

Public Accounts Committee
Parliament of New South Wales

**Report on the
Biennial Conference of
Public Accounts
Committees
Sydney--May 1987**

**1986-87
Parliament of New South Wales**

**Public Accounts
Committee of the
Forty-eighth Parliament**

Thirty-sixth Report

Report of proceedings of the Fifth Biennial Conference of
Public Accounts Committees-Sydney, May 1987.

October 1987

70911-21686-1

MEMBERS OF THE PUBLIC ACCOUNTS COMMITTEE

The members of the Public Accounts Committee are:

Mr John Murray, M.P.,Chairman

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

Dr Andrew Refshauge, M.P.,Vice-Chairman

Andrew Refshauge was elected as Member for Marrickville in October, 1983. He previously practised as a medical practitioner with the Aboriginal Medical Service and was a past President of the Doctors' Reform Society. He is currently a fellow of the Senate of the University of Sydney.

Mr Colin Fisher, M.P.

Colin Fisher was elected Member for Upper Hunter in February, 1970. Former Minister for Local Government (1975) and Minister for Lands and Forests (1976), in opposition Colin Fisher has served as National Party Spokesman on Local Government, on Planning and Environment, and on Energy.

Mr Phillip Smiles, M.P.

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

Mr Allan Walsh, M.P.

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

Secretariat

John Horder, LL.B., AASA, CPA, Clerk to the Committee

Sue Chapple, B.A.(Hons.), Senior Project Officer

Tony Boulton, B.Ec.(Syd.), AASA, Adviser on secondment from Auditor-General's Office

Kim Garvey, B.Bus., Adviser on secondment from the Treasury, N.S.W.

Sandra Brien, Secretary/Word Processor Operator

Maria Hagspiro, Secretary/Word Processor Operator

N.S.W. Public Accounts Committee

Parliament House
Macquarie Street
Sydney, N.S.W. 2000

Inquiries: (02) 230 2631

(02) 230 2111

Fax: (02) 230 2831



Committee Members. From left: Andrew Refshauge (Vice-Chairman), Phillip Smiles, Colin Fisher, John Murray (Chairman), Allan Walsh

CONTENTS

	<u>Page</u>
CHAIRMAN'S FOREWORD	1
ATTENDEES	3
OBSERVERS	5
GUEST SPEAKERS	6
1. RESUME OF COMMITTEE ACTIVITIES	
- Commonwealth Joint Parliamentary Committee of Public Accounts	8
- Tasmanian Parliamentary Standing Committee of Public Accounts	15
- South Australian Public Accounts Committee	17
- Western Australian Public Accounts and Expenditure Review Committee	21
- Northern Territory Public Accounts Committee	27
- Victorian Public Bodies Review Committee	29
- Victorian Economic and Budget Review Committee	37
- New South Wales Public Accounts Committee	47
2. IMPROVING THE FINANCIAL DECISION MAKING AND ACCOUNTABILITY OF GOVERNMENT	52
Mr P. Allan, Secretary, New South Wales Treasury	
3. GOVERNMENT AS A BIG BUSINESS	78
THE LAST TEN YEARS	
Mr D. Hill, Managing Director, Australian Broadcasting Commission	
4. ASSET REPLACEMENT	89
Mr J.H.C. Klunder, M.P., Chairman, Public Accounts Committee, South Australia	
5. EMERGING ISSUES IN PUBLIC SECTOR ADMINISTRATION	118
Mr R.G. Humphrey, Auditor-General for Victoria	
6. ACCOUNTABILITY: PAST PRESENT AND FUTURE	132
Mr K. Robson, Auditor-General of New South Wales	
7. PROPOSED 6TH BIENNIAL CONFERENCE OF PUBLIC ACCOUNTS COMMITTEES	145
8. SURVEY OF COMMITTEES	146

CHAIRMAN'S FOREWORD

It is with great pleasure I present this Report of the 5th Biennial Conference of Public Accounts Committee's hosted by the New South Wales Committee.

The Conference provided a forum for the presentation, consideration and discussion of issues of concern in public sector administration. It was gratifying to witness the support given to the Conference by the attendance of some sixty-six delegates,

observers and guests including persons from government and universities.

The theme for the Conference was "Government - a Big Business".

I believe the major issues canvassed at the Conference were of mutual interest and concern to all present and will be of importance in the future direction and management of Public Accounts Committees as the watchdog role in the public sector.

There has been positive feed-back from the Conference. The success of the Conference has encouraged the New South Wales Public Accounts Committee to plan a seminar on the concept of accrual accounting for government.

It was a privilege to share our magnificent city with Interstate delegates, observers and guests and I would like to thank the Presiding Officers of the Parliament, the Parliamentary Staff, The Tourism Commission of New South Wales, State Bank, Sydney Opera House, Maritime Services Board and U.T.A. for their assistance in helping to make the Conference the success it was.

I also extend my thanks to my fellow Committee Members, John Horder and the staff of the New South Wales Committee for their efforts in arranging the Conference.

Finally my sincere appreciation to the Premier of New South Wales,
The Hon. B.J. Unsworth, for taking time out of his busy schedule
to officially open the Conference.

ATTENDEES

DELEGATES

New South Wales Public Accounts Committee

Mr J. Murray, M.P., Chairman
Dr A. Refshauge, M.P., Vice-Chairman
Mr A. Walsh, M.P.
Mr C. Fisher, M.P.
Mr P. Smiles, M.P.
Mr J. Horder
Ms S. Chapple
Mr A. Boulton
Ms K. Garvey

Commonwealth Joint Parliamentary Committee of Public Accounts

Mr R. Tickner, M.P., Chairman Senator J. Watson
Mr M. Talberg
Mrs R. Mills
Ms K. Malmberg

Victoria Public Bodies Review Committee

Mr J. Delzoppo, M.P., Deputy Chairman
Mr R. Macey, M.L.C.
Mr K. Remington, M.P.
Mr D. Ali
Mr B. Menzies

Northern Territory Public Accounts Committee

Mr M. Palmer, M.P., Chairman

Mr D. Leo, M.P.

Mr D. Rice

Tasmanian Parliamentary Standing Committee of Public Accounts

Mr N. Robson, M.P., Chairman

Mr D. Archer, M.L.C.

Mr P. Bennison

Victorian Economic and Budget Review Committee

Mr D. Henshaw, M.L.C., Chairman

Mrs B. Gleeson, M.P.

Mr D. Hayward, M.P.

Mr F. Sheehan, M.P.

Mr A. Stockdale, M.P.

South Australian Public Accounts Committee

Mr J. Klunder, M.P., Chairman

Mr H. Becker, M.P.

Mr K. Hamilton, M.P.

Mr R. Ritchie

**Western Australian public Accounts and Expenditure Review
Committee**

Mr D. Smith, M.P., Chairman

Mr B. Crane, M.P.

Ms C. Rynvis

OBSERVERS

Mr D. Wells, M.P., Queensland

Mr H. Palaszczuk, M.P., Queensland Mr K. Hayward, M.P., Queensland
Mr C. Campbell, M.P., Queensland Mr P. Sherlock, M.P., Queensland
Mr D. Beanland, M.P., Queensland Mr D. Underwood, M.P., Queensland
Mr P. Beard, M.P., Queensland

Mr L. Schunter, M.P., Queensland

The Hon. Mr Justice R. Else-Mitchell, Commonwealth Grants

Commission

Mr J. Guthrie, University of New South Wales

Mr R. Walker, University of New South Wales

Mr C. Carey, Public Service Board, New South Wales

Mr G. Carpenter, Comptroller-General, Department of
Management and Budget, Victoria

Mr D. Jay, Public Service Board, New South Wales

Mr M. Devjak, Public Service Board, New South Wales

Ms V. Walker, Ministry of Education

Mr D. Hill, Deputy Auditor-General, Commonwealth

Mr E. Isaacson, Auditor-General, Northern Territory Mr T.
Sheridan, Auditor-General, South Australia Mr N. Smith, Auditor-
General, Western Australia

GUEST SPEAKERS

Dr N. Norman, Melbourne University

Mr D. Hill, Managing Director, Australian Broadcasting
Commission

Mr P. Allan, Secretary, New South Wales Treasury Mr R.

Humphrey, Auditor-General, Victoria Mr C. Jay, Australian

Financial Review

Mr J. Klunder, M.P., Chairman, South Australian Public

Accounts Committee

Mr K. Robson, Auditor-General, New South Wales

RESUME OF COMMITTEE ACTIVITIES

FIFTH BIENNIAL CONFERENCE OF PUBLIC ACCOUNTS COMMITTEES

Sydney 27-29 May 1987

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

1. RESUME OF COMMITTEE ACTIVITIES

COMMONWEALTH PUBLIC ACCOUNTS COMMITTEE

The Fifteenth Joint Parliamentary Committee of Public Accounts has been very active since its inception in December 1984, having tabled over fifty Reports. Many of these have been substantial and influential Reports, causing a great deal of interest, both in the bureaucracy and in the business community.

The Committee has a standing reference to investigate and report

on proposed acquisition of ADP facilities by Commonwealth departments or authorities. In addition, its inquiries into

medical fraud and overservicing, project management in the Department of Defence and that Department's Equipment Support Programs the implementation of the Offsets Program and the Administration of the Commonwealth's Property Programs have been major undertakings.

Standing Reference on Major ADP Acquisition Proposals

The Committee's standing reference to review acquisition proposals for major ADP facilities by Commonwealth departments and agencies comes from a motion of both Houses of the Australian Parliament. The motion, passed in June 1984, referred proposed purchases of

ADP facilities by the Commonwealth to the Committee for investigation and report.

The setting up of the standing reference reflected the Government's concern that major ADP acquisition proposals were often of such complexity and raised such important related issues that they could not be dealt with adequately within the limitations of the Budget timetable.

The Committee's role, is to ensure that each proposal referred to it makes good economic sense and will stand up to public scrutiny, that is in accord with corporate and ADP strategic objectives and

Public Accounts Committee

represents the most effective means of achieving these, that industrial relations and employment issues have been fully considered and *that* the proposal will provide maximum benefit for the development of Australia's computer industry.

The Committee endeavours to review and report on all proposals

that come before it within three months. Generally,
this

objective has been met although the demands involved in achieving it are quite taxing on the Committee.

To date the Committee has reviewed and reported on four acquisition proposals. These include:

a proposal by the Department of Veterans' Affairs for facilities worth \$10 million;

a proposal by the Australian Audit Office for facilities worth \$20 million;

a proposal by the Department of Defence for facilities worth more than \$300 million; and

a proposal by the Department of Community Services for facilities worth more than \$20 million.

The Committee is currently reviewing a proposal by the Australian Taxation Office for a computer re-equipment and redevelopment program. This proposed program involves the expenditure of some

\$693 million over the next ten years. Further acquisition

proposals are scheduled for review for the remainder of this year.

Generally, many of the recommendations made by the Committee in its ADP reports have been accepted by the Government. However, it should be emphasised *that* the Committee's role is to review and report to Parliament on each proposal. The decisions involved with any proposals are the responsibility of Cabinet.

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

Unlike most of the work undertaken by the Committee the Committee's ADP task means the Committee examines proposals before

their implementation. Traditionally, the Committee's work

involves the review of existing government programs from an ex-post

standpoint. The standing reference therefore has

effectively placed the Committee as part of the executive

decision-making process.

The Committee has questioned this situation and is undertaking its own

review to assess the work it has done under the standing reference.

Notwithstanding this review, the Committee continues to attach great

importance to its role in the evaluation of ADP acquisitions.

Medical Fraud and Overservicing

The Committee wound up its lengthy inquiry into Medical fraud and

overservicing when it published its 236th Report which focused on

Commonwealth Medicare benefits for pathology services.

The report detailed difficulties with and deficiencies in the Commonwealth's administration of the Approved Pathology Practitioner Scheme, the Medicare Benefits Schedule and other associated responsibilities related to the Health Insurance Act. It also provided general information on the changing nature of the Australian pathology industry. The report examined the pathology aspect of the Health Insurance Commission's recently acquired responsibility for reviewing Medicare claims and recommended the immediate review of all pathology practitioners and their

laboratories for accreditation. In addition, there was some

discussion of the implications of 'entrepreneurial medicine' and the

infiltration of 'entrepreneurs' into the industry.

The Committee continues to hold the view that not only have the

recommendations in this inquiry's reports acted as a catalyst for

'wider review and greater community awareness of medical fraud and

overservicing, but also they have led to much needed changes in the

Commonwealth's administration.

Review of Defence Project Management

The inquiry into Defence Project Management, which took almost two years to complete, arose from the Committee's earlier Report on the HMAS Tobruk and the September 1983 Report of the Auditor-General.

In an examination of ten major Defence projects, the Auditor-General found that Defence project management practices were unsatisfactorily contributing to:

significant additional costs to the Commonwealth;

the need for scarce resources to be engaged in rectifying project problems; and

a diminution of the Defence capability through untimely delivery of equipment and facilities and through equipment and facilities not meeting technical performance objectives.

The inquiry encompassed the full range of activities associated with the acquisition of Defence equipment, from the conception of a need to the introduction to a specific brand item of equipment into service. The Committee drew a great deal of its evidence

from a detailed investigation of sixteen recent major Defence projects. The sample included some of Australia's largest Defence equipment acquisitions, including the FA-18 tactical fighter project, Jindalee Over the Horizon Radar, the Minehunter Catamaran, Rapier Air Defence Weapon System, the Australian Frigate project and HMAS Success.

Of these 16 projects 11 failed or threatened to fail to be

completed on time, to budget or according to technical requirements. Many factors contributed to these unsatisfactory

results, most of which could be attributed to inefficient and ineffective Defence project management.

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

The Committee believed there was considerable scope for improving the efficiency of Defence project management by:

modifying Departmental procurement approval procedures to speed-up decision-making, and improve the quality of information available to decision-makers.

increase the level of project management skills within Defence by:

- giving greater emphasis to project management experience in selecting key project personnel, and
- expanding project management training at all level;

increasing the retention of project management skills by developing career paths in project management and related areas;

consolidating Defence project management procedures and practices;

providing stronger contractual incentives for suppliers to meet requirements on time and to cost; and

reducing the potential for post-contract delays by simplifying procedures governing design approvals, contract changes, and contract disputes.

To provide the necessary external oversight the Committee recommended detailed annual reporting to Parliament on the major Defence equipment programs.

Public Accounts Committee

Review of the Commonwealth's Property Functions

In July 1986 the Committee commenced a major review of the administration of the Commonwealth's property functions. At the same time the Government announced an interdepartmental review of this function to be chaired by the Public Service Board.

The Commonwealth currently owns and leases about 23 000 Properties, valued at \$6 billion. In view of the scale of these operations inefficiencies can have significant implications for the Commonwealth's expenditure on its property requirements.

The Committee concluded that the central problem with property administration was the complex and cumbersome procedures which had evolved as a result of the involvement of too many disparate organisations with overlapping areas of responsibility. This served to perpetuate and exacerbate the delays in the delivery of

property services. Further problems arose, both from the

difficulties inherent in the budget process and from a lack of planning on the part of client departments.

The Committee recommended that overall strategic control by a central co-ordinating body in the form of a Central Property Agency was necessary for the efficient functioning of property administration. However, allied to this central body was the streamlining of procedures and the precise determination of areas of responsibility.

The Committee further recommended the devolution of many functions to clients including financial and operational responsibility for property programs, particularly in view of the financial and program accountability requirements each Department must now adhere to.

Implementation of the Offsets Program

The Committee recently tabled report on the, implementation of the offsets program.

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

Under the offsets program major overseas suppliers who sell goods to the Commonwealth attract an offsets obligation to direct to Australian industry activities of technological significance, including manufacturing, export marketing and industrial research and development. In this way the Commonwealth can use its purchasing leverage to benefit Australian industry.

The offsets program's prime objective is to:

bring to Australian industry advanced technologies, skills and capabilities to meet the goals of:

- (a) establishing internationally competitive activities within Australia; and
- (b) supporting industry defence capability objectives.

This inquiry followed significant changes made by the Government to the program in early 1986. The basic objectives of the inquiry were to examine progress on recent amendments to the program and to recommend whether further action or attention was necessary.

A major finding of the Committee was that participation by Australian firms, particularly smaller firms, needed to be increased and the Committee urged the administering departments to increase the visibility of the program. Other findings dealt with the valuation of technology when claimed as a means of discharging an offsets obligation, the inadequate record-keeping of the offsets authorities and a number of administrative matters.

As you can see from this brief outline of a few of the Committee's recent major inquiries, the Commonwealth Public Accounts Committee is a committee whose interests are widespread and whose reports are often a catalyst for change in public sector administration and accountability procedures.

TASMANIAN PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

The Public Accounts Committee of Tasmania is a Statutory Joint Committee of the House of Assembly and Legislative Council.

The Committee is comprised of three members from each House.

The Committee's legislative authority comes from the Public Accounts Committee Act (No. 54 of 1970) which sets out the proceedings functions and other rules of meeting by which the Committee must abide.

The primary duty of the Committee is to examine the accounts showing the appropriation of sums granted by Parliament to meet the public expenditure.

The Committee may also examine any accounts when thought suitable or when referred to by either House.

Individual members may bring matters of concern to the Committee's notice for consideration.

The Committee has a close relationship with the Audit Department, in particular, the Auditor-General.

The Committee has been spending considerable time on a number of important issues that have come to its attention from both the Auditor-General and individual members.

The major investigation of which only part is completed was into the financial operations of the Transport Department and operations of the shipping division with the 'Abel Tasman' the focal point.

In 1973 the Committee reported to Parliament about the abuse of sick leave provisions by officers at Risdon Prison, Hobart. The matter was again addressed by the Committee this year as the situation had not improved.

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

However, due to a change in policy by the Law Department, the situation has been controlled to some extent. The Committee will be reviewing the matter from time to time.

Currently the Committee is investigating the unauthorised expenditure by several departments (Section 29 of Audit Act) which has lead to an important question being raised on consistent accounting practices.

Most recently the Legislative Council referred a matter to the Committee on contracts let by the National Parks and Wildlife Service to develop a caravan park at Cradle Mountain in North-West Tasmania.

This matter is still in its infancy but has brought to light some important issues on contractual procedures of government departments.

Future deliberations will include the topic of closed hearings as opposed to open hearings. At the moment all evidence is taken in private except where the committee considers there is good and sufficient reason to meet in public. This has caused much discussion within the committee. In particular, the benefits, if any, of having meetings open to a public audience.

SOUTH AUSTRALIAN PUBLIC ACCOUNTS COMMITTEE

The South Australian Public Accounts Committee likes to arrange its workload to include:-

- Reports on Efficiency or value for money, which have fairly immediate effects in producing improvements in the public sector.
- Reports on accountability which, while they do not have immediate effects on efficiency, produce better public information and lay a foundation for improving efficiency in the medium term.
- Reports on very significant matters of broad scope which lay a foundation for better public sector efficiency and effectiveness in the long term and which may also affect improvements to the format of the public accounts.
- Reporting on follow-up of previous inquiries, either in Treasurer's minute Reports or in the Committee's Annual Report which is also used to report on the Committee's monitoring of matter of minor importance and smaller scope than warrant a full inquiry.

All these areas of activity have been encompassed in the Committee's work since our last Conference.

Since our last Conference, my Committee has produced fourteen reports.

Eight have been on Asset Replacement. This has been a major exercise which I will address on Friday.

One report was on Light Motor Vehicle Changeover Policy. This was an interesting exercise which I will briefly describe shortly.

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

Five reports were administrative.

One was the Report on the Last Conference.

Two were Treasurer's Minutes Report covering seven earlier reports. These Treasurer's Minutes Reports are one device the Committee uses to report on progress in implementation of the

Committee's recommendations. The seven previous reports covered by these Treasurer's Minute Reports were:-

- Budgeting and Control of Expenditure -
National Parks and Wildlife
- Financial Management - Wilpena Pound
- Corromandel Valley Primary School Oval
- Computer Based Patient Information Systems in Hospitals
- School Dental Services
- Cost and Operations of the Country Fire Services.

Two were Annual Reports (for the Calendar Years 1985 and 1986). The Committee uses Annual Reports to follow up progress in implementation of the Committee's recommendations and also to report on the Committee's monitoring activities.

The monitoring activities covered in these two Annual Reports included:

- The level of Efficiency Auditing Conducted by the Audit Office.
 - Computing Systems which the Department of Marine Harbours took many years to fully install and then substantially upgraded on the strength of a very poor proposal.

Public Accounts Committee

- Development of a major computing system called 'The Justice Information System.
- Administration of a Public Service Board Circular which required Departments to submit Review Reports on Use of Consultants.
- The Budget Management of the South Australian College of Advanced Education.
- Payment of water rates by a Government Department for land used by the South Australian National Football League.
- Reorganisation of the Education Department.
- Financial Reporting by Government Departments.

The Committee has met with the Permanent Heads of Core Agencies.

Apart from its Annual Meeting with the Auditor-General, the

Committee also meets with the Under Treasurer and the Chairman of

the Government Management Board. The Committee Members

sometimes have an uncomfortable feeling when assessing the

effectiveness of

Core Agencies in the Executive Arm of Government.

find that support for the Westminster System

Accountability appears to be used as an excuse

Too often they

of Ministerial

for diminished

responsibility in Central Agencies. This is a concern which the

Committee has expressed a number of times, particularly in the

opening section of its Annual Reports, where the views of the

Committee are reported .

The Committee's Report on Light Motor Vehicle Changeover Policy

examined delays which occurred in acting on a Report which

indicated that savings in the order of a million dollars a year

could have been made by two changes in administrative policy, The

Committee found that over a million dollars had been lost due to

unnecessary delays and the prime responsibility lay with the State

Supply Board and its Executive Officer.

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987 .

The South Australian Committee has been quite busy in the two years since our last Conference and much of the effort has been spent on the Asset Replacement Inquiry which I will address on Friday.

One outcome of the Asset Inquiry was reinforcement and extension of the attitude the Committee had been developing on accrual accounting. In each of its last two Annual Reports the Committee increased the strength of its support for accrual accounting. the Committee is now convinced and has advised Parliament that Government Departments and Agencies should publish a Balance Sheet and should report financial operations in accrual terms, with asset depreciation calculated on the basis of current replacement cost.

