LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Auditor-General's Report No 7)

Members:
MR B SMYTH (The Chair)
MS K MacDONALD
MS K TUCKER

TRANSCRIPT OF EVIDENCE

CANBERRA

WEDNESDAY, 12 FEBRUARY 2003

Secretary to the committee:
Mr D Abbott (Ph: 62050199)

By authority of the Legislative Assembly for the Australian Capital Territory)

The committee met at 2.09 pm.

THE CHAIR: I open this meeting of the Public Accounts Committee by welcoming the Auditor-General, Mr John Parkinson, who will comment on Auditor-General's Report No 7, *Financial audits with years ending to 30 June 2002*.

You should understand that these hearings are legal proceedings of the Legislative Assembly, protected by parliamentary privilege. That gives you certain protections but also certain responsibilities. It means that you are protected from certain legal actions, such as being sued for defamation for what you say at this public hearing. It also means that you have a responsibility to tell the committee the truth. Giving false or misleading evidence will be treated by the Assembly as a serious matter.

I now invite the Auditor to make some opening remarks on his report No 7.

JOHN PARKINSON was called.

Mr Parkinson: This report reports on the outcomes of our whole program of financial audits, which we are required to do under the Financial Management Act. It contains comments on every agency. It also contains comments on whole-of-territory financial results and whole-of-territory financial management matters. It contains several recommendations, all of which I believe are important. The committee may feel that some areas are more important than others, and the best way to proceed is probably for the committee to ask questions.

THE CHAIR: Thank you, Mr Parkinson. For me, it comes down to two areas. This is the first time the territory has received a qualified report, and I would like to go through that. Also, there is a reference on page 38 to a misuse of the Treasurer's Advance and why that is possibly illegal. Perhaps you could explain to the committee why you see this as being a misuse—the $10 million—and why it is also potentially illegal.

Mr Parkinson: The underlying concept of the Treasurer's Advance in all jurisdictions that operate similar systems as the ACT is of a safety valve for situations where essential expenditures are required to be incurred which could not have been foreseen at the time the budget was prepared.

An essential part of this is that the expenditure must be necessary—that is, it must be necessary to be made. In a cash system, this would mean needing the actual cash payments to be made, not just recognising that cash payments need to be made somewhere down the track. It requires the payments to actually be made.

THE CHAIR: Made in the financial year?

Mr Parkinson: In the financial year. Similarly, if you had a complete accrual system, you would have had a service provided for which you have to pay. The key to it in an accrual system is that a service has actually been provided and you have a liability to make a payment.

In this situation, there was no requirement to make a payment, and no services had been delivered. It is true that it had been recognised that some payments would have to be made somewhere down the track, but no contracts had been entered into, no services had been provided and no payments were required. Therefore, I believe it is clear that the underlying concept of the Treasurer's Advance, which is to meet unforeseen urgent payments, was not met in this case.

MS TUCKER: You are telling us that the concept of expenditure requires the money to be spent. So, the fact that Treasury expended the money in one way is not the definition that would apply.

Mr Parkinson: This is a quirk of our accounting system. The way the Financial Management Act is written, an appropriation is, I believe, legally spent when it is drawn out of the CFU's bank account and transferred to another departmental bank account. That of course defies logic because the appropriations are for the purpose of spending on services or spending on wages or spending on something. They are not for the purposes of transferring from one bank account to another.

MS TUCKER: Under the ACT, would that actually be regarded as expenditure because it was money moved across from Treasury?

Mr Parkinson: That is why I said the legality is questionable. The money had been drawn from CFU's account and placed into Housing's account. So, arguably, in a strict legal sense—

MS TUCKER: It was expenditure.

Mr Parkinson: it had been expended—but it did not have to be expended at that point. That once again contravenes the concept of Treasurer's Advance. It did not have to be transferred at that stage because Housing had nothing to spend it on.

MS TUCKER: I thought there was also some pressure on the government, though, because there was potential liability if Housing did not show that they were going to do everything in their capacity to ensure that the housing stock was up to standard. I thought that the government was trying to deal with that liability by showing that they were intending to deal with those issues. Is that not an argument?

Mr Parkinson: It is not an argument for this, but I do not really know what the government's motives were. Because you are trying to send a signal to the community, you cannot do things that are against the concepts of the Financial Management Act and possibly against the legality of the Financial Management Act. If the government had wanted to send that sort of signal, it should have looked for another way to send the signal, and not do it this way.

MS TUCKER: So, there is the question of the concept of the committee, and then there is the question of the legality of certain actions, regarding, for example, what is decided to be expenditure or not. If I understand you correctly, you are saying that it was definitely against the concept but the legality of it is unclear. I notice you are recommending that guidelines be established so that those ambiguities can be dealt with. Is that correct?

Mr Parkinson: In summary, that is what I am saying. Every jurisdiction has a Treasurer's Advance, and the legislation around it is written differently in each jurisdiction. But the underlying concept is that every year some expenditure will, without doubt, come up that will be required which has not been foreseen and the Treasurer's Advance is a method by which the government can pay those things without having to go back to the Assembly.

THE CHAIR: The decision to make the payment was made quite late in the financial year. Are you aware of what date that was made?

Mr Parkinson: From recollection, I think it was in June, but I could not say exactly what date it was.

THE CHAIR: The Treasurer told the Assembly that the decision was taken on 30 May, but I have documents that suggest that the decision to make the payment was made on or about 23 May. At that time the purpose of the payment was unclear. That is in document 1 of the documents that I have given you. Is that the normal way this should be done—by saying, "Let's spend some money" and then determine what you will spend it on?

Mr Parkinson: I am unsure about whether that happened. End-of-year spend-ups would not be unusual over the years in government. We have heard about those for years—about money being left in appropriations with 30 June coming and people saying, "Let's go and get those you-beaut computers with it"—or such things.

THE CHAIR: That would be for appropriations, not necessarily for the Treasurer's advance.

Mr Parkinson: That is right. What I understood you were getting at there was that there was quite a lot of money left unspent in the Treasurer's Advance and they were looking around for something to spend it on.

THE CHAIR: Yes. The documents that have come from an FOI that I placed suggest that this was simply an attempt to run down the surplus and that Treasury approached Housing to take up the $10 million as a service purchase payment. Would an ordinary service purchase payment be a normal use for the Treasurer's Advance?

Mr Parkinson: No. As I explained, the Treasurer's Advance is there for emergencies.

THE CHAIR: The issue of whether it should be Treasurer's Advance or an appropriation came up in the last financial year with respect to a $75,000 payment to the RSPCA.

Mr Parkinson: I cannot recall it.

THE CHAIR: In some of the documents that I have provided you with—document 1 and document 4—officers from DUS and from Housing disagreed with Treasury.

Treasury said they could have this money as the TA, and they said they would be more interested in taking it up as an appropriation. The Treasury insisted that it would be TA. You have probably answered the question—that is not how it should be. Items like that for service purchase payments should be done through an appropriation. That would be the legal way of doing it.

