

VICTORIA

Report of the
AUDITOR-GENERAL
on the
TREASURER'S STATEMENT
for the year ended 30 June 1989

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PREFACE

FORMAT AND CONTENT OF THIS REPORT

This report contains 5 parts:

- ◆ Summary of major audit observations;
- ◆ Need for modern audit legislation in Victoria;
- ◆ Review of the Treasurer's Statement;
- ◆ Matters of special interest; and
- ◆ Status of matters raised in previous reports on the Treasurer's Statement.

Part 1: Summary of major audit observations is designed to provide readers with a convenient and quick reference to major audit observations detailed in the report. The attention of readers is also drawn to the *key findings* which appear at the beginning of most sections of the report.

Part 2: Need for modern audit legislation in Victoria provides an historical perspective of accountability in the public sector and sets out the importance of ensuring that up-to-date audit legislation is in place.

Part 3: Review of the Treasurer's Statement fulfils the statutory obligation, under section 47 of the *Audit Act 1958*, for the Auditor-General to provide Parliament with explanation and comments on the Treasurer's Statement.

Part 4: Matters of special interest sets out a number of issues which are regarded by audit as important for improving the financial operations and accountability of State Government organisations.

- ◆ *Section 4.1 - Collection of State taxation* presents the findings of an audit review of the collection of taxation revenue by the State Taxation Office.
- ◆ *Section 4.2 - Program budgeting* provides an overview of the current status of the implementation of one of the major reforms in financial administration in Victoria.
- ◆ *Section 4.3 - Duties and responsibilities of board members/directors of public bodies* discusses the important responsibilities placed on board members/directors in the public sector.
- ◆ *Section 4.4 - Retrospective expenditure approvals* deals with the recurring problem of some departments failing to obtain approvals in advance of committing expenditure.

Part 5: Status of matters raised in previous reports on the Treasurer's Statement summarises the current position in respect of issues raised in previous reports.

FUTURE REPORTS OF THE AUDITOR-GENERAL

In respect of 1988-89 activities, I plan to complete, as a minimum, the following reports:

- ◆ **Annual Report of the Office of the Auditor-General**, prepared in accordance with the *Annual Reporting Act 1983* and describing the Office's activities, including the presentation of audited financial statements (*expected tabling date - October 1989*).
- ◆ **Report on Ministerial Portfolios**, providing comment on matters of broad scope interest and including references to significant findings arising from the audit of departments and public bodies (*expected tabling date - April 1990*).

ACKNOWLEDGEMENTS

I 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 government agencies and the assistance provided by the Government Printer in the preparation of this report.

PART 1

SUMMARY OF MAJOR AUDIT OBSERVATIONS

PART 2

**NEED FOR MODERN
AUDIT LEGISLATION
IN VICTORIA**

2.

NEED FOR MODERN AUDIT LEGISLATION IN VICTORIA

WHY IS A NEW AUDIT ACT NECESSARY?

2.1 Events over the past 6 months have emphasised once again the need for the enactment of revised audit legislation in Victoria - legislation which clearly enunciates, in terms suited to present-day financial management and accountability concepts, the responsibilities and powers that are appropriately entrusted to an Auditor-General.

2.2 The *Audit Act* 1958 owes its origins and most of its provisions to legislation enacted in the latter half of the 19th century and at the beginning of the 20th century. In recent years, financial management in the public sector has become increasingly complex as illustrated by the need to introduce legislation such as the Annual Reporting Act. The general community of this State now demands greater accountability by managers for their use of the public purse and expects the Auditor-General to provide comprehensive analyses of how legally, efficiently and effectively that money is being spent.

2.3 Unfortunately, the Audit Act has not kept pace with these changes and does not now provide an appropriate framework for public sector auditing in the rapidly approaching 21st century. The lack of clarity in terminology used in the Act has led to confusion and dispute over its interpretation; the mechanisms governing operations of the Office of the Auditor-General are outmoded and largely inflexible; and there is a lack of prescription for action on those matters which audit draws to the attention of Parliament. Without doubt, the colonial framework of the 19th century has outlived its usefulness.

WHY THE URGENCY FOR ACTION?

2.4 For several decades, the reports of successive Auditors-General of this State have included comment on many instances of waste and extravagance detected during annual audits of the public accounts. These comments on the economy, efficiency and effectiveness (also known as "value-for-money") with which public bodies used resources to implement government policies were made under the authority of the Audit Act which requires the Auditor-General to address "... the better collection and payment of public and other moneys and control of stores". Since 1981, 11 of the Auditor-General's reports to Parliament have concentrated on specific aspects of resource management - public land utilisation, cash management, motor vehicle fleet operations, foreign exchange, to name a few. These special reports each provided Parliament with an independent appraisal of whether value-for-money was being achieved in those programs and appropriate recommendations on how to rectify deficiencies.

2.5 It has always been my policy, and that of my predecessors, to keep Parliament informed on the strategies used by my Office in auditing the bureaucracy. One of the earliest of these special reports (*Special Report No. 3: Government Stores Operations and Departmental Cash Management*, tabled in the Legislative Assembly in October 1984), gave a detailed description of the comprehensive audit methodology followed by the Office. The report itemised the components of the audit, that is, verification of financial statements, extent of compliance with legislative requirements, and value-for-money. It described the 3 inter-related areas of the value-for-money component to which the audit is directed, namely, economy, efficiency and effectiveness of operations in achieving government policy objectives.