Another outcome was the surprising number of efficiency issues of immediate application which emerged in an inquiry which was intended to be effective in the long term. I will discuss some of these matters on Friday.

For the present, the Committee is dealing with three matters:-

- A Preliminary Inquiry into the Education Department's reorganisation which commenced in 1983;
- A Re-examination of Post Implementation Review of Computer Systems which could extend to other aspects of Computer Management, especially where bids for funding computer acquisition are based on promises which are inherently not achievable.
- A Comparative Study of Internal Audit in Government Departments and Statutory Authorities.

For the future, it seems likely that a recently passed Public Finance and Audit Act will increase the number of bodies audited by the Auditor-General and consequently increase the number of bodies under the purview of the Committee.

Public Accounts Committee

**WESTERN AUSTRALIAN PUBLIC ACCOUNTS AND EXPENDITURE
REVIEW
COMMITTEE**

The Western Australian Public Accounts and Expenditure Review Committee has faced a period of considerable change since August 1985 with -

- * revised standing orders increasing the functions of the committee and giving it continuity;
- * appointment of a second full-time officer to the committee;
- * enactment of the Financial Administration and Audit Act;
- * legislative appointment of the committee as overseer to the State Government Insurance Commission and corporation regarding unfair advantage and preference over competitors; and
- * acceptance of the role as the Parliament's "Waste Watchdog".

STANDING ORDERS

As experienced by all previous Public Accounts Committees in Western Australia, on the prorogation of Parliament on 27 November 1985 the committee ceased to be constituted. The opening session of the thirty-second Parliament appointed the seventeenth committee and later adopted the revised standing orders.

These revised standing orders renamed the committee, the Public Accounts and Expenditure Review Committee, and facilitate the continuous operation of the committee after the prorogation of Parliament. This action has substantially increased the operational effectiveness of the committee,

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

Other significant improvements under the revised standing orders include -

- (i) the widening of the powers/functions of the committee into
 - examination of the public accounts presented by the Auditor General
 - examination of the financial affairs and accounts of Government agencies
 - inquiry into and reporting on any question raised by the committee, referred by a Minister of the Crown, referred by the Auditor General or referred by a resolution of the Assembly.
 - reporting on the form and maintenance of accounts on public moneys
 - examination of expenditure made without appropriation or Parliamentary sanction
 - consideration of the objectives of public expenditure and their achievement by the most economical method.
- (ii) the presentation and publishing of committee reports and replies with any recommendations requiring a formal response to Parliament by the relevant Minister.

Staffing

The staff assisting the committee was increased to two full-time research officers with the appointment of Mrs K. Hewitson as Assistant Research Officer in September 1986. The secretarial function to the committee is currently being performed by the Principal Research Officer due to staff vacancies in the Legislative Assembly.

Public Accounts Committee

Financial Administration and Audit Act

The enactment of the Financial Administration and Audit Act on 1 July 1986 replaced the Audit Act 1904 in controlling the financial recording and reporting of government departments and statutory authorities. The reporting requirements promote a common standard of annual reporting in a timely manner and over the transitional period will address the appropriate form of accounting, either cash or accrual basis, for the preparation of financial statements of departments and statutory authorities.

The preparation of an annual report by the accountable officer or accountable authority includes the production of a range of performance indicators designed to reveal the level of efficiency and effectiveness with which management has achieved predetermined targets and objectives.

The committee's task is assisted by this Act which places the financial accountability on the permanent head of the department and places increased responsibilities upon this officer and his staff. The Act also imposes loss provisions. Officers can be held liable for losses suffered due to their negligence in the performance of duty.

Legislative Appointment as Overseer

The establishment of the State Government Insurance Commission under its own legislation entitles the Commission to compete with the private sector insurers by contributing amounts equivalent to

its liability to State and Commonwealth charges, to the Consolidated Revenue Fund.

In order to evaluate this arrangement, the Committee was appointed to oversee the affairs of the Commission "to the extent necessary to determine and report whether the Commission and the corporation receive any improper or unfair advantage or preference over their competitors in the insurance industry". The terms of reference

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

for this function are required to be agreed to by both Houses of Parliament and are currently being finalised ready for presentation to Parliament.

"Waste Watchdog"

The committee in June 1986 accepted the Premier's request to act as a "Waste Watchdog" on public sector spending. Interested members of the public have been invited to provide written submissions giving examples of waste and extravagance in the spending of State Government moneys or to make suggestions on how the State Government might save money in any of its departments or agencies.

Despite a relatively poor response initially, the recent schedule of newspaper advertisements has generated public interest and a steady stream of public submissions is being received with allegations directed at many aspects of government business. The submissions can be broadly categorised by their allegations of:

- misconduct and mismanagement in Government
- co-ordination and duplication
- government assets and property mismanagement - government work practices
- staffing.

This "Waste Watchdog" role has generated substantial work load for the committee which is an ongoing commitment.

Reports and Current Enquiries

The committee produced Report No 25 into the provision of Ambulance Services in Western Australia and the recommendations are currently being addressed by the Minister for Health.

Public Accounts Committee

Annual reviews of the Auditor General's Annual Reports to Parliament and the preparation of the Committee's Annual Report 1985 (Report No. 26) have summarised the major projects before the committee.

i) Year End Spending Investigation

Research has been conducted into the fourth quarter spending of each financial year for all departments and government

agencies over the last five years. The patterns of

expenditure are to be examined to determine whether there is any unjustified year end expenditure. Control procedures such as the authorisation of the expenditure, use of Parliamentary appropriations and the purchasing procedures are also being evaluated.

ii) Workers' Compensation Investigation

Statistics are currently being compiled to review the State Government Workers' Compensation costs; the relationship of these costs to wage and salary costs; and the most common claims and the evidence of any trends in claims with a view to comparing such details with the private sector and recommending a strategy for the prevention of the most common and/or most costly claims.

iii) Community Based Funding Investigation

This investigation is addressing the funding and accountability of community based organisations which receive or have received Government assistance/finance over the past five years by way of grants, subsidies, exemptions and rebates and whether these organisations are subject to any regulatory procedures or are required to meet any reporting requirements.

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

Research material for these three ongoing projects is currently before the committee. Evaluation of the material for the preparation of recommendations and reports to the Parliament on the various investigations is anticipated during the current Parliamentary term.

NORTHERN TERRITORY PUBLIC ACCOUNTS COMMITTEE

The Public Accounts Committee of the Northern Territory has not tabled any Reports over the last three years.

Inquiries currently being undertaken are:

1. The examination of patterns of expenditure of Government Departments and Authorities that rely on annual budget appropriations to determine whether there is any evidence of accelerated year-end spending and the circumstances that have led to such accelerated expenditure.

2. The actual and contingent liabilities of the Northern Territory Government, in particular:
 - a) The Yulara Development;

The Alice Springs and Darwin casinos; and

 - c) The proposed development on Myilly Point, on and adjacent to the site of the old Darwin Hospital.

When considering this reference the Public Accounts Committee shall not consider the appropriateness or otherwise of Government decisions or policies.

3. All matters concerning the recent decision of the Northern Territory Government relating to the aero-medical contract including:
 - a) the adequacy of the tender documents;

 - b) whether all relevant matters were considered in assessing the tender;

Biennial Conference of Public Accounts Committees

'Sydney 27-29 May, 1987

- c) whether proper procedures were followed in assessing the tenders;
- d) whether the Tender Board formed for the purpose was properly constituted;
- e) This matter shall not be considered by the Committee until such time as all litigation relating to the matter has been completed.

VICTORIAN PUBLIC BODIES REVIEW COMMITTEE

Currently, the PBRC has a reference to investigate 17 agricultural-based statutory authorities. These range from

advisory organisations with no marketing powers, to small price negotiating bodies (for industries including processing tomatoes and broiler chickens), to full marketing authorities such as the Victorian Egg Marketing Board and the Victorian Dairy Industry Authority. Several bodies involved in live animal and meat health regulation have also been referred to the Committee. A listing of all these bodies is included in Table 1. The table provides a breakdown of bodies according to the nature of their functions and indicates the status of reporting to the Victorian Parliament.

In the last two years, the Committee has completed eight reviews, seven which have been tabled in the Victorian Parliament. The completed reviews have included bodies with wide-ranging responsibilities. We have reported on advisory, regulatory, resource allocating, price negotiating and marketing authorities. Our Inquiries into the agricultural sector represent the first concerted review by the Victorian Parliament of agriculturally-based statutory authorities in Victoria.

Of the tabled Reports, the Public Bodies Review Committee has recommended that one body should cease to exist, three bodies should be abolished and that their functions be transferred to another body and that the other three bodies should remain in existence.

I should mention that late last month, the Agricultural Acts (Amendment) Bill and the Animal Preparations Bill were passed by both Houses of the Victorian Parliament. These two pieces of legislation were in effect based on the recommendations of the Public Bodies Review Committee in respect to five of the reviewed bodies.

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

Rather than provide an account of our findings body by body, I wish to make some generalisations on the operations of the PBRC over the past two years.

Public Accounts Committee

TABLE 1

NATURE OF BODIES

1. Advisory: Victorian Wheat Advisory Committee*

2. Regulatory:

Stock Medicines Board*

Victorian Abattoir and Meat Inspection Authority

Victorian Dried Fruits Board

Provision of Market Outlets:

Melbourne Wholesale Fruit and Vegetable Market Trust

Western Metropolitan Market Trust

4. Price Negotiating:

Tomato Processing Industry Negotiating Committee*

Victorian Broiler Industry Negotiation Committee*

Wine Grape Processing Industry Negotiating Committee*

5. Resource Allocating:

Poultry Farmer Licensing Committee

Poultry Farmer Licensing Review Committee

Tobacco Quota Appeals Tribunal

Tobacco Quota Committee

6. Marketing Authority:

Tobacco Leaf Marketing Board

Victorian Dairy Industry Authority

Victorian Egg Marketing Board

Citrus Fruit Marketing Board

(withdrawn in May 1987)

* Completed reviews

Completed but yet to be tabled

o Currently in progress

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

First, the act of notifying bodies that they have been referred for review is beneficial in that it often results in organisations undertaking internal self-appraisals and rationalisations prior to formal Inquiries by the PBRC. It is important that formal

Inquiries are implemented. Our experience is that often action is taken to correct sloppy work and management practices between the time the review is announced and the Committee's commencement of Inquiries.

Second, it may be advisable to have greater variety in the nature of brief given to Parliamentary Committees. This is more likely to cater to the interests of Committee members and to maintain their active involvement owing to the diversity of backgrounds of Parliamentarians. This is perhaps a weakness in the current reference to the PBRC which has been given 17 agricultural bodies to review.

Third, the powers to subpoena information if necessary from referred bodies provides an important reinforcement to information-gathering by our research personnel. Section 43 of the Victorian Parliamentary Committees Act 1968 gives the Committee considerable power. It states that:

4J. (1) 'A Joint Investigatory Committee shall have power to send for persons, papers and records'.

Failure to comply with requests for information can ultimately result in a summons to appear before the Bar of the House. During the current PBRC Inquiries, the Committee has had to indicate its powers in this regard to one Company. The Company concerned was displaying reluctance in complying with a request for information which its competitors had willingly supplied. A letter couched in diplomatic language indicating the Committee's powers brought a

grudging but immediate agreement to provide the required information.

Public Accounts Committee

Fourth, the provision of qualified research personnel answerable to the Committee provides a fundamental basis for appraising

bodies. Research staff selection is very important.

Interpersonal skills, networking ability, capacity to work in an unstructured environment and the capacity to extrapolate research findings into policy options is ss crucial to the Committee as

pure research ability. Staff selection processes must pay

cognizance to these qualities in research personnel. The members of the PBRC have insufficient time to commit detailed field research required for decision-making. Full-time research staff facilitate information collection, analysis, report writing and policy option preparation for final decision-making by the Committee.

Under my Chairmanship, the PBRC has opted to have the staff prepare alternative policy options with organisational appraisals prior to final decision-making. With one exception, the Committee has achieved a high level of consensus on recommendations contained in its Reports.

Fifth, Public Hearings, which are an integral part of information-gathering, are probably of less importance to the eventual outcome than independent research. In dealing with statutory authorities, which are more removed from ministerial control than are Government Departments, the Committee has encountered a variety of responses from senior personnel. The Public Bodies Review Committee has recognized the need to be aware of the motivations of vested interest groups and their professional personnel in the appraisal process. It is worthwhile remembering *that* the motivations of the professional staff and the industries which employ them may not always be synonymous.

We have found that there are often hidden agendas being some material presented to the Committee. We have encountered personnel who have been very frank, open and honest in their evidence. Conversely, we have encountered persons who have been secretive and at times selective in their interpretations of their industries. Frankness and openness facilitate the appraisal

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

process by enabling the Committee to focus quickly on problem areas and present its reports expeditiously. The smaller bodies are often operated on a part-time basis by professional persons whose main employment is with other organisations or businesses. The larger bodies are operated by full-time personnel who

obviously have a greater personal stake in the final recommendations included in our Reports.

When 'fudged' information is presented to the Committee, we instruct our full-time research personnel to critically analyse details, decipher fact from fiction and report back to the Committee. In the case of the present Public Bodies Review Committee, this is done on a regular basis and our staff often request direction from the Committee regarding approaches to overcoming these difficulties. Although delegating a considerable amount of responsibility for appraising bodies, and preparing Reports, the Committee provides overall direction to the staff. Usually, this occurs upon request from the research personnel.

Sixth, in dealing with vested industry, groups, the PBRC has often been approached to hear evidence 'in-camera'. We have adopted the technique of requesting in writing the reasons why evidence should be given in this manner and the specific issues to be addressed under such conditions. Interestingly, most of the request to appear 'in-camera' have emanated from an industry in which resources are allocated administratively and there is obviously a fear that public outspokenness by an individual may result in subsequent retribution from the statutory organisation. Some people have abused the privilege extended to them by giving evidence 'in-camera' which could have been stated publicly. However, the filtering process we have devised and our requirement for a clear definition of subject matter to be presented under these conditions has reduced the extent of in-camera' disclosures. The Committee has agreed that it is important to have the facility for 'in-camera' evidence as significant contributions can be made in such a forum.

Public Accounts Committee

Seventh, the concept of public accountability is something new to agricultural statutory marketing authorities in Victoria. To date they have been left largely to their own devices, particularly in the crucial areas of marketing and resource allocation. However, it appears that some of these industries have been using the privileges granted to them by Parliament in a manner which could hardly be regarded as being in the public interest. So-called orderly marketing arrangements have been used to the benefit of small industry minorities to the considerable expense of

consumers. Public accountability provides a mechanism for

redressing these excesses. The interests of both the consumer and producers can be balanced through public accountability requirements. Detailed annual reporting to Parliament using prescribed methods can provide an effective balancing mechanism.

Eighth, the PBRC has discovered some 'creative' accounting techniques used by one authority which has had the effect of reducing its reported gross expenditure by almost one-third of total operating costs. The Auditor-General was notified of these deficiencies and co-operated with the PBRC by vetting the methodology employed by our research staff. As 'efficiency of operations' is a key term of reference given to the PBRC, we anticipate future inputs and close consultation with the Office of the Auditor-General. This is an area in which our current Auditor-General has a personal interest. These findings emphasize the desirability for moving to efficiency auditing as opposed to compliance auditing of public bodies. It also indicates the need for accounting standards to be laid down to ensure that both the public and the vested interests represented by statutory authorities are reported to accurately. Our studies suggest that there is a need for professional staff of statutory bodies to be made clear of the role of their organisation to ensure accountability criterion are met. Of paramount importance is the need for clear specification in legislation of the objectives of statutory bodies. A corollary to this is 'the need for regular review of statutory bodies and their objectives to ensure their

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

relevance to contemporary society. As changes occur in society there is always the possibility that the objectives of statutory authorities may require adjustment.

Ninth, the PBRC has opted to use editorial Sub-committees to appraise draft reports prior to presentation of final drafts to the Full Committee for adoption. This spreads the workload around all Parliamentarians and overcomes quorum difficulties. Our

experience is *that* to be worthwhile, Sub-committees should be representative of the Full Committee in their views to avoid U-turns in report writing. To overcome this situation, we have adopted the strategy of having the Full Committee decide on direction of report writing prior to establishing Sub-committees. This process has worked well to date.

Finally, it is important that confidentiality of Committee reports and judgements is maintained in order to facilitate and maintain a good working relationship between Committee research staff and the management of bodies under reviews. Maintenance of good relations facilitates the Inquiry process. Failure to maintain

confidentiality when major changes are envisaged for organisations can severely affect the morale of the organisation under review and affect relations with research staff.

VICTORIAN ECONOMIC AND BUDGET REVIEW COMMITTEE

REVIEW OF ACTIVITIES FROM MAY 1985 TO MAY 1987

In the past two years, the Economic and Budget Review Committee of Victoria has investigated a wide variety of issues including health services. Federal-State financial relations and matters raised in the reports of the Auditor-General. In so doing, the Committee has acted both in accordance with references received from the Executive and with its own powers to initiate inquiries. Seven reports have been produced and tabled by the Committee in the period.

Over the last two years, there has been a significant growth in the Committee's formal Public Accounts role. It was said, two years ago, *that* there were only two states without public accounts committees: Queensland and Victoria; but I am happy to say the public accounts committee is now alive and well. It is alive because there was a recognition by the Committee that public accountability is central to the parliamentary process and as such, its development is a key responsibility of the Committee. It is well because the Committee has not only established a close working relationship with the Auditor-General, but has also received the co-operation of government agencies.

I shall now provide an outline of the committee's inquiries over the past two years and conclude with a summary of the Committee's current activities.

Report No. 13: Method of Remuneration for Visiting Medical Staff at Public Hospitals

The major purpose of this Inquiry was to determine the most appropriate method of remuneration for visiting medical staff who work part time in Victorian public hospitals, taking into account the alternative methods and rates of remuneration which are available.

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

The Committee found that this is an especially complex matter which requires effective consideration by the Health Department Victoria and hospital managements of a range of matters to ensure the best allocation of resources to deliver a high standard of health care to public patients.

The report assesses the various available methods of remuneration including the different types of sessional payments and fee for service and concludes there is no discernable difference in the quality of health care which may be obtained from each of them.

The Committee found that there are particular economic advantages in the adoption of one, or a combination of methods of remuneration in particular hospitals, depending on local circumstances.

Report No. 14: A Labour Market Study for Radiologists

This report presents and considers evidence concerning an alleged shortage of radiologists, particularly of full-time radiologists in public hospitals.

The report presents both short term and long term recommendations. The former include the recruitment of radiologists from both interstate and overseas. The latter include increasing the number of new graduates and incentives for longer term employment in public hospitals.

The report also canvasses the efficacy of increasing the range of services provided by radiographers and improving staffing and equipment of radiology departments.

The report recommends a review of the Medicare Benefits Schedule relative to radiological services to reduce, in effect, the attraction of incomes in private practice in comparison with those in public hospitals.

Public Accounts Committee

Report No. 19: Review of Bush Nursing Services in Victoria

Bush Nursing Hospitals are private, non-profit community

hospitals. The movement commenced in 1910 and is unique in Victoria.

The Review raised many fundamental issues in health care. Of particular significance are the balance between public and private sector provision of health care services, the impact of Medicare and private insurance on the demand for and supply of health care services, appropriate ways to control health care expenditure and COSTS, and policy toward extended care services for the aged.

This Review of Bush Nursing Services in Victoria was conducted by the Committee at the request of the Government supported by the Victorian Bush Nursing Association. The Review was in response to concerns about the future viability of some Bush Nursing agencies and uncertainty about the role of Bush Nursing within the health care system.

The Committee found that where people have inadequate access to public hospital facilities, there may be a case for government funding for Bush Nursing hospitals to provide free inpatient care for public patients. In situations of geographic remoteness it may be appropriate for a Bush Nursing hospital to be converted to a public hospital. And where public hospitals have excessive

waiting times for admission, it may be appropriate to lease beds from Bush Nursing hospitals for public patients. The Committee also found that Bush Nursing hospitals may require assistance to provide *outpatient/casualty* services and ought to be eligible for funding for community programs such as District Nursing services and day care centres.

In the report, the Committee considers that much will depend on the Commonwealth Government which effectively controls funding for nursing homes, hostels and home and community care services. The Committee considers that there is a need to maintain adequate provision of extended care accommodation and home and community

Biennial Conference of Public Accounts Committees
Sydney 27-29 May, 1987

care services in small rural communities. This will allow elderly people to continue to reside in their own communities and not be forced to move later in their lives to remote institutions.

Report No. 15: Aspects of State-Federal Financial Relations

This report discusses key aspects of State-Federal finances in Australia, notably the distribution of taxes between the

Commonwealth and the States and the operation of grants mechanisms.

The report states that current State-Federal financial arrangements entail a marked departure from the principle of fiscal responsibility, with a corresponding loss of accountability in Government tax-expenditure decision making.

The report highlights the importance of improved intergovernmental consultative mechanisms to help overcome areas of dissatisfaction resulting from the Commonwealth's dominance of the major taxation fields of income and sales tax.

The report concludes that no al locative distortions or impediments to the effectiveness of macro-economic policy would occur if the states were allowed access to personal income taxation and broad-based retail sales taxation.

Another approach suggested in the report is to establish binding tax sharing agreements between the Commonwealth and states.

The report emphasises the significance of the Grants Commission's inquiry particularly in relation to the efficiency implications of fiscal equalisation and recommends that Victoria undertake a more fundamental review of the principles of fiscal equalisation.

Report No. 16: Accountability Requirements Affecting Subsidiary Companies of Government Organisations with Special Reference to v/Line Industries Pty. Ltd.

This report considers accountability issues relating particularly to V/Line Industries Pty. Ltd., a wholly owned subsidiary of the State Transport Authority. Reports of the Auditor-General drew the Committee's attention to the fact *that* V/Line Industries Pty. Ltd. was not required to have its accounts audited by the Auditor-General. Given that the Committee had previously in a report to the Parliament in April 1983, recommended that the Auditor-General should have responsibility for the audit of all State Government organisations, including subsidiary companies, the Committee considered an examination of V/Line Industries Pty. Ltd. to be timely.