Mr Parkinson: The only reason for normally accessing Treasurer's Advance for those types of things is where it turns out that the appropriation is not enough. Then you go to Treasurer's Advance to fill the gap. It says in our legislation that, if an appropriation is insufficient, you can use Treasurer's Advance.

THE CHAIR: The documents—particularly document 4—suggest that Treasury knew there would be a problem with this approach and that they anticipated that you would question what they did. They seem to have expended the money. Then it says that the directors would communicate to formulate a defence when the audit problem is anticipated. If an audit problem is anticipated, is it usual for the departments to approach the Auditor for opinions before they go ahead?

Mr Parkinson: It is frequent. I would not know whether they do it 100 per cent of the time, but it happens frequently.

THE CHAIR: The payment was for safety issues inside ACT Housing. There is a document from the Under Treasurer, dated 4 June, after the decision had been made, saying that Housing would not actually receive money and that they had already received $10 million for social housing. Is social housing, which is the purchase of more houses—which appears to be the original intention of the $10 million—an appropriate use of Treasurer's Advance?

Mr Parkinson: Once again, it gets down to whether that was an urgent, unforeseen expense. I cannot say, because I do not know the circumstances, but it seems to me that spending $10 million on social housing would have been planned some time in advance. It would not be something that just jumps out of the woodwork and hits you. It is not termites in the house.

MS TUCKER: I am interested in the wording of the act. Do you have the act with you?

Mr Parkinson: No we do not.

MS TUCKER: Well, I imagine you are familiar with it. Section 18(4) says:

> If the Treasurer has authorised expenditure under subsection (1) during a financial year and expenditure has been incurred under that authorisation during the year, the Treasurer must present the following to the Legislative Assembly:

Does that imply that there could have been times when the Treasurer's Advance was not all spent? The wording there—"If the Treasurer has authorised expenditure under subsection (1) during a financial year and . . ."—means there is an "if" there. Is that part of the confusion you are alluding to when you say that the legality is questionable?

You do not say it is definitely illegal, but you are asking questions and looking in the guidelines and so on. Is that confusing to you? Do you think that implies that you could actually not spend it all?

Mr Parkinson: The Treasurer's Advance is not there to all be spent.

MS TUCKER: No, "If the Treasurer has authorised expenditure under subsection (1) during a financial year". So if the Treasurer has authorised the expenditure of money under Treasurer's Advance, that is what this is referring to—as I understand it.

Mr Parkinson: Yes.

MS TUCKER: It seems to me that the words are a bit confusing.

Mr Parkinson: Yes, it is confusing. What I believe that means is that, if the Treasurer is asked for authorisation to spend some money on something urgent and authorises it and, when they work out exactly how much they are going to spend, it turns out to be a lesser amount, the amount that has got to be advised to the Assembly is the amount actually spent and not necessarily the amount that is authorised.

THE CHAIR: Not the intended amount.

Mr Parkinson: Yes. The authorisation has to happen in advance. I presume it would be rare occasions that the amounts that have been estimated turn out not to be exactly correct.

THE CHAIR: If an item appears that is unexpected, is it the intention of the Treasurer's Advance that it still has to be unexpected and able to be expended in the year?

Mr Parkinson: Undoubtedly. Otherwise it just goes into the next year's appropriation bill.

THE CHAIR: If Urban Services officers told Treasury—as they did, according to the FOI—that they could not spend that money in that year, then what Treasury was being told was that they could not comply with section 18(1). Therefore, the problems they anticipated and the problems you report on were something they know should have been coming.

Mr Parkinson: I cannot see any reason why that could not have gone into Appropriation Bill 2002-2003, the year in which the services are going to be acquired. That is where it should have been, and they had time to put it there, in the appropriation bill.

THE CHAIR: The Treasurer told the house that they had received legal advice that they had to spend money urgently. However, it would not be a justification to use the TA, simply because the TA couldn't be expended in that year.

Mr Parkinson: The legal advice was to spend money. Transferring money from the CFU to Housing is not spending money; it is just going from one government bank account to another.

MS TUCKER: On the legality of it, which is obviously where the interest is—that is why I keep asking these more forensic questions about what the act actually says—it seems as though that is an issue, because the expenditure can be defined as when the money is transferred, legally. I will just finish and ask you a broader question.

Your second recommendation is that amendments be made to the Financial Management Act and that suitable guidelines and processes be developed to ensure that the Treasurer's Advance provisions in the FMA are clear and fully complied with. Can you summarise for the committee, if you can at this point—if not, I understand that you were not given much notice of this, so it is fine for this to be taken on notice—the main issues of where the lack of clarity exists? The expenditure question would be one.

Mr Parkinson: That is where I think the main one is. I believe the only defence in this case is the argument that it is legal because an appropriation, whether it be Treasurer's Advance or an ordinary appropriation, is expended when it moves from CFU to a departmental account—which is the standard procedure with all expenditure. It all goes first from CFU as a lump sum, usually the expenses for a department for a fortnight. The departments draw it down in advance and then pay it out to external parties or to employees.

However, the way the Financial Management Act is written, that appropriation is spent the minute it is transferred from one bank account to another. To me, that just defies logic. A government appropriation is for money to be paid to external parties for services. It is not to be transferred from one bank account to another.

Elsewhere in this report we talk about a review of the Financial Management Act. It is our view that the review has not been done effectively. This is part of that. We would have thought that that review would have sorted all this out, worked out the underlying conceptual model of how our financial management system should work and then rewritten the legislation to fit the model. To work out what our actual model of financial management is in the ACT is very difficult.

THE CHAIR: Does that difficulty flow on to your comment about whether the legality could also be questioned simply because it is murky?

Mr Parkinson: That is right. I believe you could add a little bit to section 18 to cover the thing in the future. Putting in there that the payment has to be made to external parties before the fees are due would overcome this business of transferring.

You made a point at one stage about the results being changed because of this $10 million being transferred from one bank account to another. That is true, in the sense that the general government sector result was changed by $10 million and the PTE result was changed by $10 million. But the overall territory result, because those two things cancel each other out, does not change. That is one of the important reasons why the overall territory result is the important one and not just the GGS. The GGS can be affected by transactions like this or any sort of transaction between GGS agencies and PTE agencies.

An easy example to understand is the dividends paid by ACTEW. Those can be reduced or increased in any year, and that will affect the GGS result. If, in one year, the dividend paid is, for example, the whole of ACTEW's profits—$50 million or so—that goes into the GGS as income to the GGS and improves the result of the GGS.

If, in the next year the profit is the same $50 million and they say, "Okay, we'll only declare a dividend of $25 million," you reduce the GGS result by $25 million compared with the previous year. It does not affect the overall territory results, but it affects the results between the two.

THE CHAIR: So is the question, in terms of your opinion of the legality, really tied up with subsection 18(1) of the FMA and about getting some clarity into that, perhaps adding those words you said about ensuring payments within the financial year?

Mr Parkinson: Yes, something along those lines—payments to external parties.

THE CHAIR: To avoid the question of illegality, the government would have had two options: to have done a fourth appropriation, as one of the Urban Services officers suggested in the FOI documents, or to have left that payment until the following year and put it in the 2002-03 budget.