2.6 Over the years, Parliament has never called into question the Auditor-General's authority to conduct comprehensive audits of the public sector and to report the findings. Indeed, the Economic and Budget Review Committee of Parliament, both in 1983 and lately in 1989, has endorsed the need for such coverage by the Auditor-General. The Committee's 1983 report made a number of recommendations to Parliament on the need for new resource management and accountability provisions which have been strongly supported by my predecessors.

2.7 In 1985 the Treasurer announced that a review of the State's financial legislation, including the Audit Act, had commenced with the aim of a new legislative framework being introduced to Parliament in 1986. To assist the process, the then Auditor-General prepared and forwarded to the Treasurer in 1986 a draft Audit Act which embodied legislative concepts consistent with sound financial management and accountability practices for public sector organisations both in Australia and overseas. In each of the 3 years since then, the Auditor-General's report has included expressions of concern that the legislation has still not been introduced to Parliament.

2.8 However, the urgency for action was highlighted on 22 March 1989 when the Speaker of the Legislative Assembly declined to table a report of the Auditor-General. He explained to the House that, because of doubts about the power of the Auditor-General to conduct value-for-money audits, he was seeking a legal opinion on his responsibility for tabling reports. In the event, the report (Special Report No. 11: *Financial Assistance to Industry*) was tabled several hours later on a government motion, after lengthy debate and in advance of the legal opinion being received.

2.9 In April 1989, the Solicitor-General provided the Speaker with a legal opinion arguing that the Auditor-General's responsibility to audit the public accounts was limited to the financial and compliance aspects. The Solicitor-General maintained that the Auditor-General had no function in relation to the auditing of efficiency and effectiveness of the use of public moneys. His conclusion was that any special report dealing with efficiency and effectiveness issues was therefore not a report within the meaning of the Audit Act.

2.10 When the matter was raised in Parliament on 2 May 1989 the Government asserted its concern about inefficiency and waste. The Premier gave an undertaking to consult a range of people, including the Auditor-General, to determine "... the best method to be adopted to ensure that there is a capacity for the proper examination of efficiency and effectiveness by some independent authority".

WHAT IS NEEDED?

2.11 The following is a summary of the key points I have made in response to an invitation by the Department of the Premier and Cabinet to comment on whether the Auditor-General should be empowered to conduct efficiency and effectiveness audits:

- ◆ To be effective, a revised Audit Act needs, first and foremost, to state clearly the responsibilities and powers to be vested in the Auditor-General. It should confirm the independence from the Executive Government and from the Parliament in the day-to-day fulfilment of the statutory duties, while also spelling out the Auditor-General's accountability to the Parliament as a whole for the performance of those duties. Independence and objectivity are crucial to the credibility of reports on the operations of public sector bodies which the Auditor-General makes to Parliament and, therefore, the people of Victoria.
- ◆ In addition to an unequivocal statement of the Auditor-General's responsibilities for examination of the financial statements of public bodies and their compliance with legislation, the revised Act should provide for reporting on the extent to which government programs have been carried out with economy, efficiency and effectiveness. With the increasing demand for adequate accountability for the use of scarce public resources, these aspects are of strategic importance in terms of protecting the interests of the community at large.

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- ◆ Managers in the public sector must themselves continually monitor and periodically report on the economy, efficiency and effectiveness of the programs they administer. But for full accountability to operate in the public interest external analysis of those aspects must also be undertaken, in the same way that financial statements and legislative compliance are verified by an independent and objective body, the Auditor-General.
 - ◆ The argument that auditors may not be qualified to assess the effectiveness of programs in achieving their objectives overlooks the fact that a high degree of analytical skill is required in the audit discipline and that this skill is supplemented on a needs basis with expertise from other disciplines.
 - ◆ Unfounded fears have been expressed by some that an Auditor-General might make public evaluations of government policies. This has never occurred in Victoria and I have publicly emphasised that my role as Auditor-General involves examination of whether the objectives of policies have been achieved, not examination of the policies themselves.
 - ◆ Another essential feature of a revised Audit Act should be a provision overriding the secrecy clauses of other legislation under specified conditions so that auditors have full access to relevant information in a public agency. Without this access the chain of accountability and external verification is broken.
 - ◆ Several "executive-type" responsibilities of the Auditor-General under the present Act should be reassigned to more appropriate bodies, for example, the responsibilities relating to surcharges and recovery of overpayments.
 - ◆ Another very significant step would be to establish a more defined and legal relationship between the Auditor-General and Parliament through a parliamentary committee with broad oversight of the operations of the Office of the Auditor-General and responsibility for follow-up on matters raised in Auditor-General's reports.

2.12 Above all, what is needed is a comprehensive revision of the audit legislation.

IS THERE PUBLIC SUPPORT FOR NEW LEGISLATION?

2.13 Community pressure for a high standard of public resource management and accountability is growing continuously, together with recognition of the importance of legislative underpinning of these concepts.