The report recommends that the objects, functions and powers of subsidiary companies be clearly and precisely established and *that* auditing and reporting obligations affecting V/Line Industries Pty. Ltd. (including the auditing and reporting of its joint venture activities) be strengthened. It reaffirms the Committee's earlier recommendations concerning auditing and reporting requirements for subsidiary companies of government organisations generally.

Report No. 17: Matters Concerning the National Gallery of Victoria

This report examines a number of issues, which were previously raised in reports to the Parliament by the Auditor-General, concerning the National Gallery of Victoria. These issues concern stocktaking and cataloguing, valuation, and insurance and security cover for works of art in the care of the Gallery.

The Report expresses concern *that* these basic management activities have in the past received too little attention. The report notes that until 1986 there had not been a comprehensive

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

physical stocktake of items in the collection, No up to date central record of works was kept and computer technology for cataloguing had not been considered. Effective security had not been sufficiently emphasised. The Committee's concerns with security were aggravated by the theft of the Picasso painting , Weeping Woman, during the course of the inquiry.

Although the report acknowledges that the further development of the state collection is important, it recommends that this should not be to the detriment not only of the efficient and effective management of the existing collection, but also of a major state asset.

The report notes that steps had been taken to improve management during the course of the inquiry.

Report No. 18: State Insurance Office: The Accounting

Measurement of Compulsory Third Party Outstanding Claims Liabilities

In Victoria, there has been disquiet and uncertainty about the exact magnitude of the losses incurred by the State Insurance Office (SIO) in operating Compulsory Third Party (CTP) insurance. The uncertainty is related to the measurement of outstanding claims liabilities. g

There is no general agreement within the accounting profession, nor is there an Australian Accounting Standard as to which measurement technique is appropriate.

Significant changes in technique used by the SIO to measure outstanding claims liabilities have occurred on two occasions over the past six year. The Auditor-General felt obliged to qualify the accounts of the SIO as a result of these changes.

This report examines these major changes affecting the accounting measurement of CTP outstanding claims liabilities in recent years and the impact these changes have had on reported financial

Public Accounts Committee

results. It outlines the views expressed by the Auditor-General, the SIO and the Comptroller-General of the Department of Management and Budget on the measurement of outstanding claims. The issues raised by the different measurement techniques are also discussed. Finally the report proposes improvements to SIO reporting, especially concerning its consistency and level of disclosure, to help ensure that adequate accountability to the Parliament and the public' at large is maintained.

The Committee believes the report should provide a catalyst for

the Accounting profession, which has been tardy on this issue, to develop an appropriate standard to cover the measurement of outstanding claims liabilities.

Current Activities of the Economic and Budget Review Committee

The Committee is presently undertaking a number of inquiries, in addition to its Public Accounts Committee role, under terms of reference initiated by the Committee itself pursuant to Section 4F (2) of its enabling legislation. This section provides that the Committee may report on any matter arising out of the annual Estimates of Receipts and Payments of the Consolidated Fund or other Budget Papers.

Items under consideration are:-

1. Program Budgeting:

Since Program Budgeting was implemented in Victoria some years ago, the Committee considered it timely to examine its effectiveness both in terms of its use for budgetary control and accountability and also as a management tool in the context of corporate planning. The issue of performance indicators is also under scrutiny. The Committee has held discussions with the Auditor-General, the Treasurer and Treasury officials in both Victoria and Canberra.

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

2. Estimates Committees:

A subcommittee has been established for the purpose of

proposing an appropriate model and procedures for the
introduction of an Estimates Committee in Victoria. Central
to the inquiry are the issues of the information needs of
parliamentarians and the format of that information. Officers
of the Committee have held discussions in Canberra with the

Clerks and research staff of the Senate Estimates Committee.

Many of the issues under consideration are related to those being
examined in the review of Program Budgeting. With the
presentation of the Appropriation Bills in the Program format, the
role of an Estimates Committee could be somewhat broader than *that*
where line item appropriations are considered. For the
consideration of programs facilitates to a degree both
retrospective and prospective analyses and judgements. In this
regard, there may be a duplication of roles with respect to the
Public Accounts Committee.

3. Public **Sector Efficiency:**

This inquiry is still at the stage of refining its objectives. The
subcommittee conducting the inquiry has been charged with
reporting on mechanisms for dealing with employee and public input
for the purposes of improving the efficiency and effectiveness of
the public sector. Some initial discussions have been held with
Public Sector officials and with private industry. In regard
to the latter, the subcommittee has inquired into changes in
private industry where structures to encourage employee
participation with the employers in efficiency considerations have
been implemented.

The Public Accounts subcommittee is continuing its review of
matters raised by the Auditor-General in his reports for 1984-5
and 1985-6.

Public Accounts Committee

Matters under consideration include:-

- a) Council of the Museum of Victoria - matters in relation to the management of the collection and the register of the collection;
- b) Library Council - matters in relation to the valuation of the collection;
- c) State Film Centre - matters in relation to incomplete and inaccurate disclosures and confusion about legislative requirements;
- d) Council of Trustees of the National Gallery of Victoria - matters in relation to the adequacy of accounting for revenue from "blockbuster" exhibitions;
- e) Various arts organisations - matters relating to the non-depreciation of assets; and
- f) Education Department - matters relating to the Department's response to the Auditor-General's report relating to grants and subsidies.

Also, and of particular importance to the Public Accounts *subcommittee*, is its continuing dialogue with the Auditor-General regarding the relationship between his office and the Committee.

A number of meetings have been held with the Auditor-General and his senior officers to establish guidelines for an effective working relationship. Under consideration is the implementation of a formal mechanism to refer the Auditor-General's reports to the Committee. Other general matters under discussion have included accrual accounting.

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

In the future, the Committee expects to continue and consolidate its Public Accounts function. Undoubtedly, it will continue to receive references from the Executive and the Parliament. The Committee is about to receive an Executive reference to examine borrowing limits on large statutory corporations.

Less certain will be the effects on the Committee-should the Government agree to establish an Estimates Committee. For clearly, as the Economic and Budget Review Committee is presently constituted, it has within its jurisdiction the power to fulfil an Estimates role, although it has never exercised this power. If it were to take on this task, then the commitment of its membership and resources would be stretched. If, however, a separate Committee is established, then there will need to be some redefining of roles so as to eliminate duplication.

In conclusion, the Economic and Budget Review Committee of Victoria has been very productive over the past two years over a diverse range of issues. The next two years should see a consolidation of its formal Public Accounts role, whilst at the same time, it may acquire another significant role regarding Estimates.

PUBLIC ACCOUNTS COMMITTEE OF NEW SOUTH WALES

The composition of the N.S.W. Committee has been relatively stable over the last few years. Three of the current members have been on the Committee for over 3 years, one for 2.5 years and the fifth for nearly 18 months. Mr John Aguilina who was Chairman at the time of the last Conference, has since been appointed Minister for Natural Resources.

The experience of the members has, I believe, contributed greatly to the quality of the Committee's inquiries and enabled a stable pattern of conducting inquiries to develop.

Since July 1985, the New South Wales Public Accounts Committee has produced 15 reports.

Rather than run through the reports seriatim, I will confine my remarks to what I believe are the more important aspects of the Committee's work.

g) Reports on individual Statutory Authorities

Firstly, the Committee has reviewed the operations of a large number of statutory authorities. Committee reports relating to individual statutory authorities have included: the Macarthur Growth Area, the Statutory Funds of the Department of Environment and Planning, the Land Commission of New South Wales, the Builders Licensing Board, the Harness Racing Authority, the State Cancer Council and the Sydney Opera House Trust. In addition reports will be tabled next month on the New South Wales Film Corporation, the Grain Sorghum Marketing Board and the Wine Grapes Marketing Board.

Biennial Conference Of Public Accounts Committees
Sydney 27-29 May, 1987

In spite of the diversity of activities undertaken by these authorities, the Committee has found a number of common themes running through its inquiries. In particular, the accountability of authorities to the relevant Minister, to Parliament, to their clients and the community. Further the role and composition of Boards, the need for ongoing review of the appropriateness of objectives and functions, and the need to set clear objectives and monitor performance. These are recurring themes in all such inquiries.

I am pleased to report that in this session, the Government has brought in major legislation, as a result of our inquiry

into the Builders Licensing Board, which basically echoes the Committee's Report.

h) Follow-up Inquiries

During 1985-86 the Committee commenced a program of following-up past inquiries. In N.S.W. we call this the "re-submit file". These follow-up inquiries were instigated to determine the extent of implementation of the Committee's recommendations and where necessary, to recommend further action. Follow-up inquiries which have been completed are:

Follow-up Report on Inquiries into the New South Wales
Public Hospital System;

Follow-up Report on Overtime Payments to Corrective Services
Officers;

Follow-up Report on Annual Reporting of Statutory
Authorities;

Follow-up Inquiry into Police Overtime.

A follow-up inquiry into the Committee's 1983 report on the Grain Sorghum Marketing Board has also been completed and this report will be tabled next month.

Public Accounts Committee

In general, the Committee has been disappointed at the progress made towards implementing its recommendations. In many areas, we found the response of departments slow or ineffective. The Committee has, therefore, given notice that it will continue to monitor problem areas, and where necessary undertake further formal inquiries.

One area where the Committee was pleased to note a considerable improvement since its initial inquiry was

overtime payments to prison officers. The Committee

concluded that minimum savings of \$18.9 million had been made since 1982-83 as a direct result of our investigations.

You would have all heard of the Premier's "Back to Basics" policy. One of the major thrusts of this policy has involved a re-evaluation of the delivery of health services in this State. I am pleased to report that the Committee's Follow-up Report into the N.S.W. Hospital System was used extensively in the formulation of the Health 2000 policy.

The New South Wales Committee is firmly committed to following-up implementation of its recommendations, and where action has not been taken or has been ineffective, we will continue to raise the relevant issues and highlight the lack of action.

i) Broad Inquiries on individual issues

As well as inquiring into individual organisations, the Committee has also undertaken broader based inquiries, into areas such as the accountability of statutory authorities, performance review practices, investment practices, and superannuation liabilities. In 1986, the Committee inquired

into Year-End Spending in departments and selected authorities. This inquiry raised important issues concerning the budget process, which are of continuing interest to the Committee.

Biennial Conference of Public Accounts Committees

Sydney 27-29 May, 1987

j) Public accountability issues

Under the Public Finance and Audit Act, proposed amendments and regulations to annual reporting legislation and the Public Finance and Audit Act must be referred to the Committee by the Treasurer.

The Committee considers that it plays an important role in reviewing and reporting on such proposed changes to legislation. During the last two years the Committee has reviewed proposed changes to the format of the Public Accounts, proposed regulations accompanying annual reporting legislation for Departments and proposed amendments to annual reporting legislation and to the Public Finance and Audit Act.

The Committee believes that it is in a unique position to undertake such reviews. The Committee takes an independent, bipartisan stance, which examines proposed legislation on the basis of whether accountability, efficiency and effectiveness will be enhanced by the changes.

The response of the Treasurer to the Committee's recommendations has been very positive and the Treasurer is to be commended for the way he has been quick to take on board Committee suggestions.

k) The Future

I see the next two years as being as busy and productive for the New South Wales Public Accounts Committee as the last

two. The Committee will continue its commitment to

enhancing public accountability and promoting value for money in the public sector. For the first time, the Committee is about to embark on' an inquiry in the education field. We will also be investigating areas of one of the State's largest statutory authorities, the Electricity Commission and undertaking a review of the Heritage Council

Public Accounts Committee

of New South Wales. The Committee also gives notice of its continuing vigilance concerning timely and informative annual reporting by Departments and Statutory Authorities.

**2. IMPROVING THE FINANCIAL DECISION MAKING AND ACCOUNTABILITY OF
GOVERNMENT**

PERCY ALLAN, SECRETARY, NSW TREASURY

Government is big business. As with any corporation, good financial management is crucial for its effective operation.

Good public sector financial management facilitates sound Government decision-making. It promotes the use of limited public resources in the most appropriate, efficient and effective way.

(Refer Graph 1.) By appropriate, I mean relevant to the community's need. By efficient, I mean with least cost and

minimum output. By effective, I mean achieving the purpose that was intended.

The Australian Financial Review once said that perhaps the major single achievement of the NSW Government during the past decade has been its reforms to improve the management and accountability of the public sector. These ongoing reforms provide a sound base for the Government's decision-making.

Today I would like to outline the Government's efforts in this area. In particular, in the latter half of my talk I will emphasise the role being played by the Expenditure Review Task Force of which I am Chairman. This is one of the NSW Government's most recent initiatives aimed at improving its financial decision-making. Besides myself, other members include senior officers of Treasury, the Premier's Department and the Public Service Board.

Before I start let me illustrate just how big the business of State Government is and the problems this poses for State financial managers.

Public Accounts Committee

In terms of accountability for public finance, the State represent a very large proportion of the national economy. In round

figures, State outlays represent almost 20% of Gross Domestic Product. That is only marginally less than accounted for by

Commonwealth Government Outlays. (Refer Graph 2.) Expressed as a share of total public sector outlays, Commonwealth Government outlays account for 50%, State outlays, 45% and Local Government only 5%.

These figures indicate that the levels of Commonwealth and States' outlays are roughly the same. In contrast, while the Commonwealth Government collects some 80% of Australian tax revenues the States raise just 16%. This imbalance between the expenditure

responsibilities and revenue raising capacities of the levels of Government is quite unique to Australia. It is a situation which makes the States very dependent on Commonwealth payments to supplement their revenues. For New South Wales it means that the State is directly responsible for just 47% of its own revenues and this fact makes good financial management even more imperative.

On other measures, NSW still represents a fair slice of Australian Government and the economy. The NSW Government represents some 35% of the Australian population. To use business jargon, it has some 5.5 million shareholders. 34% of the workforce resides in NSW.

The NSW Government's own activities are represented by Departments and statutory authorities account for 17.1% of State Gross Domestic Product and 14% of State employment.

It's big business in anyone's language catering for Australia's largest State and employing over 360,000 people. There is also a very extensive business community which must be serviced.

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

The associated expenditure responsibilities which the States must meet are fairly well prescribed. (Refer Graph 3.) They include provision of services in the areas of education, public health, police and justice, public transport, youth and community services.

Together, Health and Education account, in roughly equal proportions, for 44% of NSW's 12.6 billion recurrent outlays. A further 7% is spent on each of Transport Services and Law, Order and Public Safety. Debt servicing charges amount to a further 14%. In other words, four policy areas plus debt charges account for almost three quarters of total NSW Government operating costs.

These expenditure responsibilities in particular are essential - there is not really much flexibility for the State to manipulate expenditures in basic services when framing its Budget. Certain education standards are expected, law and order must be enforced, health services must be provided. Debt servicing responsibilities cannot be avoided.

I would estimate that "inflexible" expenditures such as these account for almost 80% of New South Wales' recurrent expenditures. That together with the fact that wage and salary expenses account for roundly 60% of total State outlays certainly calls for good financial management of the State's limited resources. The situation makes it essential that the right decisions are taken by Government in allocating its scarce financial resources.

Turning to State capital expenditures the position is much the same. A dissection of the NSW capital works program again points out the rigidity of State expenditure responsibilities and the associated problems for financial management. (Refer Graph 4.) New South Wales' capital works program was estimated to be \$4.9 billion in 1986-87. Of that total over 30% was for Transport and Roads, 13% for Housing and roundly 25% for provision of power, water and sewerage. Again these are expenditures essential to the well being of the public.

Public Accounts Committee

The magnitude of the business of putting together a State budget is clearly demonstrated. The inherent problems are also apparent.

Changes in the Health area added to the Government's problems during the current year. This made the task of formulating a Budget particularly onerous. The Health changes included the movement to a 38 hour week, increases in the doctors and nurses awards and nurse recruitment measures. These alone added over \$200 million to the State's annual health bill. In full year terms, that's an unavoidable increase of over 20% in the State's major expenditure responsibility.

This is but one of the problems which the Government had to face.

The constraints on public finance that I have outlined highlight the importance of ensuring that the right decisions are taken in managing the State's limited financial resources.

I now turn to the reforms which the Government has implemented to facilitate this task. These reforms are both financial and administrative and they are aimed at not only improving the management, but also the accountability, of the public sector.

The reforms fall into four categories: public information, financial procedures, management procedures and review mechanisms.

PUBLIC INFORMATION

Public sector accountability has been enhanced by a number of improvement in the disbursement of information to the public. Measures taken include: (Refer Graph 5.)

- The substantial revamping of the Budget Papers and Public Accounts to facilitate the public understanding of the State's finances.

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

- The publishing of a monthly Financial Statement showing the receipts, payments and total cash and securities balances of the State Government. To assist the public in interpreting the statement, the Treasurer attaches a written explanation of variations in receipts or payments from budget.
- Legislation has been enacted to apply uniform accounting and annual reporting standards to departments and statutory authorities.

FINANCIAL PROCEDURES

A second group of reform measures can be classified as

improvements to public sector financial procedures. These include: (Refer Graph 6.)

- The enactment of a new Public Finance and Audit Act to emphasise *accountability*, strengthen financial controls and introduce flexibility. The Act also emphasises internal audit. As far as I know, NSW is the only Government in Australia that provides a centralised internal audit service on a commercial basis for Government organisations.
- The establishment of a Capital Works Ministerial Committee to set priorities in the Capital Works Program and ensure coordination of projects.
- The implementation of Program Budgeting to facilitate analysis of departmental expenditures and staffing. This has given the Government greater control over the priorities of its expenditure, thereby enabling it to be more selective in promotion or pruning of Government functions, programs, and activities.

Public Accounts Committee

-As a further step aimed at improving the financial procedures and efficiency of the public sector the Government is to apply 'a system of Financial Performance Targets to its business authorities. This system of financial targets will consist of three elements:

a financial rate of return target as the "primary expression" of financial performance;

as a consequence of the rate of return target, a dividend target; and

strategic planning and other performance targets.

These financial performance targets will play an important role in the continued improvement in the economic performance of the State's business authorities. The target rate of return requirement will aim at ensuring that NSW authorities generate a return equivalent to the opportunity cost of their use of the community's scarce capital resources.

I might add here that, while the rate of return reporting being adopted by the NSW Government differs somewhat to the arrangements applied by the Commonwealth and Victorian Governments, in my humble opinion our system is somewhat superior.

MANAGEMENT PROCEDURES

A third category of Government initiatives can be classified as management reforms. These include: (Refer Graph 7.)

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

- The introduction of Management Improvement Plans to achieve greater organisational efficiency and effectiveness by departments. These plans involve setting specific objectives and targets for organisations to achieve over a set time period.
- The establishment of the NSW Treasury Corporation as the State's central borrowing authority. In providing a coordinated approach this measure has increased the efficiency of public authority loan raising.
- Departmental efficiency has been improved by the computerisation of accounting systems and other functions.

The Premier has foreshadowed further administrative and financial reforms in the State's Development Strategy which is likely to be released in June. These reforms will concentrate on strategic planning, performance agreements and management development. Performance agreements are common in the United States and have recently been adopted by South Australia.

REVIEW MECHANISMS

The fourth category of financial and administrative reforms undertaken by the NSW Government are those which can be described as review mechanisms. (Refer Graph 8.)

Mention of such terms as efficiency audits and expenditure reviews calls to mind an episode of that most humorous TV show, "Yes Minister", which I am sure we all compulsively watch. I refer to the episode when Minister Hacker directs Sir Humphrey to undertake an Organisation and Method Study of the Department. He was reacting to calls to prune the civil service.

Public Accounts Committee

Once again poor old Hacker had to back off as Sir Humphrey explained in his inimitable style that, in fact, an additional 800 public servants would be needed to undertake the economy drive. So much for a cutback in public servants!

I can assure you that the NSW Government's public service review measures do not have the same implications as did James Hackers. In fact, the Government can quite justly be proud of its success in restraining growth of the public service. For example, during the past four years while growth in the number of Commonwealth public servants averaged 4.7% per annum, and that of the other States averaged 2.4%, growth in NSW public sector employment was just 0.6% per annum. Expressed as a proportion of the population, NSW has the lowest number of public sector employees of any State or Territory in Australia. (Refer Graph 9.)

Well, what "Review Mechanisms" has the NSW Government introduced?

- Not the least of the measures within this category is the 1982 legislation which widened the powers of the Public Accounts Committee. You will all be aware how this has resulted in the closer Parliamentary scrutiny of the financial operations of Government departments and authorities. The Committee has already prepared important reports on particular aspects of Government such as Public Hospitals' expenditure and accountability, Statutory Authorities' investment practices and performance review practices in Departments and authorities. These have resulted in significant savings and improved procedures.
- Another review measure has been the issue of Treasury guidelines for internal audit of financial and related operations of all Government bodies. These guidelines are assisting Heads of Departments and Statutory Authorities to get a better grip of what is happening in their organisations and to correct inadequate procedures and practices before they produce serious mistakes.

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

- A long term program of Management Strategy Reviews has also been underway since 1978. This program involves 1978.

This

program involves the progressive review of the objectives, activities, organisational structure, management procedures and future strategies of individual departments and

authorities. These reviews ensure that public bodies comply with government priorities and effectively serve community needs. In all, 18 Departments and Authorities have undergone

a thorough Strategy and Management Review by independent private management consultants.

- Departments and authorities have also been required to adopt procedures for program evaluation. The Premier will soon release details of a five year plan whereby all government organisations will review the efficiency and effectiveness of many, if not all, of their programs. The Program Evaluation Unit at the Public Service Board, with which Treasury is closely involved, has trained over 150 officers in program evaluation techniques. Its training manuals and literature are now recognised as amongst the most advanced in the world for undertaking program evaluation. The Unit's purpose is to help Departments and Authorities undertake their own internal audits.
- Since 1980 a special section of the Public Service Board has undertaken external efficiency audits of the way in which departments and authorities administer their tasks. The scope of these audits has recently been extended to incorporate program appropriateness and effectiveness as well as economy and efficiency. The Unit is used in cases where it is felt that an independent external evaluation of the efficiency and effectiveness of a particular program or division of a Department or Authority is warranted. 62 such audits have been undertaken since their commencement in 1980.

