service their communities, and that they report on their activities in their annual reports, including their structure and effectiveness.

On these issues and other matters relating to community participation there was a high degree of unanimity. However, the Committee was unable to agree on two fundamental issues:

- Whether or not the capacity for the private sector to treat more patients should be utilised for the treatment of public patients;
- The importance and effect of low and declining levels of private health insurance.

Thus the results of the second phase of the inquiry were rather modest in comparison with previous reports of the Public Accounts Committee. This exercise clearly showed that where an irreconcilable policy dispute exists between the various sides of Parliament, no committee of Parliament will subsequently be able to resolve the dispute.

By tabling its second report, the Public Accounts Special Committee has completed its task and has ceased to exist.

PROGRESS OF OTHER INQUIRIES

Inquiry into urban infrastructure financing

A funding shortfall exists in Australia for physical infrastructure such as roads, bridges, and water and sewerage works, as well as social infrastructure such as hospitals and housing. Government expenditure can only partially satisfy the demand for infrastructure in New South Wales, and the shortfall is set to worsen.

On 23 March 1992 the Committee received a reference from the then Premier and Treasurer—the Hon. Nick Greiner, MP—to inquire into the financing of urban infrastructure in New South Wales. A report was scheduled for completion by 30 June 1993.

Hearings continued to be held throughout the year. The Committee returned to Europe in October 1992 to resume a study tour commenced the previous financial year but interrupted by a recall of Parliament. An account of the study tour was presented as Report No. 67.

The planning, financing and co-ordination of infrastructure projects was found to be very complex, and the Committee believes that this inquiry is one of the most difficult it has undertaken. Accordingly, the Committee decided to split the inquiry into two phases. The first phase was completed with the tabling on 14 July 1993 of Report No. 73 on *Infrastructure Management and Financing in New South Wales: Volume 1: From Concept to*

Contract—Management of Infrastructure Projects.

This volume attempts to chart the path of infrastructure projects from the planning stage through calls for tenders to execution of contracts, considers four case studies to illustrate problems and best practice, and examines special issues relating to the ICAC and to public disclosure of privately financed projects.

Planning is at the heart of successful infrastructure development. A starting point is the articulation by each agency involved in providing infrastructure of a clear plan which can be integrated into wider planning proposals. The Public Accounts Committee sees the RTA's Roads 2000 plan as a good model.

The Committee believes that all infrastructure-building agencies should produce similar plans, which would facilitate comparison of each agency's plans and a move towards an integrated approach to infrastructure planning, or at least an informed and no doubt vigorous debate on the options.

Despite the best efforts of the Department of Planning, effective co-ordination of infrastructure planning is lacking. Only the Premier has the necessary political authority to bring conflicting departments into line. The Department of State Development, which might have had this role, is seen by the Public Accounts Committee to have been a failure precisely because it did not have the direct authority of the Premier behind it.

The replacement of State Development by the new Office of Economic Development in the Premier's Department is seen by the Public Accounts Committee as an important step forward. The Committee believes that

the Office has a major role to play in effectively co-ordinating other agencies, the goal being an integrated infrastructure development plan which has a reasonable measure of public support.

The Committee agrees on a bipartisan basis that there are many other important steps that can be taken to encourage private sector participation in the public interest:

- Development of best practice across agencies based on discussion of successful experience through seminars co-ordinated through the Premier's Department.
- Establishment of an interagency BOOT group through the Office of Economic Development to swap experience and develop best practice.
- Development of coherent policies indicating the various forms of co-operation between the public and private sectors acceptable to the Government, and the sorts of risks in broad terms the Government would assume itself.
- Preparation by agencies of shortened public versions of their capital works plans indicating projects which may be suitable for private investment but also containing a suitable disclaimer.

Many private sector participants expressed great frustration and anger at expense incurred by them in bidding for projects later deferred or cancelled, which can make it more difficult for the State to attract private investment. Deferral and cancellation can be caused by deficiencies in policy, planning, co-

ordination and/or finance which often relates to the Loan Council. The Public Accounts Committee believes these issues should be settled before the private sector is invited to incur significant expense. In particular, before seeking bids agencies should determine

- what acceptable funding arrangements are likely to be
- what the market's response is likely to be
- what they envisage will be the broad allocation of risks
- the costs and benefits of the project
- the project's technical feasibility.

Examples of best practice considered in this report are the Bennelong Car Park and the Junee Prison; and examples of problems are the Blue Mountains Tunnel and the SRA purchase of 350 coal wagons, both of which to a significant extent relate to the Loan Council.

The Public Accounts Committee is of course concerned to protect the public interest and suggests the following safeguards:

- All capital works projects over \$5 million should be presented to the Capital Works Committee of Cabinet for approval.
- EISs for privately financed projects should be financed and carried out by or on behalf of the Government.
- Except in special circumstances which the Government should outline to the public, privately financed projects should be subject to competitive bidding.

- The retainer of independent white knights to oversight projects and certify as to legal and technical matters should be encouraged but not seen as a substitute for oversight by ICAC, the Courts or the Auditor-General;
- Independent outside consultants should be retained to assist in vetting the financial viability of proponents.
- The ICAC'S Corruption Prevention Unit should develop broad principles for the contract tendering process and liaise more closely with public and private sector participants to provide more focussed and timely advice.

The Committee has carefully considered the question of private infrastructure contract disclosure. Having done so, it believes that such disclosures should be more specific than is presently the case under the Freedom of Information Act, and that such disclosures should be available to the public as a matter of course.

At the same time the Committee recognises as it did when considering the Port Macquarie hospital contract that some sensitive commercial information should remain confidential. In the broadest sense, this is in the public interest because disclosure of such information will discourage private sector participation in infrastructure projects.

Accordingly, the Committee has recommended that for any privately-financed project above \$5 million, the relevant agency should, within 90 days after the contract is signed, prepare a summary of the main points of the contract, unless the contract has been disclosed in full in the meantime. The

Committee believes that the elements in the summaries should include:

- the full identity of the successful proponents, including details of cross ownership of relevant companies.
- the duration of the contract, including details of future transfers of assets of significant value to government at no or nominal cost and details of the right to receive the asset and the date of the future transfer,
- the identification of any assets transferred to the contractor by the public sector,
- all maintenance provisions in the contract,
- the price payable by the public,
- the basis for changes in the price payable by the public,
- provisions for renegotiation,
- the results of cost-benefit analyses,
- the risk sharing in the construction and operational phases quantified in NPV terms (where possible) and specifying the major assumptions involved,
- significant guarantees or undertakings, including loans, entered into or agreed to be entered into, with an estimate of either the range, or the maximum amount, of any contingent liability,
- any other information required by statute to be disclosed to the Australian Securities Commission and made available to the public, to the extent not covered above,
- the remaining key elements of the contractual arrangements.

The statements would not disclose:

- the private sector's cost structure or profit margins,
- matters having an intellectual property characteristic,

- any other matters where disclosure would substantially commercially disadvantage the contracting firm with its competition.

Such summaries should be vetted for accuracy by the Auditor-General.

Overall the Committee believes that private investment in infrastructure should be encouraged in the public interest. Inherent in this is the proposition that the key public sector players must have delegated authority to strike a deal with private sector participants free from second guessing and review along the way by parliamentary committees and the like. That said, the public interest is safeguarded by the standing oversight and progressive development of guidelines by bodies like the ICAC and the Auditor-General, and public disclosure which in itself is a very important form of accountability.

This approach of allowing managerial flexibility subject to broad controls and oversight is consistent with the Committee's approach in its earlier report on internal audit. At the end of the day some projects, whether privately or publicly funded, will remain controversial, and Parliament itself will remain the best forum for informed debate on such projects.

Meanwhile, volume 1 received wide press coverage, including an article on the ICAC in *The Bulletin*, and several positive responses have been received. The Committee is particularly proud of a letter written to the Premier by Michael Perry, President of the Australian Council for Infrastructure Development (ACID). ACID was formed by major participants in private infrastructure in Australia, covering banking, finance,

construction, operation, design, taxation and legal, to provide an interface between the private sector and governments, both State and Commonwealth. It seeks to identify problems inhibiting the development of much needed infrastructure and to find mutually acceptable solutions to those problems. Mr Perry wrote:

We would like to take this opportunity to congratulate the Committee on the extremely thorough and detailed report and to express our support of its broad thrust and recommendations.

The Loan Council, which was mentioned in passing in volume 1, is in fact central to the financing of public infrastructure and will be the subject of in-depth study in the second phase of the inquiry, which will also consider other financing issues such as the sharing of risks between the public and private sectors. The Committee has obtained an extension from the Premier to table the second volume of the report later in the financial year.

FOLLOW-UPS OF PREVIOUS REPORTS

Follow-up of reports on health-related issues

During the year further letters to responsible ministers were sent requesting information on action taken in response to previous Public Accounts Committee reports on the hospital system, including visiting medical officers, and the Ambulance Service and the Home Care Service. Responses to all issues were received and analysed.

The Committee is satisfied that the majority of its recommendations have been satisfactorily addressed. It is clear

that financial management in the health system has improved substantially over the last decade, to the extent that the Executive Director of Finance and Administration of the Department of Health was asked to address the Committee's seminar on *Progress in Financial Reforms in New South Wales* last year from the point of view of a reform implementer.

However, accountability problems of some area health services were specifically considered in the Committee's Report No. 71 on *Internal Audit in the New South Wales Public Sector*. The first recommendation of that report stated that area health services and proposed country-based regional health services should be listed separately as statutory authorities in the replacement of the Public Finance and Audit Act. Although the area health services currently produce annual reports, they are not tabled in Parliament. The Committee is pursuing this in the review of the public financial management, accounting, auditing and reporting legislation, with the aim of ensuring that these bodies are required to report annually to Parliament.

The Ambulance Service particularly needs to be made much more accountable to the community. The most fundamental response to the Committee's report on the Ambulance Service was the enacting of the *Ambulance Services Act 1990* to reconstitute the Ambulance Service and establish an Ambulance Service Board. However, the bulk of recommendations in the Committee's report covered a large number of complex issues, and formal responses to the Committee's requests for information lacked detail to support claims that issues have been seriously considered and reforms made. As for area health services, the Committee is now pursuing a legislative

requirement for the Service to produce an annual report to Parliament. Meanwhile, the collection of outstanding ambulance fees will be examined in the inquiry into debt write-offs.

The Committee was pleased to see protracted arbitration on remuneration of visiting medical officers concluded on 25 March 1993 in the Industrial Relations Commission. Justice Hungerford recommended significant reductions in the rates paid to specialists for their work and on-call allowance, as well as a requirement for contracts to specify in advance the hours to be worked. Following further mediation between the doctors and the Department of Health, a draft standard service contract between the doctors and Department has been negotiated and submitted to the Full Bench of Industrial Relations Commission for ratification, although the Australian Medical Association is simultaneously appealing against the reduction in pay rates handed down by Justice Hungerford.

At this stage no further hearings are planned on the follow-up of the reports into the hospital system, the Ambulance Service and the Home Care Service. However, the Committee will continue to monitor efficiency, effectiveness and accountability in the health system, which remains the largest area of expense in the New South Wales Budget.

Follow-up of reports on local government

Last year the Committee decided to monitor action taken in response to the Committee's reports on auditing of local government (No. 53) and legal services used by local government (No. 57). Both of these reports arose from references given to the Committee by the then

Minister for Local Government and Minister for Planning.

The portfolios of Local Government and Planning have since been split. The Department of Local Government, through the Minister for Local Government, provided responses to both reports. The Chairman therefore wrote to the Minister for Planning seeking a response on those recommendations in Report No. 57 pertaining to the planning system, and also wrote to the Minister for Local Government requesting a response on some outstanding issues in Report No. 57 and an update of developments since the Department of Local Government's earlier response on that report. Responses to all new requests were received.

The most significant development in local government since the issue of the Committee's reports has been the assent on 8 June 1993 of the new *Local Government Act 1993* to replace the 1919 Act. The following paragraphs present the details of developments relating to auditing of local government and legal services used by local government.