2.14 Public support for endorsement in the proposed new legislation of the Auditor-General's mandate to conduct value-for-money audits, for example, has come from a variety of sources: the Economic and Budget Review Committee, parliamentary leaders, the Speaker of the Legislative Assembly, the principal bodies in the accounting profession, and the media - with editorials in several metropolitan and country daily newspapers and in professional journals.

WHAT IS THE POSITION ELSEWHERE?

2.15 Resource management and accountability legislation has been updated in recent years in the United Kingdom, Canada and New Zealand, all countries operating under a Westminster style of constitutional government. All 3 countries have incorporated into their public sector audit provisions a mandate for the Auditor-General to examine and report on value-for-money issues.

2.16 Closer to home, both Western Australia and South Australia have already adopted Acts which require their Auditors-General to conduct value-for-money audits. In the Federal sphere the parliamentary Joint Committee of Public Accounts recommended, as recently as March 1989, that the Commonwealth Auditor-General's responsibilities should extend to effectiveness as well as economy and efficiency matters.

2.17 Events in Queensland highlighted in a Report of a Commission of Inquiry (known as *The Fitzgerald Inquiry*) have shown forcefully the need for adequate resource management and accountability provisions in the public sector.

WHAT ARE THE CONSEQUENCES OF FURTHER DELAY?

2.18 The existing problems of interpretation of the powers and responsibilities of the Auditor-General and challenges to audit access to information on the financial operations of public bodies need to be resolved as quickly as possible. Further delay in undertaking a thorough revision of the audit legislation to bring it into line with modern financial management will lead to less than adequate accountability of the public sector. Obviously, this is not in the public interest.

2.19 The Auditor-General's reports of examinations of economy, efficiency and effectiveness of programs can form the basis for economic decision-making about future use of government resources. To allow any controversy over the Auditor-General's powers to conduct and report on value-for-money issues is to put a question mark over the continued production of this valuable information.

2.20 In the final analysis, the role of the Auditor-General is to audit in the public interest. A clear legislative statement of his powers and responsibilities in terms of contemporary public resource management and accountability therefore must also be in the interests of the people of Victoria.

PART 3

**REVIEW
OF THE
TREASURER'S
STATEMENT**

3.

REVIEW OF THE TREASURER'S STATEMENT

KEY FINDINGS

- ◆ The operations of the Consolidated Fund for 1988-89 resulted in a deficit of \$116 million before the application of surpluses from previous years.
para. 3.12
- ◆ Long service leave and recreation leave liabilities in respect of budget sector employees at 30 June 1989 are estimated by audit to be approximately \$800 million.
paras 3.32 - 3.33
- ◆ In 1988-89, the Consolidated Fund lost \$78.1 million as a result of the collapse of the Victorian Economic Development Corporation and the sale of the Victorian Investment Corporation Limited.
paras 3.27 - 3.30
- ◆ A further \$50 million of debt owed by the Melbourne and Metropolitan Board of Works to the State was forgiven by the Treasurer, bringing the total amount forgiven to \$110 million.
para. 3.31
- ◆ Total interest charges for 1988-89 represented 15.2 per cent of recurrent funds available for general application.
para. 3.24
- ◆ Approximately \$123 million of interest charges were funded from capital receipts, a practice contrary to the principles of sound financial management.
para. 3.24

STATUTORY REPORTING REQUIREMENTS

3.1 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 and other relevant financial issues which in my opinion, warrant comment. In the Explanatory Notes to the Treasurer's Statement, the Treasurer has included an analysis of the receipts and payments together with details of accounting developments and initiatives by the Department of Management and Budget. Unless otherwise stated in my report, I am in agreement with the comments made by the Treasurer in his analysis of the receipts and payments.

3.2 My report also contains information on matters which are required to be reported to Parliament under specific provisions of the *Audit Act* 1958.

AGREEMENT WITH TREASURER'S STATEMENT

3.3 The Treasurer's Statement for the financial year 1988-89 has been examined and the receipts and payments of the Consolidated Fund and the Trust Fund, as recorded in the Treasurer's Statement, are in agreement with the Treasurer's records which are supported by information contained in government departmental accounts. Information on debtors, creditors, stores, equity and public sector debt has been drawn from details supplied to the Treasurer by departments and some public bodies. The audits of these organisations have yet to be finalised as most are in the process of preparing their annual financial statements which are required to be tabled in Parliament by 31 October 1989.

3.4 Experience in 1987-88 indicated that the preliminary figures in relation to debtors and creditors which were supplied by departments were significantly different from the information eventually disclosed in the respective departmental financial statements. **Greater attention needs to be directed by departments towards ensuring the accuracy of data disclosed in the Treasurer's Statement.**

3.5 Rounding of figures within my report may, in some instances, result in minor differences when figures are compared with those shown in the Treasurer's Statement.

DENIAL OF ACCESS TO DEPARTMENTAL RECORDS

3.6 The scope of the current audit of the Department of Management and Budget included a review of the collection of taxation revenue by the Comptroller of Stamps (Stamp Duties Office) and Commissioner of Taxation (State Taxation Office). Total collections of taxation revenue in 1988-89 by the respective Offices are disclosed in the Treasurer's Statement at \$3 943 million.

