

VICTORIA

First Report

of the

AUDITOR-GENERAL

for the year ended 30 June 1987

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PREFACE

TYPE OF REPORTS

Auditor-General's reports provide information to Parliament on the adequacy of organisations' resource management and comment on any significant deficiencies and corrective action that has been applied. It is the prerogative of Parliament and of the Executive to act on reports of the Auditor-General as they think fit.

In essence, Auditor-General's reports to Parliament are reports by exception and, as such, do not purport to be balanced accounts of the operations of individual government departments and public bodies. This is why these reports may seem to emphasise shortcomings without always giving credit for situations where no significant irregularities were observed.

Reports of the Auditor-General tabled in Parliament can be categorised as follows:

First Report

Accompanies the Treasurer's Statement and provides comment on the Statement together with matters of broad scope interest concerning the operations of public sector organisations. The report is prepared pursuant to section 47 of the *Audit Act* 1958.

Second Report

Provides additional comments on matters of broad scope interest and includes a summary of significant matters arising out of the audits of departments and public bodies.

Special Reports

Issued periodically, special reports comment on the findings of major audit reviews in departments and public bodies.

Annual Report of the Office of the Auditor-General

Prepared in accordance with the *Annual Reporting Act* 1983, it provides an overview of Office activities for the year as well as incorporating the Office's audited financial statements. It does not include comments on, or references to, audit findings contained in the Auditor-General's reports to Parliament prepared pursuant to the *Audit Act* 1958.

FORMAT AND CONTENT OF THE FIRST REPORT FOR 1986-87

This report contains 4 major parts:

- * Summary of major findings;
- * Victorian public sector resource management;
- * Review of the Treasurer's Statement; and
- * Matters of special interest.

In addition, appendices including a status report of issues raised in previous *First Reports*, follows part 4.

ACKNOWLEDGMENTS

I would like to acknowledge the co-operation and assistance my officers have received from organisations in the conduct of audits. The growing complexity and scope of government increasingly requires closer and continuous liaison between my staff and officers of auditee organisations. Appreciation is expressed for the co-operative and positive approach to audit recommendations by officers of the Department of the Premier and Cabinet, the Department of Management and Budget and other government agencies.

PART 1

SUMMARY OF MAJOR FINDINGS

1.1 INTRODUCTION

- 1.1.1 Government policy makers and managers face formidable challenges in coping with today's rapidly changing and complex economic and social environment. One of the most important of these challenges is the pursuit of more efficient and effective resource management which, at the State level, translates into managing the costs of government more effectively.
- 1.1.2 A major objective of my Office is the promotion of more efficient and effective resource utilisation, concentrating on financial management in the Victorian public sector.
- 1.1.3 Although the nature of the audit process emphasises the reporting of deficiencies, it is also important to note that there has been continued improvement in the State's public sector resource management during 1986-87. In this respect there have been a number of initiatives, including:
- * issue of an information paper on public sector debt. A statement on public debt is also included in this year's Treasurer's Statement;
 - * commencement on drafting of guidelines for the accountability and control of public sector companies, trusts and joint ventures, and government grant and subsidy payments made to non-government bodies;
 - * the recent announcement by the Treasurer of a major review of budget sector asset recording and reporting practices;
 - * introduction of greater flexibility in staff management through further devolution of authority by the Public Service Board;
 - * completion of a major review of budget sector accounts payable processes;
 - * development of centralised procedures for the management of debtors;
 - * review of risk management procedures within the public sector; and
 - * introduction of upgraded financial management training programs available to public sector employees.

1.2 SIGNIFICANT FINDINGS

- 1.2.1 The following sections provide a summary of significant findings contained in this report.

Part 2 - Victorian public sector resource management

- 1.2.2 Recent external developments and the many wide ranging economic and social reform initiatives instituted in Victoria have placed considerable pressure on traditional resource management systems and processes.
- 1.2.3 This part of the report provides comment on a number of broad scope issues concerning the State's overall resource management systems and processes. It is concluded that:
- * it is now time for a major assessment to be undertaken of the adequacy of the State's resource management systems and processes;

- * a higher priority needs to be given to the upgrading of the State's audit and financial administration legislation; and
- * there is a need to identify an appropriate level of accountability for public sector participation in companies, trusts and joint ventures.

Part 3 - Review of the Treasurer's Statement

- 1.2.4 Section 47 of the *Audit Act* 1958 requires that I make and sign a report explaining the Treasurer's Statement in full. In practice, this requirement is met by presentation of a general review of the main features of the State's finances, which includes details of the balances of the State and other relevant financial issues which in my opinion warrant inclusion. This part also contains information on general matters which are required to be reported to Parliament under specific provisions of the *Audit Act* 1958.
- 1.2.5 The Treasurer's Statement has been examined and an explanation of that Statement is included in this part. Sources of receipts required to fund outlays are also listed including the borrowing required to balance the Consolidated Fund.
- 1.2.6 In my *First Report* for 1985-86, I recommended that the presentation of the Treasurer's Statement be simplified to make it more meaningful and informative. A number of improvements have been made in the Treasurer's Statement but further enhancement will require changes to existing legislation.

Part 4 - Matters of special interest

- 1.2.7 Part 4 of this report contains comment on a number of special reviews conducted during 1986-87. A range of issues has been identified in these reviews of which the more important matters are as follows:

Community Employment Program (part 4.1)

- * lack of a co-ordinated State strategy for this Program resulting in Victoria failing to maximise the potential benefit for the unemployed and the community.

Insurance (part 4.2)

- * deficiencies in the administration of the State's 2 centrally managed catastrophe insurance policies.

Outstanding revenue (part 4.3)

- * delays by some departments in raising debtors and following-up outstanding accounts resulted in a loss of revenue interest to the State; and
- * alternative debt management techniques have not been implemented so as to enable the prompt collection of debts.

Engagement of consultants (part 4.4)

- * failure by some agencies to observe the established processes to monitor and control consultancy engagements.

Computerised financial management systems in the budget sector (part 4.5)

- * problems in implementation of new systems in departments; and
- * failure to exploit the full capabilities for enhanced financial management available with current computer technology.

PART 2

VICTORIAN PUBLIC SECTOR RESOURCE MANAGEMENT

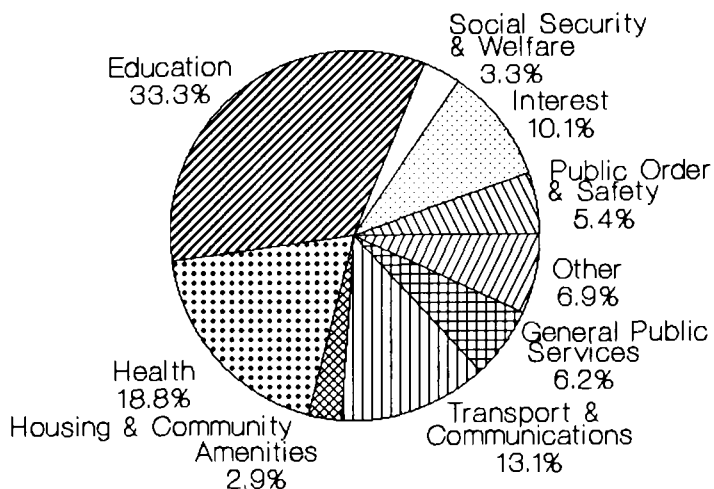
2.1 OVERVIEW

- 2.1.1 This part of the report provides comment on a number of major issues concerning the State's resource management systems and processes.
- 2.1.2 To assist in providing an overall context for audit comments and conclusions, both in this and in future reports, I have included in this part of the report a brief introduction to public sector resource management and its significance to the efficiency of a government's overall program administration.
- 2.1.3 Specific comments on the need to upgrade the State's audit and financial administration legislation and determine an appropriate level of accountability of public sector companies, trusts and joint ventures is contained in section 2.7 of this report.

2.2 SIZE AND COST OF GOVERNMENT

- 2.2.1 Recently, Australia as a nation has experienced difficult economic times with reductions in our international competitiveness translating into pronounced "belt tightening" in the community. Associated with the constrained economic climate has been a general political and community consensus that we must improve the efficiency of our various industry sectors.
- 2.2.2 In this environment, the Victorian Government has developed an economic strategy which is aimed at identifying the State's economic strengths and enhancing their development. The strategy places emphasis on the development of technology and initiatives to expand exports.
- 2.2.3 The Australian government sector, like that in other OECD countries, is the largest and most complex entity in the economy, with receipts and outlays far outstripping those of our largest private sector companies. Currently, public sector outlays in Australia (Commonwealth, State and local government) account for over 43 per cent of our Gross Domestic Product. Chart 2.2A illustrates the size and composition of 1986-87 Victorian budget sector outlays (based on national accounting data) as reported in Budget Paper No. 2 *Budget Strategy and Review 1987-88*. The percentages shown in the chart are derived after inclusion of both State budgetary allocations and Commonwealth grants.

CHART 2.2A.
VICTORIAN BUDGET SECTOR OUTLAYS BY FUNCTION, 1986-87
(TOTAL \$10,625 MILLION)



2.2.4 However, any analysis of the size of the Victorian public sector needs to also take into account public sector entities not funded from the budget sector. If we include statutory authorities, subsidiary companies, trusts and joint ventures, and external funding for hospitals and post-secondary education institutions, the total would more than double. In this respect, the 1986-87 outlays of the State's major trading authorities alone, i.e. the State Electricity Commission, the Melbourne and Metropolitan Board of Works and the Gas and Fuel Corporation, exceeded \$3 500 million.

2.3 BENEFITS OF IMPROVED RESOURCE MANAGEMENT

2.3.1 Broadly defined, the objective of resource management in government is to ensure that to the maximum practicable extent resources are acquired and used lawfully, efficiently and effectively.

2.3.2 In the government sector, because public sector programs are so large, with aggregate costs totalling many billions of dollars, even marginal efficiency gains in the delivery of programs can become very significant in absolute dollar terms. The Victorian Government's continuing productivity target of an annual 1.5 per cent reduction in service delivery costs, for example, is estimated by the Treasurer to provide cumulative savings amounting to over \$200 million by 1987-88. Cost reduction can free up resources for other uses including reducing government debt, lowering taxes or re-allocation of funds to other priorities, such as the recently announced social justice initiatives.

2.3.3 *Even small gains in resource management efficiencies provide potential for large savings.*

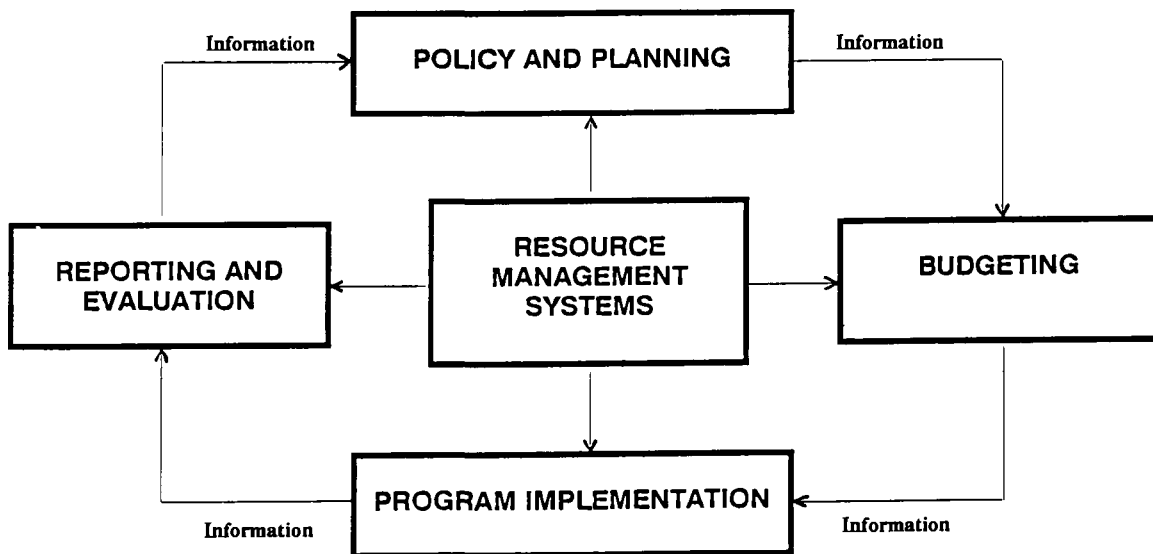
2.4 ROLE OF THE OFFICE OF THE AUDITOR-GENERAL

- 2.4.1 One of the principal objectives of my Office is the promotion of more efficient and effective resource utilisation in the public sector. Consistent with the Auditor-General's responsibilities under the *Audit Act* 1958, this process may entail constructive criticism of existing practices through reports to Parliament. This activity is translated into a comprehensive audit approach which, in addition to the audit of financial statements and the extent of compliance by agencies with legislation and government directions, entails the review of resource management efficiencies. In conducting comprehensive audits an assessment is made of how efficiently and effectively public funds are being utilised on programs, and includes suggestions for improvements to existing management practices.
- 2.4.2 To ensure objectivity, the Auditor-General operates independently from government and reports directly to the Parliament. As a result, this process may entail elaboration and discussion of report conclusions with Parliamentary Committees such as the Economic and Budget Review Committee, which has shown an active interest in matters raised in Auditor-General's reports to Parliament.
- 2.4.3 The opinions expressed in the reports also have the objective of assisting government in enhancing its management processes. However, in all cases it is the prerogative of the Parliament and the Government to act on these reports as they see fit. The Auditor-General has no power to implement changes or recommendations reported to Parliament.

2.5 RESOURCE MANAGEMENT FRAMEWORK

- 2.5.1 Resource management in the public sector takes in elements of policy and planning, budgeting, program implementation and accounting, and reporting and evaluation (including audit). Chart 2.5A provides an overview of the process.

CHART 2.5A. RESOURCE MANAGEMENT FRAMEWORK



- 2.5.2 The chart illustrates the processes through which the Government decides what programs and activities are to be undertaken and their relative priority against policy objectives, allocates resources to those programs in the budget, implements approved programs, and subsequently accounts for those resources to the Parliament.

- 2.5.3 The four elements, although distinctly separate in nature, are interdependent and both influence, and are influenced by, each other. For example, in respect of the Government's overall strategy:
- * the key objectives of programs are assessed at the *policy and planning* level and relative priorities established;
 - * based on these objectives and priorities *budget* allocations are then made to agencies;
 - * *program implementation* strategies of agencies are developed or revised to take account of budget allocations and priorities; and
 - * programs may be progressively subject to *reporting and evaluation* (including internal and external audit), the results of which may influence decisions on the continuation or modification of programs.
- 2.5.4 There are a number of entities having key functions and responsibilities in the State's resource management framework. These entities include Ministers; central co-ordinating agencies such as the Departments of the Premier and Cabinet and Management and Budget, and the Public Service Board; service delivery agencies; Parliament and its investigating committees; and the Office of the Auditor-General.
- 2.5.5 The flow and interaction between the four elements of the framework is made possible through the provision of information that must be timely, relevant and accurate. This can only be achieved by effective resource management (including financial management) systems and processes incorporating efficient administration and internal controls.
- 2.5.6 Resource management systems and processes encompass management information systems (including financial management/reporting), the requirements of legislation (such as the *Audit Act* 1958 and the Treasury Regulations 1981), government directives and delegation arrangements.
- 2.6 CURRENT RESOURCE MANAGEMENT SYSTEMS AND PROCESSES**
- 2.6.1 In recent years there have been many wide ranging economic and social reform initiatives instituted in Victoria. These have impacted substantially on resource management systems and processes and include:
- * promulgation of the Government's economic strategy and policy statements;
 - * move to program administration incorporating the adoption of program budgeting;
 - * implementation of public authority policy guidelines and performance targets, such as Rate of Return Reporting;
 - * establishment of productivity improvement targets;
 - * introduction of a performance based Senior Executive Service;
 - * greater emphasis on decentralised program administration;
 - * introduction of enhanced EDP systems;
 - * introduction of legislation such as the *Annual Reporting Act* 1983 and the *Freedom of Information Act* 1982;
 - * changes in funding and accountability processes; and
 - * machinery of government changes.