Auditing

Responsibility for implementing the Committee's recommendations on auditing of local government rests mostly with the Department of Local Government, particularly through the local government legislation. Auditing of local government is dealt with in the new Act in chapter 13, which is entitled "How are councils made accountable for their actions?" Under the Act, the "closed shop" approach to appointing auditors for councils has been replaced by a requirement that the auditors must be registered company auditors as defined in the Corporations Law. There are also conditions which would make

certain people ineligible to be an auditor of a council on the grounds of conflict of interest. Auditors must not be appointed unless tenders for the appointment have been called.

Terms of office of council auditors are now set at six years, although auditors are eligible for re-appointment provided certain conditions are met, including the requirement of satisfying the tendering process. Removal from office of a council auditor requires the consent of the Minister for Local Government.

Council financial reports must be prepared and audited within deadlines and in accordance with professional accounting and auditing standards. Of particular relevance is an Australian Accounting Standard AAS27 on *Financial Reporting by Local Governments*, issued by the Australian Accounting Research Foundation in July 1991.

The nature of audit reports is prescribed in the Act, and the audited financial statements and audit reports must be made available to the public and presented to a council in a public meeting. Provision has been made for submissions by any person on a council's financial statements and audit reports, with those submissions having to be forwarded to the auditor.

The Auditor-General is authorised to audit a council's financial reports if no auditor currently holds office.

These provisions certainly strengthen and update the role of auditing in local government so that it is more closely aligned to auditing in the private sector and elsewhere in the public sector. The Committee is satisfied that the main thrust of its recommendations relating to the Local Government Act has been well

considered by the Department of Local Government, and that the new provisions in the Local Government Act are appropriate.

However, the Committee was disappointed with the negative response to the Committee's recommendation for a statutory requirement for local government audit committees. The Department of Local Government did not agree that there ought to be a statutory requirement for audit committees, but did agree with the usefulness of audit committees, particularly for larger councils, and indicated its willingness to "encourage councils to consider the establishment of such committees in appropriate circumstances."

Also, the failure in the new Act to give explicit responsibility to a council's general manager to establish and maintain an effective system of internal control over the financial and related operations of the council, similar to the provisions of s. 11 of the *Public Finance and Audit Act 1983*, is noted with surprise. The Department of Local Government responded that this requirement is *implied* within the statutory responsibilities of the general manager, but this is unsatisfactory to the Public Accounts Committee. In particular, there is not even recognition of internal control and internal audit in the new Local Government Act.

Evidence revealed in the Committee's inquiry into internal audit in State government agencies indicated widespread support for continued statutory recognition of internal control, including internal audit. The Committee's Report No. 71 made several recommendations that strengthened the responsibility of chief executive officers of government agencies for internal control, and these have been met with

very positive response. The Committee therefore maintains that the concept of managerial responsibility for internal control should be extended to the general managers of councils.

Legal services

Report No. 57 had 49 recommendations on a wide range of ways to reduce legal costs of local government. Some of them were quite simple and sensible ideas such as production of plain English documents, telling people what they want to know, appropriate training for council staff and elected members, greater focus by councils on provision of service to clients rather than on blindly administering legislation and policies, improved consultation in planning, and better monitoring of legal expenses. Much attention was placed in the report on the need for a "new approach" to negotiation over building and development proposals. The Committee advocated that councils should focus on attempting to avoid disputes or resolve disputes early in the process rather than allow disputes to develop to the stage when legal action may be the only practical way left to settle the conflict. There were also recommendations for amending the planning legislation, introducing new arrangements for provision of legal services and handling development applications and appeals, and use of dispute resolution mechanisms other than the Land and Environment Court.

Responsibility for implementing the recommendations of Report No. 57 is shared between the Department of Local Government, the Department of Planning, the Local Government and Shires Associations, the Attorney-General, and the councils themselves.

Several responses to the report were received from councils. For example, Nambucca Shire Council responded in a neutral way and resolved to take no action until legislative amendments arose out of the report.

The Town Clerk and General Manager of Woollahra Municipal Council prepared quite a detailed response to the report, addressing each recommendation in turn. The council was quite an active and interested participator in the inquiry, and had earlier undertaken a review of its legal services. The Town Clerk/General Manager supported most of the report's recommendations. However, he had difficulty with the idea in Recommendation 22 of restricting the extent of expert evidence submitted in merits appeal cases. He also disagreed with the need to create legal committees (Recommendation 36) and legal service officers (Recommendation 39). Surprisingly, there was also resistance to Recommendations 44 to 49 regarding increased accountability of local governments for legal costs, although the concept of a legal audit (Recommendation 43) was thought to have merit.

Rockdale Municipal Council also made a serious effort to respond to the report. Rockdale did not have any problem with restricting expert evidence submitted in merits appeal cases. However it did not agree with Recommendation 24 on delegating authority to officers involved in mediation. Also, it did not agree with the appointment of a legal services officer, and had some problems in agreeing with the recommendations regarding increased accountability. Rockdale Council subsequently resolved to implement action on most of the recommendations with which it agreed. It is relevant that Rockdale does not have a

large expenditure in the Land and Environment Court.

Both Woollahra and Rockdale officers attempted to justify their position when they were in disagreement with any recommendations, and the Committee concedes that some of the arguments put forward have merit.

Warringah Shire Council claimed that it is the developers that have initiated the use of lawyers to appeal in the Land and Environment Court, thus increasing costs for councils. The Council also requested that the State Government establish a (presumably interdepartmental) panel to speed up the process of referring development applications and building applications to agencies. Action on the recommendations of Report No. 57 would be taken by the council "where appropriate".

Many of the report's recommendations relate to procedural matters by councils, not necessarily backed by legislation. It is difficult for the Committee to evaluate the action taken by over 170 councils in response to these recommendations without launching into another full-scale inquiry. The Committee takes the attitude that its report has aired a large number of issues that contribute to increasing costs of using legal services by councils, and in so doing, has potentially assisted those councils to reduce their legal costs through its recommendations.

Both responses of the Department of Local Government and Co-operatives, through the Minister for Local Government, were generally favourable. Twenty recommendations were clearly supported, a further seven were supported with qualifications, and four were subject to further investigation by the Department. Many issues have been addressed in the new Local Government

Act. The remainder were mostly seen to be the responsibility of individual councils or the Department of Planning, and there were no recommendations that the Department of Local Government and Co-operatives found objectionable.

A most pleasing result of the Committee's report consistent with Recommendations 44 to 49 is the provision in the new Local Government Act of a requirement for local government annual reports to include a summary of the amounts incurred by the council during the year on legal proceedings taken by or against the council. This will include amounts, costs and expenses paid or received from out-of-court settlements, and a summary of the state of progress of each legal proceeding and, if it has been finalised, the result.

The response from the Minister for Planning noted that many of the recommendations relate to issues that were identified in the discussion paper *Modernising the planning system in NSW*, which was prepared for a review of the planning system that was ongoing at the time of the response. The Department of Planning agreed with nine recommendations concerning local government administration, and provided comments on seven groups of recommendations concerning planning and environmental assessment. The Department agreed with the intent of the Committee's recommendations on planning and environmental assessment, but disagreed with some of the details.

For example, the Committee recommended an extension of the 40 day period under s. 96 of the Environmental Planning and Assessment Act in certain circumstances, but the Department pointed out that this concern may be alleviated by removing unnecessary

consultation and concurrence requirements, and using pre-application consultation and mediation. The Committee concedes this point.

As a result of the review of the planning system, two sets of amendments have been made to the Environmental Planning and Assessment Act. The first, passed by Parliament in December 1992, included provision for the Minister for Planning to direct that commissions of inquiry be held concerning some developments, but with the council remaining the consent authority. This amendment clearly encourages greater use of commissions of inquiry as a dispute resolution mechanism, which was a strong theme of the Committee's report.

The second set of amendments was made as a result of consequential provisions of the new Local Government Act, and includes provisions to make the approvals process more flexible and compatible with the local government legislation.

Most recently, the Government has engaged the former Director-General of the Cabinet Office—Mr Gary Sturgess—to inquire into government procedural and regulatory impediments to the creation of investment and employment opportunities, or in other words, to inquire into red tape. Although the terms of reference for this inquiry are broad, the Premier announced that Mr Sturgess would concentrate on planning and local government approval processes in New South Wales, with consideration of ways to ease the approvals process for small and medium-size businesses by eliminating duplication and unreasonable delays. The Committee believes that such a review has been long overdue, and looks forward to the report of the inquiry.

FOLLOW-UP OF AUDITOR-GENERAL'S REPORT FOR 1992

Section 22 payments

Payments under section 22 of the *Public Finance and Audit Act 1983* in 1991-92 amounted to \$146m. This compares with \$361m in 1988-89, \$180m in 1989-90, and \$423m in 1990-91.

\$145m of the amount in 1991-92 related to recurrent services under "Crown transactions" by the Premier, Treasurer and Minister for Ethnic Affairs for Program 9.1.3—Other service-wide activities. No further details are disclosed in the Public Accounts, although the Auditor-General noted that even this was an improvement in disclosure over previous years.

Budget Paper No. 3 reveals that the objective of Program 9.1.3 is "To provide funding for certain activities for which the Crown has accepted liability on behalf of the Budget Sector." It includes periodic payments made towards the cost of accrued employee benefits and ongoing costs of miscellaneous pensions, etc.; payment for compensation for risks not covered under insurance arrangements; working capital advances; grants; subsidies; privatisation costs. Total recurrent payments from the Consolidated Fund made on this program for 1991-92 were \$845m.

Both the Auditor-General and the Public Accounts Committee have long expressed a concern about the use of section 22 to authorise expenditure out of the Consolidated Fund without giving the Parliament the prior opportunity to debate it.

In its Report No. 43, the Committee believed that a second or subsequent Appropriation Bill(s) would be preferable to using s. 22. This was reiterated in its Report No. 61, as well as a recommendation that s. 22 be redrafted more tightly, so that any payments made without prior parliamentary approval would be only for unforeseeable events such as natural disasters.

Even though s. 22 payments in 1991-92 totalled less than the previous year, they are still substantial, and still cannot be regarded as having been made according to the original intent of that section. The Committee has recently pursued its previous recommendations regarding s. 22 with the NSW Treasury in relation to the review and projected redrafting of the *Public Finance and Audit Act 1983*.

Large information technology projects

The Committee noted comments made by the Auditor-General about problems with major computerisation projects, particularly the Births, Deaths and Marriages system of the Attorney-General's Department, and the DRIVES system of the Roads and Traffic Authority.

On page 29 of volume 3, the Auditor-General referred to a value-for-money review conducted by the Office of Public Management (OPM) of the Premier's Department of some information technology projects. He mentioned that this review "will help ensure that its [OPM's] Statements of Best Practice will be more closely adhered to by the relevant agencies."

The Committee wrote to the Director-General of the Premier's Department to request a copy of the OPM's report of its review, and details of the subsequent

steps taken by the Government to ensure conformity with the Statements of Best Practice, including details of the ongoing role of the Office in monitoring information technology projects.

The response from the Director-General, confirmed by the Premier, was that the OPM report was a confidential Cabinet document, and therefore unavailable to the Committee, although it was made available to the Auditor-General. The Committee was informed that the report identified a number of conditions with respect to information technology projects which required improvement. In addition, the Premier wrote to ministers with a recommended course of action for improvement. Generally speaking, these recommendations relate to the need for more effective planning, project control or business case development.

Also, the OPM has been asked to screen all information technology capital bids for 1993-94.

The Committee was given five Statements of Best Practice on acquisition of information technology, and was informed that a further four Statements were in preparation.

The Committee was also given a document entitled *IT Blueprint*, which was prepared by the OPM to provide a service-wide focus on the impact of information technology on the business of government, and a service-wide framework within which agencies may prepare their own information technology strategies and plans.