Mr Parkinson: If they had done either of those two things, there would have been no problem.

MS TUCKER: I notice that in here you have used the word "urgent" about the Treasurer's Advance in the act or said that it had to be of an urgent nature. I do not actually see that in the act.

Mr Parkinson: No, that is not in the act, but that is conceptually what it is about. Obviously, if it is not urgent enough to be made in this financial year, you could wait until the next appropriation bill. Or, if you are going to have a later, supplementary appropriation bill in the year, you can wait until then.

MS TUCKER: I want to follow up the question of the part of the act that deals with the Treasurer's Advance and whether or not it could be foreseen. Mr Smyth did ask you this question, and forgive me if you have answered it. I do not recall exactly what you said.

If the government had legal advice that they had to do something about the housing stock, which was not foreseen, you could argue, in the case of the fire upgrade, that it did have an urgent or unforeseen nature—although not in the case of the social housing stuff you talked about before. Have I missed something here?

Mr Parkinson: It is unforeseen that it will be needed. The point is that the payment has to be needed; it is not the fact that you have recognised that there is a need that will have to be met as soon as possible. Availability of the Treasurer's Advance only arises when you have to draw a cheque.

MS TUCKER: So, actually putting the money there to deal with that problem is not enough in itself to warrant that being done. We did have that discussion where you said that, if you want to send a message in some way so that the government will act on something, this would not be the way to do it. Is that what you said before?

Mr Parkinson: The Treasurer's Advance is not there for the purpose of sending messages to people.

THE CHAIR: As to the nature of "unexpected", some of the documents I have received indicate that in budget cabinet rounds 1 and 2, Housing, through their minister, actually applied for funding—$2 million a year over four or five years. Certainly, cabinet was aware and had already rejected that need. That would have been the appropriate opportunity for them to include the payment, rather than use the Treasurer's Advance.

Mr Parkinson: I won't comment on that.

THE CHAIR: To clarify the use of the Treasurer's Advance, from your perspective, do we simply need to modify section 18(1)(c) by including something like the words "payments made in that year" and then issue the guidelines to make it completely clear?

Mr Parkinson: Payments must be made in that year and must be made to external parties.

THE CHAIR: The other important issue is the qualification of the accounts. How serious an issue is it for a government to have its audit report qualified?

Mr Parkinson: As an auditor?

THE CHAIR: Yes.

Mr Parkinson: It is extremely important. I do not think the government situation is any different from the private sector. In cases such as Enron and HIH and all those areas where it is now turning out that auditors, if they have done their job properly, as it seems from reports, would have been qualifying those organisations' accounts and people would have been made aware of problems that were arising.

A qualification is a very important signal that matters relating to the credibility of the financial results are being put forward to the community. It is not a step which auditors take lightly, and it should not be a matter which managers of organisations should take lightly either.

In the private sector, a publicly listed company is called into the stock exchange or called in by ASIC to explain why they have been qualified. If ASIC is not happy, it can charge them under Corporations Law. Similarly, if the stock exchange are not happy, they will remove them from the stock exchange. A qualification is a sign that in the professional judgement of the auditor there is something in those financial statements that is potentially misleading.

THE CHAIR: Why did you qualify this set of accounts?

Mr Parkinson: I tried to explain it in the report; it is fairly complicated. Three years or so ago, Treasury put to me that a method of accounting for movements in the superannuation liability could be adopted, which was along the lines of what was in an international standard. The outcome of using that method was to smooth the volatility of the increases and decreases in that liability.

As you know, the liability each year is estimated by a qualified actuary, and that liability can move as a result of various things, such as investment incomes, investment returns, salary movements and changes in the superannuation scheme. I agreed at that stage that the overseas standards principle could be followed, but that decision was taken before any other jurisdiction had gone fully to accrual accounting. So we were making a decision on our own.

Since then, all the other jurisdictions except for the Northern Territory have gone to accrual accounting and therefore have to account for these movements in the liability. None of those have adopted the overseas standard. In several of them, it has been put up and then rejected. It is also against the accounting concepts as they exist now, which say basically that the balance sheet is the important thing. The liabilities and the assets that are on the balance sheet have to be what they are as at 30 June. There can be no smoothing.

The way you smooth things is by making entries into your statement of financial performance. So you end up with results in your statement of financial performance being moved, and you also end up with funny liabilities, as in this case. What was that liability called?

BERNIE SHEVILLE was called.

Mr Sheville: It was called realised gain from actuarial review, which isn't a liability.

Mr Parkinson: That's the mechanism to allow the smoothing and that's showing up in the balance sheets as a liability. It isn't a liability. You don't have to pay any money out of that particular account. It's just there as a holding account for the smoothing.

Anyway, when we had a good hard look at it this year, we said, "We were wrong." It was time to put the house in order and go back to the treatment which I believe was correct. We put that to the Treasury officials who are responsible for these accounts and the superannuation fund accounts, and they declined to accept our advice to change. That's why the qualification occurred.

THE CHAIR: I think the Treasurer characterised this as a backflip on your position, or is it just an evolution of the position of accounting treatments around the world?

Mr Parkinson: I would rather call it an evolution.

MS TUCKER: I imagine you would.

Mr Sheville: The international standard that it was based on is only now going through the process of removing smoothing techniques.

THE CHAIR: So is the rest of the world catching up to the ACT?

Mr Sheville: I understand that, in Australia, the AASB has indicated that we may harmonise with the international accounting standards, that they're not going to be accepting any smoothing techniques as well.

THE CHAIR: Fair enough.

Mr Sheville: It's a position that will eventually appear in Australia in our judgment. That's certainly what the releases from the international accounting standards are.

THE CHAIR: How long is that likely to take? Will that bring the rest of Australia up to the position that we've now accepted here for the ACT?

Mr Parkinson: No, the opposite.

THE CHAIR: No, sorry it takes it the other way, doesn't it?

Mr Parkinson: It is the opposite. What the ACT is doing will clearly be against the standard once that is adopted. As I mentioned, the overseas accounting standard did allow, or still does allow, this smoothing treatment, but the considerations that are going on now about that standard will remove the opportunity to use that treatment. Everybody will have to report the liability as it is in their balance sheets. They will not be able to defer bits and pieces of it between years.

THE CHAIR: You would hope that the ACT Treasury accepts the standard as the rest of Australia will, and that therefore will remove the qualification next year?

Mr Parkinson: I would hope that they will reconsider their position and make the change, and the qualification will disappear. Otherwise, the qualification will go on for years.

THE CHAIR: Okay. Is having a set of qualified accounts just Auditor-General doublespeak, or does it have some impact on how people view the ACT and its accounting? Will Standard and Poors say, "You have qualified accounts therefore there's something wrong there" or is it just—

Mr Parkinson: Standards and Poors will look into the reason for the qualification, but of course they have more access to what's going on than the general public. The general purpose financial statements on which our audit opinion is based are prepared for the general public. In the case of Standard and Poors, they quiz Treasury officials and so on. They would be going behind all the figures. The qualification on its own wouldn't necessarily affect them because they would quiz the Treasury officials on what it's all about and make their own adjustments to various figures.