- 2.6.2 In addition, the environment has been characterised by external developments impacting on the existing systems and processes, including:
- * rapid advancements in information technology, characterised by greatly enhanced capabilities for mass storage and communication of data, electronic transfer of funds and rapid access to integrated data;
 - * release of accounting standards by the Australian Accounting Profession for application to public sector reporting;
 - * more innovative financing techniques; and
 - * added community expectations for public sector accountability and efficiency.

2.6.3 These initiatives and developments have occurred in a relatively short space of time and have placed considerable pressures on traditional public sector resource management systems and processes, particularly those relating to financial management. At the same time, resource constraints have been applied. In a number of instances it is fair to say that these systems and processes have proved unsuitable to the changing environment. Comments made in Auditor-General's reports, Parliamentary Committee reviews, and special investigations provide support for this contention. However, this problem is not confined to Victoria and it is also a major issue for other governments in Australia and in many overseas countries.

2.6.4 *I am of the view that it is now time for a major assessment to be undertaken of the adequacy of the State's resource management processes and systems.*

2.6.5 Specifically, there is a need to assess how well equipped our resource management systems and processes are to support government policies and strategies, deliver programs efficiently and provide the necessary level of accountability.

2.6.6 In this respect the Treasurer has established, under the direction of the Comptroller-General of the Department of Management and Budget, a Resource Management Consultative Committee, supported by working parties, which has undertaken some initial investigations in this area.

2.7 **PRESENT AND EMERGING ISSUES**

2.7.1 There are a number of key issues that need to be addressed as part of this overall assessment of the State's resource management systems and processes and I intend expanding on these issues in future reports.

2.7.2 There are, however, 2 matters upon which I wish to comment in this report.

Resource management and accountability legislation

2.7.3 In my *First Report* to Parliament for the year ended 30 June 1986 I made reference to a 1983 report by the Parliamentary Economic and Budget Review Committee which recommended significant changes to the existing financial legislation of the State, with a view to improving the management and accountability of the public sector.

2.7.4 In responding to the report of the Committee, the Treasurer in 1985 announced that a review of the State's financial legislation had commenced under the direction of the Comptroller-General with the objective of drafting a new legislative framework for presentation to Parliament in 1986.

- 2.7.5 I concluded by noting that despite the input by the various Consultative, Steering and Working Committees, which had been established to assist the Comptroller-General in the review, progress had been slow and it was unlikely that draft legislation would be ready for tabling in Parliament in 1986.
- 2.7.6 Victoria is now one of only two States that has not completed comprehensive reviews resulting in overhauls of audit and financial administration legislation.
- 2.7.7 In an attempt to progress the review further, in December 1986 my Office prepared and submitted to the Treasurer draft audit legislation embodying concepts consistent with modern financial management and accountability practices for public sector organisations both in Australia and overseas.
- 2.7.8 In acknowledging the submission from my Office the Treasurer stated that draft audit legislation would be incorporated in a comprehensive position paper dealing with the overall issue of resource management and accountability.
- 2.7.9 It was intended that the position paper would be referred for the consideration of the Consultative and Steering Committees assisting the Comptroller-General. However, no meetings were held in 1986-87 and the project appears to have come to a standstill.
- 2.7.10 *It is important that this project be given priority to ensure that a modern legislative framework is in place to facilitate the management of the resources of the State in the most efficient and effective manner.*

Public sector participation in companies, trusts and joint ventures

- 2.7.11 The establishment of companies, trusts and joint ventures is an important feature of the Government's economic strategy, principally as these arrangements provide vehicles for enabling equity participation in partnerships with the private sector to encourage technology and export industries in the State.
- 2.7.12 Following on from the progressive implementation of the strategy there has been a continuing growth in Victorian public sector participation in companies, trusts and joint ventures. Equity investments entered into by the Treasurer in 1986-87 have been referred to in section 3.8 of this report.
- 2.7.13 In my *Second Report* for 1985-86, I drew attention to what I believe are inadequate accountability and control arrangements to complement public sector participation in these new arrangements.
- 2.7.14 The report concluded that while public sector participation in these companies, trusts and joint ventures was a key element of the Government's economic strategy, participation in these arrangements has preceded the creation of corresponding accountability and control mechanisms. As a result, information as to their existence and operations is not reported to Parliament on a consistent and mandatory basis. This effectively puts them outside the level of Parliamentary scrutiny and control to which departments and authorities are subject.
- 2.7.15 A major issue is the potential for conflict between the need to preserve confidentiality of the commercial activities of these companies, trusts and joint ventures, and the requirement for full disclosure to the Parliament in order to satisfy the need for accountability of public moneys. This is a significant issue when private sector equity supplements public moneys invested in jointly sponsored projects.

- 2.7.16 The Economic and Budget Review Committee, in its 16th Report entitled *Accountability Requirements Affecting Subsidiary Companies of Government Organisations with Special Reference to V/Line Industries Pty. Ltd.*, addressed the question of whether considerations of commercial confidentiality should override full public accountability for funds invested. The argument for preserving commercial confidentiality relates principally to the concern that public disclosure of commercial information, using standards of reporting applicable to other public sector entities, may adversely affect a company's competitive position or negotiating power. I concur with the conclusion reached by the Committee in their report that where significant public moneys are invested in companies, trusts and joint ventures, accountability to Parliament should be paramount. In my view, suitable mechanisms need to be put in place that provide proper capacity for Parliamentary oversight. Such mechanisms might need to take into account certain circumstances where information provided to Parliament is treated in a confidential manner.
- 2.7.17 However, it is the prerogative of Parliament to decide whether the needs of commercial confidentiality should take precedence over full disclosure. The Government is presently providing, on a voluntary basis, the annual reports of a number of companies and trusts, generally prepared in accordance with the Companies (Victoria) Code, and this may be sufficient to satisfy Parliament's information needs.
- 2.7.18 *There is a need to identify an appropriate level of accountability for public sector participation in companies, trusts and joint ventures.*
- 2.7.19 The Department of Management and Budget has responded to concerns expressed in my 1985-86 *Second Report* and is currently proceeding with the development of guidelines covering control and accountability mechanisms for public sector companies, trusts and joint ventures.

PART 3

REVIEW OF THE TREASURER'S STATEMENT

3.1 STATUTORY REPORTING REQUIREMENTS

- 3.1.1 Section 47 of the *Audit Act* 1958 requires that I make and sign a report explaining the Treasurer's Statement in full.
- 3.1.2 In practice, this requirement is met by presentation of a general review of the main features of the State's finances and other relevant financial issues which in my opinion warrant inclusion. For the first time the Treasurer has included in his Statement an analysis of the receipts and payments of the State and, as a result, I have been able to limit my report in this area. Unless otherwise stated in my report, I am in agreement with the comments made by the Treasurer. Details of further changes made by the Treasurer to his Statement are set out in section 3.5 of this report.
- 3.1.3 My report also contains information on general matters which are required to be reported to Parliament under specific provisions of the *Audit Act* 1958.

3.2 AGREEMENT WITH TREASURER'S STATEMENT

- 3.2.1 The Treasurer's Statement for the financial year 1986-87 has been examined and the receipts and payments of the Consolidated Fund and the Trust Fund are in agreement with the Treasurer's accounts. Information on debtors, creditors, stores and public sector debt has been drawn from details supplied to the Treasurer by government departments and public bodies. The audits of those organisations, for which I have audit responsibility, have yet to be finalised.
- 3.2.2 Rounding of figures within my report may, in some instances, result in minor differences when those figures are compared with those shown in the Treasurer's Statement.

3.3 STRUCTURE OF STATE'S ACCOUNTS

- 3.3.1 The *Public Account Act* 1958 sets out the structure of the State's Accounts, which comprise the Consolidated Fund and the Trust Fund.
- 3.3.2 To assist the reader in obtaining a general understanding of the operations of the Funds, I have set out below a broad description of the transactions that occur within each Fund. Further details of the transactions within the Consolidated Fund and the Trust Fund during 1986-87 are contained in sections 3.11 and 3.12 of this report.
- 3.3.3 Revenue collected by the State under its various statutes and certain moneys paid to the State by the Commonwealth are credited to the Consolidated Fund.
- 3.3.4 The general costs of operating the State's programs, such as salaries and general operating expenses, the cost of servicing the public debt of the State, the payment of grants and subsidies to public bodies and non-government organisations, the transfer of certain revenue collections to the Trust Fund, as required by statute, and expenditure on capital works are met from the Consolidated Fund.

- 3.3.5 The Trust Fund comprises those accounts which have been established to record moneys received and expended for specific purposes. It also includes certain accounts created to facilitate accounting procedures.
- 3.3.6 The principal categories of accounts established within the Trust Fund are:
- * State Government Funds;
 - * Joint Commonwealth and State Funds;
 - * Commonwealth Government Funds; and
 - * Prizes, Scholarships, Research and Private Donations.
- 3.3.7 Borrowings are generally credited direct to the Consolidated Fund but in the case of certain borrowings the Treasurer may determine that all or part thereof may be credited to the Works and Services Account within the Trust Fund prior to transfer to the Consolidated Fund. Such transfer may be made in the year the borrowing is received or in subsequent years.
- 3.3.8 The operations of both the Consolidated Fund and the Trust Fund are transacted through the various bank accounts of the State which, collectively, are referred to as the Public Account. Separate bank accounts are not held for each fund and transactions between the Consolidated Fund and the Trust Fund do not result in an outflow of cash from the Public Account.
- 3.3.9 Bank accounts in the names of departments, which are used to hold revenue collections pending transmission to the Consolidated Fund or to hold advances from the Public Account to enable urgent payments to be made, are not deemed to be part of the Public Account.

3.4 CONTENT OF TREASURER'S STATEMENT

- 3.4.1 The Treasurer's Statement covers the financial operations of the budget sector which broadly includes all government departments. The Statement details:
- * revenue collected and credited to the Consolidated Fund;
 - * payments from the Consolidated Fund authorised by legislation;
 - * details of accounts included in the Trust Fund; and
 - * details of the cash and investment balances of the State.
- 3.4.2 In addition, the Treasurer's Statement provides details at 30 June 1987 of public sector debt (which comprises the public debt of the State together with borrowings by public bodies), advances to departments from the Public Account, equity capital held by the State, the contingent liability of the State in respect of guarantees executed by the Treasurer, and debtors, creditors and stores of government departments.

3.5 CHANGES IN CONTENT OF TREASURER'S STATEMENT

- 3.5.1 A number of changes have been made in the content of the Treasurer's Statement by way of the inclusion of:
- * additional financial information;
 - * changes in the manner of reporting certain financial information which are aimed at making such information more meaningful; and
 - * an explanation of major variations from budget.

- 3.5.2 The additional financial information includes:
- * public sector debt;
 - * debtors to the Public Account at 30 June 1987;
 - * creditors at 30 June 1987;
 - * stores at 30 June 1987; and
 - * expenditure by program showing amounts expended under Special Appropriations, Annual Appropriations and from the Trust Fund.
- 3.5.3 For some years Auditor-General's reports on the Treasurer's Statement have included comment on the need for inclusion in that Statement of details of the public sector debt. I commend the Treasurer for action taken on this matter, namely, the issue in December 1986 of an information paper entitled *Victorian Public Sector Debt* and the inclusion of public sector debt information in the current Treasurer's Statement.
- 3.5.4 In my *First Report* for 1985-86, I had commented that if obligations were recognised when they were incurred and proper recognition was given to assets, then decision making, financial accountability, reporting and resource management would be enhanced as it would provide the opportunity to assess the movement in the net public sector worth, i.e. the net equity of the State. Recognition of fixed assets would also enable improved asset management, in particular the identification of under-utilised assets and the implications of their sale or retention. In fact, what I was alluding to was the need for the State's financial transactions to be based on an accrual basis. The inclusion in the Treasurer's Statement of details of debtors, creditors and stores at 30 June 1987 provides a first step towards producing accrual based financial statements.
- 3.5.5 During 1986-87 the Department of Management and Budget issued an Accounting Policy Statement related to accounts payable and guidelines for the recovery of outstanding debts. Recently the Treasurer has written to all departments informing them of a project related to asset recording and reporting with the objective that departments will be able to provide in their financial statements at 30 June 1989 details of all assets and their value. While the Treasurer is to be congratulated on the initiatives taken to date, I consider there are additional items such as the State's liability for employee superannuation and employee leave entitlements for which accounting and reporting policies need to be developed.
- 3.5.6 In an effort to make certain information more meaningful the Treasurer has summarised details of the total debt and has included under one head of revenue proceeds of sales of assets.
- 3.5.7 In 1985-86 I also expressed the opinion that the Treasurer's Statement did not need to give explicit details of the Consolidated Fund transactions if the information was also provided to Parliament in the annual financial statements of departments. The Treasurer's Statement could, therefore, take the form of a consolidated summary statement complementing the information contained in the department's statements. However, before such a move can be fully implemented it would appear that amendments would need to be made to the Annual Reporting (Administrative Units) Regulations 1985. At present the Regulations exclude from departmental statements the financial transactions of the Public Account relating to the Rural Water Commission, Alpine Resorts Commission and the Victorian Tourism Commission. Also, transactions relating to Housing are not currently included in a departmental statement as the Director of Housing is not deemed to be an Administrative Unit for the purposes of the *Annual Reporting Act* 1983.

- 3.5.8 I further stated that as annual departmental reports to Parliament contained details of movements of items of receipts and payments I considered that it was no longer necessary to continue the tradition of including such information in my *First Report*. Discussions were held with the Department of Management and Budget regarding the suggested changes.
- 3.5.9 Resulting from those discussions a joint submission was made to the Victorian Government Solicitor as to whether the suggested changes, including the reporting by the Treasurer of explanatory information relating to movements in receipts and payments, would enable compliance with the provisions of the *Audit Act* 1958 as they related to:
- * the requirement for the Treasurer to prepare a full and particular statement of the receipts and expenditure of the Consolidated Fund and the Trust Fund; and
 - * the requirement for the Auditor-General to explain such statement in full.
- 3.5.10 The advice received from the Victorian Government Solicitor was to the effect that the details of receipts and expenditure could not be reduced and that the inclusion of explanatory information by the Treasurer did not affect my duty to explain the Treasurer's Statement, albeit that all I would need to do would be to state whether I agreed or disagreed with the Treasurer.
- 3.5.11 I fully support any proposals for reform of the Treasurer's Statement which will avoid unnecessary duplication and provide the opportunity to enhance the quality of the information provided.
- 3.5.12 It is hoped that the present restrictions to reforming the Treasurer's Statement will be overcome by the proposed Resource Management and Accountability Legislation. Comment on the proposed legislation is contained in section 2.7 of this report.

3.6 SUMMARY OF 1986-87 FINANCIAL TRANSACTIONS

- 3.6.1 Payments from the Consolidated Fund in 1986-87 amounted to \$10 476.5 million.
- 3.6.2 Sub-section (3) of section 5 of the *Public Account Act* 1958 provides that the total of the sums issued out of the Consolidated Fund in a financial year shall not exceed the amounts to the credit of the Fund. In this sense, a cash deficit cannot arise.
- 3.6.3 However, it should be noted that the requirement to balance the fund, i.e. not to spend more than the receipts, does not limit the source of receipts and thus does not preclude borrowing to balance the fund. In fact, it has been established practice for many years to borrow to meet payments from the Consolidated Fund. The Budget estimated that 1986-87 borrowings would be \$1 129.3 million. Details of receipts together with payments and borrowings for 1986-87 are set out in Table 3.6A.