3.7 While audit's right of access to the records of the respective Offices had never been questioned in the past, my officers were informed initially by the Comptroller of Stamps and later by the Commissioner of Taxation that access to information supplied by taxpayers which was required by audit for the purpose of substantiating the accuracy and completeness of taxation collections could no longer be granted having regard to the secrecy provisions in their enabling legislation. My officers were also informed that this action was supported by legal advice from the Solicitor-General.

3.8 The audit review of collections by the State Taxation Office was substantially completed prior to access to taxpayers' records being denied. I am pleased therefore to be able to provide comments on the outcome of this review in section 4.1 of this report.

3.9 In July 1989 I wrote to the Treasurer informing him of the urgent need to introduce amending legislation to enable my staff to have access to public records for the purpose of effectively auditing the accounts of the State. I understand that the Government is currently considering the matter.

STRUCTURE OF STATE'S ACCOUNTS

3.10 The *Public Account Act* 1958 sets out the structure of the State's accounts, which comprise the Consolidated Fund and the Trust Fund. A detailed explanation of these accounts is provided in the Explanatory Notes to the Treasurer's Statement, and in the Government's *1988-89 Budget Paper No. 6* which was presented to the Parliament in August 1989.

FINANCIAL ANALYSIS OF THE TREASURER'S STATEMENT

CONSOLIDATED FUND RESULT FOR THE YEAR

3.11 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, therefore, in this sense, a cash deficit cannot arise. However, the requirement not to spend more than the receipts, does not preclude the use of borrowings, within approved limits, to balance the Fund. It has been established practice for many years to apply borrowings towards funding works and services expenditure from the Consolidated Fund. An amount of \$1 102 million (which includes \$29 million of prior years' borrowings transferred from the Works and Services Account) was applied in 1988-89.

3.12 A cash surplus can arise where the balance brought forward from previous years and the total receipts available, including borrowings, exceed the total amount which can be expended under appropriations approved by Parliament. **For the year, the Consolidated Fund had a deficit on recurrent transactions of \$116 million (1987-88, \$141 million surplus). After taking into account the balance brought forward from 1987-88 of \$171 million the Consolidated Fund had an overall surplus of \$55 million at 30 June 1989.** Details of the receipts, payments and balances of the Fund are set out in Table 3A.

TABLE 3A.
RECEIPTS, PAYMENTS AND BALANCES OF THE CONSOLIDATED FUND
((\$million))

<i>Item</i>	<i>Actual</i> 1987-88	<i>Actual</i> 1988-89	<i>Budget</i> 1988-89	<i>Variation</i> <i>from</i> <i>Budget</i>
Recurrent -				
Receipts	9 407	10 149	9 998	151
Payments	9 266	10 265	10 169	96
Recurrent surplus (deficit) for year	141	(116)	(171)	55
Works and Services -				
Receipts	829	875	908	(33)
Borrowings applied to Consolidated Fund	1 056	1 102	1 130	(28)
Payments	1 885	1 977	2 038	-
Works and Services surplus (deficit) for year	-	-	-	-
Overall balance for year	141	(116)	(171)	55
Balance brought forward	30	171	171	-
Consolidated Fund surplus balance	171	55	-	55

3.13 The Appropriation Act and the Treasurer's Statement presently distinguish between recurrent and works and services expenditures. In broad terms this provides for some segregation between operating (recurrent) and capital (works and services) payments.

3.14 However, the segregation of the State's payments into an operating and capital classification is not clear due to the inclusion in "recurrent expenditure" of a number of capital transactions and conversely the inclusion in "works and services expenditure" of significant operational expenditure. This practice precludes a complete financial analysis being undertaken on the Treasurer's Statement.

3.15 It is audit's view that a clear and consistent classification of departmental expenditures into operating and capital items would significantly improve the use of the Treasurer's Statement and assist in providing more meaningful information on the State's finances.

3.16 A detailed explanation of the receipts and payments of the Consolidated Fund has been provided by the Treasurer in the Explanatory Notes to the Treasurer's Statement.

AGGREGATE CASH AVAILABLE TO THE CONSOLIDATED FUND

3.17 At 30 June 1989 the State had an aggregate cash balance of \$109 million comprising the Consolidated Fund surplus of \$55 million and \$54 million within the Works and Services Account in the Trust Fund. Details of the aggregate cash position are provided in Table 3B.

TABLE 3B. AGGREGATE CASH POSITION AT 30 JUNE 1989
(\$million)

<i>Item</i>	<i>Consolidated Fund</i>	<i>Works and Services Account</i>	<i>Aggregate position</i>
Balance brought forward	171	83	254
Receipts	11 024	-	11 024
Borrowings - 1988-89	1 073		
Prior years (a)	<u>29</u>	<u>(29)</u>	<u>1 073</u>
	12 297	54	12 351
Payments	<u>12 242</u>	<u>-</u>	<u>12 242</u>
Cash balance	55	54	109

(a) Prior years' borrowings transferred from Works and Services Account.

3.18 The aggregate cash balance of \$109 million was invested at 30 June 1989 by way of \$55 million placed on deposit with the Victorian Development Fund, and \$54 million as part of the overall investment of the Trust Fund.