Public Accounts Committee

I believe these measures, in improving public sector financial management and administration also provide a sound background for Government decision-making.

This brings me to the subject I mentioned at the very start of this talk - the Expenditure Review Task Force. As I indicated earlier, the Task Force, of which I am the Chairman, comprises senior officers from each of the three central agencies - Treasury, Premier's Department and the Public Service Board. The composition of the six member Task Force is shown on the overhead. (Refer Graph 10.)

Establishment of the Task Force was announced by the Treasurer, Ken Booth, in the 1986-87 Budget Speech. The role of the Task Force was not so much to be a "RAZOR GANG". Rather it was to review the major achievements and overall trends in Government spending, emerging policy issues with financial implications, plans Departments and Authorities had for addressing these issues, and mechanisms by which they might fund such proposals. These funds mechanisms could include appropriate user charges and asset disposal, reallocating resources to other areas of the public

sector by the reduction or elimination of activities, or self-funding programs by placing them on a commercial basis.

The scope of the Task Force review was confined to inner Budget Departments and Authorities on the basis that consideration was to be given at the end of this review to whether outer budget sector authorities should also be examined.

Given time constraints, the fact that the Christmas/New Year holiday period was imminent and also that it had been foreshadowed that the Task Force's Report would be submitted to the Premier and the Treasurer by the end of April, 1987, it was determined that the first stage of the review would be limited to

10 organisations. These are listed on the overhead.
(Refer Graph 11)

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

Each of the 16 organisations which were to feature in the first stage of the review was requested to complete a questionnaire seeking broad information on its: (Refer Graph 12)

- Mission and Objectives
- Past achievements
- Future issues
- Strategic action plans
- Programs/activities in priority order

The Task Force then prepared a timetable for a series of half-day meetings with each of the 16 organisations over the period January to March, 1987. This normally required meeting with at least two organisations per week.

The Task Force adopted a standard format in its meetings with Departmental representatives. By way of background for Task Force members a report on each organisation was prepared by the Treasury's Budget Branch. This report was based on information supplied by departments in their responses to the questionnaire as well as an initial assessment by Treasury of the strengths and weaknesses of each organisation. Task Force questioning generally followed the following pattern (refer Graph 13):

- **ACHIEVEMENTS** - major achievements over the past five years.
- **ISSUES** - key community and organisational issues over the next five years.
- **PLANS** - plans for addressing community and organisational issues.
- **CONSTRAINTS** - political, organisational, financial and other constraints on achieving plans.
- **MONITORING** - mechanisms for evaluating the appropriateness, effectiveness and efficiency of programs.
- **FUNDING** - options for funding new initiatives.

Public Accounts Committee

At the end of each meeting, Task Force members would (in camera) given an individual assessment of the organisation under scrutiny. These assessments formed the basis of the Task Force's final report to the Premier and the Treasurer.

I indicated earlier that the Task Force had foreshadowed that its final report would be completed by the end of April, 1987. Normally, I would not admit this, but because of the concern which I know *that* the assembled audience has with matters of accountability, efficiency and effectiveness, I must state that the Task Force was not able to achieve its end - April deadline. Nevertheless, we are not too far behind schedule and will have completed the first stage of our review by June 17. (Hopefully, there will be no review of the efficiency of the Task Force.)

In reporting to the Premier and the Treasurer on our findings, we have taken the view that we could achieve a greater impact by preparing separate reports on each organisation rather than a composite report on the 16 organisations involved. The first of these reports was submitted to the Premier and the Treasurer on May 7 and as of today (May 28), 11 of the 17 reports (including the overview) have been furnished. The Task Force's Final Report, an overview, will be submitted on June, 17.

At this stage, I am not at liberty to disclose to you the results of our inquiry as the Government has agreed that confidentiality should be maintained for the present. I am able to say however that the exercise to date has been a very fruitful one from a number of viewpoints.

Firstly, as someone who is relatively new to the position of Secretary of the Treasury during a period when we have had a large turnover of senior Treasury personnel, the review has given me a great opportunity of exploring in some detail not just the finances, *but* the general operations and directions of some of the most significant Departments. Also, looking at a Department over a longer time frame than purely a financial year, gives one a

better perspective of its problems and challenges.

Most

May, 1987

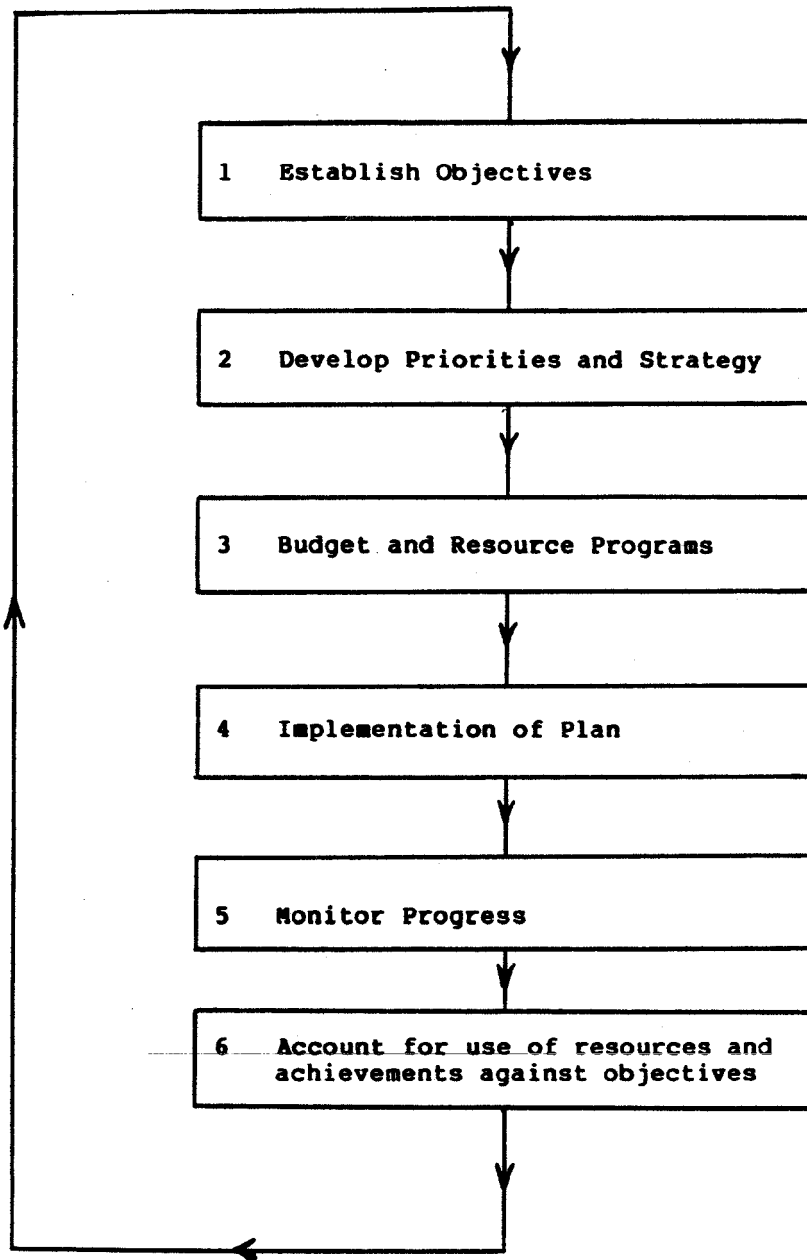
importantly, the assessments which the Task Force has made on the operations of these departments should assist the Government to obtain a bird's eye view of the key issues that have to be addressed in the NSW public sector. This is essential if the Government is to determine relative priorities among the various competing demands given its limited financial resources.

Finally, I should stress to you, as I have already done to the Premier and Treasurer *that* there is no way *that* the Task Force review of organisations could have the objectivity or depth of a detailed efficiency audit or management strategy review based on close inspections of actual departmental operations and *outputs*. This was never the intention given the need to reply on written responses from Departments and verbal answers supplied at a brief half-day meeting. However, I am sure that the final reports prepared by the Task Force will assist the Government in determining priorities not only in the budget context for 1987-88 but also over a longer time frame.

It is anticipated that the Task Force will embark on a second stage of the review process commencing in about October, 1987.

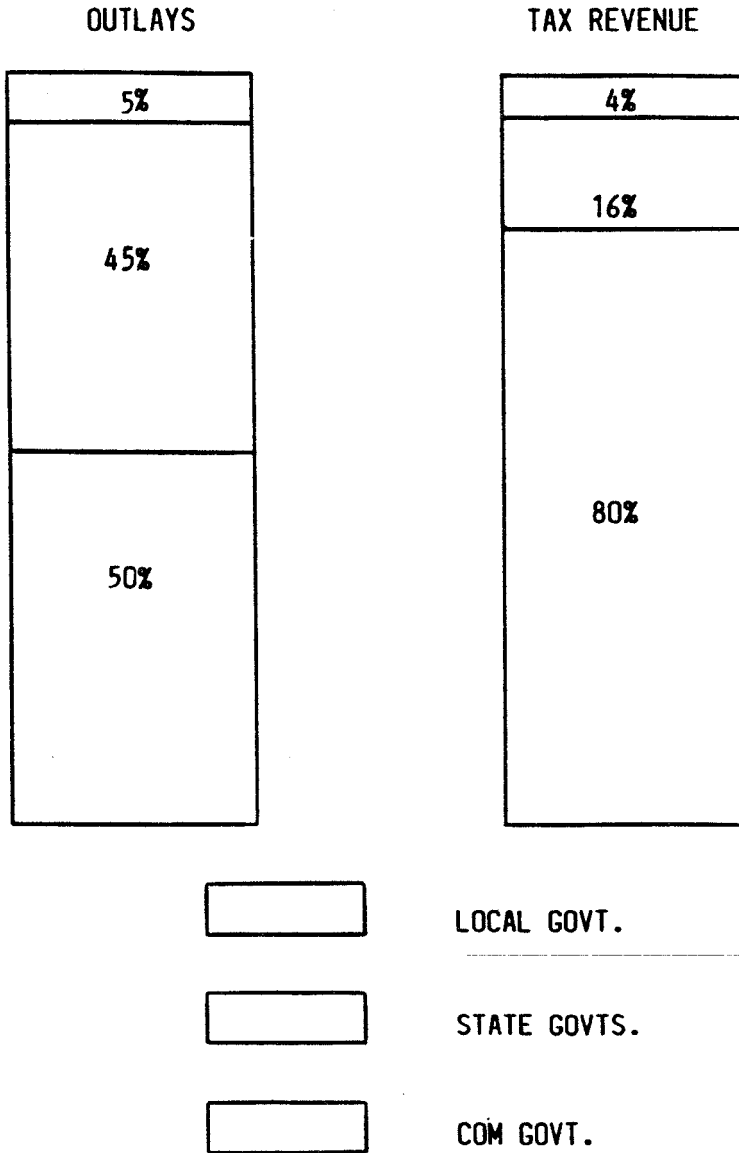
GRAPH 1

Management Tasks



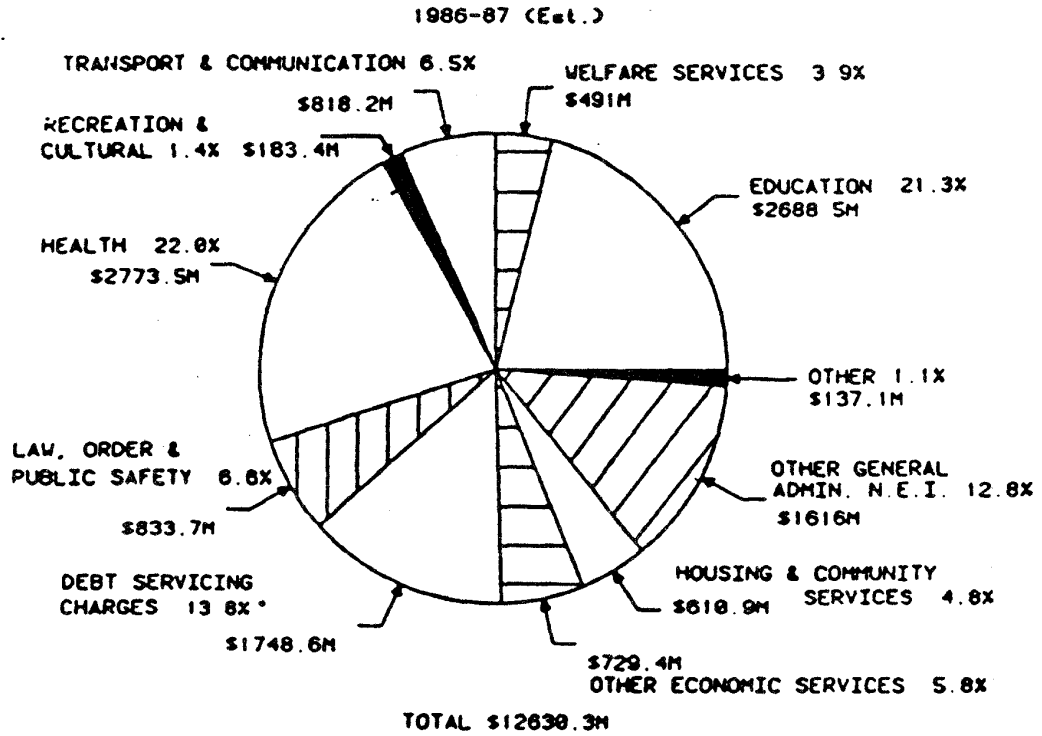
GRAPH 2

OUTLAYS AND TAX REVENUE BY LEVEL
OF GOVERNMENT 1986-87 (Est)



GRAPH 3

RECURRENT OUTLAYS

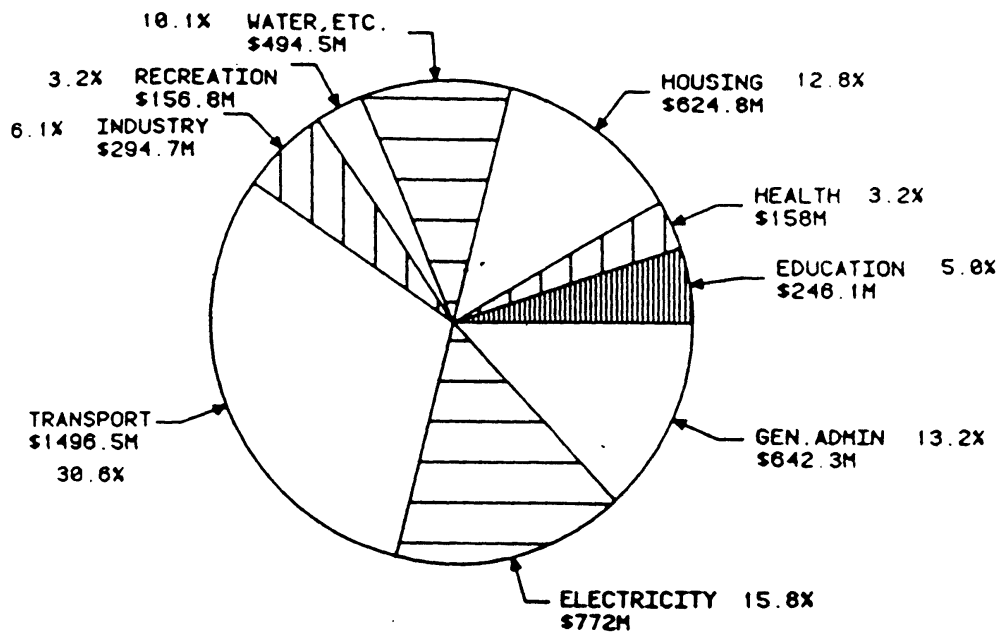


* Excludes debt servicing charges allocated to policy areas (e.g. Transport).

GRAPH 4

NSW CAPITAL WORKS PROGRAM

1986-87 (Est)



TOTAL \$4.9 BILLION

Public Accounts Committee

GRAPH 5

PUBLIC INFORMATION

Revamped Budget Papers and Public Accounts

Monthly Financial Statement

Annual Reports Legislation

-69-

Biennial Conference of Public Accounts Committees Sydney 27-29

May, 1987

GRAPH 6

FINANCIAL PROCEDURES

Public Finance and Audit Act

Capital Works Ministerial Committee

Program Budgeting

Financial Performance Targets for Government

Business Authorities,

- rate of return target
- dividend target
- strategic planning targets

GRAPH 7
MANAGEMENT PROCEDURES

Management Improvement Plans

Treasury Corporation

Computerisation

Management Training and Development

Management Performance Agreements

Corporate and Strategic Planning

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

GRAPH 8

REVIEW MECHANISMS

Reformed Parliamentary Public Accounts Committee

Internal Audit

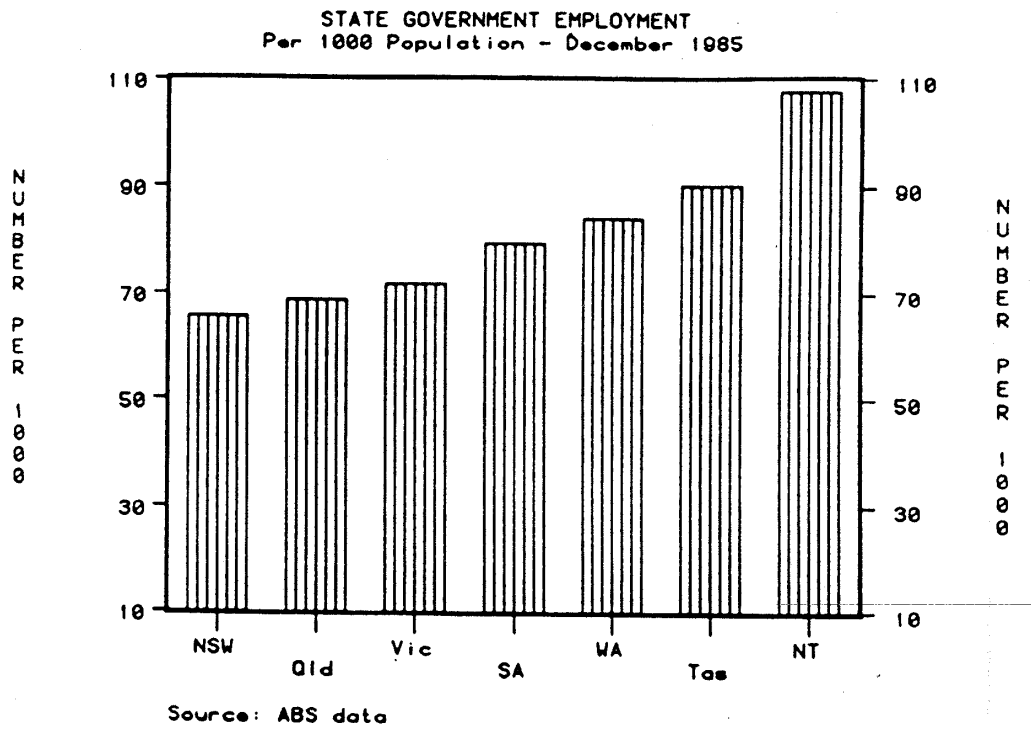
Management Strategy Reviews

Program Evaluation

Efficiency Audits

Expenditure Review Task Force

GRAPH 9



GRAPH 10

EXPENDITURE REVIEW TASK FORCE

- **P. ALLAN** -SECRETARY, TREASURY (CHAIRMAN)
N. LAMBERT - ASSISTANT SECRETARY, TREASURY
- D. JOHNSTON - FIRST ASSISTANT SECRETARY, PREMIER'S
DEPARTMENT
- J. MOORE - FIRST ASSISTANT SECRETARY, PREMIER'S DEPARTMENT.
- **K. SHERIDAN** - **MEMBER, P.S.B.**
- B. PORTER - CHIEF EXECUTIVE OFFICER, P.S.B.

TA.SK FORCE SECRETARIAT

- **BUDGET BRANCH, TREASURY**

TASK FORCE REVIEW - STAGE 1

- Department of Agriculture
- Department of Industrial Development and Decentralisation
- Department of Youth and Community Services
- Department of Corrective Services
- Department of Education
- Department of Technical and Further Education
- Attorney General's Department
- Department of Health. Department of Housing
- Office of the Minister for the Arts Energy Authority Department of Environment and Planning
- Government Supply Department Public Works Department
- Ministry of Transport Police Department

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

GRAPH 12

TASK FORCE QUESTIONNAIRE

- Mission and Objectives
- Past Achievements
- Future Issues
- Strategic Action Plans
- Programs/Activities in Priority Order

TASK FORCE QUESTIONNAIRE

- Mission and Objectives
- Past Achievements
- Future Issues
- Strategic Action Plans
- Programs/Activities in Priority Order

GRAPH 13

- ACHIEVEMENTS**
- ISSUES**
- PLANS**
- CONSTRAINTS**
- MONITORING**
- FUNDING**

3. GOVERNMENT AS A BIG BUSINESS THE LAST TEN YEARS

DAVID HILL, MANAGING DIRECTOR, AUSTRALIAN BROADCASTING CORPORATION

Well, Mr Chairman, thanks very much for those very kind words of introduction. I am mindful that this is the most awkward possible time to be addressing an audience like this at the end of a long day in a room with no windows with a federal election called yesterday. So I am mindful to be very brief, and I am told, in any event, the bar opens in 40 minutes, so if we are not finished by then we have no audience. I just propose to speak to some notes for about 20 minutes and then I have no doubt - I have been warned that there will be some questions raised.

I think I am the only person that has addressed you *that* is not currently a practitioner at the moment in the field of parliamentary public accounts, but, as Robert has pointed out, back in 1976 for a few years ! did work with the New South Wales government as economic adviser to the State Premier and the head of the ministerial advisory unit and we dealt then in - at great length with public accounts and as the forerunners, the committees *that* led to the eventual Public Finance and Audit Act in New South Wales.