In its inquiry into internal audit, the Committee followed up problems with DRIVES, and the implementation of a new computerised financial management system in the Central Sydney Area Health Service. An increased focus on

internal auditing of information technology developments from early stages was recommended, as well as specific internal audit standards for information technology audits.

In view of these recommendations and the increased activity from the OPM with respect to information technology, the Committee expects that future investments in information technology in the New South Wales public sector will lead to less overexpenditure on and smoother implementation of new computer systems. The Committee will maintain an oversight of major new developments in this area.

Unpaid fines

The Committee has had a long interest in unpaid fines, dating back to its Report No. 25 on *Collection of Parking and Traffic Fines*, tabled in June 1986.

On page 248 of his volume two, the Auditor-General stated that "Total debts owing to the Crown from unpaid fines cannot be readily assessed due to the nature of court records." He alluded to the likely magnitude of this amount by referring to the Police Service, which has records of nearly one million unexecuted warrants with an estimated value of \$123.2m, and this amount is growing annually. It is expected that most of this will eventually be written off due to difficulties in locating offenders at such a late stage, and as such, this issue is relevant to the committee's inquiry into debt write-offs.

The Committee wrote to the Director-General of the Department of Courts Administration and to the Commissioner of Police requesting information on recording of fines and follow-up of unexecuted warrants.

Responses to both letters provided valuable information that will be followed up further in the debt write-offs inquiry.

Superannuation

In 1991 the Committee resolved to follow-up its Report No. 10 on *Superannuation Liabilities of Statutory Authorities*. This follow-up was postponed indefinitely, and in 1992-93 the Legislative Assembly established a Select Committee on Public Sector Superannuation Schemes.

The Auditor-General's report has a recurring theme of problems in accounting for the employee entitlements of superannuation and long service leave. Although the Committee decided to await the Select Committee's report before considering the broad issue of superannuation, two specific contrasting situations in the Auditor-General's report stood out and attracted the Committee's immediate attention.

The Water Board overprovided for superannuation by \$63.8m. This was written back as an abnormal item in the income and expenditure statement. (Similarly, the Hunter Water Corporation wrote back superannuation overprovision of \$5.5m.) On the other hand, the Provisions for Retirement Benefits and Extended Leave of the Maritime Services

Board (MSB) were overprovided by \$19.7m and not written back, which resulted in the Auditor-General issuing the MSB with a qualified audit opinion. Although acknowledging that there are difficulties in determining employer's liability for superannuation (one of the terms of reference of the Select Committee inquiry), the Auditor-General did not agree with the carrying of an overprovision of this magnitude. The Committee understands from advice from the Audit Office that it is usual practice to write back such overprovisions.

The Forestry Commission also received an audit opinion qualified for carrying an overprovision for superannuation of \$3.7m, but this was complicated by post balance date transactions, the absence of a rolled forward estimate of superannuation liability from 31 March 1992 to 30 June 1992, and the likely reduction in liability arising from a redundancy program.

The Committee followed up the matter with the Chief Executive of the MSB by requesting an explanation of the reasons for carrying the overprovision rather than writing it back.

The figures presented in the table below were provided in response.

The Chief Executive explained that the MSB was reducing its staffing level, and a provision for voluntary redundancy

	Provided \$000	Assessed \$000	Over- provision	%
Extended leave	14,492	12,714	1,778	14.0
Retirement benefits (superannuation)	128,903	111,033	17,870	16.1
Total	143,395	123,747	19,648	15.9

payments was established to meet the cost of the severance pay portion of redundancy packages accepted by staff. Furthermore, it was the MSB's intention to transfer any overprovision of extended leave into the provision for voluntary redundancy to help fund the cost of staff redundancy. This action was taken in December 1992.

On the larger overprovision for superannuation, the Committee was advised that the MSB uses assessments from the State Authorities Superannuation Board, which are issued at 31 December and 30 June each year. According to the MSB, for the past three years (1989-1991), the December assessments have indicated that the MSB was charging superannuation expense appropriately, and that its superannuation provision covered the estimated superannuation liability.

In contrast, the June assessments in each of those years showed a very different situation. At 30 June 1989, the assessed superannuation liability was underprovided by \$11.1m. This increased to \$22.9m by 30 June 1990, and the MSB responded by bringing to account these additional expenses so that the provision account matched the liability. Despite this adjustment, the assessed superannuation liability was still underprovided by \$19.1m at 30 June 1991, and again a corresponding adjustment was made so that the provision account matched the assessed liability.

The December 1991 assessment showed that the MSB was slightly overprovided. Unfortunately, the MSB was not able to give the Committee precise details of the assessments for December 1989, 1990 and 1991. However, the June 1992 assessment was made by the Government Actuary rather than the SAS Board, and

the assessed liability dropped substantially, leaving an overprovision of \$17.9m.

The MSB decided, in view of the wide fluctuations in estimates of superannuation liability, to leave the superannuation provision overprovided rather than to write back the overprovision to profit.

The Auditor-General's qualification of the financial statements with respect to the overprovision arises from the provision for superannuation exceeding the assessed liability by 16.1% rather than 5-10% which is allowed by accounting standards.

The MSB contends that the apparent need for substantial year end adjustments to the provision for superannuation questions the accuracy of the method of providing for superannuation and the accuracy of the SAS Board assessments of superannuation. The MSB stated that it was reluctant to make substantial end of year adjustments to the financial statements until an increased level of confidence can be applied to actuarial assessments of its superannuation liability. Advice from the MSB was that substantial end of year adjustments to expenses, such as provision for superannuation, causes particular difficulty in business planning for highly regionalised authorities such as the MSB, where expenses are allocated to cost centres. However, the actuarial assessment at December 1992 and June 1993 confirmed that a substantial overprovision does exist, and the Committee has been notified that an adjustment will be made in the 1992-93 financial year.

On 8 August 1993, after the correspondence between the Committee and the MSB, the NSW Treasury issued

a circular on the accounting of superannuation expenses and liabilities of government trading enterprises. The circular outlines policy guidelines which allow GTEs to ignore changes in their assessed liabilities arising from annual reviews undertaken by the Government Actuary between triennial reviews where *no material variations* have occurred. On the other hand, significant variations resulting from major changes in underlying factors such as membership profile, (for example through staff reduction or organisational restructures) or changes to taxation and superannuation legislation need to be recognised in the financial statements. GTEs and the Government Actuary need to exchange information on a timely basis on such major changes, and a special actuarial study may be required.

The Committee hopes that these policy guidelines will assist GTEs in their accounting for superannuation expenses and liabilities. As stated above, the Committee will defer any further consideration of problems with determining superannuation liability until the report of the Select Committee on Superannuation is available.

Viability of the Earth Exchange

The Earth Exchange is the revamped Geological and Mining Museum, and was opened as a commercial venture on 31 March 1991. The Committee was aware that in revamping the museum, the Government's aim was to eventually make it commercially viable and self-supporting through private sponsorship and charging fees for admission and other services, and phasing out funding from the Consolidated Fund for recurrent expenditure.

1991-92 was the first full year of operation, and Consolidated Fund

contributions during the year amounted to \$1.3m. The operating deficiency increased to \$2.0m.

The Auditor-General reported that the Museum's ability to meet current financial commitments from its available resources further deteriorated during 1991-92. This is evidenced by the decrease in the current ratio from 0.59:1 in the 1990-91 year to 0.17:1 at 30 June 1992 at which time the Museum had only 17 cents to meet each dollar of short term debt.

In the absence of a substantial improvement in the profitability of trading activities, an increase in the level of Consolidated Fund and other financial support to the Museum will be required in 1992-93 according to the Auditor-General.

The Committee wrote to the Director of The Earth Exchange requesting information on:

- The Earth Exchange's current objectives;
- the strategies in place to achieve those objectives;
- the reasons behind The Earth Exchange's financial difficulties;
- an assessment of whether The Earth Exchange could realistically become self-supporting, and if appropriate, an updated projection of when independence from the Consolidated Fund could be achieved.

The Director responded in full to the Committee's request, and explained that the Government's intention of self-sufficiency was based on a business plan prepared in 1988 which was flawed in several aspects, including underestimation of project costs, and overestimation of visitation numbers. The original design of the reconstruction of

the museum also was flawed and hindered the development, leading to litigation against the original architects and an out-of-court settlement in favour of The Earth Exchange.

The Committee was impressed by the energy, enthusiasm and imagination demonstrated by the senior staff of The Earth Exchange in its exhibits, both current and planned. An improvement in the current ratio was anticipated by the Director for 30 June 1993.

Of particular relevance to The Earth Exchange's objectives as defined in the *Mining Act 1992* is its role in the provision of community service obligations (CSOs). According to The Earth Exchange's vision of itself, these CSOs are in the areas of tourism, education, heritage conservation, and economic development.

The Earth Exchange undoubtedly contributes to the level of tourism in The Rocks area of Sydney, leading to benefits to other businesses in the area. Education of school-age children appears to be a major focus of the museum's activities. The building occupied by the museum is a "heritage" building leased from the Sydney Cove Authority at a peppercorn rental, with The Earth Exchange responsible for maintenance. The museum looks after a large historical collection of rocks and minerals, fossils, photographs, and mining equipment which is also regarded as "heritage" material. The Earth Exchange's involvement in economic development is through its exhibits and education programs, which are designed to increase people's understanding of mining and its contribution to economic development.

The Director claimed that The Earth Exchange also conducts research and provides training through its use of

volunteers, and that these are additional CSOs.

The Committee was interested in the costs incurred in satisfying these community service obligations, and was given a statement of CSOs prepared after the NSW Treasury released its draft policy on CSOs for government trading enterprises.

The statement showed two ways of costing the museum's CSOs. The first is to calculate the average cost of the government subsidy per visitor. The second is to calculate the expenditure on those services actually provided by The Earth Exchange.

The Committee acknowledges that the average cost of the government subsidy per visitor is significantly less than other museums which could be regarded as competing with The Earth Exchange such as the Australian Museum, the Museum of Applied Arts and Sciences, the Historic Houses Trust and the Art Gallery.

On the other hand, the Committee was not convinced of the method of costing actual expenditure on services. The distinction between some of the services, such as tourism, education, maintenance and development of exhibits, and economic development, is not clear. Furthermore, it appears that no distinction is made between revenue from the Consolidated Fund and other self-generated sources in respect of these CSOs. At the moment the provision of CSOs appears to be driven by The Earth Exchange, whereas they should be more clearly driven by the Government as a whole.

The Director conceded to the Committee that given the high level of CSOs, the higher government subsidy of

“competing” museum facilities, and the burden of capital-cost uniquely carried out by the organisation, it is unlikely that The Earth Exchange would achieve self-sufficiency in the foreseeable future.

The Committee would prefer to see the NSW Treasury, in accordance with its own draft policy, clarify the CSOs it requests or directs The Earth Exchange to undertake, and fund those services specifically. That is, if the Government intends to continue to support the existence of The Earth Exchange, then it should fund CSOs to be conducted by the museum more transparently so that those CSOs can be conducted to the level required by the Government rather than left to the discretion of the museum.

Impact of dividend payments on the State Transit Authority

Payment to the NSW Treasury of a maiden dividend of \$58.4m out of a surplus of \$80.0m for 1991–92 reduces the Authority’s liquidity according to the Auditor-General. The Authority reduced its accumulated deficiency from \$110m to \$83m during the year, but this could have been reduced much further without the need to pay the dividend. More importantly, the current ratio has declined from 99.1% in 1989 to 71.1% in 1992, and is projected to decline to 33% in 1993. Thus the Authority could face some short-term liquidity pressures, depending on timing of the Government’s community service obligation payments and of any asset sales.

This issue is relevant to the Committee’s report on dividend payments (No. 60). A follow-up of this report has been postponed until the report is available of the Select Committee on the Water Board, which is considering dividends as one of its terms of reference.

Distribution of earnings on trust funds

This issue is relevant to two agencies—the WorkCover Authority and the Public Trustee.