TABLE 3.6A.
CONSOLIDATED FUND: RECEIPTS, PAYMENTS AND BORROWINGS, 1986-87
(\\$million)

<i>Item</i>	<i>Amount</i>
Payments	10 476.5
Less receipts (other than borrowings) -	
Commonwealth	4 028.6
Taxation	3 400.5
Public authority dividends	457.3
Fees and charges	305.3
Revenue previously paid to Trust Funds	249.7
Sale of assets	108.3
Other	<u>803.4</u>
	<u>9 353.1</u>
Borrowings required to balance the Consolidated Fund	1 123.4

3.6.4 Actual borrowings for the budget sector amounted to \$1 145.8 million of which \$1 123.4 million was required to balance the Consolidated Fund and the difference of \$22.4 million remains to the credit of the Works and Services Account in the Trust Fund. Further comment on borrowings is contained in section 3.7 of this report.

3.6.5 At 30 June 1987 the State held \$103.6 million which will have to be transferred to the Consolidated Fund before it can be expended. The amount comprises \$81.2 million brought forward from previous years and the \$22.4 million of borrowings in 1986-87 referred to in the previous paragraph. Of the \$103.6 million, \$30 million was held on deposit in the Victorian Development Fund and \$73.6 million was held to the credit of the Works and Services Account.

3.6.6 Table 3.6B gives details of the overall operations of the Consolidated Fund for 1986-87.

TABLE 3.6B. CONSOLIDATED FUND: OVERALL OPERATIONS, 1986-87
(\\$'000)

<i>Item</i>	<i>Amount</i>
RECURRENT SECTOR	
Receipts -	
State sources	5 162 507
Commonwealth	<u>3 393 582</u>
	<u>8 556 089</u>
Payments -	
Special Appropriations	1 507 504
Departmental Programs - Appropriations	<u>7 020 284</u>
Surplus - Transferred to Works and Services Sector	<u>28 301</u>
	<u>8 556 089</u>

WORKS AND SERVICES SECTOR

Receipts -	
Loan raisings -	
State	928 865
Commonwealth	194 597
Other receipts -	
State	161 907
Commonwealth	635 009
Transfer from Recurrent Sector	28 301
	1 948 679
Payments -	
Special Appropriations	13 585
Departmental Programs - Appropriations	1 935 094
	1 948 679

- 3.6.7 In addition to the receipts required to be credited to the Consolidated Fund, receipts totalling \$37 725 million (1985-86, \$35 869 million) were credited to accounts within the Trust Fund. Payments from the Fund during the year totalled \$37 674 million (1985-86, \$35 870 million). The balance of the Fund at 30 June 1987 totalled \$381 million (30 June 1986, \$330 million). Details of the operations of the Trust Fund are disclosed in section 3.12 of this report.

Balances of the State of Victoria

- 3.6.8 The transactions of the State of Victoria for the past 2 years are shown in Table 3.6C.
- 3.6.9 It is important to emphasise that these balances cover only the budget sector and do not include any balances held by public bodies. As stated above, the receipts of both the Consolidated Fund and the Trust Fund include various borrowings and the balances are therefore arrived at after such borrowings. Further, part of the balances are not available for general government purposes, e.g. payroll deductions awaiting remittance to the Australian Taxation Office, unspent Commonwealth specific purpose grants and moneys held in trust for specific purposes.

TABLE 3.6C. RECEIPTS AND PAYMENTS OF THE STATE
('\$000)

<i>Item</i>	<i>1985-86</i>	<i>1986-87</i>
Balances 1 July	325 998	284 082
Receipts -		
Consolidated Fund	9 658 666	10 476 467
Trust Fund	35 868 569	37 725 136
Decrease in advances	-	10 011
	45 853 233	48 495 696
Payments -		
Consolidated Fund	9 686 321	10 476 467
Trust Fund	35 870 466	37 673 803
Increase in advances	12 364	-
	45 569 151	48 150 270
Balances	284 082	345 426

3.6.10 The net effect of the year's transactions was an increase of \$61.3 million in the total balances of the State, brought about by an increase of \$51.3 million in the credit balance of the Trust Fund and a decrease of \$10 million in advances from the Public Account.

3.6.11 State balances at 30 June 1986 and 1987 are set out in Table 3.6D.

TABLE 3.6D. STATE BALANCES
(\$'000)

<i>Item</i>	<i>At 30 June -</i>	
	<i>1986</i>	<i>1987</i>
Trust Fund balance	329 773	381 106
	<u>329 773</u>	<u>381 106</u>
Less advances from Public Account -		
For Consolidated Revenue deficits (prior to 1970)	21 782	21 782
For departments and other purposes	<u>23 909</u>	<u>13 898</u>
	45 691	35 680
	<u>284 082</u>	<u>345 426</u>
Represented by -		
Cash at bank	12 607	(17 669)
Fixed deposit accounts	10 496	9 149
Short-term deposits	40 100	239 422
State Bank equity contribution	45 000	45 000
Investments - Trust Fund	<u>175 879</u>	<u>69 524</u>
	284 082	345 426

3.7 BORROWINGS

3.7.1 Borrowings during 1986-87 amounted to \$1 145.8 million (1985-86, \$1 037.4 million). Details of the sources of the borrowings are shown in Table 3.7A.

TABLE 3.7A. STATE BORROWINGS
(\$million)

<i>Item</i>	<i>1985-86</i>	<i>1986-87</i>
Paid to the Public Account -		
Capital Works Authority	272.7	859.8
Commonwealth	252.8	194.6
State Development Fund	88.8	91.4
Transport borrowings (a)	<u>423.1</u>	-
Total	1 037.4	1 145.8

(a) For details refer to paragraph 3.7.2.

- 3.7.2 In 1985-86 borrowings by Transport Authorities were, under the provisions of the *Transport Act 1983*, paid to the Public Account and were used to fund appropriations for Transport programs. In 1986-87 that element of the funding of appropriations for Transport programs previously provided by Transport Authorities' borrowings was met through borrowings by the Capital Works Authority (CWA) on behalf of the State, and is the reason for the significant increase of \$587.1 million in borrowings by the CWA. The change in the method of funding resulted from the repeal of the borrowing powers of Transport Authorities, other than the power to arrange short-term financial accommodation, as from 12 January 1987 following the passing of the *Transport (Amendment) Act 1986*.
- 3.7.3 The Act also abolished the Victoria Transport Borrowing Agency (VTBA) from 12 January 1987 and transferred all of its assets and liabilities to the Victorian Public Authorities Finance Agency (VicFin).
- 3.7.4 In addition, the Act extinguished the indebtedness of the Transport Authorities to the Government of Victoria, the VTBA or VicFin for moneys borrowed or financial accommodation obtained.
- 3.7.5 The amount of indebtedness extinguished was deemed to represent equity held by the Government of Victoria in the Transport Authorities.
- 3.7.6 By way of covenants dated 30 June 1987, the State assumed the liabilities extinguished together with short-term financial accommodation of \$11.4 million provided to the State Transport Authority and the Metropolitan Transit Authority by VicFin to enable lease payments to be met. The covenants provided that the Capital Works Authority, on behalf of the State, would provide funds to VicFin to enable it to meet the repayment of principal and payments of interest on the liabilities.
- 3.7.7 The audits of VicFin and the Transport Authorities have yet to be finalised, however, it would appear that the amount of debt assumed by the State is in the vicinity of \$1 960 million. This amount does not include liabilities in respect of leases which have yet to be transferred from the Transport Authorities to VicFin. It is estimated that at 30 June, the liability in respect of the leases was \$415 million.

Finance charges

- 3.7.8 During 1986-87 payments relating to the repayment of principal and the payment of interest on borrowings by the State amounted to \$1 137.5 million (1985-86, \$981.6 million) of which \$1 036 million related to interest.
- 3.7.9 Details of the finance charges are set out in Table 3.7B.

TABLE 3.7B. FINANCE CHARGES
(\$million)

<i>Item</i>	<i>1985-86</i>	<i>1986-87</i>
Payments to the Commonwealth -		
Financial Agreement Debt	535.8	557.5
Housing Agreements	64.4	64.4
Works and Housing Assistance	9.4	13.6
Rural Reconstruction	7.6	7.8
Sewerage Agreements	7.4	7.4
Other	11.3	8.7
	<u>635.9</u>	<u>659.4</u>

Payments on account of State borrowings -		
Capital Works Authority -		
Transport	(a)210.2	289.8
Other	32.0	71.2
State Development Account	102.5	103.1
Cash Management Account	1.0	14.0
	<u>(b)345.7</u>	<u>(b)478.1</u>
Total finance charges	981.6	1 137.5

(a) Represents the finance charge component included in the 1985-86 contributions by the State to the Transport Authorities. The Transport Authorities were responsible for meeting the repayment of principal and payments of interest on their borrowings.

(b) Payments on account of State borrowings do not include amounts charged to departmental programs relating to interest and principal payments on advances under the State Development Program as these moneys are repaid into the Consolidated Fund as Recoveries of Debt Charges.

3.7.10 The principal reason for the increase of \$155.9 million in finance charges over that of the previous year was the assumption by the State of the liabilities of the Transport Authorities for borrowings and financial accommodation.

3.7.11 Other significant increases were \$39.2 million as a result of increased general borrowings by the Capital Works Authority and \$13.0 million as a result of an increase in temporary advances obtained from the Cash Management Account. Temporary advances obtained during 1986-87 amounted to \$2 927 million (1985-86, \$310.8 million). All advances had been repaid at 30 June 1987.

3.8 EQUITY

3.8.1 The following changes to the State's equity capital holdings occurred during 1986-87.

New equity holdings

Transport Authorities

3.8.2 In section 3.7 of this report reference is made to the conversion of certain liabilities of Transport Authorities to government equity. In addition, it is understood that amounts provided to the Authorities from the Consolidated Fund for capital purposes may also be treated as government equity in the Authorities.

3.8.3 The amount of equity taken up by the Government as shown in the Treasurer's Statement is \$3 606.3 million; however, it should be noted that all figures have yet to be finally agreed upon and the audits of the Authorities completed.

3.8.4 The figure of \$3 606.3 million comprises: public borrowings (\$1 959.1 million); advances from government (\$807.5 million); liability for loans from Commonwealth (\$26.4 million); and contributions for capital works (\$813.3 million).

Flexible Tariff Management Trust

3.8.5 The State took up 1 million \$1 units in a trust known as the Flexible Tariff Management Trust (the Trust) which was established for the purpose of taking over the financial and associated arrangements of the Flexible Tariff Deed for the Portland Smelter and its related payments to, and receipts from, the State Electricity Commission. The Flexible Tariff Deed deals with the pricing and supply of electricity to the Portland Smelter. The trustee for the Trust is Aluminium Smelters of Victoria Limited which is also the management company for the Portland Smelter Unit Trust.

3.8.6 At this stage I have not been requested by the Treasurer to undertake an audit of the Trust. In the absence of such a request I would expect that the Treasurer would provide information to Parliament on the operations of the Trust in the same manner as he currently informs Parliament of the operations of the Portland Smelter Unit Trust, i.e. by tabling the annual report.

3.8.7 Comments made in my previous reports as to the need for legislative action to ensure that Parliament is provided regularly with information on the State's participation in the Portland Smelter joint venture are applicable to the Flexible Tariff Management Trust.

State Electricity Commission

3.8.8 The State took up equity of \$95.6 million in the State Electricity Commission, the payment for which was achieved by converting to equity capital an equivalent amount of the repayable advances made by the State to the Commission.

Port of Portland Authority

3.8.9 By the conversion of loans and associated deferred interest charges amounting to \$8.6 million to equity capital, the State took up equity in the Port of Portland Authority.

Vistel Limited

3.8.10 The State took up share capital to the value of \$300 000 in Vistel Limited which represents 66 per cent of the issued capital. This company was established to plan, provide and manage telecommunication facilities for Victorian Government departments and public bodies.

Knowledge Victoria Limited

3.8.11 The State holds the \$2 issued share capital of Knowledge Victoria Limited which was established to stimulate the development and delivery of distributed learning courses.

Increase in equity holdings

Victorian Investment Corporation Limited

3.8.12 During 1986-87 the State increased its equity in the Victorian Investment Corporation Limited from \$15 million to \$22 million by the conversion of loans made by the State to the company to equity capital.

Daratech Proprietary Limited

3.8.13 Equity capital in Daratech Proprietary Limited was increased from \$3 million to \$5 million. The additional \$2 million was provided from funds appropriated from the Capital Development Fund.

Gas and Fuel Corporation

3.8.14 The State purchased further preference shares in the Gas and Fuel Corporation bringing its total share capital holdings to \$15.8 million.

Reduction in equity holdings

National Mortgage Market Corporation

- 3.8.15 Resulting from the sale of shares for \$50 000 the State reduced its equity from \$1.3 million to \$1.25 million.

3.9 ADEQUACY OF EXPENDITURE DESCRIPTIONS

- 3.9.1 Certain descriptions given to expenditure items in the Appropriation Act and the Treasurer's Statement were regarded as inadequate. As an example, included in Housing Programs Nos 404, 409 and 411 is the item "Rental Assistance". Having regard to the nature of the operations of the Ministry of Housing to whom the payments are made, it could be assumed from the description that the expenditure was related to providing financial assistance to approved persons to enable them to meet their rental payments. In fact, the payments were to cover such items as the purchase or construction of houses, rental rebates, grants to community groups, repayments of borrowings and acquisition of land.

- 3.9.2 Other instances were noted where expenditure may not have been allocated to the most relevant program or fully disclosed. Examples were:

- * Expenditure incurred in meeting the repayment of principal and payment of interest in connection with borrowings used to improve transport facilities is charged to Program 726 - Treasurer - Transfer and Other Payments. A more appropriate allocation would appear to be to programs directly related to transport. It is recognised that the payments are charged to Program 726 as a result of the Government's debt management strategy. However, I believe that efforts to improve financial management do not necessarily preclude the allocation of the expenditure to the relevant program.
- * Expenditure on item 1100 of Program 682 relating to the salaries, wages, etc. of the Central Corporate Services of the Ministry of Transport is net of amounts charged to various Transport Authorities. Actual reported expenditure for 1986-87 was \$3.2 million after offsetting receipts of \$1.8 million.
- * Instances were noted where all costs associated with WorkCare had been allocated to the Corporate Services Program of the relevant department although that program bore only a small percentage of the department's total salary and wages costs upon which the WorkCare expense was based. It is considered that such expenses should be allocated in line with the salary and wages costs of each program.

3.10 RECONCILIATION BETWEEN TREASURER'S AND DEPARTMENTAL RECORDS

- 3.10.1 The Treasury Regulations 1981 require that departments reconcile, at least monthly, their financial records relating to the Public Account with those of the Department of Management and Budget (DMB).
- 3.10.2 The purpose of the reconciliation is to ensure that transactions generated by a department have been correctly recorded in DMB's records and that transactions generated by DMB, which affect the department's programs, have been correctly recorded in the department's financial records.

- 3.10.3 The Department of Community Services and the Attorney-General's Department were unable to reconcile their 1986-87 financial records with DMB's records and I intend to provide further comment in my *Second Report* to Parliament for 1986-87. Although the final differences were not material in the context of the overall financial transactions reported in the Treasurer's Statement, it raises the broader issue of the accuracy of financial information provided both to DMB and departmental management during the year.
- 3.10.4 Having regard to the 2 instances referred to above, and to the number of adjustments that have to be made each year to effect reconciliations between departments and DMB, I believe that DMB, in conjunction with departments, should undertake a review to determine:
- * the adequacy of departmental financial recording systems to provide accurate and timely information to management; and
 - * the adequacy of procedures used by departments to consolidate the detailed information contained in their departmental financial recording system into the detail required to be provided to DMB for inclusion in DMB's records.

3.10.5 Further audit comment on computerised financial management systems is contained in section 4.5 of this report.

3.11 CONSOLIDATED FUND - RECEIPTS AND PAYMENTS

3.11.1 In the Budget for 1986-87, the Treasurer estimated that the total receipts of, and payments from, the Consolidated Fund would be \$10 393.5 million. The actual receipts and payments each amounted to \$10 476.5 million. This exceeded the estimate by \$83 million (0.8 per cent).

3.11.2 An explanation of the receipts and payments of the Consolidated Fund has been provided by the Treasurer in Notes 4 and 5 of the Notes to the Treasurer's Statement.