Since then I have been involved directly and indirectly with a host of different statutory authorities or government enterprises, both public, in New South Wales, and federally. What I wanted to do today is just give you my observations about what has happened to government as a big business over the last 10 years and specifically what changes have taken place and, I suppose, to pose the question, and perhaps answer it or try to answer it: have things improved in public enterprise management, from my observations, in the past 10 years?

Public Accounts Committee

I wanted to skip briefly over four issues. The first was the whole question of performance and efficiency of public enterprises, and I wanted to touch on that current debate on privatisation; secondly, the issue of management of the level and skills and management of public enterprises; thirdly, financial reporting and accounts of public enterprises, and I wanted to touch on our experience with the famous hollow-logging exercises of the late 1970's and, finally, my views about the role or importance of the parliamentary Public Accounts Committees.

First, performance and efficiency in public enterprises. For me one of the big differences between private enterprise and public enterprise is that in the case of private enterprise what they are about is fairly clear-cut. They know why they are there, they know what they are to do and they have clear indicators of their performance. It is invariably profit or some

closely-approximating financial indicator. By way of contrast, in the public sector it is often more difficult to answer that fundamental question clearly: what the heck is it there to do, how does it go about doing it and is it doing it well or badly, and it is not always easy to clearly define the role of the public utility.

In some cases it will be because its primary function has got nothing to do with finance, and to measure it solely on a financial criteria or profit criteria has got nothing with its primary function. Hospitals, universities, schools would fit into that category. The other difficulty is in a lot of public enterprises you might find they have got a multiplicity of goals to pursue and, in some cases, they might even be incompatible, and the State Rail Authority is a good case in point.

On the one hand we had to provide an effective, efficient performance in financial terms and on the other hand we are obliged to provide services that are hopelessly uneconomic. But too often public enterprises, because they do not have a clear singular function, there results a blur in what they are there to do or how their performance is to be measured. And if you look at

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

annual reports at large public enterprises the annual reports should tell you and me and Joe Citizen, who is the shareholder, what that authority or enterprise is there to do and it should tell him something about how well or how badly he is doing it, and I think it is fair to say that, historically, too many annual reports and other reports of public enterprises became self-congratulatory, otherwise meaningless reading.

I remember reading in 1983 - and I do not want to single anybody out today, but I will be. In 1983 I remember Vicrail, Victoria's rail system - in its annual report it had a very bad year, 82, 83, in hauling passengers. That was one of its primary functions. But if you read its annual report you could find no information about the number of passengers that it carried out on its railway. And another example, about the same year - I was an interested student of late in the ABC, and one of the things the ABC does as a prime role is provide radio and television services to Australians, and one thing I have learnt since I have been there is that the ABC has lost something like half, or practically half, its television and radio audiences in the capital cities of Australia in the last 10 or 15 years, and yet there is no reference to it in the occasional annual reports.

Now, I am not suggesting that the sole function of Vicrail is the number of passengers it carries. I am not suggesting for a minute that the ABC's sole function should be to attract as many viewers and listeners as possible. But I would have thought they are important indicators of how well or how badly a railway is servicing the community or how well or how badly a public broadcaster is servicing the Australian community.

Now, I do not think, as I said, they are necessarily the sole measures; there may be a variety. But I think it is important that all public sector enterprises have mechanisms for regularly assessing performance against publicly-established indicators, even hospitals, even schools, even universities. They may not be financial, but I think the public should know what they are there

Public Accounts Committee

to do and should have some regular reporting mechanism to determine whether they are doing the job better or worse than they did previously,

Now, I note there is a lot of recent suggestions that privatisation might help, that we will have far greater effectiveness or efficiency in the expenditure of the taxpayer's dollar if we privatised; But I agree with the growing body of research which suggests it is the competitive environment rather than the ownership of the enterprise that is likely to dictate how effective or how efficiently it performs.

But on that question of ownership, whether it should be a private enterprise or a public enterprise, I - public or private, I think there has to be good reason for us to be establishing and maintaining public enterprises. They have either got to be making a quid for a government or the nation or they have got to be providing services that we are not confident that the private sector would provide in the community, but, as I said, I think there is the need to justify the establishment and the maintenance of public enterprises as we know them.

My observation has been that the private sector certainly operates with far greater flexibility, for some fairly obvious reasons, than we can often in the public sector, and that way, I think, by and large is able to spend its money more efficiently than we can in the public sector, and for those sort of reasons I think you have got to have good reason to maintain the public sector as we do.

I mentioned one of the other issues that I wanted to touch on today was management in the public sector. I think there has been vast improvement in the standard of management in public enterprises, from my observations, which is largely New South Wales and federal, in the past 10 years. We have seen a decline in the role of seniority in promotions and a corresponding

increase in merit. We have seen far greater mobility in

management in the public sector in the past 10 years.

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

We have now got a situation where it is far less likely that a person in a senior position in the public sector will retire in that job. Now, I note in the railways, which-is one of the most traditional of all of the areas of the public sector, up until as little as a decade ago if you were born into the railways you died in the railways, and most of the people in management there are there right through until retirement, and you are seeing now a whole new breed of public service managers who are younger, who are far greater qualified in terms of tertiary qualifications and far more mobile.

Indeed, there are about four or five of my ex-colleagues from the State Rail Authority that are now either number 1 or number 3 in other public enterprises like the Maritime Services Board, Director of Public Works, the Grain Handling Authority and the Urban Transit Authority, and that is certainly an indication and a clear signal of a departure from the tradition that if you worked in the railways you retired in the railways.

I think there is also greater recognition now that in the public sector management is a distinct discipline of its own; not enough, but it has certainly happened and we do recruit and promote people because they are good managers, full stop, and not necessarily because they happen to be good at some other discipline or another. We have also seen in the last 10 years in most States, but there are some exceptions - we have moved away from the management structure, which was having the old commissioner as the head, the sole head of the authority, and he, or course, historically was akin to the Antipodean monarch.

He was somebody, before federation, we put in to run the railways or the police or some other great government institution, and you are seeing all that disappear and being replaced with executive management teams who are being set tasks by a board, are accountable to boards, who in turn are accountable to government.

Public Accounts Committee

I think all of those things are reasons why management in the public sector is better, I think, than it was a decade ago, but I still think we are a long way short of where we should be.

Seniority is still too prominent in large sections of the public sector in some States. It is no good saying, as they have tried to do in the railways here in New South Wales: You've got 1000 people at the top who are subject to merit promotion. The trouble is everything else is seniority. The other 38,000-odd are subject to seniority and you never get access to the talent, and most of the keen and eager people are repressed years before they get an opportunity to show their wares.

The other thing we have got to do more of is use management criteria for selection of manager. We have made mistakes - and you look at it in the public service, the number of times you get a really brilliant engineer who can move mountains or dig tunnels or build roads for you and you say: Geez, you're fantastic. We'll make you the chief civil engineer, and we catapult him into a management position controlling hundreds of millions of dollars a year and thousands of staff and we are surprised 6 months later that he is hopeless at it, and I think in the public sector we ought to move away from the emphasis on experience as a factor in appointing people in a discipline and look more at management criteria.

I think there is also a need for a vast improvement and expansion of public sector training and management schemes and, finally, I think we have *got to* move further than we have already away from permanency in appointments to contractual appointment. The last area I wanted to touch on before a brief mention about the

parliamentary Public Accounts Committee was the financial reporting and the accounts of public enterprises.

Now, my interest in this started back in 1976 when I was appointed as the head of the ministerial advisory unit and economic adviser to the Premier of New South Wales, Neville Wran, and it led us on a path that eventually became the celebrated hollow-logging

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

exercise. Now, how this started was - when we were getting into our first budget - and like all governments we were short of a quid - we found that consolidated revenue used to make these grants each year to some of the larger New South Wales statutory authority, and we could not find any reason for it; it was steeped in the dark passages of history.

But we wanted to test the extent to which consolidated revenue should be handling over this money - it was not a large amount, as it turned out. This put us on the road. It was only \$20,000,000, I think, to the Metropolitan Water Board and about \$20,000,000 a year to the Electricity Commission. So we started having a look at how needy these institutions were, and the thing that struck me about their profit and loss statements or their accounts or their income and expenditure statements was this, that they would be spending hundreds and hundreds and hundreds of millions of dollars a year, but always make a profit or 30 grand.

Now, they were real good bookkeepers, never open to criticism. They never made a loss to be subject to - or any significant loss. Occasionally they did, just to let us know life was tough, but they never made a big loss and they never made a big profit, and I thought this was amazing management, that they could, every year, deliver results of \$2000 or \$30,000 or whatever in terms of profitability on an absolutely huge turnover.

So we went through painstakingly - indeed, we traced the accounts of some of those authorities for 14 or 15 years - and we found that how they managed to balance this tiny profit each year was by adjusting, expanding and contracting, the appropriation to reserves. So, once they have spent all their money, they would then use the amount of appropriation to reserves as the balancing item.

So we then painstakingly, over this 10 or 15-year period, went back and traced all the reserves, and some amazing discoveries. The first was in a large number of cases the amount of money that

Public Accounts Committee

an authority might be putting into those reserves each year -there was no consistency. We found an asset renewal reserve in the Sydney Water Board that might have \$2,000,000 put into the reserves one year and \$30,000,000 the next, and the net result was that it was the piece of elastic that could be expanded or contracted to balance the profit.

The other thing we found was they were going into funds - and again, tracing the movements in and out, which was not easy, because this is before the Public Finance and Audit Act - and I suspect a lot of States do not have the rigidities we now have, thankfully, in New South Wales. We traced as best we could the movement of funds in and out of these accounts and we found that some money went into accounts and never came out.

In other words, while they were salting away money each year it was not being used for the purpose for which the fund was established, and my favourite was a thing called - it was in the Electricity Commission. Now, the fund is still there but there is not any money in it, and this thing was called The Snowy Equalisation Fund. Well, this sent us back into the history books to find out: why s Snowy Equalisation Fund, and this was the reason for it.

With the advent of the big hydroelectric power schemes in the mountains 30 years ago - that is used for peak generation. It is a hell of a lot cheaper than the small old-fashioned, thermal coal electricity stations you have got around Sydney, like White Bay and Balms in and what-have-you. The argument was that: While we resort to that cheaper electricity during the peak hour what happens if there's a major drought? We'll have to burn more coal and that is much more costly electricity. You're going to have to put the prices up. That would be very unpopular, particularly in an election year, so why don't we put money aside each year, a little bit each year, into The Snowy Equalisation Scheme, so if that ever happens you can draw on The Snowy Equalisation Scheme.

Biennial Conference of Public Accounts Committees Sydney 27-29

May, 1987

Well, it sounded all right in theory but, of course, 30 years later the difference in cost between the hydro and thermal largely disappeared. One of our blokes cynically calculated that we would need a drought the likes of which Australia has never experienced to draw on any money out of the Snowy Equalisation Scheme. But the big test was we traced that fund for one-and-a-half decades and, while money continually went into it, no money ever came out, and we found so many of these funds in the statutory authorities where, to balance that tiny profit each year, rather than disclosing a big profit, there appropriations would be made into elaborate accounts such as this, and when you traced it the money forever went in and hardly ever came out.

Another interesting feature was those funds 'would be earning interest, and they did not even disclose the interest that was earned as revenue in the income in their income and expenditure books. Well, what we did is we used the money. We - first of all, the - I remember the Premier saying at the time, "We appreciate that's the rainy-day jar" - but we had 6 and 7 per cent unemployment in New South Wales then I remember him saying it was raining heavily enough already.

So to generate employment-generating capital works those statutory authorities were called on to use those reserves, some several hundred million dollars worth. Now, one of the problems with those accounts as they were is that you never know, without some really exhaustive accounting, what the operating result of those public enterprises was, even that fundamental issue: what is the level. of profit that it is making? The hollow logs were surplus monopoly profits and no conscious decision was being made about their use.

Now, in New South Wales, fortunately, I think as a result, first of all, of the Public Finance and Audit Act in 1983, we now see a much clearer distinction between operating costs as distinct from all these appropriations into the reserves. We now see interest earned on those reserves being declared as revenue and shown in

Public Accounts Committee

the accounts. We are seeing proper provisions for long-service leave and holidays and we have now got far more realistic estimates of the operating results of statutory authorities.

Now, for what it is worth, I am not an authority around Australia of the practices but I did have a look at some of the auditors-general report, and I came across the Queensland Electricity Commission and it discloses *that it* makes a loss each year. But you would have to be real good to know how fair dinkum that figure was because in the above-the-line expenditures - here

is all the revenue, then you take away all your expenditures and it makes a little bit of a loss, but you have a look at the expenditures and they have this huge category of servicing capital, and then you go to the accounts notes and you find that in there - this is above the line, remember - there are a whole series of payments, including payment of capital, which is not an operating expense, and for somebody like me, without the discipline *that* exists in the New South Wales Public Finance and Audit Act, it is not clear what the true operating result of the Queensland Electricity Commission is.

The last point I wanted to make, Mr Chairman, is about the role of Parliamentary Public Accounts Committees, and it is simply this. There have been some very useful watersheds by way of legislation to improve the accountability of public enterprises in Australia, and I think that plays a vitally important role, but it will never be enough on its own. In the private sector you have perpetually the hungry shareholder eager for a dividend, who in the end is going to keep the private enterprises largely honest. If they do not do the right thing by their shareholders and withheld dividends then they are likely targets for takeovers.

In the public sector we do not have the automatic mechanism and it is my view that you need parliamentary Public Accounts Committees to act as keen as the private shareholder to represent all of the shareholders in the - the publicshareholders who, after all, own

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

these public enterprises. I suppose, in summary, my view about all these matters is that it is still a lone way short of what it should be and even further away from .perfection.

But I would have to concede, as - certainly from my experience in New South Wales and, to a lesser extent, federally - I think public sector management and public sector accountability is certainly better than it was a decade ago. Thanks very much.

4' **ASSET REPLACEMENT**

JOHN KLUNDER, MY, CHAIRMAN - PUBLIC ACCOUNTS COMMITTEE
SOUTH AUSTRALIA

The next 10 years are for South Australia a time to plan for the very much larger replacement problem ahead. These years will be difficult, with replacement more than doubling from current levels, but it should be manageable.

A comparison of Figures 3 and 4 (pages 110 and 111) shows *that* the relative replacement activity of each agency is no indication of its relative asset value in current replacement terms. Transport, only 2.2% of total replacement value, is currently account for 15.6% of replacement spending. Transport is going through a 'hump' of replacement activity and this is projected to fall in future years. Water and sewer assets, on the other hand, will increase in future years.

The balance of relative replacement activity is projected to alter over the next 20 years. The Committee showed these changes by a series of pie charts and accompanying description in the summary report.

The Committee found that a reason why there had been no indication of the growing problem of future asset replacement was that information is generally not published in the Public Accounts on the value of the asset stock and annual expense of depreciation of assets. The Committee recommended:

- a shift from cash accounting to accrual accounting for the Public Accounts and the financial statements of statutory authorities;

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

- depreciation of assets to be calculated on the basis of current replacement cost;
- balance sheets to be published.

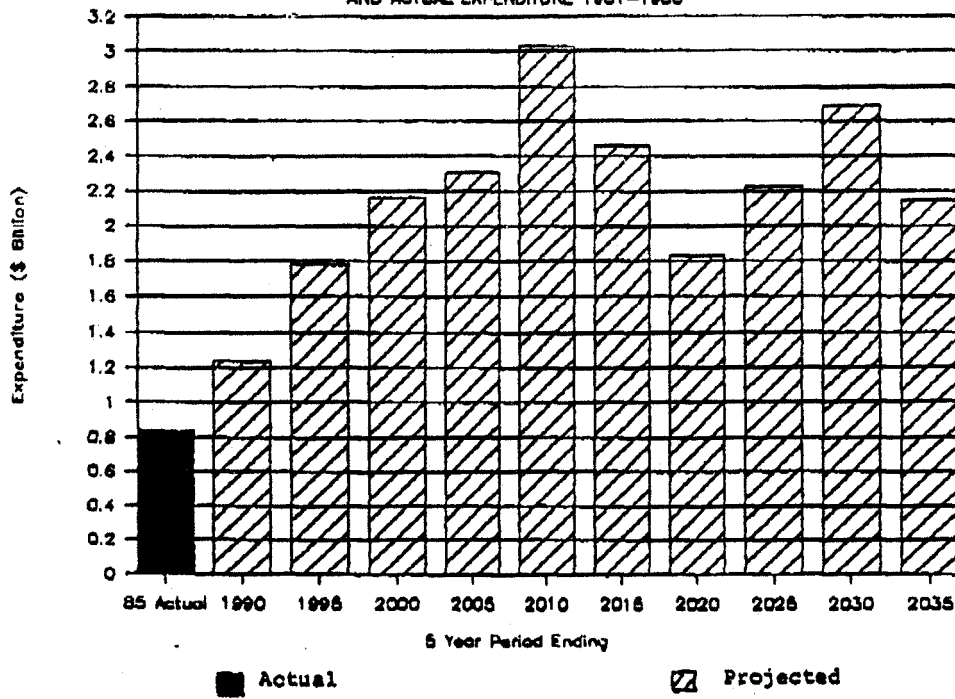
When I reconsider all the advice I heard in four countries from senior executives who were in crises management with asset replacement problems, their common wish was that they had some warning. As they had no warning, when replacement costs began to increase, the first reaction was to shift funds away from routine maintenance. In the medium term, this deferral of maintenance spending increased maintenance expenditure exponentially.

A major benefit of the South Australian Public Accounts Committee's inquiry was the warning we were able to give with up to 10 years lead time for planning and preparation. This is my prime reason for commending such an inquiry to all other Public Accounts Committees.

The South Australian Public Accounts Committee has just completed a pioneering study of the cost and timing of replacing assets held by State Government Departments and Statutory Authorities. This is by far the most significant inquiry in the history of the South Australian Public Accounts Committee and it has very significant implications for all other Public Accounts Committees.

The Committee projected the cost of replacing the assets of Government agencies over the next fifty years and found that enormous increases will occur in the amount of asset replacement falling due towards the end of this century and the increased level will be sustained well into the twenty first century.

FIGURE 1
TOTAL PROJECTED REPLACEMENT EXPENDITURE
AND ACTUAL EXPENDITURE 1981-1985



Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

In late 1984, the Committee learned of a study being conducted on the cost and timing of replacement of water mains and sewers. This study indicated a large increase in asset replacement would fall due about the turn of the century and *that* this higher level of replacement would continue for a considerable period. This gave rise to the question of what pattern of asset replacement would fall due in aggregate for all State Government agencies.

The post war baby boom and European migration dramatically increased school populations from the mid 1950's, resulting in a major expansion in the number of school buildings through that decade and the next. Public housing and hospitals also expanded around this time. All this public infrastructure was inevitably wearing out or becoming obsolescent and an asset replacement echo of the boom period expansion had to occur sometime. A 'worst case' hypothesis was formed concerning the possible coincidence of replacement echoes in other agencies and departments, reflecting a common growth period after the Second World War.

The Committee was not suggesting that all the replacement would fall due at once, as in the worst possible case, but it believed it would be prudent to test against the possibility of this occurrence, with its associated financing and resource problems for the Government in future years.

The Committee noted that long range planning issues of the type being considered crossed the range of Government services and were not being addressed by core agencies. Dr Penny Burns, the economist who had performed the asset replacement research for the Engineering and Water Supply Department was appointed to the research staff of the Committee.

On 21 February 1985 the Committee resolved to conduct an inquiry into 'the extent and timing of the replacement of major assets' (Minutes of the Fifth Committee, item 408). As the inquiry progressed, its objectives were refined and the following objectives were established.

Public Accounts Committee

- (1) to establish (to a level of accuracy suitable for aggregate appreciation) the extent of depreciable assets held in the South Australian public sector and the nature of those assets in terms of economic life, age and condition;
- (2) from this information, to estimate the distribution of asset replacement needs through time and the level of annual provisions that need to be made;
- (3) by determining the current levels of asset replacement and current and accumulated provisions to estimate the expected shortfall between replacement needs and provisions, and finally;
- (4) to draw out some of the implications for government financing, accounting methods and reporting, asset acquisition, service provision and capital efficiency.

The term 'replacement' was used by the Committee in a broad sense, to include refurbishment, upgrading and replacement of major parts of complex assets (such as houses).

Although we feared the future may be bleak, particular care was taken not to cause alarm when the inquiry was announced. Emphasis was placed on the lack of information readily available and the need for projections to be produced as a guide for planning for the long term.

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

The Committee recognised that an attempt to include every replaceable asset would cost disproportionately more than an

inquiry limited to covering 80 per cent. Accordingly, the

Committee set the following criteria for selection of agencies:

- (1) To cover at least 80% of the recipients of capital on Consolidated Account;
- (2) To include all Departments and Authorities for whom a preliminary inspection suggested perceivable asset holdings (ie excluding land) in excess of \$0.5 billion in current values;
- (3) To exclude all Departments and Authorities where the preliminary inspection suggested an asset holding less than \$200 million.

Applying these criteria, the following agencies were examined:

Engineering and Water Supply Department Highways Department

Education Department

Department of Technical and Further Education South Australian
Health Commission

State Transport Authority

Electricity Trust of South Australia

South Australian Housing Trust

Discussions with managers and accountants and inspection of asset registers typically revealed that:

- (1) asset registers contained information on many minor assets but did not include major assets such as buildings;

Public Accounts Committee

- (2) accounting records were in historic cost terms;
- (3) year of acquisition may be recorded but not the years of major upgrades;
- (4) replacement or refurbishment could be recorded in the accounts as maintenance or as capital works;
- (5) realistic estimates of economic lives of assets or their major components were not recorded.

The bleak picture was not true in all respects for every agency but it certainly was typical.