MS MacDONALD: Do you recall that in the year ending 30 June 2001 you recorded problems with the use of the Treasurer's Advance?

Mr Parkinson: Yes.

MS MacDONALD: Do you think that non-compliance is the equivalent of questionable legality?

Mr Parkinson: I think that was just a choice of words at the time. I don't think we were trying to emphasise—I'm just trying to think back to the particular transactions last year that we were talking about. Can you remember those?

Mr Sheville: If you pass it to me it won't take me a second. I was fairly familiar with them at the time, I recall. There was the one about the Treasurer's Advance occurring over a range of time. The act was different at that time. The timing of the acts was unclear about when they were passed and whether the advance could be used. We basically set out in the report the date when they needed the advance and whether it was the date approved by the Treasurer. It was difficult, because the act wasn't very precise about the time at which you had to be able to foresee the expenditure.

MS MacDONALD: But the act has been reviewed and you've said that the issue still hasn't been cleared up in terms of the—

Mr Sheville: The act, as it's now written, clarifies that it couldn't be reasonably foreseen at the time of the passing of the expenditure or the appropriation act in the year in which it was expected to happen, or something, so the timing issue has been clarified now.

Mr Parkinson: The issue this year is different from the issue of the previous year. The issue the previous year was that the expenditure had to be unforeseen at the time any appropriation act was before the Assembly, and in that particular year I think there were four. They were spread out over the year so there probably wasn't an opportunity to use the Treasurer's Advance legally in that year.

THE CHAIR: You'd have to have known in June 2000 that anything that might happen in the year 2000-2001 would occur, and therefore you couldn't reasonably do it?

Mr Parkinson: Yes, but the situation was that there was so regularly an appropriation act in the Assembly that, if an unforeseen requirement for expenditure came up at just about any time, the opportunity was there to put it into that appropriation act. Actually, according to the act, you had to do that because you couldn't use the Treasurer's Advance if there was an appropriation act available.

THE CHAIR: Since that time we have amended the—

Mr Parkinson: That's right.

THE CHAIR:—FMA to make it quite clear, so it's impossible to compare what you've written in the previous audit with the audit of this financial year.

Mr Parkinson: That's right.

THE CHAIR: Have you had an ongoing discussion with the government about the qualification or is it just hanging there in the air? Are they considering what you've done? Are you still negotiating with Treasury? Have you spoken to the Treasurer about it?

Mr Parkinson: I haven't spoken to the Treasurer but I've spoken to the head of Treasury. We've also spoken to the other relevant officials. They know our views very clearly. My understanding is that they are considering it but we're not having conversations every week about it. Our position is clear and it won't change. It's up to them to come to their decision.

MS TUCKER: They are just considering your recommendations at this point. They haven't responded either way?

Mr Parkinson: As far as I know, they haven't made any decisions.

Mr Sheville: At an internal audit committee meeting I indicated that I didn't know, because we were discussing that and the fact that I felt that it was an important issue on the territory statements. Mike Harris indicated that, at this stage, he'd received a variety of different views on it, and that was as far as it went. So they are considering it, but they haven't got to the point of making a decision.

THE CHAIR: So they're considering it and the auditor's not going to shift his position?

Mr Parkinson: Not this time.

MS TUCKER: The Public Accounts committee is going to look at it further and the government can respond to what this committee does, as well.

THE CHAIR: So we'll all keep an eye on it, I suspect.

MS TUCKER: There is plenty of action to come.

THE CHAIR: Some of the other issues that you covered in the report included some of the GBEs, for instance, Forests, and what's happening there. Given what's happened in the last couple of weeks to ACT Forests, and now that 90 per cent of them are gone, what recommendations would you be making to the government about forests and their future use?

Mr Parkinson: It's beyond my remit to make comments about that. The comment I did make about Forests was that they hadn't been profitable up until the time of the last report. My view, based on what I knew of their operations, was that they were unlikely to be profitable in the future.

THE CHAIR: Given the vulnerability of Forests after the Christmas 2001 bushfires, did you offer comment or opinion on the valuation of them as an asset, or on how that treatment should be undertaken?

Mr Parkinson: Yes, there is an accounting standard which relates to those—

Mr Sheville: Self-generating assets, I think it's called.

Mr Parkinson: The SGARA, they call it. They did apply that standard. They had difficulty in applying the standard two or three years ago, I understand, when it first came out, because it requires measuring the forest and valuing it at market prices. They did actually go through the process as they had to do it, and last year's statements were done on that basis.

THE CHAIR: I want to talk about the review of the act, what is happening with regard to that, and your opinion of it.

Short adjournment

MS TUCKER: Are you publishing what you have on the file?

THE CHAIR: Yes. I now table this stuff and seek its publication.

Auditor, on pages 32 to 37, you talked about the review of the Financial Management Act. There appears to be, from what we've heard and what you've said, ongoing problems with the FMA. Is it a simple thing to review the act and reform it?

Mr Parkinson: No, I think it requires a complete rethink, as I said before, of our financial management model, then getting the agreement of the Assembly and other stakeholders to that model, and then rewriting the act to bring those things into effect. I think what's happened in the review to date has been in bits and pieces, which have been looked at as problems have arisen. Changes have then been made to the act here and there, which have improved it. The underlying conceptual base has become out of kilter.

The accounts model started off with the pure purchaser/provider output concept. That's never been put into practice fully. The act still recognises that model to some extent. There are various other areas in the act which, when you combine them with the Appropriation Act, embody a cash system. Yet, in other parts of the act, or the model itself, a cash system is not mentioned. It's all about an accrual-based system, yet the legislation is substantially cash based. Appropriations, for example, are cash and not accrual, yet we say we have an accrual system. Our appropriation act is cash.

THE CHAIR: The Treasury report says, and you quote them on page 36, that they've done the job and things are now quite rosy. Do you still have criticisms of the operation of the act that actually warrant a thorough overhaul of the FMA?

Mr Parkinson: Just the one we've been talking about before—when an appropriation is expended. It's just such a basic thing.

THE CHAIR: Have you published a full list of changes that you suggest be made to the act, or is that just adding to the problem by using a bitzer approach? Should the whole act be rewritten?

Mr Parkinson: We don't see it as our job to design the model. We can say that it should be a robust model, but it's not the Auditor's job to develop the accounting model.

MS TUCKER: But you've highlighted ambiguous areas and so on.

Mr Parkinson: As we come across bits and pieces, we highlight them.

MS TUCKER: You point them out. That would inform any redevelopment of the legislation.

Mr Parkinson: I think what's going to happen is that, every year, something's going to come up.

MS TUCKER: That really is an argument in favour of stopping this kind of situation, for the sake of governments now and into the future.

Mr Parkinson: As I think we've said in there, Treasury sent us a letter one day saying everything that's in the act is in line with the conceptual model. We sent back phone calls and letter saying, "Send us over the documentation of this conceptual model." They sent us over the little booklets which were issued in 1996 when this first started. When you read the little booklets, it is clear that most of the things in the little booklets are not happening.

THE CHAIR: That might be something the PAC has to take up.