3.11.3 Transfers approved by the Governor in Council under section 25 of the *Audit Act* 1958 are shown in Appendix B.

3.12 TRUST FUND

Introduction

3.12.1 As the Treasurer's Statement does not provide an explanation of the Trust Fund, the following details are provided in accordance with the requirements of section 47 of the *Audit Act* 1958.

3.12.2 Section 8 of the *Public Account Act* 1958 allows the Treasurer to establish trust accounts and indicate the purpose for which they were established. Any expenditure from the trust accounts must be in accordance with the purpose of the account. The Trust Fund is separate from the Consolidated Fund.

3.12.3 The reporting of the trust accounts within the Treasurer's Statement is under 4 distinct categories, namely:

- * State Government Funds;
- * Joint Commonwealth and State Funds;
- * Commonwealth Government Funds; and
- * Prizes, Scholarships, Research and Private Donations.

3.12.4 The significance of the Trust Fund, as part of the Public Account, can be demonstrated by comparing the receipts of the Trust Fund for the year, \$37 725.1 million, with the receipts of the Consolidated Fund for the year, \$10 476.5 million, which shows a ratio of 3.6 : 1.

3.12.5 The Trust Fund records transactions relating to:

- * various suspense and clearing accounts which have been established to facilitate accounting procedures and to improve cash management;
- * the Works and Services Account;
- * the Victorian Development Fund encompassing the Cash Management Account and the State Development Account;
- * the Treasury Trust Fund which is maintained in accordance with the *Audit Act 1958*;
- * several Commonwealth and joint Commonwealth/State trust accounts used for passing specific Commonwealth Grants, etc. to educational institutions, housing and transport authorities;
- * specific State trust accounts established by legislation for specific purposes, e.g. Hospitals and Charities Fund; and
- * accounts established to manage bequests, scholarships, etc.

Review of the Trust Fund

3.12.6 Summaries of the transactions and balances of the various trust accounts comprising the Trust Fund are given in the Treasurer's Statement.

Operations of the Trust Fund

3.12.7 The Treasurer's Statement does not disclose comparative figures for the Trust Fund for the previous financial year. Table 3.12A gives a summary of comparisons.

TABLE 3.12A. TRUST FUND OPERATIONS
(\$million)

<i>Type of fund</i>	<i>Balances at 1 July</i>	<i>Receipts</i>	<i>Payments</i>	<i>Balances at 30 June</i>
State Government Funds -				
1985-86	286.8	34 692.8	34 673.0	306.6
1986-87	306.6	36 531.7	36 482.0	356.3
Joint Commonwealth/State Funds -				
1985-86	23.3	95.3	106.3	12.3
1986-87	12.3	66.1	65.0	13.4
Commonwealth Government Funds -				
1985-86	20.1	1 079.0	1 089.7	9.4
1986-87	9.4	1 125.6	1 125.4	9.6
Prizes, Scholarships, etc. -				
1985-86	0.9	1.4	0.8	1.5
1986-87	1.5	1.7	1.4	1.8
Total 1985-86	331.1	35 868.5	35 869.8	329.8
Total 1986-87	329.8	37 725.1	37 673.8	381.1

3.12.8 At 30 June 1987, the balance of the Trust Fund was represented by:

TABLE 3.12B. TRUST FUND BALANCES
(\$million)

<i>Item</i>	<i>At 30 June -</i>		<i>Movement</i>
	<i>1986</i>	<i>1987</i>	
Investments for specific trust accounts	24.6	23.2	(1.4)
Investments on behalf of general trust accounts	151.2	46.3	(104.9)
Cash, advances and short-term investments	154.0	311.6	157.6
Total	329.8	381.1	51.3

3.12.9 In the following paragraphs matters concerning the operations of the trust accounts are discussed.

State Government Funds

3.12.10 The receipts and payments to State Government trust accounts increased by \$1 838.9 million (5.3 per cent) and \$1 808.9 million (5.2 per cent), respectively.

3.12.11 Significant variations occurred in many accounts and these are identified below:

- (1) The Victorian Development Fund recorded an increase in both receipts and payments of \$309.9 million (1.3 per cent).

This was represented by an increase in both receipts and payments of the Cash Management Account of \$322.9 million (1.4 per cent) which was offset by a reduction in both receipts and payments of the State Development Account of \$13 million (8.8 per cent).

- (2) Receipts to the Works and Services Account increased by \$164.7 million (23.7 per cent) and payments increased by \$143.7 million (20.7 per cent).
- (3) Within the accounts established to receive moneys provided by annual appropriation by Parliament there was an overall increase in receipts of \$162.6 million (10.6 per cent) and payments of \$141.6 million (9 per cent).

Major reasons were:

- (i) increased receipts of \$176.1 million (13 per cent) and payments of \$174.5 million (13 per cent) to the Hospitals and Charities Fund;
 - (ii) increased receipts of \$6 million (18.8 per cent) and payments of \$4.7 million (13.9 per cent) to the Mental Hospitals Fund; and
 - (iii) decreased receipts of \$18.2 million (15.4 per cent) and payments of \$21.8 million (17.9 per cent) for the Rural Water Commission Suspense Account.
- (4) The trust accounts established to receive levies imposed by Parliament showed an increase in receipts of \$50 million and a decrease in payments of \$67 million.

The decrease was due mainly to the reduction by \$32.9 million of receipts and payments from the Accident Compensation Levy Trust Account. The reduction of activity in the Account was due to the fact that from 1 July 1986 departments were made responsible for payment of levies direct to the Accident Compensation Commission and only receipts and payments relating to a department's liability for employee injuries are now recorded in this Trust Account. In addition the Workers Supplementation Fund showed a considerable reduction in activity for 1986-87 and the balance has been transferred to the Accident Compensation Levy Trust Account.

The decrease was partly offset by an increase of \$7.7 million (10 per cent) in both receipts and payments for the Licensing Fund.

- (5) An overall increase of \$8.2 million (21 per cent) occurred in receipts to Agency and Deposit Accounts while payments increased by \$9.8 million (25 per cent). This was due to a general increase of usage of these types of accounts by departments.
- (6) Within the accounts established to record unclaimed moneys the only significant movement in funds compared with last year was an increase of \$3.4 million (48 per cent) in payments from the Unclaimed Moneys Fund.
- (7) The Treasury Trust Fund recorded increased receipts and payments of \$10 million (42 per cent).
- (8) Suspense and Clearing Accounts showed an increase in receipts and payments of \$1 227.6 million (15 per cent) and \$1 247.1 million (15.9 per cent), respectively. This was due to the increased use by departments of these types of accounts and includes the establishment of five new Cash Suspense Accounts.
- (9) An overall increase of \$6.1 million (11 per cent) occurred in receipts to Specific Purpose Operating Accounts while payments increased by \$10.1 million (18.3 per cent).

Major reasons were:

- (i) increased receipts of \$4.1 million (12.9 per cent) and payments of \$4.1 million (12.9 per cent) to the Government Printing Office Working Account; and
- (ii) an increase in payments of \$3.3 million (250 per cent) by the Port Phillip Pilot Sick and Superannuation Fund.

Joint Commonwealth and State Funds

- 3.12.12 The 1986-87 financial year saw a decline in the receipts to these accounts of \$29.2 million (30 per cent) and a decline in payments from these accounts of \$41.3 million (39 per cent).
- 3.12.13 The major factor was the decline in activities associated with the Community Employment Program resulting in a reduction in receipts and payments of \$27.8 million and \$33.9 million, respectively.

Commonwealth Government Funds

- 3.12.14 The 1986-87 financial year saw an increase in the receipts to these accounts of \$46.6 million (4.3 per cent) and payments of \$35.7 million (3.2 per cent).

- 3.12.15 The major increases related to funding of local government and education are set out in Table 3.12C.

TABLE 3.12C. COMMONWEALTH GOVERNMENT FUNDS
(\$million)

<i>Type of fund</i>	<i>Receipts</i>	<i>Payments</i>
Increase -		
Local government grants	11.2	11.2
State grants for colleges of advanced education	12.7	8.5
State grants for universities	8.0	7.0
State grants for assistance to non-government schools (1986)	10.6	11.1
State grants for assistance to non-government schools (1987)	135.2	135.0
Adult migrant education	1.8	2.7
Decrease -		
State grants for assistance to non-government schools (1984)	123.7	126.3
Poultry Industry assistance	1.4	1.4

Prizes, Scholarships, Research and Private Donations

- 3.12.16 During 1986-87 receipts were \$1.7 million and the payments were \$1.4 million. The balance of these accounts at 30 June 1987 totalled \$1.8 million compared with \$1.5 million at 30 June 1986.

Trust Accounts

Accounts opened

- 3.12.17 Details of new accounts opened within the Trust Fund during the year and the purpose for which they were established, as indicated in the Treasurer's approvals or enabling legislation are set out in Table 3.12D.

TABLE 3.12D. NEW TRUST ACCOUNTS

<i>Account or Fund</i>	<i>Purpose for which established</i>
Cash Suspense Accounts - Office of Corrections; Labour; Law; Property and Services; Victorian Government Printing Office	To facilitate the drawing, by the departments, of their own creditor cheques and the drawing down of funds from the Consolidated Fund to meet such cheques.
East Gippsland Employment and Economic Development Strategy Trust Account	To record the receipt of funds from participating agencies and the local community and the disbursement of these funds on the operational costs of the Regional Committee formulating the Economic Development Strategy for East Gippsland.

TABLE 3.12D. NEW TRUST ACCOUNTS - continued

<i>Account or Fund</i>	<i>Purpose for which established</i>
Milk Producers Association Trust Account	To record the receipt of a research grant from the Milk Producers Association and the expenditure on special projects to enhance Australian made dairy products.
Corporate Affairs Revenue Suspense Account	To enable the prompt payment of moneys collected by the Department into the Public Account prior to determining their allocation to appropriate items in the Consolidated Fund or Trust Fund.
Asset Sales Deposit Trust Fund	To record the receipt of deposits lodged in connection with asset sales and their disbursement in accordance with the terms of settlement.
Lysterfield Reclamation Levy Fund	To record the receipt and disbursement of funds in connection with an agreement established by the <i>Extractive Industries (Lysterfield) Act 1986</i> .
Economic Strategy Promotion Trust Account	To record the receipt of funds from participating departments and statutory authorities and the disbursement of these funds on expenditure incurred for the promotional campaign of the Economic Strategy.
Australian Bicentennial Authority Trust Account	To record the receipt of funds from the Commonwealth and the disbursement of those funds to the Australian Bicentennial Authority Victorian Council.

Accounts closed

3.12.18 There were no accounts closed during the year. However, there were a number of accounts operated on in 1985-86 which were not used in 1986-87.

3.13 GUARANTEES

3.13.1 Particulars are given in the Treasurer's Statement of the contingent liability of the State in respect of guarantees issued by the Treasurer and authorised by statute, and of the contingent liability for government guarantees in respect of borrowings by State instrumentalities.

3.13.2 New guarantees issued during 1986-87 amounted to \$113.5 million and included guarantees of \$70.5 million for borrowings by the National Tennis Centre Trust.

3.14 DISALLOWANCES AND SURCHARGES

- 3.14.1 A notice of surcharge, pursuant to section 36 of the *Audit Act* 1958, for an amount of \$61 085 was issued in August 1986 against a former paymistress of the Local Government Department. The surcharge related to the misappropriation of departmental funds, for which the former paymistress was sentenced to imprisonment and ordered to make full restitution. It is expected that \$16 405 will be recovered from amounts due to the former paymistress for accrued leave, long service leave and superannuation contributions, with the balance being recovered upon the execution of the order for restitution.
- 3.14.2 In relation to the surcharge issued in 1984-85 against the former Returning Officer for the Electoral District of Prahran for the amount of \$30 845, I advise that following the receipt and subsequent examination of the election accounts, I was able to give an acquittance for the amount previously surcharged.

3.15 TREASURER'S ACQUITTANCE

- 3.15.1 Sub-sections (1) and (2) of section 34 of the *Audit Act* 1958 require me to acquit the Treasurer, in the form of the eleventh schedule to the Act, for the amount of the public moneys spent which has been ascertained by me to have been duly and properly expended. Sub-section (3) of the said section excluded from the acquittance expenditure which is "the subject of query or observation or of show cause action or of disallowance or surcharge".
- 3.15.2 All moneys disbursed from the Public Account in 1986-87 were acquitted by me to the Treasurer except for \$11.2 million which represented the value of advances to departments on hand at 30 June 1987.
- 3.15.3 At 30 June 1987 the following amounts remain unacquitted from prior years:

1982-83

\$2 110 118 paid as emergency grants by the former Department of Community Welfare Services to the victims of bushfires in Victoria and which were awaiting certification by the Department in accordance with the Treasury Regulations 1981.

1983-84

- (1) \$8 899 being part of 2 advances to the Police Division of the Ministry for Police and Emergency Services for which insufficient vouchers were presented to support the payments; and
- (2) \$2 400 being an advance made to the former Department of Community Welfare Services in relation to payments arising from the 1983 bushfires. The vouchers had not been certified by the departmental officers.

PART 4
MATTERS OF SPECIAL INTEREST

4.1 COMMUNITY EMPLOYMENT PROGRAM

- 4.1.1 The Community Employment Program was introduced in 1983, with the fundamental objective of assisting the most disadvantaged groups of unemployed people in obtaining permanent employment in the general labour market. Disadvantaged groups were defined as long-term unemployed, migrants with language difficulties, unemployed women, Aboriginals and the disabled. The Program aimed to do this by providing work experience, and where possible training on worthwhile projects, thereby acting as an important stepping stone for these people to get back into the general work force.
- 4.1.2 The Program was jointly administered by Commonwealth and State departments and involved funding of labour intensive projects that were to provide activities or facilities of community benefit.
- 4.1.3 Over the 4 year period since the Program commenced, \$1 055 million has been allocated to the States. This allocation was on the basis of population distribution as illustrated in Chart 4.1A. In the course of a review by the Victorian Audit Office it was noted that there were significant variations between the allocation of funds to the States and the average long-term unemployment distribution as shown in Chart 4.1B.
- 4.1.4 The Australian Auditor-General in his June 1987 efficiency report on the Program indicated that this method of allocation was agreed to by the Commonwealth and State Ministers.

CHART 4.1A.
ALLOCATION TO STATES
(\$1 055 million)

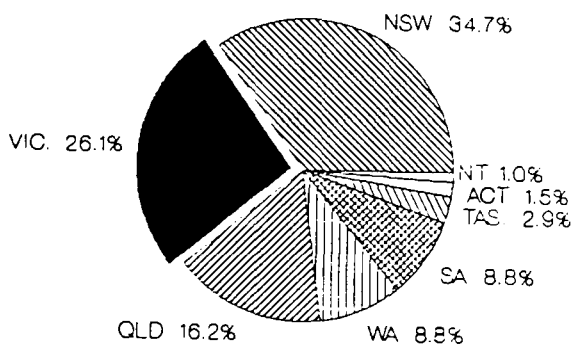
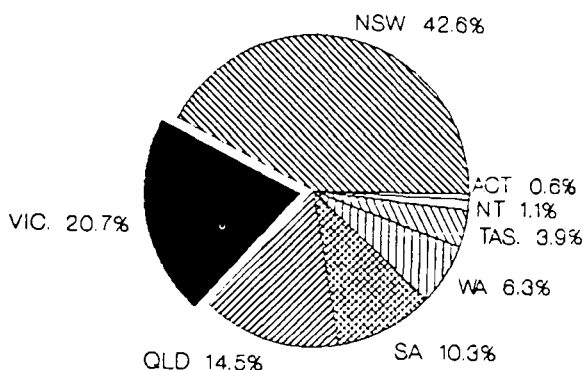


CHART 4.1B.
LONG-TERM UNEMPLOYMENT
DISTRIBUTION

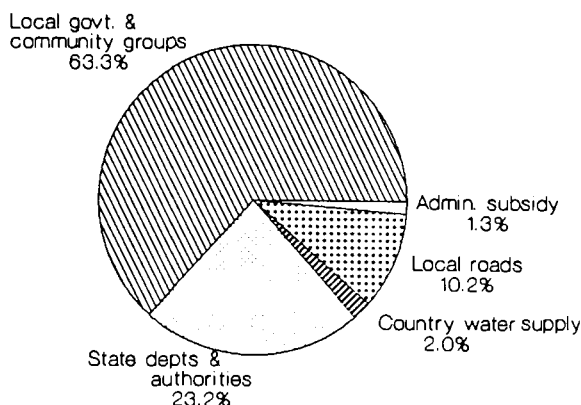


- 4.1.5 Under joint administrative arrangements, Victoria's participation, through the Department of Labour, in the administration of the Program has been:
- * the joint assessment and approval of projects in accordance with Commonwealth guidelines;
 - * distribution of funds to sponsors of approved projects; and
 - * management and monitoring of projects.