3.19 As the aggregate cash balance can only be applied to finance future expenditure from the Consolidated Fund, and as both recurrent and works and services expenditure are covered within the one Appropriation Act, I question whether there is still a need for the Works and Services Account in the Trust Fund. This matter was previously raised in my *First Report for the year ended 30 June 1986*. However, since that report the Treasurer has continued the practice of utilising the Works and Services Account.

3.20 In my view, there are no operational or legal impediments to prevent all moneys that are received to finance expenditure from the Consolidated Fund to be credited directly to the Fund. If this practice was adopted, users of the Treasurer's Statement would be able to readily determine the aggregate cash balance available to the Fund.

BORROWINGS

3.21 Borrowings during 1988-89 amounted to \$1 073 million (1987-88, \$1 065 million). Movements in the State's outstanding debt for borrowings paid into the Public Account are detailed in Table 3C.

TABLE 3C. MOVEMENT IN PUBLIC ACCOUNT BORROWINGS
(Excludes statutory authority borrowings)
(\$million)

<i>Item</i>	<i>Capital Works Authority (a)</i>	<i>Common-wealth</i>	<i>State Development Account</i>	<i>Total</i>
Balance 1 July 1988	4 315	6 206	527	11 048
Borrowings during the year	895	72	106	1 073
Centralisation of debt (b)	244	-	-	244
Indexation on loans	58	-	5	63
	<u>5 512</u>	<u>6 278</u>	<u>638</u>	<u>12 428</u>
Redemptions during the year	-	(c) 77	53	130
Balance 30 June 1989	5 512	6 201	585	12 298

(a) The Capital Works Authority acts as agent for the State for borrowings from the Victorian Public Authorities Finance Agency.

(b) Includes former debt of Victorian Economic Development Corporation, Victorian Investment Corporation Limited and transport authorities which has been assumed or centralised in 1988-89.

(c) Includes redemptions from the National Debt Sinking Fund.

3.22 In addition to the redemptions during the year referred to above, the State also made a contribution of \$75.9 million to the Victorian Arts Centre Trust to enable it to pay off its loan liability relating to the Centre.

INTEREST CHARGES

3.23 During 1988-89 interest charges on borrowings by the State amounted to \$1 226 million (1987-88, \$1 130 million). Details are given in Table 3D.

TABLE 3D. INTEREST CHARGES
(Excludes statutory authority interest payments)
(\$million)

<i>Item</i>	<i>1987-88</i>	<i>1988-89</i>
Payments to the Commonwealth -		
Financial Agreement Debt	528	525
Housing Agreements	49	49
Works and Housing Assistance	18	21
Rural Reconstruction	4	4
Sewerage Agreements	7	7
Other	7	6
	<u>613</u>	<u>612</u>
Payments on account of State borrowings -		
Capital Works Authority	445	531
Victorian Development Fund -		
Cash Management Account (a)	7	6
State Development Account (b)	65	77
	<u>517</u>	<u>614</u>
Total interest charges (borrowings by State) (c)(d)	1 130	1 226

(a) Payments of interest on temporary advances obtained by the Consolidated Fund from the Cash Management Account within the Trust Fund. All advances had been repaid at 30 June 1989.

(b) Payments on account of State borrowings do not include internal transactions relating to amounts charged to departmental programs in respect of advances under the State Development Program.

(c) Total interest charges do not include accrued interest.

(d) In addition to the total interest charges, the State also made contributions to the South Eastern Medical Centre and Victorian Arts Centre Trust totalling \$29 million for the purpose of meeting their interest charges.

3.24 Total interest charges represent 15.2 per cent of recurrent funds available for general application. An analysis of actual funding sources used to meet interest disclosed that approximately \$123 million of interest charges was funded from the works and services sector, which is financed from borrowings, sales of assets and works grants. In my opinion, this practice is contrary to the principles of sound financial management in that capital funding should be used for capital works, purchase of assets and provision of government infrastructure, all of which create long-term economic and social benefits to the State.

SALE OF ASSETS

3.25 During 1988-89 the Treasurer continued with the stated policy of selling surplus assets for the purpose of generating funds to finance investment in new capital assets. Sales of assets during 1988-89 realised \$205 million as against a Budget estimate of \$235 million (1987-88, \$207 million). The proceeds were credited to the Consolidated Fund. Details of proceeds by agencies are shown in Table 3E.

TABLE 3E. SALES OF ASSETS
(\$million)

<i>Agency</i>	<i>1987-88</i>	<i>1988-89</i>
Department of Property and Services	118	128
Transport authorities	42	50
Ministry of Education	30	19
Rural Water Commission	3	2
Major Projects Unit	2	3
Tourism	-	3
Other	12	-
Total paid to the Consolidated Fund	207	205

3.26 Notwithstanding the stated policy, the Treasurer's Statement does not include details of the application of the proceeds of asset sales. I have previously recommended that details of expenditure from the proceeds of asset sales should be clearly disclosed in the Treasurer's Statement. However, in Explanatory Note 4.3.7 of the Treasurer's Statement, the Treasurer has again indicated that it is not possible to identify particular works and services receipts from asset sales or other sources with any particular works and services project.