MS TUCKER: That could even be a scrutiny issue, as it was when the scrutiny of bills committee looked at this legislation, because there is a confusion around the expenditure definition particularly. The concept would be described in the explanatory memorandum of the act, wouldn't it? It's very vague.

Mr Parkinson: It doesn't explain the whole conceptual model. It explains the concept of that little bit of amendment which was being made at the time.

MS TUCKER: However, you seem to have a really clear sense of what the concept is in the particularly contentious clause here. If you don't say that money is being spent, if it's actually just been moved from one department to another, you have—

Mr Parkinson: That's my understanding of how the models are intended to work in the jurisdictions all around Australia.

MS TUCKER: It's common sense. It makes sense.

Mr Parkinson: Of course it is.

MS TUCKER: Yes. I understand. I'm not arguing with you about it, but I'm just wondering where you got it from, if there's no real concept outline.

THE CHAIR: Page 37 covers that quite nicely.

Mr Parkinson: When I'm talking about the conceptual model, I'm talking about the whole of the model, even to the extent of what ministerial responsibilities are and what chief executive's responsibilities are.

THE CHAIR: And who do audit committees report to?

Mr Parkinson: Yes, you can even get into all of that accountability-responsibility stuff.

THE CHAIR: Yes.

MS TUCKER: Could I ask a question about the superannuation issue and how you account for it? When you're recommending a change again, what impact would that have on the overall financial picture of the territory?

Mr Parkinson: I can't give you the numbers at the moment but, if those statements had been prepared the way that I believe they should have been, in accordance with the accounting standards, the results announced at the end of the year would have been different from what was announced. If you're using those accounts to measure the government's performance, you could come to different conclusions.

MS TUCKER: I imagined it would create a really different outcome.

MS TUCKER: However, my question is how would it be different. What would the main difference be? Would it be more or less? Would it make them look as if they were doing better or worse?

Mr Parkinson: In this situation, because it's a smoothing and because, when they started this treatment it was in a year when there had been a big improvement in the liability, the actuary did his analysis and reduced it. So, in that year, it pushed the result one way and, in all the years since then, the actuary has been putting the liability up so it's pushed the result the other way. In other words, in the year where they had a favourable actuarial evaluation, it reduced the surplus.

MS TUCKER: The liability.

Mr Parkinson: The liability and the surplus. Then, in the next two years, it increased the surpluses.

THE CHAIR: I think Bernie has a chart on page 78 that shows you the sort of numbers that are involved. They are significant numbers.

Mr Parkinson: There are big fluctuations in the liability.

THE CHAIR: That would increase or decrease your surplus accordingly.

Mr Sheville: Over time, too, the superannuation liability is eventually going to be probably the biggest thing on the territory's statements, so getting it right is important, not only now, but in 10 or 15 years from now.

THE CHAIR: Are you happy that the treatment that you've proposed is the way to get it right, and show a true picture that can be addressed accurately?

Mr Sheville: You end up with the result with the liability, as assessed by the actuary, being the liability booked in the territory statements, yes.

MS TUCKER: I'm not an expert but, over the years, it seems as though the actuarial estimates have been really rubbery. They seem to go from up here to almost down here in six months. I feel a bit concerned sometimes that people place so much weight on these actuarials. Suddenly, it can mean the success or failure of a government, when it can change so radically. Can you make a comment on that?

Mr Parkinson: It's a very difficult thing to estimate things 30 years into the future. The actuaries are the best available source of an estimate. Estimates do change and you can see what's happened to the investment market and so on. Part of what the actuary takes into account is how much the money that's already invested will earn towards meeting that liability in the future. Of course, we've been having negatives lately, so that then affects these estimates into the future. He publishes all the assumptions on which he's based his assessments, and they can be challenged if necessary.

MS TUCKER: Because estimates are such a fluid thing, my question is really more about the value that's placed on the estimate when judgments are made about the effective management of the finance of the territory by a government at any given time.

Mr Parkinson: That's a great problem with the general purpose financial reports that people see. They see them and say, "This can be used to assess the performance of the government”, or if it’s a company, the performance of a company and, by implication, the performance of the management in an organisation. Financial statements do more than that. They tell you about the things which management can’t control, as well as the things it can control.

MS TUCKER: That’s right. It’s all a gamble on the stock exchange.

Mr Parkinson: The bushfires, for example, are going to affect the bottom line this year. Nobody could have foreseen them.

MS TUCKER: That’s something that people will be able to get a handle on. They can understand that that’s a huge impost. However, when you have investments performing in different ways with the superannuation fund, that’s not something that people readily understand and there can be just—

THE CHAIR: Can I just interrupt there on the bushfires?

Mr Parkinson: When you bring those things back to a personal perspective, and you say, “My shares went down this year”, you don’t then say, “I managed that badly”, do you?

MS TUCKER: No, of course you don’t.

Mr Parkinson: That’s the same with the government’s investments.

MS TUCKER: It is. Unfortunately, that’s not what happens.

Mr Parkinson: They’ve decreased as have everybody else’s, but you can’t say that we’re going to take those out of the financial statements, because we couldn’t control it.

THE CHAIR: Just because they were bad.

MS TUCKER: No, it’s more the political use of the information, or misinformation, that I’m commenting on, and that it becomes a big issue. It has done over the years and it’s—

THE CHAIR: I just have to interrupt at this point about the bushfire and the impact on the bottom line, and say that I hope the preparation and the catastrophe insurance will minimise the impact. There must be some impact on the bottom line, but we hope it will be small given that it’s certainly something for which the Treasurer’s Advance could be used. I would expect that most of the $22 million is still there. Catastrophe insurance cuts in at $8 million, which is the excess, and after that it’s all insured because we made it so. Fire is a specific event and the forests and the other assets were deliberately included.

MS TUCKER: I thought you said it was three out of every four dollars?

THE CHAIR: No. Then there is the federal money on top of that.

MS TUCKER: Right.

THE CHAIR: There are three things here that feed into it. The federal government will, after the second threshold of $8.3 million is crossed, give back three dollars out of four. If the ultimate cost of the fires is $100 million and all we had was the federal government, we'd get $70.5 million back. So hopefully—

Mr Parkinson: We might make a profit.

THE CHAIR: I didn't want to say that, Mr Auditor.

Mr Parkinson: You won't want to publish that one.

THE CHAIR: That was part of the question about the forests. If we've valued the forests properly, and we actually get a payment for the value of the forests, they may make a profit.

Mr Parkinson: Forests did make a profit last year and that was because of the insurance reimbursement.

MS TUCKER: After the fires, too.

THE CHAIR: After the 2001 Christmas fires, yes. Sorry, I interrupted there. Were you finished?

MS TUCKER: Yes.

THE CHAIR: Regarding the Gold Creek Country Club, on page 171, there's no requirement for the financial statements there. Should there be financial statements for Gold Creek?

Mr Parkinson: Yes. Statements are prepared but there's no requirement to publish them.

THE CHAIR: Should they be published?

Mr Parkinson: Yes, I think we have a recommendation in there somewhere that there should be a requirement to publish statements for all joint ventures and such things.