Very little data was available in a form which was useful for projecting when future asset replacement would fall due. Only two agencies had current replacement cost values for assets. The Electricity Trust had half its assets valued at current replacement costs and these values were used to calculate depreciation and report asset values in its public financial statements. The Engineering and Water Supply Department had determined current replacement values for its assets but this information was not used in its accounting and financial reporting system. Thus, for Government agencies as a whole, there was little useable information readily available which one could use to project either the cost or the timing of asset replacement

falling due in the longer term. Major refurbishment or

replacement was typically treated as if it was a new capital project which waited in a priority listing until funds were available. Capital projects were a mixture of new and replacement assets but the mix was not recorded. Some asset replacement was recorded in the operating accounts as maintenance. Thus, it was generally the case the information was not available on the past and current cost of replacement and refurbishment of assets. (One exception was the Highways Department which estimated, in its corporate plans, the development and replacement component of its works programs.)

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

As the object of the exercise was to determine whether there was a problem with lumpy and increasing replacement in the future years, only assets deemed to be 'replaceable' were examined. Some assets such as railtrack of the State Transport Authority and dredged channels of Marine and Harbors were considered to be continuously replaced, with maintenance expenditure each year being approximately equal to the amount of annual wear and tear. Maintained in this way, these assets never need replacing as a block and thus do not create a problem of fluctuating future replacement levels.

Some of the State's assets cannot, by their nature, be replaced. Land and natural resources belong in this category. Only assets that have been constructed can be reconstructed. However, even some of these assets are now irreplaceable. These are the State's heritage items. No attempt was made to forecast the cost and timing of maintenance and renewal of heritage items.

Where an old asset is replaced, it is frequently not replaced with an identical item but rather its modern, updated equivalent. The Committee took the view that it is not the replacement of the actual asset which was of concern as much as the replacement of the function which the asset had been providing. This allowed for replacement of assets because of obsolescence and changing functional requirements.

An asset may perform several functions in succession during its physical life. For example, base load electricity generating plant is downgraded over its life time to mid-range load, to peak load and finally to rare, emergency usage. A movement from one function to another basically creates a different asset and a replacement is needed to cover the initial function. Other examples would include storage sheds at the Harbor now being used as occasional shelter and school buildings once used as classrooms being used as drop-in centres at schools where the student

Public Accounts Committee

population had declined significantly. Whether the prime function in either of the two latter examples would be replaced would depend on whether there was still sufficient demand.

Obsolescence or a change in function of an asset may be brought about by changes in demand or technology or by changes in the spatial distribution of the population. A movement of young families out of the inner city areas, where there are established schools, into suburban housing developments generates the need for replacement school buildings, at the same time as it generates obsolescence or a change in function for the older school buildings.

The notion of an asset as a single entity which provides useful service until it is replaced is not adequate for analysis of complex assets such as hospitals, schools or even public housing. Buildings represent about one third of total public sector assets and to code with the particular replacement projection problems represented by periodic component replacement the Committee considered it necessary to develop a specific life cycle replacement model. This model was developed by the Committee to project replacement only. It differed from normal life cycle management models which include, in addition to replacement or refurbishment costs, the costs of operations, maintenance, insurance and other financial costs (rates, etc).

Life cycle management models are designed to allow decision makers to choose between different capital options, say between a high initial cost/low maintenance option and a low initial cost/high maintenance option. By discounting the future stream of costs back to the present to obtain a net present value the two options can be compared on a similar basis. In such an exercise the choice of the appropriate discount rate can be critical to the decision made.

The life cycle replacement model developed by the Committee included a list of the components (superstructure, fittings, services, etc) of which the asset was comprised together with the

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

percentage of the original cost attributed to each component. Complex assets required the subdivision of components according to the life expectancy of different sub-elements of the component. The model calculates the proportion of the original cost (in real terms - ie constant dollars) falling due for replacement as time

progresses, in normal five year periods. By incorporating information on the age structure and current replacement value of the asset stocks, a projection can be made of the predicted future costs of replacement of the asset, if it is to be retained in service for the whole of the projection period.

Naturally any set of assumptions becomes less reliable with the lengthening of the period over which projections are made. The last 25 years of the model should thus be taken as indicative of general replacement levels and less attention should be paid to inter-period differences.

The main reason for carrying the projection through the second 25 years was to establish whether asset replacement levels indicated for the period around the end of the Century carried on or whether the replacement level fell to present levels. In almost every case the level remained high for the second 25 years of the projection period.

All valuations throughout the Committee's projections were in terms of current replacement values. There was no attempt to predict future levels of inflation and all values are expressed in 1984-85 dollar terms.

While it was understood that technology would continue to evolve, no attempt was made to guess what effect future technologies would have on the rate of obsolescence of existing assets nor on their future replacement values. Experience in the recent past has been that technological change can easily give rise to more expensive replacement assets and has aimed at providing superior service

Public Accounts Committee

rather than cheaper assets. This is because technological change, in the past, has not focused on 'doing the same job but doing it cheaper'.

Current technology was assumed throughout the study, as was current standards of service provision as evidenced by both the policy and practice of agencies.

The replacement projections covered only replacement of the stock in existence as at June 1985. Any increases in stock from *that* date will generate replacement requirements in addition to those in the Committee's projections.

For all asset categories in each agency, initial economic life assumptions were established by reference to the agencies' own working assumptions, where they existed. The implications of such life assumptions were then checked against:

- (a) existing asset lives, and
- (b) projected replacement in the agencies' own forward planning.

A common misunderstanding was to view buildings as lasting

'forever'. Certainly they do have an extremely long life,

especially the outer shell of the building, ie the roof, the outer walls and the foundation on which it rests. But the cost of replacing the outer shell of buildings is not, in fact, the most significant element in replacement costs.

It is not generally known, but is nevertheless true, that even if we were to assume that the walls, the foundations and the basic roofing structure of a building 'last forever', replacement of the remaining elements would account for a sum equal to the original real construction cost, every 40 to 60 years. Commercial office blocks are on the short end of the scale and public housing towards the longer end. The time is rather longer if there is no substantial upgrading. But to deny the upgrading is to deny a

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

principal reason for replacement in both commercial office blocks and public housing - obsolescence due to changing standards and changing functions.

The "replaceable" elements (eg windows, roofing fabric, finishes, carpentry, utilities, floor coverings, fences, etc) individually have life expectancies of between 15 to 75 years. It is only when full account is taken of these shorter living components, together with any upgrading, some of which involves replacement of the outer shell of the building, that the replacement picture becomes clear.

Where external data was available, eg from the CSIRO, Division of Building Research or from the National Public Works Conference Guidelines, this data was used as a check on consistency of information obtained from other sources. Similar assets in different agencies were also checked one against the other for consistency.

While every attempt was made to validate the life estimates and asset valuations, in many cases this data was simply the 'best guess' of the experts in the field. For the life estimates it cannot be otherwise. Life estimates are estimates of future asset behaviour and conditions. A parallel may be drawn here between the estimates of economic life and actuarial studies that project human life expectancies. The actuarial studies use data gained in past times and try to modify it to allow for the effects of say, the anti-smoking campaign or more women in high stress occupations to establish average life expectancies for today's men and women. In a similar way information on past asset lives is used to make allowance for known changes in type, function and condition of use of the asset.

In both 'cases the projections are in the nature of averages and there could be considerable variation about the mean. Over the five year projection periods some of this variation would naturally disappear and the use of three period moving averages in

Public Accounts Committee

each of the agency reports and for the total values presented in this report also assist the reader to see the replacement trends underlying period to period variation.

Some difficulty was experienced in checking the consistency of economic life assumptions and the associated replacement projections against records of current replacement activity.

Unfortunately, replacement costs are frequently not identified as

such in most systems of accounting. While large scale

reconstruction usually rates a specific mention in the accounts, although usually without any separation of associated growth elements, ordinary component replacement is generally lost under the heading of 'maintenance'

It may be this lack of clear identification of replacement which gives rise to the often heard statement 'Our houses (or buildings, or any other asset) will last forever if they are properly maintained'. When this is seen to be equivalent to the *statement* 'Our houses will last forever as long as they are continually replaced (albeit, in a piecemeal fashion)' we begin to see the source of the general confusion between the need to replace components and the concept of houses, or buildings, *that* last 'forever'. In some areas this is called the '1000 year axe syndrome' referring to the axe *that* has had 138 new handles and 173 new heads but is still the 'same axe'.

Maintenance may be sub-classified into 'routine' or 'preventative' maintenance (painting, oiling the locks, servicing the equipment,

etc) and 'corrective' or 'programmed' maintenance (replacing the boilers, renewing the electrical wiring, relaying the floor coverings, etc). The actual nomenclature may vary between agencies. While routine maintenance expenditure is more or less constant, at least in the short run, the second category of maintenance tends to rather 'lumpy' in nature - in that nothing

may be required to be done for a long period of time and then high

costs are incurred. This maintenance also has a higher capital content than routine maintenance which tends to be labour intensive.

It is this large, lumpy, capital-related, maintenance (ie 'component replacement') together with the more infrequent but larger reconstruction and upgrading work (where the upgrading is undertaken because of obsolescence or to bring an outdated asset up to current standards) that is referred to in this paper as asset replacement. For the most part, the replacement of public housing does not mean bringing in the bulldozers, levelling the ground and starting again. If this were so it would be much easier to identify. Rather, it means individual component replacement and upgrading of existing assets.

Assets such as public housing, schools and colleges and public hospitals share this characteristic of piecemeal partial replacement. Other assets, such as highways, may be replaced as a whole with the road surface being ripped up and redone. Whether an asset is completely replaced or whether it is 'rehabilitated', 'reconstructed' or 'refurbished', all words which generally indicate partial or 'component replacement', depends on the nature of the asset itself and on relative costs.

For each of the individual agency asset replacement studies the Committee examined both the capital and recurrent accounts to establish an estimate of the current level of activity against which future projected levels could be compared. In some cases, eg public housing, some hospitals and some school buildings it was possible to use the models generated to 'project backwards' and thus establish the level of replacement that the model would have considered appropriate for the last five years given the then current age and level of assets. This projection could then be checked against actual replacement to establish the credibility of the projection model.

Public Accounts Committee

The projections illustrate the consequences of present actions (or inaction). They are not prescriptive of what should be spent on replacement in future years, nor are they predictions of what will be spent in *future* years. They are not predictions at all. They are simply 'exploratory calculations'. They project the level of replacement that would fall due in various time periods if the assumptions and asset valuations in the model are correct.

Exploratory calculations do not prove anything but they can at least help to inform our judgement. It is a way of spelling out the consequences of the assumptions made. Those assumptions are that:

1. current maintenance policies and practices remain unchanged;
2. current policies and practices regarding replacement remain unchanged;
3. current policies and practices regarding upgrading to current standards remain unchanged; and
4. current technology and asset replacement knowledge apply.

The economic life expectancies result from an application of these four assumptions. Any change in any one of them would give rise to changes in the related asset life expectancies. Since the four assumptions all refer to policies and practices and level of knowledge in the community, all four are subject to change and moreover can be changed deliberately if the projected consequences are undesirable.

A literature study showed this problem of infrastructure replacement had not been studied and reported in Australia and *that* there had been very serious problems of infrastructure decay in other countries. During the course of this inquiry, the Committee took particular note of problems which had occurred in the United States and the United Kingdom and in May and June of

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

1985 I studied infrastructure decay and infrastructure management in the United States of America, the United Kingdom and Holland, while on a private member's study tour.

Particular examples of crises due to decaying infrastructure are:

Deferral of maintenance of New York's water supply system in the mid 1970s caused an increased rate of deterioration and now there is an estimated 10% loss of water in the supply system. (Author's unpublished notes on interviews with officers of the New York Comptroller-General's Office.)

Water supply system leaks caused a flood in New York's garment district in August 1983. The City has been sued for \$2,000 million (ibid).

In the northern hemisphere winter of 1986-87 four reservoirs in the north of London ran dry as burst mains and pipes drained as much as half of the water put into

supply before it reached the taps. (New Scientist
29th January, Page 27.)

Sections of sewer mains have collapsed in Manchester and Liverpool (Author's unpublished notes on an interview with officers of the Corporation of London's Engineer's Department.)

In the United Kingdom, investigation of a fatal gas explosion found the cause was a large bubble of gas which had escaped from a decayed gas main and seeped into the surrounding soil. Further investigation revealed steel gas pipes had decayed to the extent that gas was travelling through a cylindrical hole in the clay. (King Report, UK, 1976.)

Public Accounts Committee

- Several East River bridges in New York have had traffic flow restricted, due to structural decay. One of them, the Manhattan Bridge, can now carry only two subway trains instead of four (op cit).

An elevated section of the Miller Highway collapsed in mid-town Manhattan, fortunately without loss of life (op cit).

In the United States of America, the percentage of miles of Interstate Highways in poor condition more than doubled in the period 1978-80. The Comptroller-General

of the United States reported to Congress that:

"Billions of dollars will be needed to preserve these roads, and if timely action is not taken, deterioration will accelerate and even more money will be needed for reconstruction."

(Deteriorating Highways and Lagging Revenues: A Need to Reassess the Federal Highway Program, Report to the Congress of the United States by the Comptroller-General, March 5, 1981.)

- In 1980, 25% of bridges in the North East of the United States of America were reported to be structurally deficient. ("Federal Bridge Inventory, 1980", cited in "Financing Public Physical Infrastructure" a report of the Advisory Commission on Intergovernmental Relations, Washington DC, June 1984, Page 40.)

We commenced the inquiry with the intention of completing it within a year. In fact, it took over two years: from February 1985 to April 1987. There were two major reasons for the blowout of the planned schedule:

more effort than planned was required to obtain basic information; and

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

analysis of the information obtained frequently exposed issues which the Committee believed it should pursue in respect of particular agencies.

The required information could not be obtained simply by asking for it. There was no point in asking, "What is the age of each of your assets and its economic life and its replacement cost expressed in 1985 dollar values?" To obtain useful information, the ideas underpinning the inquiry had to be described to

personnel in Government agencies. We were not just seeking

information. We were dealing in new ideas; a new way of thinking about asset management information. We had to get people to understand the ideas before they could usefully discuss the problems they were having in obtaining information for the Committee. This interaction was necessary to ensure reasonable uniformity of information generated across agencies and reasonable

conformity with the Committee's information categories and accuracy requirements.

As the Committee came to understand the asset situation and the asset management style of each agency, there emerged numerous issues which the Committee explored further. Some apparent issues were found to be of little consequence but others were very important.

The drive for higher standards was found on occasions to be funding driven or professionally driven rather than needs driven. The following facts were discovered during the inquiry.

- The ratio of total electricity generating capacity to maximum power generation capacity of power stations had been increasing over time.
- Some roads were being replaced more frequently than their stated economic lives.

Public Accounts Committee

- Surplus classrooms were not generated at the same rate that student numbers declined. Over a 10 year period, the average floor space. per high school student increased by 50%.

- The cost of in-house refurbishment of railcars was not included in a Cabinet submission which the State Transport Authority drafted to support a proposal to purchase new rail cars.
 - Upgrading of public housing after about 45 years cost 25% of the original purchase cost, in real terms.

Scope for rationalisation had been acknowledged in areas such as health and education but had not been pursued vigorously. A Report of the Enquiry into Health Services in South Australia (1983) had found scope for a significant reduction in the number of hospital beds but when the Committee's inquiry began, little evidence existed to show real effort was being made to achieve rationalisation. Since the publication of our Report on Hospitals Asset Replacement two major proposals for amalgamation and rationalisation of hospital services have been announced.

The scope for redesigning pipe networks and planning a more efficient design for replacement mains was known by the Engineering and Water Supply Department but actual work of redesigning had not passed beyond discussion at the .Committee staged.

Similarly, it was found that water authorities in the various States were monitoring each other for research and design developments but, until recently, little research was being conducted for the purpose of reducing replacement costs or extending economic lives of water mains and sewers. (I believe that about a year ago the Sydney Metropolitan Water Board began a research and development program.)

May, 1987

Responsibility for school buildings is divided between the Education Department and the Department of Housing and Construction in a way which inhibits good management.

I turn now to the major findings of the inquiry.

The total asset replacement that is projected to fall due in the next 50 years is given above in Figure 1.

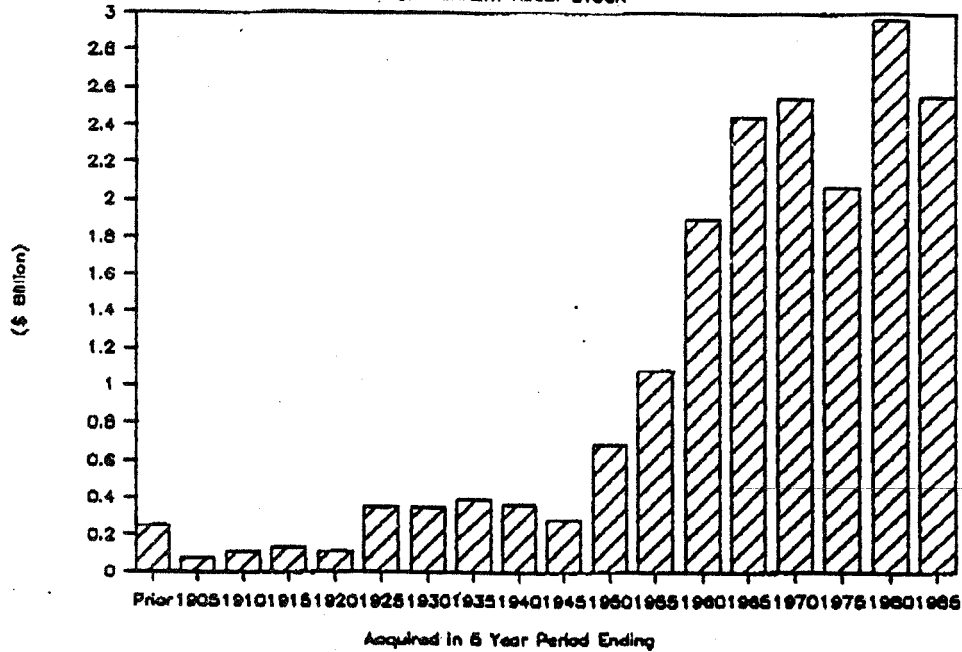
This shows that replacement is due to increase sharply over the next decade and to continue growing till around 2010. Then it is expected to fall back a bit. However, the average level in the second half of the period is still over twice as high as current replacement activity.

The 50 year projection has been used to show that replacement never again falls to levels as low as we are currently experiencing.

The cause of the sharp increase in replacement falling due and its continuation at a high level in the long run is demonstrated by Figure 2 which shows the amount of new assets constructed in past periods.

FIGURE 2

APPROXIMATE AGE DISTRIBUTION
OF CURRENT ASSET STOCK

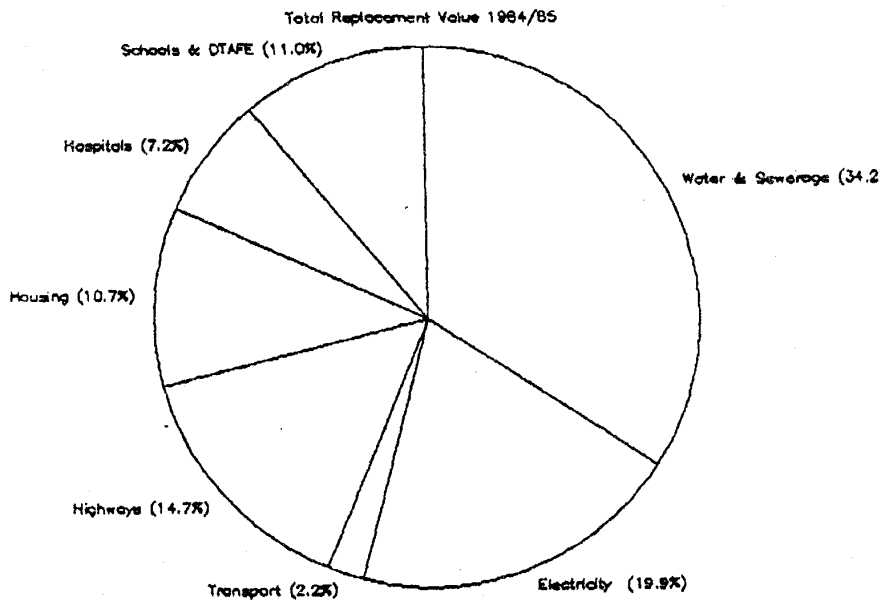


Note: Water mains and sewers constructed 'post-1955' have been distributed evenly over the period 1956-85, and this will underweight the peak construction period from the 1960's to the mid 1970's and overweight the last decade. Some other assets have also been evenly distributed where insufficient age data existed.

About \$2.11 billion in assets, treated in the agency reports, have not been included in the graph above. They include sewage treatment and pumping stations, dams and reservoirs, train stations and signalling devices, small hospitals and education assets other than buildings. the above figures are therefore conservative estimates of total assets of various age.

May, 1987

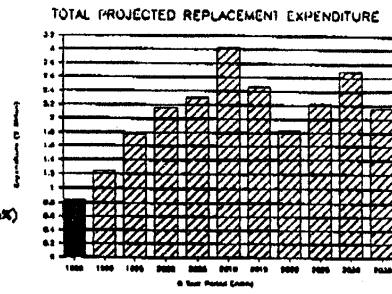
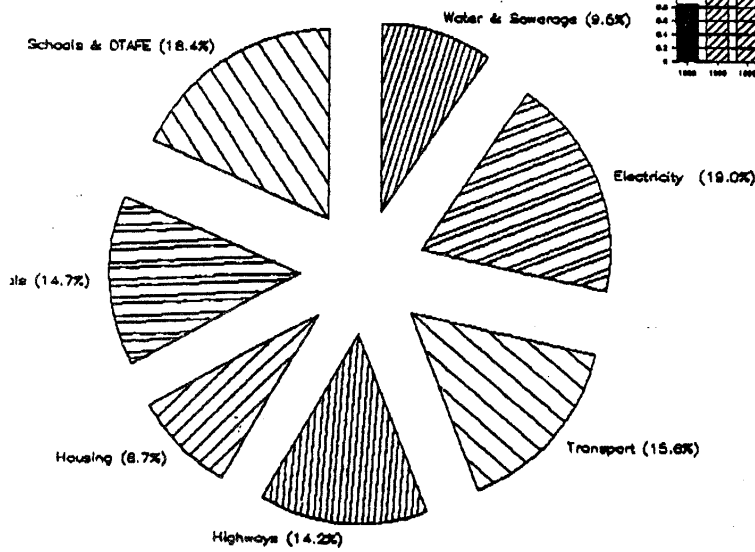
FIGURE 3
DISTRIBUTION OF MAJOR STATE ASSETS



Asset	Total Repl. Value 1984/85 \$M
-------	-------------------------------

Housing	2237.0 :
Electricity Supply	4144.5 :
Public Hospitals	1498.0 :
Highways	3065.7 :
Transport	450.7 :
Water Supply and Sewerage	7130.9 :
Schools & Colleges	2295.0 :
TOTAL	20821.8 :

FIGURE 4
CURRENT ASSET REPLACEMENT
ESTIMATED FOR 1981-1985



Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

Of course there were other benefits. An intense study, such as this, across major Government agencies, provides an excellent opportunity for examination of decision-making and accountability. Issues of concern to the Committee were a major element of each of the specific agency reports and the summary report.