SPECIFIC MATTERS IMPACTING ON THE CONSOLIDATED FUND

Collapse of Victorian Economic Development Corporation

3.27 In view of the serious financial position of the Victorian Economic Development Corporation (VEDC), the Treasurer directed, on 18 November 1988, that the Rural Finance Corporation of Victoria (RFC) acquire certain of the assets, discharge all liabilities and take over management of the business and affairs of the VEDC. As a consequence:

- ◆ An amount of \$40 million previously lent to the RFC from the Consolidated Fund was converted to an equity investment in that body. The Treasurer estimates that interest forgone as a result of this arrangement will be \$2.6 million a year;
- ◆ The responsibility to repay \$20 million of VEDC debt was taken over by the State. The Treasurer estimates that additional interest charges to the State will be \$3.1 million a year;

- ◆ The State purchased from the VEDC its \$2 million equity in the company, Victorian Investment Corporation Limited (VIC). This purchase increased the State's equity in VIC to \$25.5 million, making it fully owned by the State;
- ◆ Equity capital of \$32.6 million held by the State in the VEDC is now considered to have no value; and
- ◆ The State paid \$342 000 to the RFC to cover the cost of legal expenses it incurred in carrying out the Treasurer's direction.

3.28 The full impact on the RFC of the collapse of the VEDC has not yet been assessed as the audit of the RFC for 1988-89 is still in progress.

Sale of Victorian Investment Corporation Limited

3.29 On 30 June 1989 the Government sold its equity in the Victorian Investment Corporation Limited (VIC), which cost the State \$25.5 million, to a subsidiary of the State Bank for a nominal amount of \$10. At the date of sale, assets and liabilities held by VIC were both valued at \$14 million.

3.30 Prior to the sale, the State purchased VIC's investment shareholdings, in 4 companies, valued at \$39 million. In addition to these shareholdings the State acquired certain other assets from VIC valued at \$12.7 million. As consideration for these assets the State assumed \$51.7 million of VIC's debt liability and contingent liabilities estimated at \$2.5 million. The annual cost of servicing this debt in 1989-90 is estimated to be \$6 million a year which may be offset from future returns on the investment shareholdings.

Forgiveness of Melbourne and Metropolitan Board of Works debt

3.31 As part of a package designed to improve the financial performance of the Melbourne and Metropolitan Board of Works, the Treasurer, during 1987-88 approved of the forgiveness of debt of \$60 million owed by the Board to the State. During 1988-89 the Treasurer approved the forgiveness of a further \$50 million of the Board's debt. The Treasurer has indicated that the interest forgone will be eventually replaced by higher dividend payments from the Board to the Consolidated Fund.

Disclosure of liabilities for employee benefits

3.32 On 28 June 1989, the relevant regulations under the *Annual Reporting Act* 1983 were amended to provide for disclosure of certain liabilities of the State in departmental financial statements. These liabilities relate to long service and recreation leave entitlements at year end. At the time of preparation of this report the majority of the departments had not yet determined the amount of these liabilities.

3.33 However, based on preliminary information available, audit estimates the liability to the State on account of long service and recreation leave entitlements of budget sector employees at 30 June 1989 could be in the vicinity of \$800 million.

3.34 In addition, it is pleasing to note that the Treasurer has directed public sector superannuation boards to disclose liabilities to members in their 1988-89 financial statements.

3.35 One of the major public sector superannuation funds is the State Superannuation Board, where the employer contribution is met from the Consolidated Fund. As stated in my *First Report for the year ended 30 June 1988*, the present value of projected future benefit payments by the State Superannuation Board to its members, set out in the most recent actuarial report on the Fund, was estimated to be \$19 981 million at 30 June 1986.

3.36 At the date of preparation of this report the State Superannuation Board was in the process of determining the liability of the Fund to its members at 30 June 1989, including the portion which will eventually have to be met by the State.

Other equity investments

3.37 The State increased its equity in the State Bank of Victoria by way of the distribution to the Treasurer, as share capital, of the Bank's asset revaluation reserve amounting to \$54.4 million.

TRUST FUND

Introduction

3.38 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.

3.39 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;
- ◆ 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.

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

New trust accounts

3.41 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 3F.

TABLE 3F. NEW TRUST ACCOUNTS

<i>Account or Fund</i>	<i>Purpose for which established</i>
Revenue Suspense Accounts - . Attorney-General . Education; . Labour; . Office of Corrections; . Planning and Environment; . Public Works Office; . Sheriffs Office; and . Sport and Recreation.	To record the daily receipt of moneys received from the agency pending the allocation of these moneys to the appropriate items in the Consolidated Fund or Trust Fund.
Guardian Administration Board Trust Account	To record the receipt and disbursement of private moneys from organisations and statutory bodies in the private sector.
Cash Suspense Accounts - . Public Works Office; and . State Training Board.	To facilitate the drawing, by the agencies, of their own cheques and the drawdown of funds from the Public Account to meet such cheques.
Schools Division Working Account	To record the receipt and disbursement of funds in connection with the development of curriculum materials.
Commonwealth Emergency Relief Program Trust Account	To record the receipt of Commonwealth Emergency Relief Program funds and their disbursement in accordance with the directions of the Commonwealth.
Marine Engineering Training and Research Centre Trust Account	To record the receipt of funds from the Consolidated Fund and their disbursement on the Marine Engineering Training and Research Centre.