The Auditor-General criticised the WorkCover Authority for failure to fully distribute earnings on beneficiaries’ funds. The Authority administers \$50.0m on behalf of injured workers and dependants of deceased workers. This money is invested, and interest earned is distributed to beneficiaries each May and November. Of an income of \$6.5m in 1991–92, only \$4.1m was distributed, leaving a surplus of \$1.9m after administrative costs. Surplus funds are used to ensure some stability to future rates paid to beneficiaries over the medium term.

However, the Auditor-General considered that this practice can be inequitable as the persons whose funds are used to stabilise distributions of interest may not be the same as those persons who benefit in the end. Further, it is difficult to argue that withholding distributions is *any* advantage to the beneficiaries.

The Chairman wrote to the General Manager of the WorkCover Authority requesting his response to the Auditor-General’s comments, and details of any action taken by the Authority as a result of those comments.

The Attorney General and Minister for Industrial Relations responded by advising that WorkCover had paid a very competitive interest rate of 8.5% to beneficiaries, and following the Auditor-General’s comments and a review, the interest rate was increased to 10% to accelerate the release of surplus funds. A further distribution to beneficiaries was

planned for 1 May 1993, and projections of accumulated funds at 30 June 1993 indicated that these would be "without undue surpluses".

During the year the undistributed earnings of the Public Trustee's Trust Funds - Common Fund continued their expansionary trend of recent years which has seen a growth from \$29.5m at 30 June 1986 to \$71.6m at 30 June 1992. This history of growth has resulted from limiting interest distributions during periods of high interest rates. The practice has mainly developed as a means of "evening out" interest rate fluctuation over the long term.

The Auditor-General criticised this practice of the Public Trustee, in the same way as for the WorkCover Authority. He considered it to be inequitable, because the people whose funds are used to stabilise "dividends" need not and often are not the same as those who benefit. Moreover, he contended that it is difficult to argue successfully that withholding distribution improves the welfare of the contributors. He expressed concern at the high level of earnings that were undistributed.

The Auditor-General also argued that the Public Trustee should transfer \$1.6m from the Office Administration Account to the Trust Funds - Common Fund as a result of an overprovision for superannuation liability.

The Chairman wrote to the Public Trustee and requested further background details on this matter and his response to the Auditor-General's comments, as well as advice on any action taken as a result of those comments.

The Public Trustee responded to this request, and the Committee has decided to follow-up the matter in its new inquiry

into cash balances of statutory authorities.

Financial accounting in Area Health Services

All but one of the AHSs that have been audited received qualified audit opinions because they partially consolidated transactions and balances of Third Schedule hospitals, as required by the Department of Health. These hospitals are run by non-profit organisations. The Auditor-General did not consider it appropriate to include the transactions or balances of Third Schedule hospitals in the AHSs' financial statements as these entities are not controlled entities as defined by Australian Accounting Standards. The Committee understands that this is a dispute between the Auditor-General and the Department of Health, and believes that it should be resolved.

However, three AHSs received qualifications in their audit opinions for additional matters.

Central Coast AHS received a qualified opinion for bringing to account expenditure of \$313,769 which was not incurred in the financial year. The Service was also unable to calculate an accurate opening balance for employees' accrued entitlements.

Central Sydney AHS also had problems with employees' accrued entitlements. No depreciation was included in the financial statements because property, plant and equipment were not valued in accordance with Departmental instructions. Significant problems arose through implementation of a new general ledger and accounts payable software. Final financial statements had not been received at the time of the Auditor-General's report.

The audit of the Southern Sydney AHS was delayed by problems with classification of leases.

The Committee interprets these problems as symptoms of breakdown in internal control within the AHSs. Specific problems with the Central Sydney AHS were followed up in pages 90–94 of the Committee's Report No. 71 on *Internal Audit in the New South Wales Public Sector*. They led to recommendations to ensure that internal audit in government agencies has a broad scope, with particular emphasis on involvement of internal audit with new information technology developments from early stages.

Particular audits, especially of the Ambulance Service

Sections 44 and 45 of the Public Finance and Audit Act provides for "particular" audits of statutory bodies, funds and accounts that are not listed in schedules 2 and 3 of the Act. This enables special or short term agencies or accounts to be audited without capturing them in the requirements for annual reporting. However, these sections are also being used to enable audit of AHSs and the Ambulance Service.

Most of the AHSs do prepare annual reports, but these are not required to be tabled in Parliament. The Ambulance Service does *not* produce an annual report.

A good argument could be made that the annual report of the Department of Health is largely a consolidation of reporting on activities and finances of the AHSs. However, the Ambulance Service receives only passing mention in the Department's report, and the Committee found it difficult to obtain information on

the detailed finances and operations of this statutory body during its follow-up of the report on the Service.

The Committee believes that using particular audits for large permanent statutory bodies such as the Ambulance Service was inappropriate, and this aspect is being pursued by the Committee in the review of the public finance accounting, audit and reporting legislation.

The first recommendation in the Committee's report on internal audit was that accountability of area health services and the Ambulance Service could be strengthened if they were listed as statutory authorities in the legislation providing for public finance accounting, audit and reporting.

Financial accounting in the School Furniture Complex

The Auditor-General reported that the financial statements of the Complex had to be returned for correction. Audit of the revised statements highlighted several areas where significant adjustments were required:

- Amendment to the unfunded liability for superannuation.
- Need to revise standard costs to bring them in line with the requirements of AAS2.
- Need to determine variance between standard and actual costs in relation to the value assigned to finished goods and works in progress.
- Finalisation of general ledger balances for inventories.
- Various other adjustments to the financial statements to bring them up to an acceptable standard of disclosure.

In view of these problems, the financial statements were returned again to the Complex for amendment.

The Chairman wrote to the Director-General of the Department of School Education requesting comments on the apparent accounting problems of the School Furniture Complex, advice on steps taken to improve accountability, and an update of progress in privatisation of the Complex.

The Director-General responded and provided further details of the accounting problems. These problems appear to largely reflect poor staff morale as a result of the uncertainty of the future of the Complex. The Director-General outlined action taken to improve the accounting function at the Complex, and indicated that the Complex will be in a better position to produce the 1992-93 financial statements in the manner normally expected of government agencies. Meanwhile, a second revision of the 1991-92 financial statements had still not been formally submitted to the Auditor-General by 30 June 1993.

The Committee was also advised that a call for expressions of interest in the sale of the School Furniture Complex was advertised in March 1993. By the end of the financial year, a short list of interested parties had been invited to submit bids for the Complex.

The Committee regards this as a good example of breakdowns in accountability that can result when clear government direction for agencies is lacking. Restructuring, privatisation and corporatisation have all got their benefits, but their cost is increased when they are handled in a protracted manner and/or without a clear vision of what the government expects to achieve at the end of the process.

The Committee will continue to monitor progress at the School Furniture Complex.

School Student Transport Scheme

In his 1992 report, the Auditor-General reviewed developments relevant to the School Student Transport Scheme since the Audit Office last reported on the Scheme in 1990. He noted that after the Audit Office commenced the 1992 review, the Minister for Transport referred the Scheme to the Public Accounts Committee for inquiry.

The Committee considered the Auditor-General's comments, and tabled its *Report on the School Student Transport Scheme* in January 1993.

REVIEW OF LEGISLATION

During 1992-93, the Committee conducted three reviews of specific legislative amendment proposals and participated in a broader review of legislation on public financial management, accounting, auditing and reporting.

Codes of conduct

In the previous financial year, annual reporting regulations were introduced to require all agencies to include their codes of conduct in their 1991-92 annual reports. The NSW Treasury subsequently submitted a proposal for new regulations to require any changes to an agency's code of conduct to be published in the annual report of the year the changes are introduced.

In its 391st meeting on 4 February 1993 the Committee approved of the new

regulations. The regulations were gazetted on 19 March 1993.

Size of annual reports

The NSW Treasury proposed that the standard size of annual reports tabled in Parliament be increased from B5 to A4, to be implemented through appropriate changes to annual reporting regulations. At its 399th meeting on 21 April 1993 the Committee considered this to be a good move in view of widespread use of A4 size for reports and publications, and accordingly approved of the new regulations. The regulations were gazetted on 14 May 1993.

Miscellaneous

A package of amendments to regulations under the Public Finance and Audit Act and annual reporting legislation was proposed to formalise some requirements for annual reporting previously put in place by administrative arrangements, increase consistency between requirements for departments and statutory authorities, and remove some obsolete references in the regulations.

The Committee reviewed the package of proposed amendments at its meeting on 10 June 1993, and gave its approval. The regulations were gazetted on 2 July 1993. Although this is outside the financial year ending 30 June 1993, the NSW Treasury has indicated that it expects agencies to comply with these requirements in their annual reports for that year.

Comprehensive review of the legislation on public financial management, accounting, auditing and reporting

During the year, the NSW Treasury commenced a comprehensive review of the Public Finance and Audit Act, the annual reporting legislation, and the Public Authorities (Financial Arrangements) Act. A working party was established with representatives from the Auditor-General's Office, the NSW Treasury and some major agencies.

The main aim of the review is to replace four acts with a single piece of legislation which reflects current practices and the objectives of an ongoing program of financial reform in the New South Wales public sector.

The Public Accounts Committee was invited to make suggestions for changes to the existing legislation. Accordingly, the Committee tabled a submission to the working party on 23 July 1993. The Committee will monitor developments throughout the current year.

PUBLIC EDUCATION PROJECTS

The Director gave two lectures at the University of Sydney Graduate School of Business on the role of the Public Accounts Committee. This was done as part of liaison with universities, which also involves assisting specific students with their projects. In return, university academic staff often contribute significantly to Committee inquiries.

All of the Committee's reports are written so that they are suitable for reading by the general community, as well as by parliamentarians and those in the public sector. Inquiries that are of

relevance to the public, such as the inquiry into the School Student Transport Scheme, are publicised through advertisements calling for submissions. Reports are tabled simultaneously with copies given to the media, together with media releases where appropriate. The practice of charging for reports was discontinued in 1991-92 in order to encourage their wide distribution.

The video that was planned last year had to be postponed due to other higher priorities. The Committee has re-evaluated the proposal with a view to focussing on the role and workings of parliamentary committees, with the Public Accounts Committee as a specific example, and targeting the video to public sector managers likely to participate in parliamentary inquiries. It is anticipated that the video will also be appropriate to high school and university students.

EXCEPTION REPORT

Most targets set for 1992-93 were achieved or significant progress was made towards meeting them. Those targets that were either subsumed in other projects, deferred or set aside as a result of changing priorities are as follows:

Inquiry into debt write-offs

In its May 1991 report on *Payment Performance of Major Statutory Authorities and Inner Budget Sector Departments*, the Committee observed "that there was quite an alarming rise in the amount of debts written off by the State public service".

In that report the Committee was of the opinion that "to tackle this problem effectively . . . it would be necessary to

examine the management decisions which led to the increased write-offs".

In its *1990-91 Annual Report* the Committee undertook to carry out an inquiry into debt write-off. A survey was conducted of debt write-offs, and two days of hearings were held in late 1991.

Other subsequent inquiries have required higher priority, and no further work on debt write-offs has been conducted. However, the Committee proposes to resume the debt write-offs inquiry and complete its report in 1992-93.

Follow-up of reports on the Forestry Commission and the National Parks and Wildlife Service

The Forestry Commission underwent its long-awaited restructuring in mid 1992. The Committee thought it prudent to allow the Commission to settle down in its new structure before embarking on its follow-up. The Committee will conduct the follow-up in the current financial year.

Follow-up of report on dividend payments

During the year the issue of dividends was raised in Parliament in regard to the Water Board, and a Joint Select Committee was established to inquire into several aspects of that agency, including dividends. The Public Accounts Committee decided to wait until the report of the Joint Select Committee was available before pursuing its follow-up report.