THE CHAIR: For accountability and openness, these things should be on the table. If the government's paying for them, we, as taxpayers, are liable for them.

Mr Parkinson: That's right.

THE CHAIR: Yes, okay.

Mr Parkinson: We do have that in our recommendations, don't we?

Mr Sheville: I think we said, based on the size of the operation, that there's no requirement. For the small nature of the operation that appeared reasonable. There wouldn't be an argument if they were required to publish. Because of the small size of the operation relative to the overall picture, we formed the view that—

THE CHAIR: Right. For something like Gold Creek, you don't make particular comments, but then for the Stadiums Authority, which is one of the small agencies as well, you pass significant findings. Is there a reason for that or is it just the size of the loss?

Mr Parkinson: For the Stadiums Authority item, the interesting part in that is the revenue guarantees to the football clubs and the effect they have on the result. That's the major point we're making.

MS TUCKER: Is that supposed to be renegotiated this year or was it last year that it was renegotiated?

Mr Parkinson: No, it hasn't been renegotiated yet. I'm not sure whether it's this year or next year.

MS TUCKER: It's due this year, I think.

Mr Parkinson: It's fairly close.

MS TUCKER: Yes, so that will be interesting.

Mr Parkinson: Really, the stadium shouldn't be paying that. That's a subsidy to the football—

MS TUCKER: No, I know, but they're in a bind, aren't they, because if you stop paying that revenue guarantee, then the whole asset might collapse?

Mr Parkinson: Yes, that's right.

MS TUCKER: It has them over a barrel.

Mr Parkinson: What I'm suggesting is that the subsidies should be paid out of the budget for the Chief Minister's sports grants or whatever—

THE CHAIR: Again, it's the treatment, it's not—

Mr Parkinson: The situation that's happening now should not happen. The Chief Minister's department pays money to the stadium, supposedly to support the running of the stadium, but most of it then is handed on to football clubs. It is then called a revenue guarantee. Although it's all out in the open now, if what did happen in the past had never happened, it would be a hidden subsidy.

MS TUCKER: Can I just go back to one question on the first subject we were discussing? On the matter of the expenditure and the fact that it's defined as expenditure in moving it from Treasury, did you raise that with Treasury officials at any point?

Mr Parkinson: We've discussed it many times.

MS TUCKER: Leading up to this? Did you say to them that you were concerned that, while technically it may be correct to call that expenditure, it's against the concept of the act?

Mr Parkinson: We've raised many times the problem in the legislation with expenditure, but this particular aspect was discussed again, as well.

MS TUCKER: Why did you certify this expenditure if you were so worried about it?

Mr Parkinson: The legality of it is unclear and, if we're talking about, say, the CFU statements, it was recorded in the CFU statements as expenditure because we go on from them to Housing. Under the legislation, that's from a GGS organisation to a PTE organisation, so it's hard to say that that doesn't fit the accounting standards. A financial audit is a comparison of the accounts with the accounting standards, not with the law.

MS TUCKER: Yes.

Mr Parkinson: It's not a legal audit, it's a financial audit, where we audit against the standards. The way that particular transaction was presented in the financial statements was not against the standards. For example, in Housing, it was shown as money received in advance.

MS TUCKER: I noticed that one of the documents that Brendan has just tabled does refer to an email from Housing, which says they would have preferred it to be qualified as prepaid or something like that.

Mr Parkinson: I know we had discussions with Housing about how they would show it in their financial statements.

Mr Sheville: They've shown the $10 million they've received as a capital injection.

Mr Parkinson: I don't think so.

Mr Sheville: It actually goes through DUS and then through to Housing. Because of the way they've structured the departments, the payment physically came out of the territory bank account and went to DUS. DUS then took the money, passed it on to Housing, and they accounted for it as a capital injection.

MS TUCKER: Housing did?

Mr Sheville: Yes.

MS TUCKER: What did DUS account for it as?

Mr Sheville: They do the same thing, but they just treat it as a flow-through payment—money in $10 million, money out $10 million—as a capital receipt and a capital distribution, like a post box, so it won't appear below the operating—

Mr Parkinson: That's another legal requirement. Appropriations can't be paid to statutory authorities, they can only be paid to departments, so the money had to be paid to Urban Services so they could then pass it on to Housing.

Mr Sheville: They do the same thing with the Stadiums Authority. The money goes through the Chief Minister's Department, in and out.

THE CHAIR: You made some comments about Totalcare. Do you want to expand on any of those? Totalcare seems to have carried more than its fair share of the expenses.

Mr Parkinson: It's a little while since we did this. Yes, Totalcare is a perennial problem. I think one of the points there is about the Williamsdale quarry matter. Totalcare actually got no return for selling the quarry. The only money that they got from anybody was to meet the liabilities which they already had because of the quarry. Even though they say they sold it successfully, they really mean that they weren't left with any liabilities after they gave it away. I don't know where we bring that out. Just refresh my memory.

THE CHAIR: Page 227. Should it have been wound up in a different way?

Mr Parkinson: No. They simply had to get out of it the best way they could.

THE CHAIR: That was the best thing to do at the time?

Mr Parkinson: All we were trying to show in this report was the actual effect of getting out of it. It was a pretty disastrous investment.

THE CHAIR: Do you have any more questions?

MS TUCKER: Yes, I'm still thinking about the first issue. I'm glad you're dealing with these other ones. I'm just thinking about what we've been told. You've made serious comments about this particular transfer of funds—the $10 million. How does it compare to, say, the issue that we dealt with concerning the Bruce Stadium and the overnight loan, et cetera, with regard to the seriousness of non-compliance or whatever you want to call it? How would you compare the two?

Mr Parkinson: I don't think there is any comparison between this one and the overnight loan matter. That overnight loan seems to have been simply a deliberate action to make it look as if money had been spent within an appropriation when it had not. The money had been spent and there was no appropriation. We said, "We have to get some money back into the bank accounts to show that, in fact, the money hasn't been spent. It's been provided by the private sector or provided by the private sector for 10 minutes, just before midnight till just after midnight." We paid something like $85,000 interest on it.

MS TUCKER: It was much more significant.

MS MacDONALD: It was significantly different.

Mr Parkinson: Yes, they were two different things altogether.

THE CHAIR: Different in that you can't compare them?

Mr Parkinson: I don't think you can compare them.

MS TUCKER: But in terms of seriousness—

Mr Parkinson: It was part of a much bigger episode than this. This is, we hope, an isolated episode. Why they did it is beyond me. It seems so peculiar.

THE CHAIR: Let's explore it a bit more, given the Treasurer has offered to come and talk to us. Further questions?

MS TUCKER: No. I appreciate your time, though, thanks.

Mr Parkinson: There are several other important matters in this report, which you—

THE CHAIR: I was just going to say, are there other things that you'd like to bring to our attention?

Mr Parkinson: There's this section, from chapter 3 onwards. Brendan, you may remember Professor Alan Barton's talk on accrual accounting.

THE CHAIR: Yes.

Mr Parkinson: Partly what we have there in chapter 3 is the type of thing which he was talking about.