4.1.6 Victoria has received a total of \$274.9 million of Commonwealth funds and has contributed a further \$3.8 million of State funds towards the Program's administration by the Department of Labour. Subsequent to 30 June 1987 the Australian Government announced that the Program would be terminated by the end of 1987-88.

4.1.7 Chart 4.1C illustrates the allocation by the Commonwealth of Program funds to Victoria.

**CHART 4.1C.
ALLOCATION BY COMMONWEALTH**



Summary of findings

4.1.8 An audit review was undertaken to determine the effectiveness of the management of the Program, the efficiency with which it was implemented and to identify areas where management might be enhanced in any future programs of this nature.

4.1.9 Specifically, the review addressed:

- * the effectiveness of Program management. Consideration was also given to comments reported by the Australian Auditor-General;
- * financial management of the Program by the State;
- * management of the redevelopment of the Footscray Swim Centre which was the single largest project undertaken in Victoria under the Program; and
- * potential enhancements for the management of future programs.

4.1.10 In summary, audit formed the view that there was a lack of a co-ordinated State strategy for this Program resulting in Victoria failing to maximise the potential benefit for the unemployed and the community. In particular:

- * the Program had only limited effect in gaining permanent employment for participants;
- * joint administration arrangements and inflexible program guidelines led to delays in project approvals and the inefficient use of resources;
- * there was inadequate project monitoring by the Department of Labour;
- * inefficient cash management practices resulted in interest revenue being foregone;
- * there was a lack of accountability over project assets; and

- * a project the size and complexity of the Footscray Swim Centre redevelopment was considered unsuitable for funding by this type of program.

Effectiveness of Program management

- 4.1.11 Performance indicators for the Program had been developed by the Australian Department of Employment and Industrial Relations (DEIR). However, their usefulness in assessing the success of the Program was questioned by the Australian Auditor-General in his report. He commented that while the indicators used by DEIR did provide useful information they did not measure the efficiency of the Program nor show whether the Program had been effective in achieving its fundamental purpose.
- 4.1.12 The Australian Auditor-General also drew attention to a survey by the Australian Bureau of Labour Market Research which indicated that the number of participants who gained subsequent employment as a result of the Program was only 9 per cent more than the employment rate of 48 per cent achieved by a control group of people with similar characteristics who had not taken part in the Program. Comment was also made that a further evaluation commissioned by DEIR put the figure at only 6 per cent. He concluded that the Program has had only limited effect in achieving its fundamental purpose; namely to assist the most disadvantaged groups of unemployed people to obtain permanent employment.
- 4.1.13 In Victoria, where total outlays on the Program amounted to \$278.7 million, examination by my Office determined that short-term employment was provided to 28 800 participants over the 4 year period at an average cost of approximately \$9 700 per person. However, these costs would be reduced by payments that would otherwise have been made by way of unemployment benefits had this Program not been in place.
- 4.1.14 Factors which limited the effectiveness of the Program in Victoria were:

- (1) *Joint administrative arrangements*

The joint administration arrangements between the Commonwealth and the State led to delays in approving projects, at times in excess of 6 months. The number of organisations involved in the approval process, each with the capacity to delay or influence outcomes made for unwieldy management.

The joint administration also required that each project be monitored by both State and Commonwealth field staff. This involved duplication of visits and resulted in an inefficient utilisation of resources.

- (2) *Program guidelines*

The Department of Labour identified a need for flexibility in administering Program guidelines indicating that there was a growing disillusionment of sponsors towards the Program in Victoria. The Department recommended that packaging of projects should be permitted to allow an organisation to submit a number of unrelated projects. This would have overcome difficulties where individual projects did not satisfy Program criteria, but when considered as a whole, would have been acceptable.

The advantage of this approach would have been to give organisations greater flexibility in developing projects according to their needs, e.g. duration of project, labour intensity, mobility of participants and sponsor contributions within the overall Program objectives.

(3) *State strategy for use of Program funds*

The annual allocation of funds which was determined by the Commonwealth on the basis shown in Chart 4.1C made it difficult for the State to link the Program with its own priorities and strategies. Furthermore, formal strategies had not been developed by the State to ensure that the portion of funds provided to departments and statutory authorities (23.2 per cent) was spent on projects which benefited the community as a whole. As a result Victoria lost opportunities to gain the maximum benefits from the Program.

(4) *Project monitoring*

There were insufficient field staff to effectively carry out the monitoring function, given the workload associated with reviewing and assessing the number of project applications and monitoring the progress of approved projects.

Later on in this report comment is also made concerning the inadequacy of field monitoring of the Footscray Swim Centre Project.

A post-project evaluation process was not carried out by the Department of Labour to establish that the projects approved over the 4 years were actually completed and that participants were provided with the necessary skills and experience to enhance their permanent employment prospects.

Audit was advised by the Department of Labour that its prime concern was work experience for participants which would enhance their future prime employment prospects and that the satisfactory completion of funded projects by sponsors was a lesser consideration.

Financial management

4.1.15 The review of the financial management of Victoria's allocation of Program funds revealed the following:

(1) *Cash management*

The Program guidelines and funding agreements required sponsors to use revenue generated, including interest earned from grant funds, to provide further employment for participants or repay the revenue to the Department of Labour for use on other projects.

Departments were not required to adhere to those conditions. As a consequence it is estimated that over the past 3 years approximately \$2.5 million interest has been earned on funds allocated to the departments. This interest was retained in the Consolidated Fund and not applied to the Program.

In addition, the Department of Labour had not developed guidelines for sponsor organisations regarding cash management of funds. In the absence of such guidelines, interest revenue was foregone to the Program through inadequate financial management by certain sponsors.

The situation was compounded by the Department increasing initial advances from the Public Account to meet expenditure on approved projects during 1986-87 to a level contrary to the Program guidelines.

(2) *Review of financial statements*

Considerable delays were noted in the departmental review of financial statements which were received from sponsors on completion of projects. At the date of the review only 25 per cent of the 2 605 statements received by the Department had been reviewed.

In the absence of a timely review, difficulties may be experienced by the Department in recouping from sponsor organisations unspent grant funds or funds not spent in accordance with funding conditions.

(3) *Accountability of project assets*

Equipment purchased by sponsor organisations in Victoria is estimated to have cost \$9.8 million since the Program commenced.

For the period 1983-84 to 1985-86, the Commonwealth rarely exercised its right to declare an interest in assets purchased with Program funds and therefore sponsors retained ownership of the assets.

It was pleasing to note that the Department of Labour raised this deficiency with DEIR on a number of occasions and attempted to maintain a level of accountability over assets by requiring sponsors to:

- (i) itemise all equipment costing more than \$1 000 in the financial statements; and
- (ii) seek approval from the Joint State/Commonwealth Secretariat for the retention of assets.

4.1.16 The Program guidelines were revised during 1986-87 and the Commonwealth now declares its interest in, and maintains a record of, assets costing more than \$1 000.

Footscray Swim Centre Project

4.1.17 In August 1984, a grant of \$1.974 million was approved for the Footscray City Council to design and reconstruct the Buckley Street Swim Centre over a 52 week period. The Footscray City Council was to provide a further \$850 000 towards the project bringing the total project budget to \$2.824 million.



4.1.18 A review of this project revealed that:

- * At June 1987, the redevelopment of the Centre was still in progress and the approved project budget had increased to \$6.387 million of which \$4.950 million was funded from the Program. Variations from the original estimate required additional funds totalling \$3.563 million of which \$2.976 million was provided from the Program at the expense of other projects. Audit was also advised that a further request for additional funds was under consideration by the Commonwealth to enable completion of the project.
- * Two independent studies commissioned by the Department of Labour to review this project identified its unsuitability for funding by this Program. The studies found that such projects are too large and complex and the restrictions that are imposed on the employment of labour and project management inhibit efficient use of funds.
- * There was an inadequate assessment and analysis of the project proposal and budget. The joint assessment relied on costings and timeframes that were provided by the sponsor and did not independently test for viability and reasonableness.
- * At the time of preparing this report the project was approaching finalisation almost 2 years after its planned completion date.
- * Monitoring of the project by the Department was ineffective during the early stages as the field officers involved lacked the necessary technical expertise. It was not until the problems with cost and time overruns became apparent in early 1986 that expert advice was sought from the Public Works Department.
- * Although additional Program funding had been provided to complete the project, the benefit did not flow to the long-term unemployed because of the necessity to use contract labour on the project.

Recommendations

4.1.19 The following recommendations are made with the objective of enhancing the management of future programs of a similar nature:

- (1) When joint Commonwealth and State programs are being considered it is important that complementary strategies and processes be developed.
- (2) Appropriate performance indicators be developed to provide information regarding achievement of fundamental program objectives.
- (3) Progressive evaluation of program activities be undertaken to enhance the program's effective delivery by comparing actual results of the activities against program objectives.
- (4) Adequate management guidelines be developed for sponsor organisations to ensure that cash and other resources including assets are properly managed.
- (5) Projects which require specific skills not readily obtainable from the long-term unemployed should be carefully considered against the capacity to meet the objectives of the program before funding is committed.
- (6) Appropriate level of skills and resources be provided for the monitoring function to effectively manage and monitor projects.

4.1.20 **Response by the Department of Labour**

The resources employed on field monitoring are a direct reflection of the amount of funds made available during the Program. It is acknowledged that had more staff been available then greater monitoring of projects could have been undertaken. Formal monitoring plans have been developed and introduced earlier this year.

The comments in relation to grant advances are noted, however, it is not considered that the level of financial monitoring and control has significantly diminished as a result. The development of cash management guidelines was not considered to be part of the role of project officers. This recommendation does highlight an area that has not generally been addressed in relation to grant funding and the development of universal guidelines, possibly by DMB, would be beneficial.

Interest earned on funds allocated to government departments is largely a government accounting matter which requires further discussion with DMB.

It is agreed that the timely review of financial statements is essential and steps are being taken to provide additional resourcing in this area.

The comment on project assets highlights an area of concern to the State over several years and is welcome as it will serve to reinforce the need for formulated policies in this area.

Comments referring to the Footscray Swim Centre concern the single largest CEP project undertaken in Australia, not just Victoria. The project has now been completed and despite the difficulties represents a substantial community asset which may not otherwise have been developed. The Department agrees that there were a number of problems with the project, however, many of these were consistent with the problems encountered on any major building project.

The Department did react to difficulties that arose in the project by obtaining independent assessments, however, at that stage the decision was taken that the most appropriate course of action was to ensure completion.

4.2 **INSURANCE**

4.2.1 Management decisions concerning the extent to which exposure to risk should be transferred to an external party usually constitute an important element of an organisation's overall risk management strategy. Increasingly, these decisions are being made in conjunction with evaluations of the effectiveness of alternative strategies to minimise or control risk, such as self-insurance.

Review by consultants

4.2.2 An important and welcome initiative taken by the Department of Management and Budget (DMB) during 1986 was the commissioning of a review of risk management procedures within the public sector, which was carried out by external consultants. The overall purpose of the review was to establish a framework for development of a comprehensive risk management program for the Victorian public sector.

4.2.3 In November 1986, the consultants presented 2 reports to DMB. A summary of the main features of the reports is set out below:

- * substantial scope existed for a more systematic and co-ordinated approach to the identification and management of risk exposures of the State;

- * a multiplicity of risk management practices were employed across public sector entities;
- * there was a specific need for formulation of a consistent approach to the determination of levels of insurance protection; and
- * several significant shortcomings were identified in the administration of the 2 catastrophe insurance policies (public liability and property) centrally managed by DMB on behalf of the Government including:
 - . incomplete asset value declarations furnished to insurers (initial assessment of asset values was \$2 billion, however, latest estimate indicates values could be as high as \$30 billion) which have led to premium increments and limitations on property cover;
 - . a \$42.4 million underplacement of 1986 public liability cover; and
 - . deficiencies in the structure and method adopted for placement of both policies.

4.2.4 A series of recommendations aimed at progressive implementation of a State-wide strategic approach to risk management was submitted by the consultants.

Audit observations

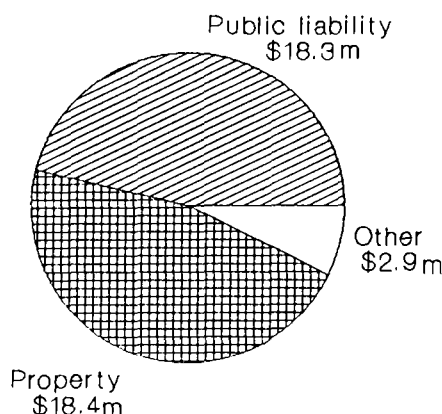
4.2.5 In order to gauge the significance of the matters raised by the consultants, audit carried out a review of the extent of insurance arranged by public sector managers. The review project encompassed all 25 departments, the 8 public sector business undertakings, 39 other public bodies (with a non-current asset base in excess of \$5 million), 6 post-secondary education institutions and 3 water boards.

4.2.6 The following key audit observations arose from the review:

- * in excess of \$39 million was paid out annually by public sector managers on insurance premiums;
- * there was a lack of a clear understanding of government policy on insurance management within the public sector; and
- * there were significant deficiencies in the administration of the State's 2 centrally managed catastrophe insurance policies.

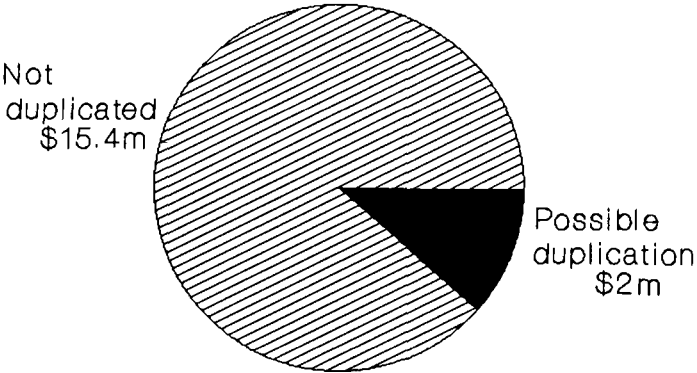
4.2.7 The information set out in Chart 4.2A illustrates the magnitude of financial resources allocated by public sector managers to public liability, property and other insurance arrangements current at 30 June 1987.

**CHART 4.2A. PUBLIC SECTOR INSURANCE PREMIUMS
(\$ million)**



- 4.2.8 The audit analysis also identified some variations between entities in the levels of premium paid for \$100 of public liability and property cover, e.g. the premium paid by public bodies specifically excluded from central catastrophe policies averaged \$0.24 compared with \$0.53 for other public bodies. These differences in premium would be affected by variations in risk exposures of entities and deductible levels, policy limits and other terms and conditions within individual policies.
- 4.2.9 Currently, there are no guidelines to assist management in reaching decisions on insurance matters. The extent of financial resources absorbed annually on insurance premiums and the diversity of risk exposures of public sector entities reinforce the desirability of such guidance which would:
 - * provide a source of assistance to public sector managers in devising and administering self-insurance programs;
 - * facilitate identification of potential avenues available for improving the efficiency and effectiveness of insurance practices; and
 - * enable formulation of performance measures to assist agencies in measuring the quality and effectiveness of insurance management policies and practices.
- 4.2.10 There is uncertainty within entities as to the actual ambit of cover of the 2 central policies. Particularly evident during the course of the audit review was the degree of confusion and doubt faced by a number of managers when reaching decisions on sufficiency of total protection available under the central policies and the necessity for local supplementary insurance cover.
- 4.2.11 Information compiled by audit showed that many organisations, not specifically excluded in policy wording from central cover, had arranged property and public liability insurance with coverage greater than the deductible levels of the 2 central policies. Premium costs for these insurances amounted to in excess of \$2 million. These outlays cannot be automatically classified as duplication of cover as the availability of central indemnity is dependent on notification to insurers of asset declarations for each entity and of any action taken to reduce local cover. However, the position does illustrate that unnecessary premiums may have been paid. Quantification of this potential duplication is illustrated in Chart 4.2B.