3.42 No trust accounts were closed during 1988-89.

BALANCES OF THE PUBLIC ACCOUNT

3.43 The transactions of the Public Account for the past 2 years are summarised in Table 3G.

TABLE 3G.
RECEIPTS AND PAYMENTS OF THE PUBLIC ACCOUNT
(\$million)

<i>Item</i>	<i>1987-88</i>	<i>1988-89</i>
Balance 1 July	411	517
Receipts -		
Consolidated Fund	11 292	12 126
Trust Fund -		
Works and Services Account	887	891
Other	<u>39 439</u>	<u>41 826</u>
	<u>52 029</u>	<u>55 360</u>
Payments -		
Consolidated Fund	11 151	12 242
Trust Fund -		
Works and Services Account	877	921
Other	<u>39 484</u>	<u>41 761</u>
	<u>51 512</u>	<u>54 924</u>
Balance 30 June	<u>517</u>	<u>436</u>
Represented by the following investments -		
Trust Fund -		
Cash at bank	(13)	7
Fixed deposit accounts	8	6
Short-term deposits	115	47
State Bank equity contribution	45	45
Stocks and securities	9	52
Investment with the Victorian Development Fund (a)	138	188
Advances -		
Consolidated Fund (b)	22	22
Departments and other purposes	<u>22</u>	<u>14</u>
Total Trust Fund	346	381
Consolidated Fund -		
Investments with the Victorian Development Fund (a)	<u>171</u>	<u>55</u>
Total investments at 30 June	517	436

(a) The Victorian Development Fund acts as Funds Manager to the Public Account.

(b) Previous reports of the Auditor-General have referred to the fact that the balance of Consolidated Fund deficits of \$22 million to 30 June 1970, which has been financed by way of advances from moneys standing to the credit of the Trust Fund, was still unfunded. These deficits were incurred prior to amending the Public Account Act in 1970 which precluded the Consolidated Fund from going into deficit.

3.44 As previously stated, 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 is 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.

3.45 The net effect of the year's transactions was a decrease of \$81 million in the total balances of the Public Account, brought about by a decrease of \$116 million in the balance of the Consolidated Fund and an increase of \$35 million in the balance of the Trust Fund.

TREASURER'S ACQUITTANCE

3.46 Section 34 of the *Audit Act* 1958 requires me to acquit the Treasurer for the amount of the public moneys spent which has been ascertained by me to have been duly and properly expended. This section excludes from the acquittance expenditure which is "... the subject of query or observation or of show cause action or of disallowance or surcharge".

3.47 All moneys disbursed from the Public Account in 1988-89 were acquitted by me to the Treasurer except for \$12.9 million which represented the value of advances to departments on hand at 30 June 1989.

DISALLOWANCES AND SURCHARGES

3.48 In respect of a notice of surcharge, pursuant to section 36 of the *Audit Act* 1958, for an amount of \$61 085 issued in August 1986 against a former paymistress of the Local Government Department, \$16 395 was recovered during 1987-88. No additional amounts have been recovered in 1988-89 however, further means of recovery are still being examined by the Department.

TRANSFERS OF EXPENDITURE

3.49 The *Audit Act* 1958 provides that I summarise in my report approvals given by the Governor-in-Council for the transfer of appropriations between items within programs. It should be noted that the transfers do not vary the upper limit of the parliamentary authority for expenditure of funds under each program.

3.50 Total transfers under section 25 of the *Audit Act* 1958 by departments for 1988-89 are summarised in Table 3H.

TABLE 3H.
TRANSFERS UNDER SECTION 25 OF THE AUDIT ACT 1958
(\$)

<i>Department</i>	<i>Total transfers approved</i>
Agriculture and Rural Affairs	630 500
Arts	944 144
Attorney-General	1 015 270
Corrections	153 974
Community Services	6 440 204
Conservation, Forests and Lands	946 775
Education	10 181 800
Ethnic Affairs	80 000
Health	1 113 600
Industry, Technology and Resources	400 314
Labour	222 200
Local Government	13 198
Planning and Environment	800 570
Police and Emergency Services	993 694
Premier and Cabinet	107 200
Property and Services	1 807 306
Sports and Recreation	48 363
Tourism	484 000
Treasurer	1 783 642
Water Resources	955 000