FINANCIAL STATEMENTS FOR 1992-93

STATEMENT BY APPOINTED MEMBERS

In accordance with clause 8 of the Public Finance and Audit (Departments) Regulation 1986, we state that:

- (a) the accompanying financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the Public Finance and Audit (Departments) Regulation 1986, *The Financial Reporting Code under Accrual Accounting for Inner Budget Sector Agencies*, and the Treasurer's Directions, to the extent that such Act, Regulation, Code and Directions are applicable to the accounts of the Committee;
- (b) the statements present a true and fair view of the financial transactions of the Committee; and
- (c) there are no circumstances which would render any particulars in the financial statements to be misleading or inaccurate.



Andrew Tink, MP
Chairman
10 November 1993



Geoff Irwin, MP
Member
10 November 1993



BOX 12 GPO
SYDNEY NSW 2001

AUDITOR-GENERAL'S OPINION PUBLIC ACCOUNTS COMMITTEE

To Members of the New South Wales Parliament and the Public Accounts Committee

Scope

I have audited the accounts of the Public Accounts Committee for the year ended 30 June 1993. The preparation and presentation of the financial statements, consisting of the operating statement, together with the notes thereto, and the information contained therein is the responsibility of the Public Accounts Committee. My responsibility is to express an opinion on these statements to Members of the New South Wales Parliament and the Public Accounts Committee based on my audit as required by sections 34 and 45F(1) of the Public Finance and Audit Act 1983. My responsibility does not extend here to an assessment of the assumptions used in formulating budget figures disclosed in the financial statements.

My audit has been conducted in accordance with the provisions of the Act and Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with the requirements of the Public Finance and Audit Act 1983, and Australian accounting concepts and standards so as to present a view which is consistent with my understanding of the results of the Public Accounts Committee's operations.

This audit opinion has been formed on the above basis.

Audit Opinion

In my opinion, the financial statements of the Public Accounts Committee comply with Section 45E of the Act and present fairly in accordance with Statements of Accounting Concepts and applicable Accounting Standards the results of its operations for the year ended 30 June 1993.

A handwritten signature in black ink, appearing to read 'A.C. Harris'.

A.C. HARRIS

SYDNEY
10 November 1993

This is the start of the audited financial statements.

PUBLIC ACCOUNTS COMMITTEE

**OPERATING STATEMENT FOR THE YEAR ENDING
30 JUNE 1993**

	Notes	Actual 1992-93 \$	Budget 1992-93 \$
Expenses			
Operating Expenses			
Employee related	4(a)	239,305	238,000
Other Operating Expenses	4(b)	201,900	226,000
Total Expenses		<u>441,205</u>	<u>464,000</u>
Revenues			
Sale of reports	5	131	0
Total Revenues		<u>131</u>	<u>0</u>
NET COST OF SERVICES		441,074	464,000
Government Contributions	2(c)		
Consolidated Fund Recurrent Appropriation		441,074	464,000
Operating Result for the Year		<u>0</u>	<u>0</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL
STATEMENTS**

1. THE REPORTING ENTITY

The Public Accounts Committee is a statutory committee of the New South Wales Parliament, constituted by the *Public Finance and Audit Act 1983*.

The accounting and reporting requirements of the *Public Finance and Audit Act 1983* and the annual reporting legislation do not apply to the Committee. However, the Committee has reported annually to the Parliament on its operations since 1983-84 in a form that follows as faithfully as possible its own recommendations in its seventh report on the reporting requirements of statutory authorities.

The Committee is funded out of an allocation for recurrent services from the Consolidated Fund under appropriation to the Legislature. The Committee is a cost centre within the Legislature's Program 1.2.5—Special Services, but it does not own assets, nor does it incur liabilities in its own right. On this basis the net cost of services does not reflect the full cost of the Committee's operations as certain shared and otherwise unidentified costs are not included. Further financial details on the operation of Program 1.2.5 of the Legislature may be found in the *Annual Report of the Legislative Assembly for 1992-93*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Committee's financial report has also been prepared in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, and the requirements of the *Public Finance and Audit Act 1983* and Regulations, and the NSW Treasury's *Financial Reporting Code under Accrual Accounting for Inner Budget Sector Entities*, except for the omission of Statement of Financial Position and Cash Flow Statements, which are not prepared because the Committee does not own assets nor incur liabilities.

All amounts in the Committee's financial report are rounded to the nearest dollar and are expressed in Australian currency. The accounting policies adopted are those formally adopted for the implementation of accrual accounting.

(a) *Change in Accounting Policy*

In previous years the Public Accounts Committee has prepared its financial statements on a cash accounting basis, except for the accrual of salaries unpaid at year's end. The Legislature has now moved to accrual accounting and, as foreshadowed last year, the Committee is now able to report more closely in accordance with the Financial Reporting Code. Because of this change in accounting policy the previous year's figures are not comparable with the current year's figures. The figures for the previous year have, therefore, been excluded.

(b) *Employee related expenses*

The Public Accounts Committee is included in the Legislature's liabilities for long service leave and superannuation, which are assumed by the State. The amounts expected to be paid to employees for their pro-rata entitlement to recreation leave are accrued annually at current pay rates.

(c) *Government allocations*

Monetary and non-monetary resources which are allocated to the Committee by the Legislature and which are controlled by the Committee are recognised as revenues of the financial period in which they are received. Non-monetary allocations are recognised at fair value with the exception of office space in Parliament House.

Public Accounts Committee

3. BUDGET REVIEW

The net cost of services was fully met by the Legislature and the Committee carried out its functions within its budget allocation. Any savings on the Committee's expenditure have been re-allocated by the Legislature to other programs.

4. OPERATING EXPENSES

	1992-93
(a) EMPLOYEE RELATED COSTS	\$
Salaries (adjs/ leave/ loading)	153,671
Termination Pay	491
Overtime	969
Allowances	1,255
Contract Staff & Temporary Assistance	70,666
Payroll Tax & Fringe Benefits Tax	11,553
Workers Compensation Insurance	700
	<hr/>
	239,305
	<hr/>
(b) OTHER OPERATING EXPENSES	
Accomm Expenses	6,157
Advertising	9,753
Office (bank fees/copier/ stationery/ stores/ minor expenses/ computer)	10,215
Books, Periodicals & Papers	2,440
Consultancy & Contract Fees	61,234
Post Courier & Telephone	10,840
Entertainment	4,041
Printing	12,472
Training & Development	5,869
Travel	78,693
Additional Expenses <i>Note (c)</i>	186
	<hr/>
	201,900
	<hr/>

(c) Additional expenses were incurred as part of the Committee's inquiry into the special auditing function of the Auditor-General's Office (Report Number 70, tabled in June 1993). The cost of this inquiry was borne by the Auditor-General's Office and this item was re-imbursed after 30 June 1993.

5. REVENUES

The Committee, with a view to ensuring its recommendations are brought to the attention of a wide audience, followed its policy of generally providing its reports free of charge. The Committee received \$131 for the sale of certain specific reports. This approach may need to be refined slightly in the future.

6. MEMBERS' ALLOWANCES

Members of the Committee receive an allowance for their service on the Committee. The cost of these allowances is met directly by the Legislature and not from the Committee's budget. The Chairman receives a salary of office as well as an expense allowance, each of which was \$4771 per annum at the 30 June 1993. Other Members received a Committee allowance of \$2150 per annum.

This is the end of the audited financial statements.

CONSULTANTS

Payments to consultants comprised:

Mike Smart	Inquiry into infrastructure financing	\$46,515
Arthur Andersen	Review of special auditing	\$30,000

- Notes:*
- Arthur Anderson's fees were paid for separately by the Legislature and reimbursed by the Auditor-General, as agreed with the Auditor-General at the outset of the review.
 - KPMG Peat Marwick provided consulting services to the Public Accounts Special Committee inquiry into funding of health infrastructure and services, but these services were paid for separately by the Department of Health.

ACCOUNT PAYMENT PERFORMANCE

Recent amendments to annual reporting regulations require agencies to include particulars of their account payment performance in their annual report. Payment of all expenses incurred by the Public Accounts Committee is effected by the Legislative Assembly's Office of the Financial Controller. The Legislative Assembly's annual report should therefore be referred to for details of account payment performance.

TARGETS FOR 1993-94

The Public Accounts Committee has set the following targets for the remainder of 1992-93:

- Complete the second volume of the report on infrastructure financing and management
- Conduct a review of action taken in response to Report No. 52 on the Forestry Commission and Report No. 59 on the National Parks and Wildlife Service
- Produce a video on the role of parliamentary committees, provided external funding is obtained
- Complete the inquiry into debt write-offs
- Undertake an inquiry into cash management
- Undertake an inquiry into Public Defenders

In addition, the Committee will consider whether to follow-up previous reports on superannuation liability and dividend payments by government trading enterprises, after it has reviewed the reports of two select committees which are inquiring into these matters.

The Committee may also follow-up issues raised by the Auditor-General in his reports to Parliament.

APPENDICES

1. ORIGIN OF COMMITTEE INQUIRIES

No.	Report	Reference from			Initiated by
		Minister	Treasurer	Auditor-General	PAC
1	Expenditure without Parliamentary Sanction				A
2	Expenditure Over-Runs in Public Hospitals				
3	Accountability in Public Hospitals				
4	Expenditure without Parliamentary Sanction				
5	Overtime Payments to Police				
6	Overtime Payments to Corrective Service Officers				
7	Accountability of Statutory Authorities				
8	Report on the Grain Sorghum Marketing Board				
9	Matters Examined in Relation to Auditor-General's Report 1981-82				A
10	Superannuation Liabilities of Statutory Authorities				
11	Annual Report 1983-84				
12	Matters Examined in Relation to Auditor-General's Report 1982-83				A
13	Proposed Regulations Accompanying the Annual Reports (Statutory Bodies) Act and the Public Finance and Audit Act				
14	Investment Practices in NSW Statutory Authorities				A
15	Performance Review Practices				
16	Brief Review of Macarthur Growth Area				A
17	Brief Review of the Statutory Funds of the Department of Environment and Planning				A
18	Brief Review of the Land Commission of NSW				A
19	Annual Report 1984-85				
20	Report on Year-End Spending				A
21	Follow-up Report on Inquiries into the NSW Public Hospital System				F
22	Recommended Changes to the Public Accounts				
23	Proposed Regulations Accompanying the Annual Reports (Departments) Act 1985				
24	Follow-up Report on Overtime Payments to Corrective Services Officers				F
25	Report on the Collection of Parking and Traffic Fines				A

Annual Report for 1992-93

No.	Report	Reference from			Initiated by PAC
		Minister	Treasurer	Auditor-General	
26	Follow-up Report on Annual Reporting of Statutory Authorities				F
27	Annual Report 1985-86				
28	Follow-up Report on Overtime, Sick Leave and Associated Issues in the NSW Police Force				F
29	Report on the NSW Builders Licensing Board				
30	Brief Review of the Sydney Opera House Trust; Harness Racing Authority of NSW; and NSW State Cancer Council				A
31	Report on the Film Corporation of NSW				A
32	Report on the Home Care Service of NSW				
33	Annual Report 1986-87				
34	Supplementary Report 1986-87				A, F
35	Report on the Wine Grapes Marketing Board and Grain Sorghum Marketing Board				
36	Report on the Biennial Conference of Public Accounts Committees, Sydney - May 1987				
37	Report on the Ravensworth Coal Washery				A
38	Proceedings of the Accrual Accounting Seminar Held 5 February 1988				
39	Report on Purchasing Practices, Stores and Equipment Resources in TAFE				
40	Report on the Heritage Council of NSW				
41	Annual Report 1987-88				
42	Report on the Management of Arson in the Public Sector				
43	Report on Payments Without Parliamentary Appropriation				
44	Report on the NSW Ambulance Service				
45	Report on Payments to Visiting Medical Officers				
46	Annual Report 1988-89				
47	The Challenge of Accountability				
48	Report on the Darling Harbour Authority				
49	Report on the Auditor-General's Office				
50	Report on the Lord Howe Island Board				A
51	Annual Report Year Ended 30 June 1990				
52	Report on the Forestry Commission				
53	Report on the Auditing of Local Government				
54	Examination of the Juvenile Transport Service of the Dept of Family and Community Services				A
55	Report on Payment Performance				

Public Accounts Committee

No.	Report	Reference from			Initiated by PAC
		Minister	Treasurer	Auditor-General	
56	Parliamentary Scrutiny of Performance Seminar Held 9 November 1990				
57	Report on Legal Services Provided to Local Government				
58	Annual Report 1990-91				
59	Report on the National Parks and Wildlife Service				
60	Report on Dividend Payments Made by Statutory Authorities to the Consolidated Fund				A
61	Follow-up Report on Financial Accountability				F
62	Phase One Report on the Public Accounts Special Committee Inquiry into the Port Macquarie Hospital Contract	LA			
63	Report of Proceedings of the Seminar to Review Progress of Financial Reform in the New South Wales Public Sector				
64	Report on Progress of Financial Reform in the New South Wales Public Sector				
65	Ninetieth Anniversary				
66	Annual Report 1991-92				
67	Inquiry into Financing of Urban Infrastructure—Report on European Inspection Tour				
68	Report on the School Student Transport Scheme				
69	Proceedings of the 90th Anniversary Seminar on Internal Control and Audit				
70	Review of Special Auditing Function of NSW Auditor-General's Office				F
71	Internal Audit in the New South Wales Public Sector				
72	Funding of Health Infrastructure and Services in New South Wales (Phase Two Report of the Public Accounts Special Committee)	LA			
Total		21	6	2	43

Key A = Matters raised in the Auditor-General's Report
 F = Follow-up inquiries by the Committee, but original inquiries may have been referred by a minister, the Auditor-General or the Treasurer
 LA = Reference from the Legislative Assembly following a resolution from a minister

2. PREVIOUS REPORTS

Prior to 30 June 1992, the Committee had tabled 64 reports. The following is a list of these reports.