CHART 4.2B.
POSSIBLE DUPLICATION OF INSURANCE PREMIUMS
 (Organisations not specifically excluded from central policies.)
 (\$ million)



4.2.12 Recommendations

- (1) Implementation of a strategic approach to risk management, including central guidance on matters relating to the management of insurance portfolios, be regarded as a priority issue.
- (2) Early action be taken to address the important deficiencies identified in the administration of the State's 2 centrally managed catastrophe policies.
- (3) A definitive assessment of the purpose and ambit of coverage of the 2 central policies be undertaken and decisions arising from such assessment be communicated to all public sector entities.

4.2.13 Response by DMB

DMB has commenced implementation of the recommendations of the 1986 review and has established a DMB Budget Sector Insurance Committee involving senior management of the Department to oversee this process.

With respect to the specific shortcomings listed by audit in the administration of the catastrophe policies the following points should be noted:

- * The asset values of \$2 billion as originally assessed was based upon an expected coverage of risks at an early stage of negotiation with insurers. The original expected coverage was much narrower than when the final negotiations on the insurance policies was completed.*
- * The difficulty in arranging placement of the final \$42.4 million of the 1986 public liability cover has been overcome and the catastrophe cover of \$95 million in excess of \$5 million was fully placed effective from 30 March 1987.*
- * The deficiencies in the catastrophe policies are being addressed with certain difficulties having already been rectified. This process has to be a continuous one given the wide ranging nature and implications of the insurers review established by DMB, and noted by audit.*

It should be further noted that the initiatives taken in 1983 to arrange catastrophe cover and to close down the Government Fire Pool which had operated for many years now means that the State has cover for the major disaster risks on which previously there was inadequate cover.

With respect to the possible duplication of premiums specific action has already been initiated to identify those which are clearly duplicated and to eliminate those covers which are not necessary.

DMB acknowledges that there is a great deal of work to be done. This work will be integrated with steps being taken to improve asset recording and reporting.

In broad terms DMB agrees with the recommendations of audit noting that some aspects of (2) and (3) are already being addressed. The further work will require close consultation with those agencies which have significant risk exposures. DMB also looks forward to closer contact with audit on this matter and particularly to analyse the data available. The aim is to develop more effective risk management/insurance practices.

4.3 OUTSTANDING REVENUE

4.3.1 Departments collect substantial revenues through State taxes such as payroll tax (\$1 265 million, 1986-87), fees and charges for departmental services (\$305 million, 1986-87) and revenue from rents and royalties such as those for forestry activities (\$42 million, 1986-87).

4.3.2 Where revenue is not collected by departments at the time of providing services it is necessary for departments to have in place efficient and effective debtors management systems, to ensure that the revenue receivable by the State is recorded accurately and promptly, and that funds are received in a timely manner, so as to maximise the cash flow of the State.

Summary of findings

4.3.3 An audit review was undertaken to determine whether departments are managing debtors in an efficient and effective manner. The review found that:

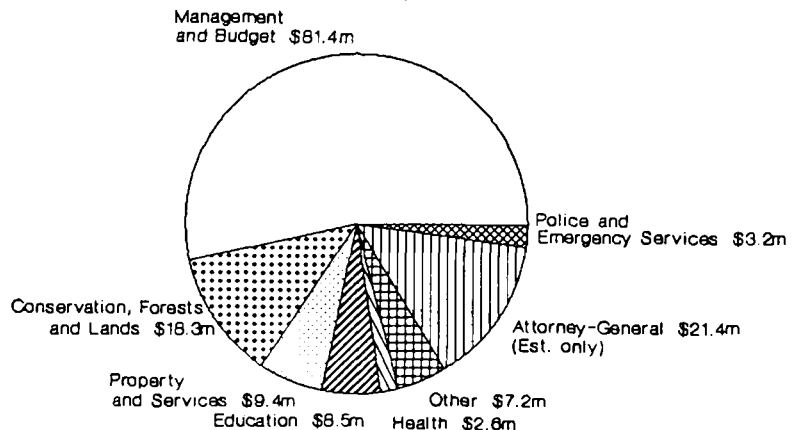
- * the centralised procedures on the management of debtors which have been implemented by the Department of Management and Budget (DMB) are aimed at increasing efficiency in revenue collection;
- * delays by some departments in raising debtors and following-up outstanding accounts resulted in a loss of revenue interest to the State;
- * there was a failure by a number of departments to follow guidelines in the writing off of uncollectable amounts; and
- * alternative debt management techniques have not been implemented so as to enable the prompt collection of debts.

4.3.4 The scope of the review encompassed all departments but excluded public bodies such as the Director of Housing and the Rural Water Commission.

4.3.5 At 30 June 1987 outstanding debtors totalled \$131 million compared with \$139 million at 30 June 1986. These figures exclude outstanding court fines which at 30 June 1986 were estimated by the Attorney-General's Department at \$21 million. Audit noted that there was a significant reduction in DMB debtors for land tax of approximately \$13 million; however, this was offset by increases in other categories. For further comments on DMB debtors see paragraph 4.3.16.

4.3.6 Chart 4.3A illustrates the break-up of outstanding debtors by major departments at 30 June 1987:

CHART 4.3A. DEBTORS BY MAJOR DEPARTMENTS
(\$million)



Central management of debtors

- 4.3.7 In August 1986 DMB issued guidelines to assist departments in designing or improving their debtors and credit management systems. Departments were to ensure full compliance with the requirements of the guidelines by 31 December 1986.
- 4.3.8 In October 1986 DMB enhanced its revenue monitoring procedures by requiring departments to submit quarterly returns to DMB indicating actual collections for the period, revised estimates for the year, level of outstanding debtors, comparison with corresponding period in previous year, etc.
- 4.3.9 The improved monitoring system, which is supplemented by frequent contact with officers responsible for revenue collection in departments, is aimed at increasing efficiency in revenue collection and a greater degree of attention to revenue raising functions within departments.
- 4.3.10 Audit was advised that DMB is considering further refinements to this system. These include requesting departments to provide an ageing of debtors and introducing monthly cash flow budgets for major revenue raising departments.
- 4.3.11 The above initiatives are seen as positive steps taken by DMB towards the achievement of better credit management in departments. Further enhancements recommended by audit include visits to departments to ensure that the appropriate systems, records, registers, etc. have been implemented and are being maintained.

Delays in raising of revenue

- 4.3.12 The DMB guidelines require invoices for goods/services rendered to be issued within 5 days. However, the review revealed frequent instances where there were substantial delays in the raising of invoices by some departments.
- 4.3.13 The average time taken by the Victorian Government Printing Office to raise an invoice in respect of production sales was 28 days. However, in one instance, a delay of 136 days was noted. At the Department of Community Services a 3 month delay to submit claims totalling \$2.2 million to the Commonwealth was also noted.
- 4.3.14 The failure by departments to issue invoices/claims promptly impedes the efficient management of the cash resources and results in the loss of revenue interest to the State.

Outstanding debts

- 4.3.15 The effective management of debtors requires systems which facilitate the monitoring of outstanding debts. The review established that major revenue collecting agencies are still experiencing some difficulties in maintaining effective debt management systems. The review also revealed that a number of departments do not prepare aged debtors listings for management review. The ageing of debtors is an important technique in credit management as it enables a proper analysis of debtors and aids management in determining action required to speed up payments and identify possible bad debts.
- 4.3.16 The following observations were made with respect to the monitoring of outstanding debtors:

Department of Management and Budget

In 1985-86 I was unable to verify the estimated figures for outstanding land tax and payroll tax. Estimated figures had been included in the Department's financial statements as the State Taxation Office did not have satisfactory systems in place to provide accurate figures. Action has continued during 1986-87 to improve both the reliability of the information contained on the computerised land tax data base and the determination and ageing of amounts outstanding for land tax and payroll tax. At the time of preparation of this report the audit of the State Taxation Office had not been finalised.

Attorney-General's Department

The value of outstanding court fines had not been provided by the Department at the date of preparation of this report. The estimate for outstanding court fines at 30 June 1986 of \$21 million has been included in Chart 4.3A for analysis purposes.

Department of Conservation, Forests and Lands

The Department is making progress in the development of a computerised debtors system which is expected to be implemented by 1 July 1988. The system is aimed at overcoming existing deficiencies including a lack of documented procedures for the follow-up of uncollected revenue, absence of aged debtors listing and inadequate follow-up of debtors. Audit estimated that at 30 June 1987 timber royalties outstanding for more than 90 days exceeded \$2 million.

Department of Property and Services

At 30 June 1987 debtors of the Department totalled \$9.4 million. Of this amount, \$4 million was outstanding in excess of 90 days of which \$2.8 million was owed by other departments.

It was evident from the review that there was inadequate follow-up of inter-departmental debts by certain branches of the Department. The DMB guidelines for the recovery of outstanding debts require departments to notify DMB of instances where inter-departmental debts remain outstanding for periods in excess of 90 days, however, the Department has not complied with this requirement.

Although the provision of services between departments does not generate additional revenue to the State, it is essential that efficient debt collection procedures are in place so that all program costs are identified.

Ministry of Education

(1) Salary overpayments

At 30 June 1987 salary overpayments totalled \$2.2 million which is offset by underpayments of \$500 000. This compares with overpayments of \$2.4 million and underpayments of \$900 000 at 30 June 1986. The majority of these overpayments relate to employees' absences without leave entitlements and the failure to process leave data on a timely basis.

The Ministry does not have systems in place to enable reports to be developed disclosing the age of these debts.

(2) Broken bonds

For a number of years, the Ministry awarded studentships to selected students for the purpose of attending a prescribed course of training. Studentships were last awarded in 1978.

Included in the Ministry's outstanding debtors at 30 June 1987 is an amount of \$3.6 million (\$4.5 million at 30 June 1986) which represents debts resulting from breaches of these studentship agreements.

Although the Ministry is experiencing some difficulties in the collection of these outstanding amounts, a decrease has been achieved in the level of debt since 30 June 1986.

Amounts written off by departments

- 4.3.17 The Treasury Regulations 1981 sets out the required approvals to be obtained before any public moneys can be written off as uncollectable. The level of approval required is determined by the value of the amount to be written off.
- 4.3.18 It was noted with concern that while DMB guidelines require departments to maintain a register or ledger of debts written off, 8 departments were not complying with this requirement and could not readily provide details of amounts written off during the year.
- 4.3.19 The total amount written off by departments during 1986-87 was \$699 000 of which \$683 000 related to 3 departments which are properly maintaining records.

Other debt management techniques

- 4.3.20 The review disclosed that some departments had considered the implementation of additional debt management techniques such as discounts for prompt payments, charging of interest for late payments and factoring of debts to maximise the cash flow of the State. However, these departments did not proceed with such initiatives as it was considered that no specific authority existed for their implementation.
- 4.3.21 Audit is of the opinion that consideration needs to be given to providing formal authority to allow departments, especially those which conduct activities akin to commercial organisations, to implement the additional debt management techniques such as those mentioned above. Such techniques would give departments additional flexibility in debt management and thus improve the cash flow of the State.

Response by DMB and other agencies

- 4.3.22 *DMB and other agencies have been consulted regarding the contents of this part of the report.*

4.4 ENGAGEMENT OF CONSULTANTS

4.4.1 Public sector agencies may employ consultants to assist in the effective discharge of their operations, including the provision of services such as staff training, works contracts administration, research assignments, market surveys and specialist advisory functions.

Summary of findings

4.4.2 An audit follow-up to the special review, reported upon in my 1985-86 *First Report*, was undertaken during 1986-87. The current review found that:

- * of the \$15.2 million applicable consultancy engagements reported to the Effectiveness Review Committee by budget sector bodies in 1986-87, some \$4.2 million (28 per cent) did not receive prior authorisation, thereby undermining the process established to monitor and control consultancies;
- * there has been little improvement in the forwarding to the Effectiveness Review Committee of consultancy performance reports; and
- * the applicability of consultancy approval requirements to agencies has not yet been clarified.

Audit observations

(1) Approval processes

4.4.3 To ensure that there is adequate oversight, approval and monitoring, guidelines relating to the use of consultants have been issued by the Premier. These guidelines must be complied with by agencies funded wholly or in part from the Consolidated Fund and supplement the general expenditure requirements established in the Treasury Regulations 1981.

Effectiveness Review Committee

4.4.4 The Premier's guidelines require agency proposals in excess of \$10 000 for the engagement of consultants to be forwarded to the Effectiveness Review Committee, a specialist advisory body established within the Department of Premier and Cabinet. It undertakes independent assessments of these proposals and makes recommendations prior to the submission of proposals to the Treasurer for approval.

State Tender Board

4.4.5 The State Tender Board provides independent assessments and recommendations to the Treasurer on the awarding to suppliers of departmental contracts for the purchase of goods and services. Subject to certain exemptions, all expenditure proposals exceeding \$10 000 must be forwarded to the Board.

4.4.6 The activities of the Committee and the Board are complementary and, in respect of the engagement of consultants, are designed to ensure that there is:

- * competitive tendering for government contracts;
- * compliance with legislation and government policy; and
- * central oversight of large contract placements with the objective of ensuring that the lowest cost associated with best service accrues to agencies and ultimately to taxpayers.

Applications for retrospective approval of consultancy engagements

4.4.7 In situations where agencies have failed to comply with the established approval processes, there has been, since May 1986, a provision under the Treasury Regulations for agencies to obtain retrospective Treasurer's approval. This regulation enables payment to be made to suppliers engaged by agencies in contravention to the established approval processes. In my view it may place the Treasurer in the invidious position of assuming responsibility for decisions taken previously by departmental management.

(2) Auditor-General's First Report, 1985-86

4.4.8 My *First Report* for 1985-86 included comment on the results of a special audit review of the extent of compliance by agencies with legislative requirements and the Premiers' guidelines for the engagement of consultants.

4.4.9 It was concluded in the report that there was substantial non-compliance with established guidelines, absence of approvals and the need for closer monitoring of engagements. The review noted that in a number of instances proposals were either not forwarded to the Effectiveness Review Committee or were forwarded for notification only after the consultancy had already commenced. Also referred to was the need for improvement in the recording and monitoring of expenditure on consultants through the creation of consultants' registers, the preparation of consultants' performance reports and the need for clarification of the guidelines themselves as to their applicability to non-budget sector agencies.

(3) 1986-87 audit follow-up

4.4.10 As a follow-up to the 1985-86 special review, an audit overview of 1986-87 spending by budget sector agencies on consultancy engagements was undertaken. Attention was primarily directed towards the extent of compliance by these agencies with the requirement to forward proposals to the Effectiveness Review Committee and the State Tender Board prior to the finalisation of proposed engagements.

4.4.11 The scope of the review has necessarily been limited to an examination of records maintained by the Effectiveness Review Committee and the State Tender Board and it has not been possible to quantify the extent of those engagements not notified to the Committee and the Board.

4.4.12 The following matters arising from the review were noted.

(1) *Failure to observe approval processes*

Of the total \$6.4 million retrospective approval applications forwarded to the Treasurer in 1986-87, some \$4.2 million or 66 per cent related to consultancy arrangements not formally approved prior to the commencement of the engagements. This represents 28 per cent of total recorded consultancy expenditure of \$15.2 million notified to the Effectiveness Review Committee in 1986-87. The Treasurer has subsequently approved all these applications.