THE CHAIR: Yes, the formats.

Mr Parkinson: I had mentioned these earlier when I said that our rhetoric about what is going on is quite different from what is actually happening.

THE CHAIR: In fact, that raises an important question. How significant is the improvement, if you do go to the net cost of outputs format?

Mr Parkinson: I think it makes it much clearer. What government departments do is provide services and they are given an appropriation to cover those services. We have a net appropriation system, so the money that they get for some of the services they provide, they can keep and use to offset their costs. What we appropriate is a net figure.

However, when you look for the net figure in the way we present things now, there is none. You can't get the net figure because the appropriation is shown as a revenue item. Maybe that fitted the original rhetoric, which indicated that departments were going to be run as businesses, and ministers were going to purchase services at properly negotiated and tested benchmark prices—I should have mentioned outputs, of course, not services. That's never happened. We basically run our departments on the basis of what it costs to run them, and they are given an appropriation to cover that.

Because of the way we put our statements together, departments pretend that we have these things running as little businesses that make profits and losses. The concept of the Department of Education making a profit or, even worse, the Chief Minister's Department making a profit, just doesn't make any sense whatsoever. If you try to explain to the taxpayer out in the street that the Canberra Hospital made a big profit this year, they would ask you what are you talking about.

THE CHAIR: To move to this format would, of course, provide a comparison that would indicate how effective the government has been from year to year, because you'd actually be able to cost the services we provided.

Mr Parkinson: Yes, you would be able to do it much more easily than you can now because the bottom line now moves depending on how much the appropriation is each year.

THE CHAIR: With regard to the problem that I've heard you speak about over several years—that it's hard to compare from year to year—this is a format that may make that process simpler and more consistent.

Mr Sheville: In recent years, I think, the hospital can be made to look completely unprofitable just by dropping its funding, or it can be made to look hugely profitable by upping its funding. Even the injections for operations can be made to look terribly inefficient. The bottom line is important, because ultimately, if you don't make a surplus or deficit, you won't continue operating in the long term. In terms of the importance, the net cost outputs figure is really the figure that I want to see. It's based on the expenses.

Mr Parkinson: In this report, we've presented all the agencies on the net cost of services format. For example, you could turn to page 158, which just happens to be Community Care, but it could have been any one of them. You'll see a line across there under net cost of services, which is what it's cost to run the organisation, less the income that it generated. That figure is comparable from year to year. Below that, you have the government contributions before you get to the operating result, which is at the bottom. To me that net cost of services is the most important figure but, the way we currently present it, that figure doesn't appear anywhere. You can get it by doing a sum but it's not otherwise available.

THE CHAIR: How difficult is it for the departments to change their format to report in this way?

Mr Parkinson: They're the same numbers, just put together in a different way.

THE CHAIR: It wouldn't come as an extra burden to the departments or the government to prepare it in this way?

Mr Parkinson: I presume their computers are set up to produce it in a certain format, so there would be some fiddling around.

THE CHAIR: All right. What else would you like to bring to the attention of the committee in chapter 3?

Mr Parkinson: Well, that's the main thing—format of departmental accounts.

THE CHAIR: Professor Barton also talked about the cash flow statements being incorporated to show the true picture.

Mr Parkinson: Yes. We do have cash flow statements, so that's—

THE CHAIR: Are ours currently adequate? Do they meet expectations such as those mentioned by the professor?

Mr Parkinson: They follow the standard, which is a bit difficult because the standard is based on commercial-type transactions. They're pretty close. They're not too bad.

THE CHAIR: Right.

Mr Parkinson: The main things in chapter 4 are the capital assets and capital works program expenditure where, as in every year, we seem to spend far less than we intend to spend.

THE CHAIR: Indeed, I think the first quarter reports show that we're way below at this stage for this financial year.

Mr Parkinson: Yes. I believe something has to be done about that because I think it's just misleading the public to outline this great big capital works program every year and never spend it.

THE CHAIR: How would you better represent it, then?

Mr Parkinson: Just by more rigorous budgeting in the first place.

MS TUCKER: Spend it.

Mr Parkinson: You can do that.

MS TUCKER: You budget for what you can spend.

Mr Parkinson: That's right.

THE CHAIR: Yes. I've forgotten the name of the chap from Queensland who retired. Isn't that terrible? Dr David?

Mr Parkinson: Yes, was it Parker or something like that.

THE CHAIR: No, he was a member of the Queensland PAC who gave a presentation on capital works projects. The figures for the number that were undervalued to start with were quite alarming, as they were for the number that weren't completed on time or in budget. What you want to see is more rigour up front, and actually presenting more accurately what it is you can achieve in a year and how you will achieve that.

Mr Parkinson: That’s right.

THE CHAIR: Yes. One of the things we did when we were in government was come up with a timetable for the release of the tender documents so that, for instance, the industry knew exactly when each capital works project was to go to the market. Then we could actually keep it going, so there wasn’t a stop-start effect, which we thought contributed to the inability to complete programs.

MS TUCKER: Are you saying it’s worse than when the previous government was here? I thought it had been an issue for years.

Mr Parkinson: No. It’s been a continuing problem for years.

MS TUCKER: Yes. You weren’t much better, Mr Smyth.

THE CHAIR: No, but we were trying to fix it, Ms Tucker.

MS TUCKER: Good. You didn’t fix it, though.

Mr Parkinson: Chapter 6 was the Treasury review of the Financial Management Act. We’ve talked about that one.

THE CHAIR: Yes.

Mr Parkinson: Chapter 7 is compliance with the Financial Management Act. We’ve talked about that. Then we get to the reported outputs and performance measures. I think that’s a very important area, on page 44. The departments put an extraordinary amount of time and effort into preparing these performance measures, and putting them into financial statements, and we then have to audit them. Then they take up an enormous amount of space in the annual reports. To my mind, they’re not achieving what they were intended to achieve. I believe we have to go back to basics, once again, for these performance measures, and say what are we trying to achieve by publishing these things.

At the moment we have loads and loads of them and, while many of them should be useful for internal management purposes, they’re not measures which the public really—

MS TUCKER: Some are quite misleading, in fact.

Mr Parkinson: —would be interested in. I think it’s a back-to-basics exercise. We should just bite the bullet and say, “We’ve had a good go at it since 1996-97. We tried to make little bit changes here and little bit changes there. It’s not the way to do it.” The way to do it is to go right back to basics and decide that we’re just going to have a few measures for each output, and they’re going to be the really important ones in which the Assembly and the community are interested.

MS TUCKER: The Office of Sustainability should be doing work on performance indicators and measures.

Mr Parkinson: That’s right.

MS TUCKER: What I'm then hoping is that actually that work might help inform all the departments about how they use indicators to improve community understanding. I don't know if that will happen, but there's the potential for some work to be done there.

Mr Parkinson: That's right.

MS TUCKER: Have you been contacted by the Office of Sustainability on this issue?

Mr Parkinson: No, we've had little contact with that office.

MS TUCKER: Your expertise should be brought into that.

THE CHAIR: You missed a fabulous session on sustainability in public accountability at the PAC conference.