1. *Expenditure Without Parliamentary Sanction or Appropriation* (November 1981)

The Committee investigated over-expenditure of \$162 million by ten ministers in 1980-81.

2. *Over-Expenditure in Health Funding to Hospitals* (February 1982)

The Minister for Health gave the Committee its first reference, which was to investigate budget over-runs of \$15.7 million by 37 public hospitals. The Committee concluded that the budget over-runs were attributable, not only to the budgetary process, but also to the failure of departmental and hospital officials to take budgets seriously.

3. *Public Accountability in Public and Other Subsidised Hospitals* (April 1982)

The Committee made 44 recommendations to improve the standard of accountability in hospitals.

4. *Expenditure Without Parliamentary Sanction or Appropriation* (September 1982)

The Committee investigated over-expenditure by 14 Ministers in 1981-82 amounting to a total of \$294 million. The Committee concluded that the explanations provided were satisfactory, with the qualification that the cost of the Government Cleaning Service warranted further investigation.

5. *Overtime Payments to Police* (November 1982)

A reference was given to the Committee by the Auditor-General regarding overtime payments to police officers. By 1980-81 police overtime payments amounted to \$21.5 million, a rise from \$8.7 million in 1976-77, despite an increase of 1000 police officers. The Committee concluded that: "a considerable amount of overtime is avoidable and arises from inappropriate policy, inefficient rostering and inefficient job organisation".

6. *Overtime Payments to Corrective Services Officers* (May 1983)

In another inquiry arising from a reference from the Auditor-General, it was found that more than half of the New South Wales prison officers had received overtime payments in excess of 50% of their normal salary, and 10% received more than 100% of their salary in overtime payments. In 1981-82 overtime payments had totalled almost \$14 million. The Committee noted that one of the major causes of overtime in both the Police Force and the Department of Corrective Services was the high level of sick leave.

7. *Accountability of Statutory Authorities* (June 1983)

This inquiry, following a reference from the Treasurer, was a response to concern about the need for greater information from statutory bodies. Most of the Committee's recommendations were incorporated in the *Annual Reports (Statutory Bodies) Act 1984* and the *Public Finance and Audit Act 1983*.

8. *Grain Sorghum Marketing Board* (November 1983)

On a reference from the Minister for Agriculture and Fisheries, the Committee investigated the \$3 million indebtedness of the Board. The precarious financial position of the Board was found to be largely due to producers (including all producer members of the Board) failing to deliver to the Board. The recommendations by the Committee were designed to apply to all marketing boards in NSW, and most were embodied in the *Marketing of Primary Products Act 1983*.

9. *Auditor-General's Report 1981-82* (December 1983)

This report covers investigation of matters in the Auditor-General's Report for 1981-82. The Committee published answers from 28 agencies in response to the Committee's concerns about comments by the Auditor-General. Where explanations were considered unsatisfactory, the Committee sought further information through public hearings.

10. *Superannuation Liabilities of Statutory Authorities* (August 1984)

This inquiry arose from a reference made by the Treasurer. The inquiry found that NSW statutory

authorities had unfunded superannuation liabilities in the order of \$2.5 billion. The Committee recommended full disclosure of accounting expenses in relation to superannuation costs, and full funding to meet deferred superannuation commitments. Non-budget sector agencies now have to provide for their superannuation liabilities, but this has led to difficulties in accounting for and reporting of superannuation costs; this was the subject of a NSW Treasury circular in August 1993. The Government's 1993-94 Budget strategy includes a program of providing for an increased level of funding superannuation liability, aimed at reducing its *budget sector* liability by the year 2004-05 by \$4.0 billion in real terms.

11. *Annual Report for Year Ended 30 June 1984* (August 1984)

This was the Committee's first annual report. It followed as closely as possible the Committee's own recommendations on the reporting requirements of statutory authorities.

12. *Matters Examined in Relation to the 1982-83 Report of the Auditor-General* (October 1984)

The Committee wrote to 65 organisations seeking information about matters raised in the Auditor-General's Report for 1982-83. The report summarised the issues raised, the organisations' responses, and the results of the Committee's deliberations.

13. *Proposed Regulations Accompanying the Annual Reports (Statutory Bodies) Act 1984 and the Public Finance and Audit Act 1983* (January 1985)

As required by the legislation itself, proposed regulations to these Acts were forwarded to the Committee for examination and report. 95% of the Committee's recommendations were gazetted on 14 June 1985.

14. *Investment Practices of New South Wales Statutory Authorities* (June 1985)

This inquiry arose from concern that the investments of NSW statutory authorities, worth at least \$11 billion, were being invested so as to maximise returns to the State. The Committee found that while investment performance was generally good, there were some strategies, policies and practices of authorities which could result, in the long term, in poor investment

returns. The Committee considered that the income earned by many authorities, particularly smaller ones, could be significantly increased.

15. *Performance Review Practices in Government Departments and Authorities* (June 1985)

This report examined the measures taken by heads of departments and statutory authorities to ensure efficiency, effectiveness and internal control of their agencies, as required by the *Public Finance and Audit Act 1983*. It recommended that agencies be required to publish their external objectives and key performance measures in annual reports.

16. *Brief Review of the Macarthur Growth Area* (July 1985)

This inquiry arose out of the Committee's examination of the report of the Auditor-General for 1982-83. The report recommended clarification of the role of the Macarthur Growth Area (MGA), establishment of clear and realistic objectives, and identification of performance measures.

17. *Brief Review of the Statutory Funds of the Department of Environment and Planning* (July 1985)

The main purpose of this short report was to review the operation and relevance of the seven statutory funds administered by the Department of Environment and Planning.

18. *Brief Review of the Land Commission of New South Wales* (July 1985)

The Committee reviewed the efficiency of Landcom's operations and project management. The report pointed out the lack of clear objectives for Landcom and underlying conflicts in roles and objectives.

19. *Annual Report for the Year Ended 30 June 1985* (September 1985)

20. *Report on Year-End Spending in Government Departments and Selected Authorities* (March 1986)

The inquiry into year-end spending in the public sector arose from a concern that the disproportionate amounts of expenditure traditionally made at the end of the financial year resulted in wasteful expenditure of public money.

The Committee confirmed those concerns, concluding that many of the items purchased at year-end were ordered and paid for in great haste in what appeared to be an unplanned manner. The introduction of accrual accounting and global budgeting should largely remove the incentive for this practice.

21. Follow-up Report on Inquiries (1982) into the New South Wales Public Hospital System (April 1986)

This report reviewed action taken following the Committee's Report No. 2 on expenditure overruns in health funding and Report No. 3 on accountability in public hospitals. The report criticised both the hospitals and the Health Department for the slow progress in reforming health administration in New South Wales. The Committee found that action taken following the earlier reports had been tardy and ineffective in a number of areas. The major unresolved problems concerned the delineation of hospital roles, the budgeting process, the provision of worthwhile incentives to hospitals, accountability, and performance measurement.

22. Report on Recommended Changes to the Public Accounts (May 1986)

This inquiry arose from a reference from the Treasurer to examine a NSW Treasury review of the format of the Public Accounts. The Committee supported proposals suggested in the review to reduce duplication in the Public Accounts. Where the amount of information available to the public would be reduced, however, the Committee did not support the change. The Committee's report made additional recommendations to improve the presentation of the Public Accounts. Action on these recommendations has since been overtaken by other financial reforms.

23. Report on Proposed Regulations Accompanying the Annual Reports (Departments) Act 1985 and Miscellaneous Amendments Concerning Annual Reporting (May 1986)

A reference was received from the Treasurer to review reporting requirements under the *Annual Reports (Departments) Act 1985* and the *Public Finance and Audit Act 1983*. The Committee supported the extension of many of the reporting requirements of statutory bodies and departments.

24. Follow-up Report on Overtime Payments to Corrective Services Officers (June 1986)

This report examined progress in implementing the recommendations of the Committee's Report No. 6. It was found that though the Department of Corrective Services had managed a significant reduction (and thereby significant savings) in overtime levels, overtime still remained high in relation to the rest of the public sector. One of the major contributing factors was the high level of annual sick leave, which had increased from an average 15 days in 1981-82 to 21 days in 1985-86. The Committee's recommendations included upgrading management training and increasing the accountability of prison superintendents.

25. Report on the Collection of Parking and Traffic Fines (July 1986)

This inquiry followed comment by the Auditor-General on the level of outstanding parking and traffic fines. The major recommendation of the Committee was that drivers failing to pay large fines or having outstanding fines for three or more infringements should have their licences cancelled rather than be imprisoned. This has since been implemented, but the Committee has since found that this has led to an increased number of unlicensed drivers. This aspect will be followed up in the inquiry into debt write-offs.

26. Follow-up Report on Annual Reporting of Statutory Authorities (July 1986)

This report reviewed action taken following the Committee's Reports Nos 7 and 13. The annual reporting legislation had implemented recommendations contained in the Committee's prior reports. However 78% of statutory bodies had received at least one exemption from the legislation, while others had not conformed with the legislation but had not applied for exemptions. The Committee reported its dissatisfaction with the approach of many authorities towards annual reporting regulations. Exemptions sought from the Treasurer were considered excessive.

27. Annual Report for Year Ended 30 June 1986 (August 1986)

28. Follow-up Report on Overtime, Sick Leave and Associated Issues in the New South Wales Police Force (November 1986)

This report monitored action taken following Report No. 5. The follow-up inquiry found overtime hours had been significantly reduced. However, the Committee noted that the collection and analysis of overtime data were still inadequate. It recommended urgent improvements in data collection and in the use of data to help determine changes in policy and procedures. The inquiry also examined use of police motor vehicles. The Minister subsequently implemented changes in sick leave, overtime and motor vehicles.

29. Report on the New South Wales Builders Licensing Board (December 1986)

The Committee's report identified community dissatisfaction with the Board, long delays in inspections, and a virtually unused insurance scheme with funds of \$8.7 million. Following the Committee's report, a Review Committee was formed, the Board was abolished, and a new body—the Building Services Corporation—was established. Most of the Committee's recommendations were adopted by the new Corporation, but the 1992 Royal Commission into the building industry in New South Wales recommended a fresh inquiry into the Building Services Corporation by the Public Accounts Committee. An independent commission of inquiry was carried out under the auspices of the Department of Consumer Affairs and reported in February 1993. That report recommended a major restructuring of the Corporation and ultimate privatisation of the insurance schemes. It also noted that the Corporation has accumulated large reserves of assets from its licensing fees and insurance premiums, which is excess to that required to support the insurance scheme. The Committee understands that the recommendations of that report are under consideration by the Government. Meanwhile, the Committee will re-examine relevant aspects of the Corporation in its inquiry into cash management.