The breakdown of applications which had received neither Effectiveness Review Committee nor State Tender Board approval is listed by agency in Table 4.4A.

TABLE 4.4A. RETROSPECTIVE APPROVAL APPLICATIONS (a), 1986-87

<i>Department/agency</i>	<i>Number of applications</i>	<i>Consultancy</i>	<i>Other</i>	<i>Total</i>
		(\$'000)	(\$'000)	(\$'000)
Agriculture	2	-	138	138
Attorney-General - Law	2	15	42	57
Corporate Affairs	1	-	1 034	1 034
Education	6	11	96	107
Health	8	207	-	207
Industry, Technology and Resources	1	73	-	73
Labour	3	563	47	610
Management and Budget	1	63	-	63
Planning and Environment	1	18	-	18
Police	3	72	63	135
Property and Services - Govt. Computing Service	1	-	212	212
State Electoral Office	1	109	-	109
Public Works	4	-	525	525
Sport and Recreation	1	-	20	20
Transport	1	182	-	182
Victorian Tourism Commission	2	2 560	-	2 560
Total (b)	38	3 873	2 177	6 050

(a) Applications exceeding \$10 000.

(b) A further 9 contracts amounting to \$349 000 were approved by the Effectiveness Review Committee and the Treasurer but were not submitted to the State Tender Board for approval prior to contract commencement.

Failure by agencies to obtain prior approvals for contracts effectively undermines the processes established to monitor and control engagements.

Reasons advanced by agencies for not obtaining the requisite approvals prior to awarding of engagements included oversight, urgency of work and ignorance of approval requirements.

In the case of the Victorian Tourism Commission, 2 contracts were let for the engagement of consultants to conduct overseas advertising campaigns totalling \$2.56 million. These were entered into without first forwarding the supporting documentation to the Effectiveness Review Committee and the State Tender Board for review. In both these instances the Commission engaged the advertising agencies concerned without first calling for competitive tenders as the Commission determined that immediate action to implement the advertising campaigns was necessary and the 2 agencies were best suited to undertake the campaigns envisaged.

(2) *Consultancy performance reports*

There was little improvement in 1986-87 in the forwarding of consultancy performance reports to the Effectiveness Review Committee and, as a result, the effectiveness of the Committee's role in evaluating consultancy performance continues to be impaired.

As indicated in my Special Report No. 5 *Post-Project Appraisal Procedures within the Public Works Department* issued in December 1986, performance reports provide a valuable means for evaluating:

- (i) the extent to which a contractual engagement has achieved its goals;
- (ii) the reasons for any discrepancies between anticipated and actual outcomes; and
- (iii) the suitability of contractors for future engagements.

(3) *Applicability of the Premier's guidelines to authorities*

The applicability of the guidelines to engagements entered into by agencies funded partly from the Consolidated Fund has still to be clarified, although this matter is currently being addressed by the Effectiveness Review Committee.

Action taken by the Treasurer

4.4.13 In response to matters raised in my *First Report* for 1985-86 the Treasurer has advised the Parliamentary Economic and Budget Review Committee that:

- * the guidelines should be adhered to without exception and that the general principles contained therein should be applicable to all public bodies;
- * a list of bodies to which the Effectiveness Review Committee guidelines apply would assist compliance and is to be circulated to heads of agencies; and
- * heads of agencies will be requested to maintain a readily accessible record of consultancy arrangements.

4.4.14 In addition, with effect from the 1987-88 financial year, agencies are required to submit to the Effectiveness Review Committee for assessment, and subsequent approval by the Treasurer, a proposed annual budget for consultancy expenditure.

Conclusion

4.4.15 There is a need for agencies to exercise greater vigilance in ensuring that proposals for the engagement of consultants are forwarded for assessment and approval by the State's specialist review bodies and the Treasurer prior to the awarding of contracts. Compliance with these procedures without exception, as indicated by the Treasurer, will ensure the maintenance of competitive tendering for major consultancy contracts and adequate monitoring and evaluation of engagements and work performance.

4.4.16 It is also important that reasons advanced by agencies for non-compliance with the requirements be assessed to ensure that there is reasonable flexibility in the existing guidelines and regulations, for example:

- * adequacy of approval limits and delegations; and
- * scope for streamlining processes.

Response

4.4.17 *The Effectiveness Review Committee and the State Tender Board have been consulted regarding the contents of this part of the report.*

4.5 COMPUTERISED FINANCIAL MANAGEMENT SYSTEMS IN THE BUDGET SECTOR

4.5.1 The introduction of new and more responsive resource management systems is a major priority of the Government. Under the Government's decentralisation strategy each agency is required to define its own system requirements and implement the system most suited to its needs provided it is able to readily access and communicate with central agency systems and conforms to broad guidelines promulgated by the Department of Management and Budget (DMB).

4.5.2 To facilitate and co-ordinate the replacement or improvement of existing computerised financial management, personnel and payroll systems utilised within budget dependent agencies, an inter-agency committee called the of Government Resource Management System Committee was established in March 1983.

4.5.3 In May 1983 the Committee established a working party to evaluate options for upgrading the existing financial management system used by the majority of agencies. The new system was required to have the following capabilities :

- * the automatic transfer of specified information from agencies to the central system at DMB;
- * centralised cash management;
- * commitment control;
- * multiple aggregation and reporting hierarchies; and
- * in the long run, support for accrual accounting.

4.5.4 It was also required to provide for:

- * the eventual decentralisation of data processing facilities to agencies;
- * the acquisition of preferred supplier hardware;
- * the acquisition of common application software or at least the acquisition of software based on a consistent design philosophy and which can be proven to communicate effectively and efficiency with software maintained by DMB; and
- * the acquisition of packaged software which is not unique to a single brand of hardware.

4.5.5 The Committee accepted a recommendation from the working party that a minicomputer based financial system, known as *Financial Management for the 80s (FM80)*, be adopted as the preferred replacement system for agencies as it best satisfied all the above objectives. DMB then negotiated a licence agreement for the use of FM80 throughout the public sector.

4.5.6 At July 1987, 19 agencies and their branches had chosen FM80, 3 chose systems other than FM80 and 4 have not yet upgraded their systems.

Summary of findings

4.5.7 In conducting this review, audit asked the following questions:

- * Is the present financial management system strategy effective?;
- * Has FM80 been implemented efficiently?; and
- * Are current systems operating efficiently and used effectively?

4.5.8 In summary, audit found that:

- * enhanced financial management systems had been implemented in the majority of scheduled agencies within the planned timeframe;
- * the objective of automatic integration of financial information contained in agency systems and the aggregate information in the central system at DMB has not yet been achieved;
- * the cost of upgrading financial management systems has been significantly higher than anticipated;
- * the implementation of financial management systems in scheduled agencies was inadequately supported by DMB and the system supplier;
- * while the systems in most agencies are operating satisfactorily, some are experiencing continuing problems; and
- * to date, there has been a failure to exploit the full capabilities for enhanced financial management available with current computer technology.

Audit observations

System implementation

4.5.9 It was a major objective of the Committee to implement enhanced financial management systems in all scheduled agencies within 3 years. This objective has essentially been achieved, and the following table provides a summary of those systems implemented:

TABLE 4.5A. IMPLEMENTATION OF FINANCIAL MANAGEMENT SYSTEMS

<i>Date of implementation</i>	<i>Agency</i>	<i>New financial system</i>	<i>Number of general ledger accounts</i>	<i>Number of creditors in accounts payable</i>
July 1984	Education	FM80	32 000	90 000
July 1984	Transport	KSH	2 000	(a)
Nov. 1984	Management and Budget (Central System)	FM80	18 000	(a)
Nov. 1984	Management and Budget (Department)	FM80	9 600	4 700
Nov. 1984	Attorney-General (Sheriff's Office)	FM80	700	4 300
July 1985	Agriculture	FM80	12 000	13 000
July 1985	Community Services	FM80	35 000	15 000
July 1985	Planning and Environment	FM80	7 000	5 000
Sept. 1985	Industry, Technology and Resources	FM80	6 500	5 000
July 1986	Conservation, Forests and Lands	FM80	16 000	26 000
July 1986	Corrections	FM80	5 600	4 800
July 1986	Health	FIMS	50 000	21 000
July 1986	Labour	FM80	3 800	9 500
July 1986	Police and Emergency Service	FM80	3 800	600
July 1986	Sport and Recreation	FM80	1 300	4 000
July 1986	TAFE Board	FM80	2 800	140
Sept. 1986	Ethnic Affairs	FM80	600	1 000
Dec. 1986	Property and Services	FM80	3 400	4 000
Jan. 1987	Attorney-General (Law Department and the Director of Public Prosecutions)	FM80	6 000	3 000
July 1987	Arts	FM80	5 000	5 000
July 1987	Audit	Attache	500	400
July 1987	Premier and Cabinet (including the Public Service Board)	FM80	1 500	500

(a) Not applicable.

- 4.5.10 Agencies yet to upgrade their financial management systems by July 1987 included Consumer Affairs, Local Government, Public Works and Water Resources.

Integration of agency systems with the central system

- 4.5.11 Financial management systems in the public sector should be capable of controlling and reporting the financial activities of individual agencies, as well as supporting aggregate information needs of central agencies.
- 4.5.12 If the Government is to have information to properly manage its finances, the central system must be updated from agency systems on a timely basis with complete and accurate information. In the budget sector, the central system also provides the information necessary for the compilation of the Treasurer's Statement to Parliament.
- 4.5.13 The ability to receive and transmit data automatically between agency systems and the central system was a major requirement in the upgrade of financial management systems. After 3 years, this capability has not yet been implemented. Updating the central system remains a cumbersome process whereby agencies prepare and forward manual documentation to DMB for input to the central system.
- 4.5.14 It should be noted that the need for an automated interface between agencies and the central system is an issue that has been raised repeatedly since 1980-81, to quote from page vii of the *Report of the Auditor-General on the Treasurer's Statement for that year* "The present method of recording financial data has several deficiencies. There is no interface between manual, mechanised or computerised departmental procedures and Treasury. Consequently, most departmental input must be reformatted before it can be accepted by the Treasury system ... This results in uneconomical and time consuming manual procedures being adopted to bring financial data into the central system".
- 4.5.15 Further in the same report, my predecessor commented that "In addition, because of the lack of the interface mentioned above, it is necessary for departments and Treasury frequently to engage in lengthy reconciliation processes to establish the accuracy of the information stored in the central system".
- 4.5.16 The State continues to experience these same reconciliation problems. In 1986-87 the Department of Community Services and Attorney-General's Department were unable to reconcile their agency ledgers with the details maintained on the central system. Such reconciliation problems cast doubts on the controls over agency payments, the integrity of the information contained in the central system and the fact that management decisions could have been based on incorrect information.
- 4.5.17 Audit estimates that the wasted clerical effort required to manually transfer, input, verify and reconcile financial information between the agency systems and the central system costs in excess of \$500 000 per annum.

Project cost control

- 4.5.18 The Committee originally costed the implementation of the total financial management, personnel and payroll resource management systems specified in its terms of reference as being between \$8.8 and \$9.5 million. This costing was first specified in December 1983, and as far as audit can ascertain it has not been reviewed or updated.

- 4.5.19 Audit estimates that the cost to date of implementing new financial management systems and some minor administrative systems in 19 agencies referred to in Table 4.5A to be in excess of \$17 million. Of this, the software licence for FM80 cost just over \$500 000.
- 4.5.20 Another \$12 million of capital expenditure has been requested to implement the replacement personnel and payroll systems. Total capital expenditure on the resource management systems to be implemented under the terms of reference of the Committee will exceed \$29 million, over 3 times the original estimate. This amount did not include agencies which have chosen packages other than FM80, or those who have not yet updated their financial management systems.
- 4.5.21 Audit believes that the major contributing factor to this cost overrun is the deviation from the original implementation strategy which provided for approximately half the agencies to share computer facilities, but other factors which also contributed to the overrun include:
- * a significant decrease in the value of the Australian dollar during the period of the project, but this was substantially offset by a decrease in the price of equipment;
 - * an inadequate technical evaluation of the resources required to run FM80; and
 - * a lack of effective overall project cost monitoring or reporting.
- 4.5.22 One of the difficulties associated with the project is the apparent lack of clear responsibility for overall project cost control.

Implementation of FM80

- 4.5.23 The primary responsibility for implementing FM80 rested with the respective agencies. However, in a majority of these agencies where FM80 was implemented, there was little prior experience in computer systems and limited access to specialist computer systems staff. A number of significant problems were encountered during the implementation of FM80 and in anticipation, resources were made available to DMB to act as the co-ordinating body to provide the necessary consultancy, practical assistance and training.
- 4.5.24 The contractual arrangements for the use of FM80 specified that only the supplier could make modifications to the system. This meant that third party support could not be used thereby aggravating the problem of the shortage of support from the supplier of FM80 as:
- * there were unavoidable peaks in demand because most agencies had scheduled their implementation for 1 July;
 - * there were an unexpected number of defects in the software which required additional attention by the supplier; and
 - * a number of enhancements were necessary to satisfy operational requirements, placing further strain on the resources of the supplier.
- 4.5.25 User agencies had been given the reasonable expectation that FM80 would have equal functionality in the two different brands of computers recommended under the Government's preferred supplier policy and identified in the software licence. This did not occur, and agencies who had implemented FM80 on the lesser used brand of computer found that their version had less functionality, contained more errors and received a lesser degree of support than that provided on the other.

4.5.26 Further, audit received a number of complaints by agencies about the lack of effective support from DMB and software supplier. Significant issues raised by user agencies, included:

- * lack of guidelines and practical advice on how to implement the system;
- * the inadequate level of experienced consultancy assistance available;
- * the unavailability of certain system documentation;
- * lack of guidelines to agencies on how to co-ordinate their training program; and
- * resources required to run FM80 were greater than anticipated with the consequence that agencies generally experienced unexpectedly slow performance from the system, resulting in a loss of productivity and higher overall costs because existing equipment required enhancement.

Operation of FM80

4.5.27 FM80 is now operating reasonably well in most agencies. However, because the software is installed on two different brands of computer, software enhancements cannot be shared, but must be duplicated between agencies using different brands.

4.5.28 In addition, as the supplier is supporting 2 different versions of the software, resources have to be spread, resulting in delays in response from the supplier to maintenance and enhancement requests.

4.5.29 A further operational problem relates to the difficulty in maintaining an appropriate FM80 support structure within smaller agencies who have only one or two support staff. These agencies are continually disrupted by the turnover of support staff caused by limited career opportunities in small agencies, and the demand for these experienced support staff in the public sector.

4.5.30 It should be noted that in recognition of these difficulties, DMB has organised a user group infrastructure to share experiences, prioritise maintenance and enhancement requests, and promote more efficient and effective use of FM80 for both versions of the software.

Effectiveness of the new financial management systems implemented

4.5.31 With the establishment of the Government Resource Management System Committee it was anticipated that the upgrade of financial management systems would be implemented in such a way as to result in a general enhancement of financial management practices throughout the State, both in agencies and in the central system maintained by DMB.

4.5.32 To this end the new systems have in the majority of cases provided more timely, better structured and more easily accessible financial information for individual agency operations and budget monitoring in DMB. In addition, it is understood that the central system is currently being enhanced to automatically report budget sector financial activities in national accounts format.

4.5.33 There are however other possible enhancements to the existing systems which will assist the Government in managing the State's budget and finances more effectively. These include facilities such as:

- * the integration of existing databases of historic financial information and forward estimates to provide an interactive capability for budget building, formulation of budget strategy, economic modelling and an improved capacity for review;

- * the capacity to manage cash centrally while retaining decentralised management responsibility. This would enable a decrease in the number of bank accounts currently used by agencies, simplify bank reconciliation processes, facilitate negotiations for more favourable interest rates with financial institutions and the use of electronic funds transfer capabilities; and
- * implementation and integration of program performance indicators with financial information and the regular feedback of performance against targets.