MS TUCKER: Oh well, I can only be in so many places at once.

THE CHAIR: There's always the next biannual conference, I'm sure.

MS TUCKER: I would be interested if there was.

Mr Parkinson: You'll allow Kerrie to read your paper, won't you?

THE CHAIR: I'm sure I will.

MS TUCKER: I could do that.

THE CHAIR: Something to put you to sleep at night.

MS TUCKER: You can give me a briefing.

THE CHAIR: Okay.

Mr Parkinson: Anyway, I believe that's an important chapter, too, because I think that's really something at which we should have a good look.

THE CHAIR: When you say back to basics, you mean get—and I'm just choosing a number out of the air—a dozen understandable and consistently measurable indicators over several years instead of the myriad figures of the past, and leave them in place for several years.

Mr Parkinson: They should be measures which you can be sure will be important enough that they will continue year after year, and that will really give a view of what's being achieved, rather than just what's being done. They should be moving a bit more to outcome measures.

MS TUCKER: That is some work that the PAC could do, to a degree, but it really takes the expertise of the departments in each area, doesn't it, to hone down to the—

Mr Parkinson: However, if the PAC was to indicate that it should be done and maybe lay down some principles—

MS TUCKER: Yes. I don't know. Can you do that? Lay down principles?

Mr Parkinson: No. It is probably hard.

MS TUCKER: I would have thought they'd all be pretty specific to each area.

THE CHAIR: Again, these are about outputs, about what's being achieved, not meaningless measures that just fill up the pages.

Mr Parkinson: Yes, that's right. You have to get away from just measuring outcomes.

THE CHAIR: Ministerial satisfaction on cabinet submissions delivered, for instance.

Mr Parkinson: That's probably a valuable internal management thing—

THE CHAIR: But it means nothing to the public—

Mr Parkinson: —but it doesn't mean anything to the public.

THE CHAIR: Yes. They have to be relevant to the public.

Mr Parkinson: —when they see 99 per cent were good.

MS TUCKER: Yes, we had a few discussions in the annual report hearings just recently on those sorts of questions.

Mr Parkinson: You might like to mention this chapter 9.

Mr Sheville: Yes. We'd like to see the legislative timetable brought forward so that statements are required by legislation before the election in an election year, rather than being provided at the discretion of the government. Presently, even though the timetable has been brought forward—and that's a positive thing—there is still no requirement that audited statements be publicly available prior to the October elections. In any election year, the way the legislation is written, the government of the day can simply table the statements in November and have audited statements some five months after the event. think it is four months now, after the new change.

THE CHAIR: Yes.

Mr Sheville: That's still after the election. We see it as important that they are published and audited on a timely basis every year.

MS MacDONALD: In election years, what sort of timeframe are you looking at?

Mr Sheville: It's the third Saturday in every election year, I believe, which would fall on around 22 or 23 October. What you want is to make sure that the whole-of-government accounts are actually out, audited and publicly available.

MS TUCKER: By mid-October.

MS MacDONALD: You're still saying October.

Mr Sheville: Yes. So the result is known.

THE CHAIR: Next year it's actually 16 October.

MS MacDONALD: This election is 16 October.

Mr Sheville: The 16th, yes.

THE CHAIR: That makes it very early.

Mr Sheville: Yes. Public companies regularly knock over their statements in that timeframe.

Mr Parkinson: To be safe, if you changed the legislation to make the date 30 September, it would solve the problem.

THE CHAIR: Do you think that that's a reasonable timeframe in which government departments might have their statements audited and published?

Mr Parkinson: Yes.

MS MacDONALD: Would you be suggesting that that be for every year or just the election years?

Mr Parkinson: I'd suggest it for every year.

MS TUCKER: It would also take pressure off any attempt to have budget consultations. The problem we ran into this year was that we had hearings on annual reports at the same time as the Treasurer wanted us to start talking about consulting with the community on the budget. It just wasn't workable, because you had the Christmas period to do the work on the budget. If you push the annual reports earlier into the year, if the Assembly or the committees want to do budget consultation, there is the potential to do that before the Christmas break. I am not saying we would do that, but—

Mr Sheville: Regarding dates, the report suggests that agencies should have all these statements done by 30 September each year. That includes departments and authorities and so on, and everything would be audited and available. The whole-of-government one would be brought forward to early to mid-October. Obviously, you need the audited results of the individual agencies and they flow up into the whole-of-government one. That's the timeframe you'd be looking at to do that. If you needed to provide for out-of-session tabling, you could.

Mr Parkinson: There's a bit of untidiness there. We have two acts. One is the Annual Reports Act, which talks about when the annual report should be published. Then you have the Financial Management Act with a timetable for the financial statements. We've suggested somewhere that those two things—

MS TUCKER: Are you talking about financial statements not the annual reports of the departments?

Mr Parkinson: They go together. What I'm saying is that it is silly that we have the two pieces of legislation that at times have different timetables, even though they have to be the same because financial statements are tabled in the annual reports. We suggest that either one act refers to the other one, or the reverse, so that there's cross-referencing, and you can make sure they always contain the same dates.

MS TUCKER: Yes. Okay.

Mr Sheville: It's quite strange. In the Annual Reports Act, the ACT has this 10-week timetable for providing accounts to ministers. The timetable should really be based on public reporting timetables, that is, on when we are going to table these things in the Assembly. The minister can get a set of accounts at any time.

THE CHAIR: Does the federal government do it by 30 September?

Mr Parkinson: It was pretty early. I can't remember the exact date.

THE CHAIR: Yes.

Mr Parkinson: I was talking to the Queensland Auditor-General and they have theirs done by 6 October.

THE CHAIR: So it is achievable.

Mr Parkinson: Yes. Companies such as BHP and Westpac can do it.

THE CHAIR: Yes. They are not small or trivial concerns.

Mr Parkinson: That's right.

THE CHAIR: Their budgets are bigger than ours.

Mr Parkinson: In chapter 10 we have a chapter on management discussion and analysis reporting. That was something we recommended a couple of years ago and it's been taken up. Again, that is an important matter because, as we've said, financial statements have become very large and very complex. The idea of management discussion and analysis is that the departments put the results of what has happened into plain English and graphs in a way that people can comprehend. It is better than having to wade through the whole of the copious financial statements.

Financial statements are necessary because people who really want to drill down and find out what's going on, how things are done and what things are based on can find those answers in there. However, the MD and A is supposed to be a plain-English explanation of what the accounts mean. That has been done for a year or so and it's getting better, but these recommendations are intended to help make it better still.

THE CHAIR: If the reports were done by 30 September, when would you get this done? This was tabled in the last sitting week of December this year. If you had that information earlier, how much earlier would we have this?

Mr Parkinson: This would be correspondingly a month earlier.

THE CHAIR: So a month earlier.

Mr Parkinson: We would hope that, as this management discussion and analysis reporting gets better, the size of our report can be reduced. A lot of the material that we're reporting in here is material that departments would be recording in their MD and A.

THE CHAIR: Thank you, Auditor.

The committee adjourned at 3.50 pm.