30. Report on Brief Review of the Sydney Opera House Trust; Harness Racing Authority of New South Wales; and New South Wales Cancer Council (February 1987)

The Committee's report recommended that: the Park and Ride Service to the Sydney Opera House be conducted on a user-pays basis and that

the Trust's annual report incorporate performance measures; and that the Harness Racing Authority develop performance measures, examine its Benevolent Fund, and change its method of funding.

Issues raised in relation to the Cancer Council included the purchase and sale of office accommodation, a loan to the former medical director to purchase a home, termination payments to the medical director, and fund raising expenses.

31. Report on the Film Corporation of New South Wales (June 1987)

This report concluded that after a decade of operation, the Film Corporation's objectives and operations required redefinition. The report recommended structural changes to enable clearer lines of responsibility and accountability and more stringent financial controls. The Committee investigated projects which received script development funding from the Corporation, and expressed concern at the large sums channelled into projects which eventually lapsed. In 1988, the Corporation was abolished and an Office of Film and Television established.

32. Report on the Home Care Service of New South Wales (July 1987)

This inquiry arose from a reference from the Minister for Youth and Community Services. In July 1988 the Home Care Service was established as a statutory corporation under separate legislation to make it more accountable, in line with the Committee's recommendations.

33. Annual Report Year Ended 30 June 1987 (September 1987)

34. Supplementary Report Year Ended 30 June 1987 (September 1987)

During the year, the Committee undertook a number of inquiries on matters initiated by the Committee as well as follow-up of the Auditor-General's report.

35. Report on the Wine Grapes Marketing Board for the Shires of Leeton, Griffith, Carrathool and Murrumbidgee, and the Grain Sorghum Marketing Board (September 1987)

The Committee initiated preliminary inquiries into the Wine Grapes Marketing Board as part of

its follow-up of the Auditor-General's 1985-86 Report. Subsequently, the Committee received a reference from the Minister for Agriculture. The report recommended that the *Marketing of Primary Products Act 1983* be amended to assist the Board in improving security, and that the Board adopt a more positive approach to marketing.

This report included a review of Report No. 8. The Committee found that following the implementation of the Committee's earlier recommendations, grower participation had increased and the financial position of the Grain Sorghum Marketing Board had improved.

36. Report on the Biennial Conference of Public Accounts Committee - May 1987 (October 1987)

The Committee was host to this conference which provided a forum for Public Accounts Committees to present, consider and discuss issues in public sector administration. The theme of the Conference was *Government—A Big Business*, and the major issue discussed was accrual accounting for the public sector.

37. Report on the Ravensworth Coal Washery (October 1987)

This report followed examination of matters arising from the Auditor-General's 1985-86 report. It was concluded that the Electricity Commission of New South Wales had inefficiently managed the washery project and misled the responsible minister. The washery was closed on 22 May 1992 and later advertised for sale.

38. Report on the Proceedings of the Accrual Accounting Seminar (May 1988)

The seminar provided a forum to promote debate on accrual accounting in the public sector. Public Accounts Committees, parliamentarians, Auditors-General and senior managers from the public sector around Australia attended.

39. Report on the Purchasing Practices and the Allocation of Stores and Equipment Resources Within the Technical and Further Education System (February 1988)

During this examination, which followed a reference from the Minister for Education, the Committee found that the Department spent a great deal of time and effort in planning courses

and maintaining course relevance, but that management of equipment was given a low priority. The Committee concluded that the planning and evaluation of these resources could be improved by upgrading information systems and using performance indicators. The inquiry uncovered a "paper war" being waged between colleges, regions, heads of schools and head office, and found that lack of communication between schools often resulted in duplication of equipment within one college. The Committee recommended an "intercollegiate ownership" approach towards stores and equipment.

Since the report was tabled, restructuring of TAFE has established 11 institutes and increased devolution of authority to constituent colleges. A new financial management information system was implemented in 1991-92, but with significant teething problems. The Committee will continue to monitor the situation.

40. Report on the Heritage Council of New South Wales (June 1988)

The Committee received a reference for this inquiry from the Minister for Planning and Environment. The Heritage Council had operated for 10 years without a corporate plan and without a review of its role and procedures by an external agency. The inquiry revealed the absence of public accountability, inappropriate reporting, and confusion concerning responsibilities within the management structure. The report recommended greater accountability for grants, loans and assistance provided under the National Estates Program, and improved procedures for engaging consultants.

41. Annual Report for the Year Ended 30 June 1988 (September 1988)

42. Report on the Management of Arson in the Public Sector (December 1988)

This inquiry was initiated by the Committee to examine the cost and incidence of arson, which resulted in disruption of services and an estimated \$15 million loss in public assets annually. The Committee found that little actuarial detail on the financial costs of arson was kept, and that there was little consistency in calculating costs. The Committee recommended improvements in the collection and management of information on arson, in monitoring of arson control programs, and in fire brigade and police training. It also made recommendations relating to practices in

particular agencies, including Education, Public Works and the State Rail Authority.

43. Report on Payments Without Parliamentary Appropriation (February 1989)

In his 1986 and 1987 reports, the Auditor-General expressed concern at the weakening of parliamentary control over payments out of the Consolidated Fund made under section 22 of the Public Finance and Audit Act. Parliamentary approval had been granted, in many cases, after the payments had been made, but the justification of such payments was questionable. The Committee recommended that allowance continue to be made for payments under section 22, but that such payments be limited to fund urgent and essential works. The Committee also recommended that a second Appropriation Bill be presented to Parliament in the second half of the financial year to enable the NSW Treasury to adjust the Budget with parliamentary consent.

44. Report on the New South Wales Ambulance Service (February 1989)

The inquiry found that the Ambulance Service had a cumbersome, outdated management structure. The Committee also found that the Service lacked appropriate personnel management, which resulted in inadequate allocation of staff and low morale. The report recommended a more effective use of the Service's vehicles. The Committee also proposed differential ambulance transport fee structures to help alleviate the cost burdens of inter-hospital transfers.

The most fundamental response was the enacting of the *Ambulance Services Act 1990* to reconstitute the Ambulance Service and establish an Ambulance Service Board. However, the bulk of recommendations in the Committee's report covered a large number of complex issues, and formal responses to the Committee's requests for information lacked detail to support claims that issues have been seriously considered and reforms made. The Committee is pursuing greater accountability for the Ambulance Service to the Parliament by recommending firstly in its report on internal audit and secondly in its advice to the working party on the review the public financial accounting, auditing and reporting legislation, a legislative requirement for the Service to produce annual reports. Meanwhile, the collection of outstanding ambulance fees will be examined in the inquiry into debt write-offs.

45. Report on Payments to Visiting Medical Officers (June 1989)

The Minister for Health gave a reference to the Committee to inquire into the circumstances surrounding increases in payment to visiting medical officers, which had soared from \$46 million in 1983-84 to an estimated \$204 million in 1988-89. The inquiry found that the industrial determination by Justice Macken in 1985 was one of the chief causes of the increases in payments, and that further increases followed litigation initiated by the Australian Medical Association. The report highlighted lack of management control within the hospitals in relation to appointments and rostering, and a failure to verify claims for payment. The Department's management information system could not measure productivity of doctors nor project future service requirements.

The Committee recommended stricter internal control in all hospitals and better reporting procedures; the modification of fees-for-services remuneration; and abandonment of the system of sessional payments to visiting medical officers.

The most significant development since the report was a new ruling made by the Industrial Relations Commission on 25 March 1993 which substantially reduced rates of pay and introduced a requirement for contracts to specify in advance hours to be worked. A draft standard service contract has since been agreed between the doctors and the Department of Health, and this is currently before the Full Bench of the Commission for ratification.

46. Annual Report for the Year Ended 30 June 1989 (October 1989)

47. The Challenge of Accountability (November 1989)

In its examination of the Auditor-General's Report of 1988, the Committee found substantial non-compliance with the Public Finance and Audit Act and the annual reporting legislation. The Committee found that 20% of statutory bodies submitted their financial statements to the Auditor-General late, and the majority of these had not applied to the Treasurer for an extension. The number of qualified audit certificates had doubled since the previous year, and the majority of qualifications were due to a departure from accounting standards or uncertain financial information.

Two important recommendations in this report were that late tabling of an annual report require a ministerial explanation to Parliament, and that non-compliance with the Public Finance and Audit Act or the Annual Reports Acts be regarded as unsatisfactory performance by the responsible officer. The first one has been implemented in legislation, whereas the Committee continues to pursue the other.

48. Report on the Darling Harbour Authority (December 1989)

This inquiry followed a reference from the Minister for Planning to review the Darling Harbour Authority's tendering procedures, leasing and contractual arrangements, administration, industrial relations management, and consultancy arrangements. The Committee found that the deadline set for the completion of the development, the volume of construction work required, and the complex industrial relations climate in the building industry at the time meant that early crucial decisions were rushed. Contract management was inadequate and contract variations and claims were badly handled. The Committee found that greater attention to public relations would have helped reduce the problems caused by negative publicity, and that insufficient attention was given to defining from the outset the market orientation of the development.

The Committee made 67 recommendations, including 14 to address marketing deficiencies and 18 designed to improve industrial relations and occupational health and safety for any such future projects.

49. Report on the New South Wales Auditor-General's Office (July 1990)

The three major reforms recommended in this report are that the Auditor-General be empowered to carry out comprehensive audits, that occupants of the position of Auditor-General be appointed for a non-renewable term of seven years, and that peer reviews be conducted of the Auditor-General's Office at three year intervals. The Committee also recommended that the Auditor-General be given the power to appoint his or her own staff, to establish conditions and terms of employment, and to determine the staffing profile of the Office to enable it to better respond to changes in modern public sector auditing. Most of the report's 40 recommendations have been

implemented as amendments to the Public Finance and Audit Act.

50. Report on the Lord Howe Island Board (December 1990)

Following adverse comments in the Auditor-General's Reports of 1988 and 1989, the Committee resolved to examine the financial and administrative practices of the Lord Howe Island Board. The Committee found that transfers of the Board's accounts, combined with the lack of a qualified accountant on the island and an inadequate computerised accounting system, created major problems.

The Committee made 39 recommendations designed to improve the accountability of the Board's operations. These included: the preparation of a corporate plan and a tourism marketing plan; that the meetings of the Board and its committees be held in public; and that the regulations to the Lord Howe Island Act be reviewed and upgraded to more suitably empower the Board.

The then Minister for the Environment accepted the Committee's report, though a number of the recommendations awaited the appointment of a new Lord Howe Island Board to be constituted under new legislation. The proposed legislation was not proceeded with, but in 1992 the Board reported that three recommendations were not within its power to implement, eight have been fully implemented, and implementation of 23 was underway.

51. Annual Report for Year Ended 30 June 1990 (November 1990)

52. Report on the Forestry Commission (December 1990)

This report generated the most public interest to date. On a reference from the Minister for Natural Resources, the Committee inquired into the accounting processes, operations and performance of the Commission. Many of the 78 recommendations in the report were implemented immediately, while others were on issues being considered in a separate review of the Commission for corporatisation. The Commission has recently re-organised, with a new corporate plan, management structure, and financial management information system. The Committee will review the progress and effectiveness of this re-organisation this financial year.

53. Report on the Auditing of Local Government
(February 1991)

Under a reference from the Minister for Local Government, the Committee examined the appointment of local government auditors in NSW, the terms and conditions of their employment, the qualifications and experience required, the formulation of standards and a code of professional practice, the duties and rights of auditors, and the scope and objectives of the audit assignment. The Committee made 33 recommendations, the most important being those which would bring local government auditing closer into line with other government and commercial practice.