Recommendations

4.5.34 It is recommended that:

- (1) DMB develop and implement as a matter of urgency a more controlled interface between agency financial systems and the central system.
- (2) That there be more stringent monitoring and reporting by DMB of the costs and progress of public sector-wide projects (such as the Personnel/Payroll system, and the proposed Asset Recording System).
- (3) Where a common system is to be implemented in more than one agency, a post-implementation review should be conducted on one of the initial implementations such that the lessons learnt from them can be applied to latter implementations.
- (4) An overall strategy be developed to ensure that the State capitalises on the capabilities of current technology in developing its financial management processes.

Response by DMB

4.5.35 *DMB's response to the above recommendations were:*

- (1) *Under normal circumstances, the interface between agency financial systems and the central system is satisfactory. However, major structural change (e.g. machinery of government changes or decentralisation) in an agency places stress on the interface. New procedures have been introduced this year to strengthen the interface and it is the subject of continuing review.*
- (2) *Under existing government policy the decision to implement a particular system and the monitoring of costs and progress of that system is an agency responsibility.*
- (3) *DMB supports this principle and a post-implementation review was conducted for FM80 on the initial implementation by DMB.*
- (4) *The revised Government Resources Management System Committee is addressing the issue of resource management systems strategy. The specific issues raised by audit primarily relate to the State's cash management arrangements, and are the subject of a current feasibility study.*

4.5.36 *In respect of key audit observations DMB made the following comments:*

- (1) *DMB notes that the audit review has confirmed that enhanced financial management systems were implemented in the majority of scheduled agencies within the planned timeframe and are operating satisfactorily.*

- (2) *With regards to the automatic interface between agency financial systems and the central system, rationalisation of DMB control accounts and automatic production of the journal entry at agencies, has reduced the priority of this enhancement. The reasons for reconciliation problems referred to by audit include machinery of government changes which would not be resolved by an automated interface.*
- (3) *In relation to project cost control, since 1983-84 the primary responsibility for computer purchase, deployment and use has been devolved to agencies. Agencies now utilise computer resources across multiple applications and this would need to be adjusted for when attempting to assess the project costs of a particular application, e.g. FM80. Anticipated non-recurrent project costs under DMB's direct control were within original estimates.*
- (4) *DMB supported FM80 implementation to the full extent of its resources, and implementation basically met project objectives.*
- (5) *DMB recognises the issues in relation to operations of FM80 and is involved in discussion with agencies to facilitate better arrangements to share expertise and provide support to smaller agencies.*
- (6) *DMB supports the need to exploit the capabilities of the enhanced financial management system in place by supporting the Financial Development program and management forums. DMB also supports the development of new financial management systems both strategically through the Government Resources Management System Committee, and practically through the Accounting System Branch.*
- (7) *DMB has had in train for several years a process of enhancement to budget building, formulation of budgetary strategy, economic modelling and budget review. This process is already making use of up-to-date information technology and will continue to do so. Further integration of existing data bases will occur in due course but is likely to contribute only marginally to the productivity of existing information systems in the budget process. A far greater contribution can be expected from a joint project currently underway with the Australian Bureau of Statistics for the development of consistent time series data in national accounting format for the budget sector.*

APPENDIX A

STATUS REPORT

The following information relates to the status of observations and recommendations contained in previous reports of the Auditor-General on the Treasurer's Statement.

<i>Report</i>	<i>Page</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
1978-79 1979-80	7 9	Balance of Consolidated Revenue deficits at 30 June 1970 still unfunded and temporarily financed from the Public Account.	Position unchanged.
1982-83 1983-84 1984-85 1985-86	37 44 57 42	Action should be taken to include in the Treasurer's Statement information showing the total public debt of the State.	Information on public sector debt included in 1986-87 Treasurer's Statement.
1982-83	49	Need for disclosure in the Treasurer's Statement of unspent Commonwealth moneys previously held in trust accounts.	Position unchanged, however details again provided in <i>Budget Paper No. 5</i> .
1984-85 1985-86	5 2	Legislative action is required to ensure Parliament is provided regularly with information on the State's participation in the joint venture for the development of the Portland Aluminium Smelter through tabling in Parliament of the annual report of the Portland Smelter Unit Trust, and to specify that financial information on the venture is subject to audit by the Auditor-General.	Treasurer has tabled annual reports in Parliament, however, still no legislative requirement for tabling or for audit by the Auditor-General. Further comment is included in section 3.8 of this report.
1984-85	79-80	In connection with State Management Accounting and Financial Information System (SMAFIS) there is the need to: address auditability issues; ensure greater user involvement; make available an automatic interface of data between departments and central agencies; and provide a proper training program.	Improvements have been made to the auditability of the State Management Accounting and Financial Information System (SMAFIS). Status of other issues including automatic interface, user involvement and training programs remains unchanged. Further comments about the implementation of SMAFIS and other computerised financial management systems are included in section 4.5 of this report.

<i>Report</i>	<i>Page</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
1985-86	2	Annual reports of companies established by government or in which government has equity should be tabled in Parliament.	Draft criteria for accountability including reporting to Parliament, prepared for discussion.
1985-86	4	Financial information reporting based on accrual accounting principles should be progressively adopted.	Further comment is contained in section 3.5 of this report.
1985-86	4	Treasurer's Statement should be in the form of a consolidated statement complementing information in departmental annual financial statements.	Further comment is contained in section 3.5 of this report.
1985-86	4	Reported financial position of the State should include all assets and obligations.	Further comment is contained in section 3.5 of this report.
1985-86	5	Expenditure should be allocated to the most relevant program, including all expenditure under Special Appropriations.	Expenditure under Special Appropriations reported under programs in 1986-87 Treasurer's Statement. Further comment on allocation of expenditure to relevant programs is contained in section 3.9 of this report.
1985-86	5	Receipts recorded under "Revenue Previously Paid to Trust Fund" should be classified more appropriately.	Matter under consideration by Department of Management and Budget.
1985-86	5 75-76	A clearer, more consistent classification of departmental expenditures into operating and capital items is needed.	National accounting information now included in Budget Papers. Aspects of classification under review.
1985-86	59-65	Improvements should be made to systems for recording, reporting, setting of terms and conditions, accountability, monitoring and timing of grants and subsidies payments.	Matter under consideration by Department of Management and Budget.

<i>Report</i>	<i>Page</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
1985-86	66-70	Effectiveness Review Committee guidelines on the engagement of consultants should be adhered to, applicability of the guidelines to public bodies needs clarification and a register of consultancy engagements should be maintained.	Further comment is contained in section 4.4 of this report.
1985-86	71-74	Improvements are needed to the recording, control and reporting of departmental physical assets.	Treasurer has commenced a project for departments to have asset recording and reporting systems in place by June 1989.
1985-86	77-79	Departments should give more attention to management and control of their accounts payable processes.	Recommendations of a project team which surveyed accounts payable systems now being implemented.
1985-86	80-83	Issues relating to Treasury Trust Fund: Fund should not be used to transfer appropriations between departments; procedures needed to ensure accountability of Fund transactions; transfers from appropriations should be approved by Treasurer; departments should maintain itemised records of their Fund components; and review needed of reporting of balances to the credit of Commonwealth trust accounts.	Circular issued by Department of Management and Budget on procedures for use of Treasury Trust Fund.

APPENDIX B
TRANSFERS UNDER SECTION 25 OF THE AUDIT ACT 1958

<i>Particulars</i>	<i>Program no.</i>	<i>Sub-div.</i>	<i>Item</i>	<i>Parlt. Approp.</i>	<i>Approp. after variation by Governor in Council</i>	<i>Increase (decrease)</i>
				\$	\$	\$
Parliament	107	1	1100	4 262 950	4 260 962	(1 988)
	107	1	1150	691 520	693 508	<u>1 988</u>
						1 988
						<u>(1 988)</u>
Agriculture and Rural Affairs	122	2	5303	1 200 000	1 155 000	(45 000)
	122	2	5305	400 000	445 000	<u>45 000</u>
						45 000
						<u>(45 000)</u>
Arts	142	2	5314	6 000 000	5 850 000	(150 000)
	142	2	5315	50 000	200 000	<u>150 000</u>
						150 000
						<u>(150 000)</u>
Attorney-General	168	1	1100	22 723 940	23 118 940	395 000
	168	1	2000	12 811 300	12 416 300	<u>(395 000)</u>
						395 000
						<u>(395 000)</u>
Community Services	193	1	3121	2 750 000	3 280 369	530 369
	193	1	3154	39 575 000	39 775 000	200 000
	193	1	3158	23 871 000	23 140 631	(730 369)
	194	1	2700	52 897 000	53 339 600	442 600
	194	1	3130	8 240 000	7 797 400	(442 600)
	195	1	2659	7 110 000	7 504 000	394 000
	195	1	2660	20 210 000	19 816 000	(394 000)
	197	1	1150	779 590	1 023 590	244 000
	197	1	2684	800 000	662 800	(137 200)
	197	1	3124	160 000	53 200	<u>(106 800)</u>
						1 810 969
						<u>(1 810 969)</u>
Conservation, Forests and Lands	204	1	1100	13 751 080	13 985 704	234 624
	204	1	2771	283 000	48 376	(234 624)
	205	1	1100	27 538 880	27 608 880	70 000
	205	1	3920	242 000	172 000	(70 000)
	205	2	5350	485 000	487 000	2 000
	205	2	5404	1 711 000	1 709 000	(2 000)
	205	2	5405	250 000	202 000	(48 000)
	205	2	5408	530 000	578 000	<u>48 000</u>
						354 624
						<u>(354 624)</u>

<i>Particulars</i>	<i>Program no.</i>	<i>Sub-div.</i>	<i>Item</i>	<i>Part.</i>	<i>Approp. after variation by Governor in Council</i>	<i>Increase (decrease)</i>
				<i>Approp.</i>		
				\$	\$	\$
Consumer Affairs	243	1	2791	6 000	6 130	130
	243	1	2796	207 000	206 870	(130)
						130
						(130)
Education	281	1	2000	750 900	660 440	(90 460)
	281	1	2801	625 000	610 000	(15 000)
	281	1	2806	305 000	270 000	(35 000)
	281	1	2809	12 661 000	12 801 460	140 460
	281	2	5701	18 000 000	18 300 000	300 000
	281	2	5704	880 000	580 000	(300 000)
	283	1	1100	1 361 527 700	1 362 527 700	1 000 000
	283	1	2862	135 663 400	135 883 500	220 100
	283	1	2864	2 265 900	1 501 400	(764 500)
	283	1	2868	5 140 000	4 684 400	(455 600)
	283	2	5000	149 140 000	149 275 000	135 000
	283	2	5715	6 067 000	5 932 000	(135 000)
	288	1	2864	2 813 100	2 383 100	(430 000)
	288	1	2915	141 100 000	141 530 000	430 000
						2 225 560
						(2 225 560)
Health	381	1	1100	25 296 810	26 087 935	791 125
	381	1	3127	168 400	188 400	20 000
	381	1	3135	38 600	18 600	(20 000)
	381	1	3155	12 683 700	11 892 575	(791 125)
	381	2	5000	4 984 000	4 612 000	(372 000)
	381	2	5670	1 500 000	1 779 000	279 000
	381	2	5672	1 300 000	1 393 000	93 000
	383	1	3110	475 000	450 000	(25 000)
	383	1	3129	643 500	668 500	25 000
	387	2	5000	1 867 000	1 508 000	(359 000)
	387	2	5685	2 055 000	2 412 000	357 000
	387	2	5688	15 000	17 000	2 000
						1 567 125
						(1 567 125)
Housing	405	1	3171	622 000	660 000	38 000
	405	1	3172	820 000	782 000	(38 000)
						38 000
						(38 000)
Industry, Technology and Resources	476	1	3411	16 229 000	16 705 000	476 000
	476	1	3413	3 000 000	2 524 000	(476 000)
						476 000
						(476 000)

<i>Particulars</i>	<i>Program no.</i>	<i>Sub-div.</i>	<i>Item</i>	<i>Parlt. Approp.</i>	<i>Approp. after</i>	<i>Increase (decrease)</i>
					<i>variation by Governor in Council</i>	
				\$	\$	\$
Planning and Environment	565	1	1100	6 297 930	6 648 373	350 443
	565	1	1150	407 130	428 130	21 000
	565	1	2000	2 092 660	2 317 060	224 400
	565	1	3278	1 271 200	675 357	<u>(595 843)</u>
						595 843
						<u>(595 843)</u>
Police and Emergency Services	581	1	1150	134 190	161 500	27 310
	581	1	2000	219 325	256 325	37 000
	581	1	3307	172 000	107 690	(64 310)
	582	1	1100	65 106 000	64 811 000	(295 000)
	582	1	1150	19 158 200	19 453 200	295 000
	586	1	1100	1 605 100	1 569 100	(36 000)
	586	1	2000	408 000	444 000	<u>36 000</u>
						395 310
						<u>(395 310)</u>
Premier and Cabinet	609	1	1100	4 657 220	4 697 220	40 000
	609	1	2000	840 000	800 000	(40 000)
	610	1	2000	1 067 000	981 000	(86 000)
	610	1	3347	998 500	1 084 500	<u>86 000</u>
						(126 000)
						<u>126 000</u>
Property and Services	625	1	1100	23 851 270	23 738 270	(113 000)
	625	1	1150	1 687 620	1 800 620	113 000
	625	1	3193	120 000	125 000	5 000
	625	1	3362	8 500	8 718	218
	625	1	3366	2 198 000	2 192 782	(5 218)
	629	2	5528	1 500 000	1 485 000	(15 000)
	629	2	5529	410 000	395 000	<u>15 000</u>
						133 218
						<u>(133 218)</u>
Transport	682	1	1100	3 515 000	3 252 000	(263 000)
	682	1	3421	12 891 000	12 813 000	(78 000)
	682	1	3422	715 000	1 006 000	291 000
	682	1	3431	1 067 000	1 117 000	<u>50 000</u>
						341 000
						<u>(341 000)</u>
Treasurer	726	1	3469	300 000	215 000	(85 000)
	726	1	3471	31 600 000	31 235 000	(365 000)
	726	1	3474	14 100 000	14 286 245	186 245
	726	1	3475	3 830 000	3 511 000	(319 000)
	726	1	3476	2 100 000	2 673 494	573 494
	726	1	3477	5 000 000	4 394 000	(606 000)
	726	1	3479	660 000	432 000	(228 000)
	726	1	3482	500 000	827 000	327 000
	726	1	3483	12 800 000	12 649 000	(151 000)

<i>Particulars</i>	<i>Program no.</i>	<i>Sub-div.</i>	<i>Item</i>	<i>Partl.</i>	<i>Approp. after variation by Governor in Council</i>	<i>Increase (decrease)</i>
				<i>Approp.</i>		
				\$	\$	\$
Treasurer	726	1	3489	1 000 000	1 950 000	950 000
(cont.)	726	1	3490	300 000	400 000	100 000
	726	1	3491	2 500 000	1 260 000	(1 240 000)
	726	1	3492	2 700 000	2 890 000	190 000
	726	1	3495	16 000	25 400	9 400
	726	1	3497	35 000	11 000	(24 000)
	726	1	3501	30 000	105 430	75 430
	726	1	3519	4 000 000	2 000 000	(2 000 000)
	726	1	3548	1 485 000	1 630 000	145 000
	726	1	3549	20 500 000	25 642 170	5 142 170
	726	1	3550	2 283 000	2 262 000	(21 000)
	726	1	3554	7 852 000	7 811 000	(41 000)
	726	1	3561	10 000	4 000	(6 000)
	726	1	3583	7 517 000	6 489 600	(1 027 400)
	726	1	3596	254 000	109 000	(145 000)
	726	1	3610	229 663 000	225 563 000	(4 100 000)
	726	1	3617	60 000 000	65 654 400	5 654 400
	726	1	3618	7 000 000	4 005 261	(2 994 739)
						13 353 139
						<u>(13 353 139)</u>
Water Supply	761	2	5626	4 400 000	4 650 000	250 000
	761	2	5627	300 000	150 000	(150 000)
	761	2	5630	100 000	-	(100 000)
						250 000
						<u>(250 000)</u>