The Committee identified the need for a major change of attitude towards assets. There is a need for managers at the most senior as well as middle ranks to become asset managers. In the past, there have been two archetypal groups:

- asset users, such as education, welfare, police, hospitals;
- asset constructors, such as housing and construction highways, Housing Trust, engineering and water supply, electricity supply.

The asset constructors tended to find construction solutions to every problem, even if administrative solutions such as demand management may have been more economical and more appropriate. (If the only tool you have is a hammer, all problems look like nails). While this was generally the case, there were notable exceptions. The Electricity Trust and the Engineering and Water Supply Department have both been involved in demand management, although the Committee believed there to be scope for much wider application, particularly in the case of the Electricity Trust.

The Education Department is a typical asset user which I have selected for illustration. There has been a clear need for new schools in developing outer suburbs, although the total population of school students has been declining. The Education Department did not attempt to provide its services from a constant asset stock. Rather, as new schools were needed, it added to its stock, although it did shift transportable buildings from sites where they were not being used. With an overall increase in building space, cleaning, maintenance and refurbishment costs have all

Public Accounts Committee

increased. One effect was a deferment of necessary maintenance, which will simply increase maintenance and refurbishment costs out of proportion with the temporary 'savings'

As a step towards improving asset management, the Committee recommended *that* attention be given to the long-run cost of refurbishment at the time construction of new assets was being considered. There is a limit to the asset stock which can be sustained in the long term. This means, if we are to add new assets, we will have to abandon some old assets, possibly reducing or eliminating the Government services those assets were providing. That situation has already been faced with respect to staffing levels. Asset management requires a similar approach.

The role of the Commonwealth Government in providing specific purpose grants for *certain* capital works has significant consequences when those assets fall due for replacement. In the USA, it has been recognised that the Federal Government has to switch its State grant funds from new asset construction to refurbishment and replacement. The longer we delay this switch in Australia, the worse our future asset replacement problems will become.

Other findings of the Committee were:

- As a result of this inquiry, the State now has an opportunity which was not available to the United States of America when it was in a similar position some 10 to 15 years ago. Because the problem has been identified, we are now in a position for action to be taken without resorting to extreme measures in 10 to 15 years time.
- Funds will be available for asset replacement if appropriate switching occurs. Allocation of funds will not only have to occur from new works to replacement but also between agencies which have different peaks and troughs in asset replacement falling due.

- Immediate action on forward planning in respect of asset management in most agencies should focus on ways of reducing the size of foreseeable problems.
- There is scope for reducing the size of asset replacement problems identified by the Committee. This may be achieved by:
 - (1) reducing the asset stock by rationalisation;
 - (2) extending the life of existing assets;
 - (3) developing cheaper methods for replacing aged assets, by way of applied research and development activities aimed at reducing replacement costs; and
 - (4) reviewing standards.
- The quality of economic analysis supporting capital proposals needs to be improved. The use of independent outside review either by agency management or by the review panels of the Public Works Standing Committee or the Sub-Committee of Physical Resources and Development would be a valuable aid to improved decision-making.
- Public sector managers must expect more careful scrutiny of capital works proposals (both for new works and replacement), and therefore must be prepared to supply more information, data and careful analysis in support of all proposals.
- Proposals for revised use of old assets should be treated to a full economic analysis, as for new assets. We cannot afford to simply keep adding to the stock of replaceable assets, without considering the implications for their upkeep and replacement.

Public Accounts Committee

- Improved management information is required in many of the agencies studied during the course of this inquiry.
- Maintenance records should distinguish between routine maintenance and the extraordinary maintenance which is asset replacement. This information is needed for determining economic life of assets.
- Accrual accounting should be adopted by all *Government* Departments and State instrumentalities with significant assets. Depreciation of assets should be reported on the basis of current replacement cost.
- Financial reports should include balance sheets.
 - Where capital assets, land or buildings, are sold the proceeds obtained represent a once-off gain. *Government* Departments *must* not be allowed to apply funds from liquidation of property to support ongoing operations.
 - Central agencies such as the Department of Housing and Construction, Treasury and the Government Management Board, should reconsider their role in relation to asset management. There is clear need for coordination and for leadership in respect of changing attitudes, understanding the issues, setting directions, determining priorities and reporting to Parliament.- The long range of the various central agencies should be determined with respect to asset management.
 - The Commonwealth Government should be involved in, and asked to contribute to, the replacement of assets which originated through Commonwealth grants and where it is deemed necessary *that* the asset be replaced.

I suggest that each Public Accounts Committee could find it very worthwhile to undertake a similar exercise.

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

There has been a tremendous amount of interstate interest shown in the series of reports on asset replacement and I believe some work may have begun in specific agencies, especially some water supply agencies. Therefore, I would suggest a survey by questionnaire to determine the state of management information on assets, perhaps by asking questions such as the following.

- Is the replacement value of your stock of replaceable assets known? If so, what is its value in June 1987 dollars?
- Is the annual rate of depreciation (calculated on the basis of replacement value) of your asset stock known? If so, what is its value in June 1987 dollars?
- Do you have a schedule of the cost and timing of asset replacement falling due across an extended period, say
30
in
years? If so, please supply a copy with costs stated
in
June 1987 dollars.

Even if this information is available from all agencies, there is an important job to be done in collating it. If the information is not readily available, then a large amount of effort may be required to collect it. The larger the amount of effort required, the poorer the current state of management information and (very likely) the poorer the state of asset management. Thus, I could argue *that* the more difficult the task is, the more important it is that it be done.

It is particularly important to obtain enough information to ensure that:

either - your Government has no significant long-term asset replacement problem;

- Immediate action on forward planning in respect of asset management in most agencies should focus on ways of reducing the size of foreseeable problemso
- There is scope for reducing the size of asset replacement problems identified by the Committee. This may be achieved by:
 - (1) reducing the asset stock by rationalisation;
 - (2) extending the life of existing assets;
 - (3) developing cheaper methods for replacing aged assets, by way of applied research and development activities aimed at reducing replacement costs; and
 - (4) reviewing standards'
- The quality of economic analysis supporting capital proposals needs to be improved. The use of independent outside review either by agency management or by the review panels of the Public Works Standing Committee or the Sub-Committee of Physical Resources and Development would be a valuable aid to improved decision-making.
- Public sector managers must expect more careful scrutiny of capital works proposals (both for new works and replacement), and therefore must be prepared to supply more information, data and careful analysis in support of all proposals.
- Proposals for revised use of old assets should be treated to a full economic analysis, as for new assets. We cannot afford to simply keep adding to the stock of replaceable assets, without considering the implications for their upkeep and replacement.

Public Accounts Committee

or - sufficient warning of a pending problem is given to allow time for planning and preparation to avoid the disasters that have occurred overseas.

5. EMERGING ISSUES IN PUBLIC SECTOR ADMINISTRATION

MR R. G. HUMPHRY, AUDITOR-GENERAL, VICTORIA

I would like to talk to you about three emerging issues that I think are most important to public administration.

The first has already been touched on this morning, and that is the relevance of cash based reporting, but I will be dealing with it in a slightly different way to that of Ken Robson. Also, I think the adequacy of public accountability, given the increasing use of non-statutory bodies as instruments of government policy, is an area that Public Accounts Committees would be interested in, and finally I would like to talk to you about the need to directly influence research into standards which determines the quality of financial reporting in the public sector and forms a very large part of the information that is available to you in the parliament.

First I would like to provide some statistics, which I think you will find interesting. Last February the Financial Review

published its annual student economic brief, which I always find very interesting. It stated that the debate over the role, the size and the reforms of government was probably the most important economic and political debate of the late *twentieth* century.

It went on to say that only a few people can define the public sector, that fewer still have any idea' how its size can be measured and perhaps only a handful can offer any practical suggestions as to how it might be made more efficient and

effective. Now, in Australia, as we know, we have eight

governments and parliaments or assemblies, each with their own budgets and tax systems, over 200 departments of state, in excess of 800 local government bodies, literally thousands of statutory bodies and agencies and, more recently, and I think very

Public Accounts Committee

significantly, increasing numbers of companies, either wholly-owned or operating in joint venture with the private sector.

The level and composition of government outlays is, of course, essentially a political issue, but no doubt you would recognise that the administration is directly affected by it. I thought

might run very quickly through a recent report *that* has been issued by the OECD which has shown *that* over the last two decades the general level of government expenditure has grown on average about 21 percentage points and now is approaching 50 per cent on the gross domestic product of member nations.

Put another way, it means that there has been on average about a 2.9 per cent per year growth in excess of the economic output of member nations. The OECD report pointed to the increasing role that governments have assumed during the period; particularly in the areas of redistribution of income and the collective welfare state, controlling economic perturbations, coping with ageing

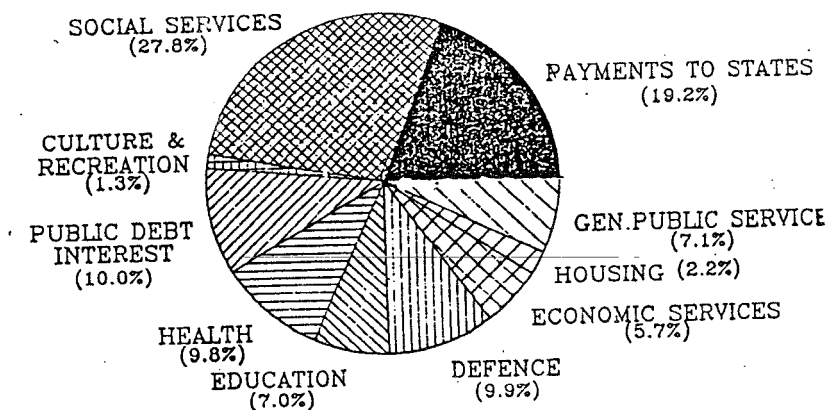
populations and expanding their health programmes. It also pointed to the increasing influence of public sector outlays on world economies.

In this environment the US has experienced its third successive year of budget deficits in excess of \$200 billion. Over the same period Canada has chalked up deficits around \$30 billion and they are now required to set aside in excess of one quarter of their federal outlays simply to service debt.

Here in Australia, we spend 43.3 per cent of Gross Domestic Product on our three levels of government and of those outlays we spend about 10 per cent servicing debt. I think in all of these circumstances it is really not surprising that attention is now focusing on the level of outlays and hard decisions are being taken by governments. But the problem, you see, is not just limited to the aggregate level of outlays. There is also the question of the composition of those figures, and it is not always apparent *just* how locked in public sector outlays really are.

ESTIMATED FEDERAL OUTLAYS BY FUNCTION 1986-87

TOTAL: \$74 636m.



At our federal level we only appropriate about a third of our total outlays and put them through the normal parliamentary process of scrutiny. The other two-thirds are already locked in to standing appropriations or transfers to the States, and of the one-third that is actually appropriated annually, about 85 per cent is already committed to ongoing programmes, so only 15 per cent is available for new initiatives to be introduced. If we took this figure as an aggregate of the total outlays it means that only about 5 per cent of our total outlays have any real flexibility in them for decision-making, without major shifts in policy. The recent May statement illustrates this point because while those cuts are significant, as the media has reported - and significant in dollar terms, at about \$2 billion, and they certainly will cause difficulties, particularly to State administrations - the expenditure cut is still only 2.6 per cent of total federal outlays and, given the effort that was involved by the federal government in achieving those reductions, I think it illustrates the problem of tackling major restructuring in the public sector. I liken it to an elephant that is underway and very, very difficult to turn around.

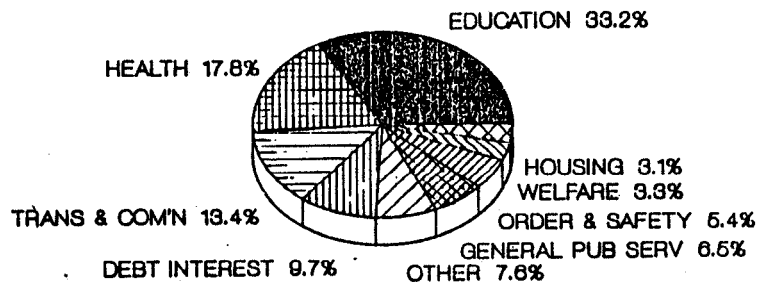
Public Accounts Committee

Overseas the experiences are the same, In the US only 25 per cent is subject to what is the equivalent of an annual appropriation, and in Canada about 36 per cent.

Some of the expenditure sectors included in the above chart are not only very large in their own right but they are growing as a proportion of the total outlays. For example, social services is up 33 per cent over the last 10 years to now 28 per cent of the total outlays at the federal level, and I think the demographic structure in Australia, with a generally ageing population, will ensure that there will be continuing growth in this area unless major changes in policy occur or are forced on governments.

There is also continuing pressure on education and health sectors, and defence is heavily committed to future expenditures. The public debt interest - PDI - now locks out \$7.5 billion from alternative use and, of course, any further deficits and increases in interest rates will only increase that proportion.

ESTIMATED STATE OUTLAYS (VIC)
1986/87 - BY FUNCTION



TOTAL \$10 667 m.
(1976/77 \$3 593 m.)

Insert Graph (State Outlays - Vic)

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

At the State level, we also face significant lock-in of outlays, and Victoria's break-up, I think, is indicative of the problems that are facing all States. Education, health and transport are all under pressure, significant pressure, to expand and are very difficult to control, both in political and administrative terms. So it is in that context that I would like you to consider the continuing relevance of our present cash-based accounting and reporting system in the budget sector.

Let me tell you of some interesting statistics issued by the Comptroller-General of the United States. He heads the General Government Accounting Office of the US, which is the administrative arm of the Congress. The international chartered accounting firm of Arthur Andersen and Company was commissioned by the Comptroller-General and subsequently produced a report which was entitled "Sound Financial Reporting in the US Government, A Prerequisite to Fiscal Responsibility". That was issued in February of 1986.

The report included a comparison of the present cash-based system with results which would be reported if generally accepted accounting principles (GAAP) were applied. That is, principles which recognised future obligations at the time that the decisions were taken and took on board asset valuations. It provided,

think, a very enlightening, yet worrying, picture - a picture of government's true financial position when those principles were applied.

The study dealt with the 1984 year when the published cash deficit figure was \$185 billion. or 5.2 per cent of the gross national product. After applying GAAP to show the true deficit, the figure blew out to \$333 billion or 9.3 per cent of the gross national product..

But of greater concern was the issue Of figures on public debt. Based on a cash basis the figure published was \$1.3 trillion. Under GAAP it was conservatively estimated to be \$6.1 trillion and

Public Accounts Committee

this compares with the aggregate market value of all of the securities listed on the American stock exchanges of about \$2

trillion. This raises, I think questions about long-term

financial viability of US Federal Government administration and yet this issue has received very little publicity. There is still a preoccupation with cash deficits, not on the real deficit, which recognises such items as undefined liabilities, of accruing employee entitlements and of commitments to future contracts.

I think it also is underscored by the financial crisis of New York City a few years ago where the problem was compounded by payments of previously unrecognised accrued liability of employees suddenly having to be met.

Now, we do not know our financial position in this country at the federal or state level and that, I think, has significant implications for decision-making by governments and for the review functions that parliaments perform.

What we presently focus on, because there is really no other information, is the cash deficit which, of course, is very important, but does not measure the movements in our net wealth and whether that wealth is increasing or decreasing. I raised these issues in my First and Second Reports for 1985/86, arguing that to effectively manage its operations any entity, whether it is in the government sector or the private sector, needs reliable and timely information, not only on revenues and expenditures but also on the full costs of operations, together with the recognition of assets and acknowledgement of commitments as they are incurred.

CAMM ACCOUNTING LIMITATIONS

NO RECOGNITION OF COMMITMENTS

ASSETS

DEPRECIATION

ACCRUAL COSTS/REVENUE

FULL COSTS NOT KNOWN

LACK OF INCENTIVE TO PLAN/SET PRIORITIES/MANAGE/MEASURE
RESULTS

MEASUREMENT BY CASH FLOW - EFFICIENCY

ACCOUNTABILITY LINKED TO CONTROL NOT RESULTS

I argue that without accrual based information, it is very difficult if not impossible, to carry out many of the crucial functions of government and the parliament. For example, the decision-making at government level. In my view cabinet is not presently fully or adequately advised for its decision-making, particularly in putting together the budget, if information is limited to revenue and expenditure, cash flow considerations.

That is not a criticism of the bureaucrats of the Treasuries and Departments of Finance that provide advice. They do the best they can with the information that is available. But I am suggesting that all of the relevant information is not present. We do not have or maintain adequate asset registers with current values of all of the resources that are available to us and as a consequence we do not manage our assets. We do not adequately recognise the emerging costs of commitment levels and consequently do not effectively manage our obligations. At the federal level I know

Public Accounts Committee

we maintain an obligations register but I believe it is not a sufficiently **accurate** record of the level of real obligations that face governments.

I do not see how we can determine accurate pricing levels or user charges unless we recognise all of the costs of providing a service, not just simply the cash outlays. How does the public service manager manage efficiently in an environment in which he does not have knowledge of, or control over, all of the resources utilised other than cash?

Ken Robson touched this morning on program budgeting and I agree with him that it is probably one of the most significant administrative reforms that has occurred over the last decade. Nevertheless, program budgeting information, which is limited to the cash spent on that program during a year, does not tell you what the project is costing nor whether the project is necessarily achieving its policy objectives.

Also at the aggregate level, I want to know whether Victoria is improving in terms of net equity or whether they are going the other way and I want it shown by way of financial reports to the parliament.

You might also be interested in some of the reactions from bureaucrats, some of whom are resistant to change from a cash based system. These comments are not just from Victoria but at the federal and other state levels as well.

I have heard that it would be very courageous for a government which would be prepared to identify the extent of obligations and the true financial position. They feel that a government would not survive five minutes politically. They have raised the question of how you measure community assets such as parks and statues and other things, arguing, of course, that you cannot; and how do you put a financial value on what is essentially a social service? One particularly cheeky commentator said to me, "How would parliament be valued under such an arrangement?" and, "Would

it show as an asset or a liability in the financial statements". And, of course, it was also argued that the information might be useful to enhance decision-making, but would parliament really know how to use the information properly and, in any event, it would be a very costly exercise to carry out.

All of those views, for my part at least, simply reinforce the need for change and I find it difficult to accept how anybody could not want to know what their actual financial situation is. To remain ignorant is in my opinion, dangerous. I think there are many more advantages to knowing your true financial position than disadvantages not the least because it provides us with options for financial management which are simply not known to us at the moment.

To those of you who may be a little concerned about this whole initiative, I should say that the adoption of accrual concepts does not mean simply applying a corporate model to the public sector. That is not appropriate. The government sector is different and needs special thought and care and we would need to move fairly slowly to ensure that we did not make any major mistakes. Also, the magnitude of the changes that are involved would require significant changes of attitude within the bureaucracy and this would take time to achieve. However, I do not think these enhancements to our financial information would involve heavy costs if implemented with due regard to materiality

It also does not mean *that* the present process of cash budgeting would be discontinued, because we would still need to control cash flow. It is still a very necessary *part* of management, but it is also only a subset of information available when accrual systems employing accrual concepts are in place.

I should also say *that* many Australian governments are already putting in place the necessary building blocks for the adoption of such a system. They are creating asset registers, making sure that they are up to date. They are moving towards identifying

Public Accounts Committee

their liabilities and state debt. I think Victoria, New South Wales and South Australia now publish a statement of debt and as Percy Allan mentioned yesterday the Premier's Conference proposed that the Bureau of Statistics publish in future an estimate of State debt for each State. So I would suggest that this is one issue that Public Accounts Committee members might consider.

The second issue I want to discuss with you is the adequacy of public accountability mechanisms given the increasing use of non-statutory bodies as instruments of government policy. In recent years we have seen an acceleration in the trend of greater public sector involvement in companies, trusts and joint ventures. The main reason has been to facilitate private sector or government equity participation in major investment projects, generally through the placement of share capital.

Most Australian governments are now actively involved in corporate activities. At 30 June last year there was in excess of

\$65,000,000 invested in companies where the Victorian government had an ownership greater than 50 per cent, but there were also substantial loans which add to that figure. Since then the number of companies that have been established in which the government has an interest has increased substantially as part of the Victorian government economic strategy to develop enterprise, industry and employment prospects in the State.

There are also many educational institutions which are now investing in companies. So it is a burgeoning industry. While it is the prerogative of government to extend its activities into the

corporate sector, I think it is also quite vital that accountability mechanisms not be overlooked.

The Victorian Economic and Budget Review Committee did address this issue of accountability in its sixteenth report which was tabled in November 1986 and it demonstrated that the powers and scope of activities of these companies can often substantially

exceed those of statutory parent bodies. Effectively, what they can do is extend their powers and scope of activities which have initially been established in legislation by the parliament.

Further, there is generally no formal requirement for ministerial approval to be obtained prior to the establishment of these companies, and to date, in Victoria at least, no policy guidelines setting out the responsibilities and duties of company directors have been issued, although I know that my good friend, the Comptroller-General, is working on it.; The annual reporting requirements have also not been formalised in legislation, although companies are subject to normal requirements of the

Companies Code and the Annual Reporting Act also requires consolidated reports to be prepared by the parent body.