The Public Accounts Committee's report was used by the Department of Local Government and Co-operatives during the preparation of both a discussion paper on the reform of local government and the new *Local Government Act 1993*. Many of the issues raised during the inquiry were incorporated into chapter 13 of the Act.

54. Examination of the Juvenile Transport Service of the Department of Family and Community Services (April 1991)

The Juvenile Transport Service was the section of the Department of Family and Community Services responsible for the safe transport of juvenile offenders between courts, other appointments and detention centres. The Committee found that the Service was suffering many managerial and financial problems which included inadequate financial controls, reporting and accountability, low staff morale, duplication of services with police, and unauthorised and inappropriate use of vehicles.

The Committee recommended the development of a corporate plan, the implementation of an induction and training program, the development of a computer booking system to co-ordinate juvenile offender's movements and bed allocations, that the security features of its vehicles be upgraded, and that a minimum staff/offender ratio be set and adhered to. The Service has since been transferred to the Office of Juvenile Justice.

55. Report on Payment Performance of Major Statutory Authorities and Inner Budget Sector Departments (May 1991)

The inquiry, initiated by the Treasurer, revealed that many departments and authorities did not comply with the Treasurer's Direction on payment of accounts within 30 days. The Committee concluded that the most common reasons for non-compliance are deficient administrative of accounting systems, lack of financial expertise, and a low level of commitment to timely payment from senior staff. New regulations on payment performance have resulted from the Committee's report.

56. Parliamentary Scrutiny of Performance-- Seminar Papers (May 1991)

Speakers included Professor Bill Russell of Monash University's Public Sector Management Institute who asked "can Parliament exercise leadership?", and Mr Russell Grove, Clerk of the Legislative Assembly who spoke about scrutiny in the day to day workings of the Parliament. Mr Ian Temby, QC, Commissioner of the Independent Commission Against Corruption, and the Ombudsman, Mr David Landa, discussed the roles of their organisations. Mr Adrian Cruickshank, MP, Chairman of Parliament's Regulation Review Committee, and Mr Phillip Smiles, MP, Chairman of the Public Accounts Committee, outlined the functions of those Committees. Mr Norm Oakes, former Secretary of the NSW Treasury, looked at parliamentary scrutiny from perspectives within the New South Wales bureaucracy.

57. Report on Legal Services Provided to Local Government (May 1991)

The Minister for Local Government and Planning requested the Public Accounts Committee to conduct an inquiry into the use of external legal services by local government, the terms of their engagement, the cost involved, the impact of relevant legislation, and the extent of use of legal service and of the Land and Environment Court in resolving local planning matters.

The report recommended new internal administrative arrangements for councils with a view to ensuring adequate and periodic reviews of legal services, in addition to minimising over-reliance on legal advice and representation. It also included suggestions to help the prevention and resolution of disputes early in the decision-

making process, with the emphasis on promoting a more client-oriented approach. The new Local Government Act requires costs of legal services to be disclosed in annual reports, which should encourage councils to adopt the Committee's suggestions for ways to reduce those costs.

58. *Annual Report for 1990-91* (October 1991)

59. *Report on the National Parks and Wildlife Service* (December 1991)

The role of self-generated funding in the National Parks and Wildlife Service was investigated by the Public Accounts Committee after receiving a reference from the Minister for the Environment. The Committee found that commercial revenue was limited in the Service because its commercial functions were not supported by sufficient appropriately skilled people, because there was no real incentive to increase revenue raising, and because in fact there were many powerful disincentives.

Recommendations were made to turn this situation around. Initial "seed money" to provide funds for an increased emphasis on commercial programs was recommended to be obtained from commercially charging for alien tenures by other government agencies, and surprise audits of leaseholders. This seed funding was subsequently approved, and the Committee will be following up on the result in the current financial year.

60. *Report on Dividend Payments Made by Statutory Authorities to the Consolidated Fund* (April 1992)

The Public Accounts Committee believed that it was time for parliamentary scrutiny of the principles and processes of dividend payment by statutory authorities, as dividends were growing in size and importance as contributions to Consolidated Fund revenue. One of the aims of this report was to explain some of the principles involved in the payment of dividends.

The Committee favoured a flexible, case-by-case approach to methods of calculating dividend payments—an approach that takes into account an authority's future capital needs and current operating requirements. The Committee concluded that there is a need for greater openness and transparency from the Treasury in its treatment of dividend payments. Clarification of which authorities are actually liable to pay dividends, greater consultation between the

Treasury and those authorities, and publication of the Treasury's general dividend policy were recommended in the Committee's report.

In August 1992 the NSW Treasury issued "A Financial Distribution Policy for NSW Government Trading Enterprises". The Committee had planned to follow-up its report, but subsequently decided to wait until the report of the Select Committee Upon the Water Board is available, as that report will address dividends as one of the terms of reference for the inquiry.

61. *Follow-up Report on Financial Accountability* (June 1992)

This report followed up on the implementation of recommendations concerning financial accountability in five previous reports, Nos 1, 4, 20, 47 and 43. It was gratifying to report that a large proportion of the Committee's earlier recommendations had indeed been implemented. However, the follow-up inquiry revealed that no action appeared to have been taken on the recommendation in Report No. 47 that non-compliance with the Public Finance and Audit Act or the annual reporting legislation be regarded as unsatisfactory performance of the responsible officer. This recommendation was reiterated in the follow-up report, and the Committee resolved to pursue its implementation.

The follow-up inquiry also re-examined section 22 of the Public Finance and Audit Act, which allows for money to be transferred without prior parliamentary approval from the Consolidated Fund for the "exigencies of government", that is, for unforeseen circumstances such as natural disasters. Report No. 43 revealed that a total of \$1.3 billion over five years had been transferred under this section, largely to balance the New South Wales Budget in those years up to 1989 when there were budget surpluses. The Auditor-General considered that this was beyond the intent of the section. That report recommended that a second or subsequent Appropriation Bill(s) should be introduced into Parliament during the course of the year to allow prior parliamentary scrutiny of all non-emergency expenditure from the Consolidated Fund.

The follow-up report reiterated the recommendation for a second or subsequent Appropriation Bill(s). It also recommended that section 22 should be tightened up so that payments without prior parliamentary sanction could only be made for truly unforeseeable events

such as natural disasters. The Committee is now pursuing this in the review of the Public Finance and Audit Act.

62. Phase One Report on the Public Accounts Special Committee Inquiry into the Port Macquarie Hospital Contract (June 1992)

On 1 May 1992 Parliament resolved to establish a Public Accounts Special Committee as a select committee. The Special Committee was based on the Public Accounts Committee with Mr Longley, MP, as Chairman, but with the addition of a further representative from each of the Liberal, National and Labor parties, plus a non-aligned Independent. The Special Committee was to inquire firstly into the private sector proposal for a new Port Macquarie hospital, and secondly into the more general aspect of Commonwealth and State funding of health infrastructure and services.

The Committee studied the draft contract between the Department of Health and the private consortium proposing to build and operate the Port Macquarie hospital, and considered the relative benefits of the private sector proposal and a conventionally funded public hospital alternative. The Committee achieved agreement on recommendations designed to improve the contract if the project was to proceed, which indeed it did.

63. Report of Proceedings of the Seminar to Review Progress of Financial Reform in the New South Wales Public Sector (June 1992)

The Chairman—Jim Longley, MP—opened the seminar and reviewed the changes in public sector accounting and reporting that had been introduced in the 1980s. Percy Allan—Secretary of the NSW Treasury—spoke of the role and responsibility of his central agency for the administration of the Public Finance and Audit Act and the annual reporting legislation. Don Nicholls gave an insight into the reform process from his perspective as the recently retired Deputy Secretary of the NSW Treasury. A private sector perspective was given by Michael Sharpe, a partner with the accounting firm of Coopers & Lybrand, and Ken Barker—Executive Director of Finance and Administration, Department of Health—gave an implementer's view.

64. Report on Progress of Financial Reform in the New South Wales Public Sector (June 1992)

The Committee noted that the 1980s was the decade of change. The 1983 Public Finance and Audit Act brought the accounting, auditing and parliamentary review mechanisms up to a contemporary level. The New South Wales public sector within Australia, and indeed the world, is now regarded as having one of the highest levels of financial accountability and reporting. As part of this project the Committee undertook five case studies into the implementation of these financial reforms, namely, the Royal Botanic Gardens, the Valuer-General's Department, the Roads and Traffic Authority, the Department of Health, and the Department of Corrective Services. Eight recommendations were made in the report, and the NSW Treasury responded favourably to all of them.

3. SECRETARIAT

The staff of the Public Accounts Committee's Secretariat comprises:

Patricia Azarias, MA *Princeton*, BA(Hons)
Oxon., BA(Hons)

Director

Ian Clarke, BSc *Syd.*, DipGeosc *Macq.*
Senior Project Officer

Ian Thackeray, BSurv, BA
Clerk to the Committee

Caterina Sciara
Assistant Committee Officer

Wendy Terlecki
Assistant Committee Officer

Staff numbers in the Secretariat have remained small since the Secretariat was established in August 1983. Significant assistance for short term periods is provided by consultants, officers seconded from government agencies, and student interns.

During the year assistance to the Committee was provided by the following:

Michael Smart, BA(Magna Cum Laude)
Harvard

Consultant

Inquiry into urban infrastructure financing

Joe Scuteri and Jim Hales of KPMG Peat Marwick, Adelaide

Consultants

Public Accounts Special Committee inquiry into the funding of health infrastructure and services

John Lynas, FCPA

Advisor from the Auditor-General's Office

Inquiry into and seminar on internal audit in the New South Wales public sector

Fergus Ryan, Brian Blood and Stuart Robertson of Arthur Andersen

Consultants

Review of the special auditing function of the Auditor-General's Office

Equal employment opportunity

The Secretariat of the Public Accounts Committee is bound by the Equal Employment Opportunity Policy of the Department of the Legislative Assembly. Although not listed in the *Anti-discrimination Act 1977*, the Department is committed to the principles of equal employment opportunity in the workplace.

Code of conduct

The Public Accounts Committee has adopted the following code of conduct for application to its staff, advisors, secondees and consultants.

Background: The Public Accounts Committee is constituted by the *Public Finance and Audit Act 1983*, and its operation is governed principally by that Act.

Conduct: All officers working for the Committee should fulfil their duties with professionalism and perform their duties efficiently and effectively. In their conduct, officers should act with integrity, honesty, fairness, conscientiousness, accuracy,

completeness and compassion. Officers should also display respect towards their colleagues in the Legislature, public servants, members of the public, and all Members of the New South Wales Parliament.

Conflict of interest: To maintain the integrity of the Committee, personal interests (financial and otherwise), associations and activities must not conflict with official duties. Any potential conflict should be disclosed to the Chairman.

Impartiality: Bipartisanship is the cornerstone of the Committee's success. Officers working for the Committee must be politically impartial in the performance of their duties.

Confidentiality: Officers are obliged to comply with the provisions of s. 58 of the Public Finance and Audit Act concerning confidentiality of evidence and documents obtained by the Committee.

Gifts: Officers should not use the advantage of their official position for private purposes, or solicit or accept gifts, rewards or benefits which might compromise, or be seen to compromise, their integrity. Distinctions between token gifts of appreciation and gifts which can compromise the recipient are not easily defined. However, as an indication, a gift which could be seen by others as placing the recipient under an obligation to the donor should not be accepted.

4. ANNUAL REPORT PRINTING

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5. CONTACT INFORMATION

Recent Committee reports are available from:

The Government Information Centre
Goodsell Building
Hunter Street
Sydney NSW 2000

Telephone: 02 743 7200
Facsimile 02 743 7124

Office hours: 8.30 a.m. to 5.00 p.m.

Copies of older Committee reports are available from:

Public Accounts Committee
Suite 1148
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Macquarie Street
Sydney NSW 2000

Telephone: 02 230 2631
Facsimile: 02 230 2831
Office hours: 9.00 a.m. to 5.00 p.m.

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