It is not possible, however, to prepare meaningful consolidated reports when the parent body is cash-based and the subsidiaries are operating on accrual accounting, which they are required to do under the Companies Code. But the Companies Code only provides for shareholders. It does not require or contain any provisions for reporting either to ministers or to the parliament.

A cursory investigation by my Office into an area in Victoria has shown not only a large number of companies being set up, but in some instances are cross-investing with each other and also creating further levels of subsidiaries. At the moment I do not have access to those financial records and the Auditor-General is

In my Second Report that I tabled this year I reported in detail on the issue and have made a number of recommendations; firstly that the creation of companies, trusts and joint ventures should be subject of ministerial decision; secondly that they should be authorised under formal legislation, which requires the objects of the companies to be consistent with the powers and objectives of

Public Accounts Committee

the parent body that is creating them, and, to ensure proper accountability, that a consolidated record of public sector investments and types of arrangements be established.

I would also like to see reporting requirements established in legislation, including reporting to the parliament, and I would like to see guidelines issued detailing responsibilities of directors in respect of accounting and reporting and that the appointment of auditors be mandatory. Now, as I mentioned earlier, the Victorian Comptroller-General is addressing the issue but I think that Public Accounts Committee members might consider verifying that adequate procedures are in place in their own States, because it is not an issue that is confined to Victoria.

The third issue, which I think is important to bring to your attention is the need for parliaments to become more involved in influencing the direction of accounting standards which determine the quality of reporting and that underpins your various annual reporting legislation. Parliament is the major end user of reports produced by public sector financial bodies and has the opportunity to determine the manner in which that information is presented, but your needs have to be known and communicated, not only to policy-makers and public sector bodies, but also to the preparers of standards in the accounting profession and to the increasing interest that is now being shown by the academic community in working in areas of government, I am pleased that Professor Bob Walker has attended this session because I know that he takes a particular interest in standards development.

The information needs of parliaments are generally not understood, and I think that Public Accounts Committees could play a very *important* role in what on the surface might appear to be a dry subject but which actually has deep significance for the quality of information presented to parliaments. Committees could analyse what information is needed and perhaps *continue* this activity as an ongoing exercise.

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

The Public Sector Accounting Standards Board alluded to earlier is now completing its fairly extensive research into concepts and principles which should apply in the public sector. Similarly, there is a great deal of interest overseas in achieving the same objectives. While these activities are aimed at enhancing the quality of information that is available, there are a number of issues which would be assisted if PACs became involved and I would like to give you some examples which might illustrate this matter.

There is a present standard which is in force in most public sector enterprises which requires a particular treatment for foreign currency transactions. Now that particular standard, AAS20, is going to almost certainly be modified shortly to require immediate recognition of the effects of exchange rate fluctuations on long-term foreign currency borrowings by the corporate sector.

The initiative appears to have the support of the ministerial Council of Attorneys-General, the National Companies and Securities Commission and the government's Accounting Standards Review Board, which only deals with the corporate sector. The application of this standard in the public sector, however, will have major implications for many of our statutory authorities. It could result in very heavy losses being reported in the financial statements rather than the normal run of profits and that could impact significantly on State budgets and could alter pricing for community services because of the methodology employed by governments in determining dividends and prices. Future financial positions of these authorities will fluctuate with the fortunes of the dollar.

Technically, however, the proposed variation to this standard will result in more accurate financial information being conveyed, but there may also be social and political considerations which should be taken into account before it is employed in public sector.

Public Accounts Committee

There are other developments where I think PAC members' views would be of assistance. For example, are you happy about the emerging practice of discounting liabilities where future payments are fixed in dollar terms? The practice is attractive to many of our organisations that are concerned with insurance or compensation payments, and the amounts involved are very large indeed.

Your views on the reporting of community assets such as parks, roads, art galleries, would also be helpful and the same would apply to goods and services provided free of charge. Are you happy with the present practice of self-insurance and its lack of recognition in financial statements and, perhaps most importantly, do you think accrual accounting concepts would be usefully employed in the budget sector? Are you satisfied that proper policies are in place to deal with debit defeasance arrangements?

What I am talking about is not seeking from you a technical input but simply your views on what information you need to satisfy your needs. A research study in the US found that in the main the US Congress relied mainly on the media to obtain information on tabled reports. Many members could no longer cope with the volume and the technical structure of the reports and I think that perhaps a similar situation might apply in Australia.

We need an improved and, I think, simplified form of reporting and you can help us in developing *that*. The Public Sector Accounting Standards Board has developed a progress report which gives the status of projects and its work program and I have brought a few copies along. It will provide background information on this subject, but your respective Auditors-General are aware of all of these issues and I am sure would be happy to discuss them with you.

6. ACCOUNTABILITY: PAST, PRESENT AND FUTURE

KEN ROBSON, AUDITOR-GENERAL OF NEW SOUTH WALES

My task today is to address accountability in the past, where it presently lies, and what directions it can or should go in the future. As far as future direction is concerned, I will commend to you the thoughts of the next speaker. However, I will submit to you now some of the issues that I consider are appropriate.

A lot of my remarks and references in this paper will be in relation to New South Wales as it is the area in which I am most familiar and I personally believe that in this State a great deal has been achieved.

Until the early 1980's, the public sector was not required to have recourse to accounting standards. In fact, they were virtually unheard of. The result was that organisations produced financial statements when they liked and included in them whatever they liked. Compared to present day standards they were nothing short of a sham.

Cromwell fought hard for the principle that no money should be spent without Parliament's approval. In New South Wales the earlier Audit Act however anticipated that the rule could be broken by providing that the Public Accounts Committee could examine any "unauthorised" expenditure and that Parliament would approve it ex poste facto. New South Wales Treasurer Waddell proclaimed in 1902 that the business of Government would not be disrupted over a technicality, and therefore that spending should continue after Appropriations had expired., It was up to the next Parliament to ratify the action taken. This system was shown to be nothing more than a rubber stamp approval.

Public Accounts Committee

The newer Public Finance and Audit Act has not abandoned the philosophy of continuing government but has legitimated the underlying practice - so long as the Treasurer allowed and the Governor approved. The ability for examination by the Public Accounts Committee and Parliament has been strengthened. My predecessor commented in 1984 that the Public Accounts Committee was the modern day equivalent of Cromwell's army, and can bring the activities of government under Parliamentary review. I can only add that I too am pleased to see that the sword remains sharp.

Coupled with the revamped finance and audit legislation has been a series of annual reports legislation. I will address some issues later. For now I would sincerely hope that Parliaments realise the need for updated modern Finance Acts and where they have been updated, to be ever alert and keep them up to date.

ACCOUNTABILITY - CONCEPTS AND ISSUES

I will speak to you firstly about general issues of accountability.

Accountability in its simplest terms presumes that there is one party to allocate responsibility and another who accepts that responsibility and undertakes to report the results. Traditionally, financial statements by which governments report operations have been based on reflecting Parliamentary appropriations and demonstrating stewardship. This had led to limitations on the scope and value of the Public Accounts. Where statutory bodies had been concerned the problems were even greater in many cases. The need to report in that way is important but there is a need for wider accountability in terms of the total resources under Government control.

There is a burning need, with the economy in the state that it is, to ensure that there are no legislative or policy requirements which maintain uneconomic services which use up resources. It is

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

equally necessary to ensure that remedial action is not hindered by political considerations when work practices should be challenged.

In a democratic system, particularly in a federated nation, there is a concern that accountability is especially difficult to define; for without an adequate definition there will be problems in finding solutions. What is accountability? Is it only answerability? If so, where does it lie? Is it a duty of the Parliament to the people - that is, the taxing organisation to the workers and the, profit makers? Is it the duty of government agencies to the Parliament and, in a federation, which agencies and which Parliaments? Which is the more important? Are they separate or part of the same thing?

As I see it, there are three main parties to the type of

accountability I seek to define. First, there are the Treasuries which prepare budgets; secondly, the Auditors-General who ensure compliance and thirdly, there is Parliament with its various institutions which assist in the overall process. For the third party I have in mind the Public Accounts Committees (or 'similar committees using other titles) where reviews are made on the distribution of resources.

In Australia these concerns with such issues as inadequate accounting controls, the lack of compliance with legislation and established procedures have been and' are being addressed by such bodies as the Public Accounts Committee and the Auditing Standards Board of the Australian Accounting Research Foundation. The fact that the State Treasuries have introduced program budgeting is indicative of the forthcoming need for auditors and management to analyse transactions and operations outside of the traditional financial framework.

Recognising the importance of public sector financial reporting also explains the formation of the Public Sector Accounting Standards Board within the Australian Accounting Research

Public Accounts Committee

Foundation. The purpose of the Board is to promote the development of general purpose public sector reporting and is concerned with all three levels of government. The overall objective is to provide users of public sector financial statements with meaningful financial information, but at the same time recognising that some public sector issues are unique to their operating environment. However, the need for the other reviewing bodies does not merely rest with these bodies.

The establishment of bodies such as the Public Sector Accounting Standards Board, and the increasing levels of consultation between the reviewing committees and the Auditor-General, are mechanisms whose ultimate objective is to disclose the effectiveness of government operations at the various levels. Co-operative efforts of these parties will hopefully lead to uniformity and accountability.

If the Parliaments, particularly in the States, cannot or will not properly examine the budget so that it becomes merely a formality for approval then the promotion of efficiency and economy falls to the Auditors-General and the respective Public Accounts Committees. The obvious failings of this approach are that the resources have already been expended and therefore any reviews which look to the past can only be useful for the future. In the meantime, large amounts of money may have already been wasted. Also it is much more difficult for reviewing bodies to assess performance when the overall objectives of the Parliament have not been adequately expressed. While it is not an easy task, it is certain that there is a need to define accountability standards and encourage uniform introduction.

The New South Wales Public Accounts Committee in its 16th Report indicated that accountability requires the transmission of meaningful information and a system of internal review designed to report on how the organisation meets its objectives in an efficient and effective manner. As Auditor-General I agree with this finding, adding that the independent and regular external audit is a valuable contributor to the process.

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

One way to transmit meaningful information is by introducing program budgeting. It is important for the Government to decide what programs and activities are to be undertaken, how to allocate resources to those programs, and account for those resources and assess their results. To my mind the key word is "program" - it is a word which denotes continuity in activity. It is for *that* reason *that* historical information alone is inadequate. Since program evaluations usually take place at a common point in time, traditionally the 30 June, then some form of accrual accounting is the only equitable comparison value between programs. How else can you properly compare programs unless the "matching" concept used by accountants is applied. It is too easy to manipulate results without accrual accounting.

The Auditor-General's Office is the linchpin in the system of public accountability. The value of such an Office lies in the fact that it is independent and on-site more often than other external reviewing bodies. Auditors-General can therefore be seen as the first external check point. It is part of the role of the Auditors-General to not only give an opinion on the financial position of the organisation but to act as an advisor to the Parliament on public accountability issues and encourage improvement.

Further, the reports of the Auditors-General are scrutinised by the various Public Accounts Committees and may generate enquiries, the results of which not only identify problems and seek solutions for the specific organisation, but the reports of these committees also become vehicles for improvement when studied by other bodies. However, it is equally important that recommendations by the Auditors-General and these committees are not ignored on the pretext that the organisation claims to have insufficient numbers of staff to introduce change or that there is a shortage of funds to finance change.

Public Accounts Committee

There is a common thread which winds its way through several areas, but I would like to address some of them in more detail. The areas I wish to cover are:

- i) Accountability in a Federal System;
- ii) Disguised and Innovative Accounting;
- iii) Program Budgeting Developments; and
- iv) Accrual Accounting

ACCOUNTABILITY IN A FEDERAL SYSTEM

There are some particular accountability issues which arise in a federal system and which I will briefly refer to.

There can be little doubt that there is a basic need for uniformity throughout the nation in the way in which financial data is reported and in the systems of budgeting. It is only in those ways that the Commonwealth and State's budgets and public accounts will be comparable, and that Auditors-General and reviewing committees will be able to assist in encouraging improved accountability and thus enhance the performance of the decision-making process. After all, the idealism of equality and uniformity is exactly the feature contemplated when the Australian Constitution was first drafted. It would not be so difficult to contemplate that in the future there could be common accounting arrangements. The fact that many of the Commonwealth outlays are for ongoing programs and not new initiatives makes it easier to do this.

At present there are marked variations in accounting practices and formats between the States and variations in accounting treatments for moneys such as Commonwealth assistance. These forms of assistance carry particular problems with them. For example, in State accounts this can make it nearly impossible to identify

Commonwealth assistance, determine its extent, and the uses to which it was applied. In some cases Commonwealth funds are

credited directly to the accounts and funds from which they are expended. In other instances they are passed between accounts and

funds resulting in duplicate recording and multiple counting. Frequently they become mixed with State or other funds and may lose their identity completely. Often their labelling in State accounts differs significantly from that used by the Commonwealth.

In the published accounts of some States the levels of Commonwealth assistance have not been disclosed - only the opening and closing balances of accounts to which they were credited is

made public. In its most basic meaning as traceability,

accountability requires ready identification of transfer payments in public financial statements of donor and recipient governments. It also requires a clear and precise indication of the manner and purpose of fund usage.

In past years New South Wales, and I am sure in other States, the process of accounting for transactions outside the budget by the use of large numbers of special deposit or trust accounts had obscured accountability. For that reason, the New South Wales Treasury has been strenuously working to remove any ambiguities and reduce the number of places which had to be searched to get the full picture.

The requirement for annual reports to show all transactions affecting the respective organisation is another step in the process, as is including Commonwealth grants within the State Budget - Of course this process takes time. And there will be some omissions until the task is complete and there will probably also be criticism. One can only hope that any criticisms which are made are both valid and constructive.

To his credit the New South Wales Treasurer recognised the desirability of the public accounts mirroring data contained in the Commonwealth budget Papers. As I stated in my last Report to Parliament, the year saw considerable further progress in standardising account arrangements for the myriad of programs the commonwealth finances or assists.

Public Accounts Committee

Action taken by the Treasurer results in practically all Commonwealth funds since 1985-86 initially being credited to "Commonwealth Payments Accounts" within Special Deposits Account under the same title as they appear in Commonwealth Budget Papers, with subsequent distributions to Consolidated Fund, other Special Deposits Accounts or organisations as appropriate.

Although approaches were made to the Commonwealth Department of Finance to have all Commonwealth assistance paid directly to the State Treasury to facilitate standardised accounting, success was limited due to the decentralised nature of some Commonwealth payment functions. Accordingly, the Treasurer issued a direction in April 1986 that where authorities directly receive Commonwealth moneys *that* constitute grants and advances to the State, the relevant Commonwealth Department be contacted and advised to make future payments directly to Treasury.

As a further development I am pleased to say that for the 1986-87 Budget the general policy adopted in New South Wales was the passing of all Commonwealth payments through the Consolidated Fund except where:

- a) The Commonwealth meets the total cost of a program and the State has little or no involvement in determining the size, scope or composition of the program, or
- b) The Commonwealth independently decides on policies for a program but for constitutional reasons channels funds through the State.

Thus the only significant grants now not treated through the Budget are payments to non-State schools, payments to Universities and Colleges of Advanced Education and Local Government financial assistance grants. In these cases the State Treasury is merely a Post Office.

DISGUISED AND INNOVATIVE ACCOUNTING

When you look at financial statements, particularly in the area of departmental commercial operations, there are marked variations in the quality of disclosure. In most cases, organisations are only too happy to demonstrate their ability to function effectively and economically. In others, the priory aim seems to be to keep "outsiders" as ignorant as possible. Despite meeting the minimum requirements set out in Reports legislation, and I regard them as minimum requirements, these organisations are not able to demonstrate satisfactory performance and therefore engage in innovative accounting practices to conceal the true picture. What some enterprises regard as prudent commercial practices, such as the establishment of substantial reserves, other would regard as a blatant attempt to withhold moneys. One of the consequences is that pricing policies may be completely distorted; another is that there might be pressure placed on the ability of the government to raise revenue.

A statement that you sometimes hear is that accounts have been audited by the Auditor-General and that the report issued has not made any adverse comment about the organisation's financial

- management. This raises the presumption that there is nothing wrong with the organisation at all. But, just suppose an organisation prepares financial statements and there are many subsequent adjustments and corrections made before they are accepted and given a clear audit report. If those adjustments are material, should I report them as well? I generally haven't seen the need in the past although I have on occasions commented on the quality of some accounting systems-. I merely make the comment so that you will be aware that a clear audit certificate does not indicate the effort taken to produce it. And besides, it is my function to report financial position, not question government policy changes that might expect that reserves be utilised for other reasons. As we all know, times are tough.

Public Accounts Committee

I am concerned in some respects, and I have expressed this concern in my Report to Parliament, *that statutory* authorities generate what they call investments, *but* which have the effect of reducing the information flow to Parliament, weaken Parliamentary control over the activities of these "investments", and otherwise allows these authorities to perform tasks which are at apparent odds with their legislation or may be contrary to government policy. While I cannot offer any ready solution to this manifestat ion, I can point to my concern when looking to proper accountability. It is

of utmost importance to maintain Parliament's accountability chain for any subsidiaries, ventures, trusts, etc.. of Departments or Authorities to be subject to audit by the Auditor-General.

PROGRAM BUDGETING DEVELOPMENTS

Program budgeting is the next area I would address.

It is precisely because of the nature of government activity that program budgeting and reporting was instituted. While the current status has some way to go it cannot be rationally argued that the experience has not contributed much to the accountability claim. Although program objectives may be difficult to precisely define, any be implied rather than stated, and there may be conflict in the objectives between programs, it is nonetheless critical that the momentum be maintained.

In New South Wales in 1986-87 program budgeting was fully implemented, with the estimates of all departments and authorities coming within the Budget being presented in a program format. Thus both recurrent services and capital works and services will be appropriated separately but detailed together; and, special deposit appropriations will also be included under the program.

At this stage figures do not include certain service-wide payments made from the programs of other organisations. ie. payments met by central agencies. As can be imagined, some of these cost are substantial. An interdepartmental committee has been recently

Biennial Conference of Public Accounts Committees Sydney 27-29
May, 1987

established to determine whether or not full cost recoveries should be made or whether notional amounts should be highlighted against programs. The Committee is expected to report by the end of 1987, but I am pleased to see further progress is being considered toward improving program budgeting concepts.

ACCRUAL ACCOUNTING

I would like to speak in a little more detail about the need for accrual accounting in the public sector~

If nothing more, public sector activities should be reported in the same way as a private sector organisation is accountable to its shareholders. Financial statements prepared under the

conventions of historical cost do not always reveal the current value of all the resources utilised by the organisation in the accounting period. Thus, when users attempt to interpret the financial statements and when long term assets are held, they are of less value and it might be difficult to assess performance.

While the usefulness of departmental financial accounts which are not prepared on an accrual basis is doubtful, I am unable to certify without qualification that the Public Accounts of the Treasurer and individual financial statements for the departments exhibit a true and fair view.

There has, happily, been a more recent move toward accrual accounting in the public sector-. Where Departments in New South Wales are concerned for example, there has not been the taking up of full accrual accounting, although most of the information can be extracted from the Notes to the accounts or is otherwise

available. How much further can it be to accept that this information should be adopted in the financial statements themselves? I don't think that that step should be postponed much

longer, despite the pain of change.

Public Accounts Committee

At XII INCOSAI held in Sydney in April, 1986, it was observed that only full accrual accounting provides accurate measurements of the full costs of government activity. I commend to you the strengths of the assembled voices of the Auditors-General from all over the world in pointing to the well recognised need for the step to full accrual. It is not much more information than is readily

available in a cash accounting system - all that is being done is that the values are disclosed.

Government is big business and as such there is a demand by the shareholders, and rightly so, for a high standard of accountability. In New South Wales, there have been significant achievements since 1980, including -

- i) the enactment of a new Public Finance and Audit Act which not only provides for improved controls and brings in subsidiaries, but, also gives the Public Accounts Committee more teeth.
- ii) The passing of annual reports legislation for both statutory authorities and departments.
- iii) The introduction and continuing enhancement of program budgeting.
- iv) The further implementation of accrual accounting for stores and plant.

There are other but these are the most significant from my point of view.. Although much has been done there is still a fair way to go.

THE FUTURE

So what does all *that* has happened in the past tell us?

We know that times are tough; and, *that* although accountability was not insisted upon in all quarters, indeed was probably not as critical, it is very much *the* case now.

We know the accounting standards were virtually unheard of in the public sector. Organisations produced whatever financial

statements they thought fit. That has changed with the annual reporting legislation; It is critical that change continues to occur - after all, it is the reporting cycle which ties together all the accountability issues.

We know too that program budgeting is necessary if the full import of government activity is to lead to informed decision making by managers, the Parliament, and even the public. The establishment of interdepartmental committees to look at such things as central agency cost recoveries is but one example of future development. I am firmly convinced that program budgeting must not only continue to be reinforced;

The reinforcement I speak of is accrual accounting for all government operations. The timeliness of financial statements and reports is essential, as is *that* all government activities should come under the scrutiny of the Auditor-General and Parliament. But, I cannot emphasise strongly enough that the single most important development for the future is accrual accounting. I recognise *that* there are and may be problems, but the end result will be improved accountability .

Isn't that what we are here for when we look to government as big business?

PROPOSED 6TH BIENNIAL CONFERENCE OF PUBLIC ACCOUNTS COMMITTEES

The Host Chairman of the New South Wales Public Accounts Committee called for nominations. for the venue for the Proposed 6th Biennial Conference of Public Accounts Committees in 1989.

Delegates resolved to accept the invitation of the Queensland Parliament Member Observer Group to hold the next Conference in that State.

SURVEY OF COMMONWEALTH, TERRITORY AND STATE PUBLIC ACCOUNTS

TYPE COMMITTEES

May 1987

FIFTH BIENNIAL CONFERENCE OF PUBLIC ACCOUNTS COMMITTEE

Sydney 27 - 29 May 1987

Prepared by:

Secretariat

New South Wales Public Accounts Committee Parliament House

SYDNEY NSW 2000

Report contents not available on this medium.