PART 4

**MATTERS OF
SPECIAL INTEREST**

4.1

COLLECTION OF STATE TAXATION

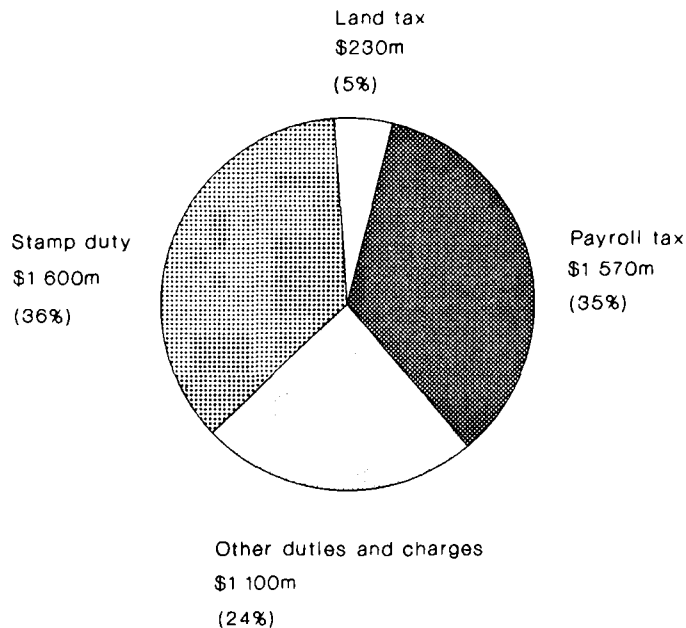
KEY FINDINGS

- ◆ State Budget strategies for major revenue raising agencies need to focus on enhancing revenue collection as well as reducing costs to ensure maximum benefits accrue to the State.
para. 4.1.9
- ◆ Collections at the State Taxation Office (STO) are substantially driven by the State Budget and, consequently, do not reflect the total revenue available to the State under current legislation.
para. 4.1.9
- ◆ In excess of 60 per cent of payroll tax collections during 1988-89 were received after the statutory time limit, with penalty taxes of over \$3 million forgone.
paras 4.1.14 - 4.1.18
- ◆ The flexible application of certain provisions of the payroll tax legislation by STO advantages defaulting taxpayers.
para. 4.1.13
- ◆ There is substantial scope for the more timely collection of land tax which could result in an increase in revenue to the State of between \$9 million and \$14 million a year.
paras 4.1.29 - 4.1.36
- ◆ Considerable opportunities exist to increase the revenue collections of the State through the expansion of payroll tax investigation activities of the STO.
paras 4.1.37 - 4.1.40
- ◆ There were excessive delays in issuing payroll tax assessments and in the follow-up of outstanding debts from defaulting taxpayers.
paras 4.1.21 - 4.1.22
- ◆ Weaknesses in information systems continue to restrict the ability of the STO to identify all tax due to the State.
paras 4.1.41 - 4.1.44
- ◆ Some of the savings identified by audit have also been recognised by the STO in its estimated gain of \$11 million a year from the implementation of proposed new computer systems.
para 4.1.45

BACKGROUND

4.1.1 A major source of revenue to the State is the collection of taxes in the form of payroll tax, land tax, stamp duty and various other fees and duties. In 1988-89, these taxes amounted to around \$4 500 million, representing 69 per cent of the total Consolidated Fund recurrent receipts from State sources. Chart 4.1A shows the main taxation categories and the amounts received during the 1988-89 financial year.

CHART 4.1A. STATE TAXATION SOURCES, 1988-89



4.1.2 The responsibility for the collection of State taxes primarily rests with the State Taxation Office (STO) and the Stamp Duties Office. An audit review of revenue collection practices adopted by these organisations was commenced during 1988-89 with a view to evaluating the adequacy of systems and procedures in place to administer State taxation legislation and to minimise the incidence of tax avoidance and evasion.

4.1.3 As indicated previously in paragraphs 3.6 - 3.9 of this report, because of the secrecy provisions of the enabling legislation, I was denied access to certain records and documents maintained by the Comptroller of Stamps and the Commissioner of Taxation which were necessary to enable the review to be completed.

4.1.4 Consequently, I am unable to comment at this time on the revenue collection practices adopted within the Stamp Duties Office. However, as the examination of records and documents at the STO was substantially completed prior to access being denied, initial audit findings relating to that Office are detailed in the following paragraphs.

HOW MUCH TAX DOES THE STATE TAXATION OFFICE COLLECT?

4.1.5 The primary function of the STO is the collection of payroll tax and land tax which in 1988-89 amounted to over \$1 800 million. Details of actual receipts from these taxes compared with Budget estimates for the past 3 years are set out in Table 4.1B.

TABLE 4.1B. TAXATION RECEIPTS
(\$million)

<i>Type of tax</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>
Payroll tax -			
Actual	1 264.7	1 389.6	1 574.5
Budget	1 284.9	1 331.6	1 562.3
Land tax -			
Actual	195.3	209.5	230.2
Budget	192.5	192.2	224.0
Total -			
Actual	1 460.0	1 599.1	1 804.7
Budget	1 477.4	1 523.8	1 786.3

4.1.6 In view of the significance of these collections to the State's total receipts, the operations of the STO constitute a vital component of the Government's overall revenue raising strategies.

4.1.7 In recent years, the STO has operated in an environment of considerable change and within certain resource constraints. According to the STO, factors impacting on its operations have included:

- ◆ an expansion of the role of the STO as a result of its appointment in 1985 as levy collection agent for the Accident Compensation Commission;
- ◆ failure of computer systems over a number of years to meet the information needs of the STO;
- ◆ difficulties in recruiting suitably qualified staff, particularly at the middle management level and in the area of electronic data processing; and
- ◆ increased demands on the STO to provide information both to taxpayers and other public sector bodies.

4.1.8 While the STO has made considerable progress in developing strategies to address these matters, the audit review identified a number of issues which need attention in order to improve the effectiveness of the revenue collection processes of the STO.

STRATEGIC CONCLUSIONS

4.1.9 In summary, audit concluded that:

- ◆ State Budget strategies for major revenue raising agencies need to focus on enhancing revenue collection as well as reducing costs to ensure maximum benefits accrue to the State; and
- ◆ collections at the STO are substantially driven by the State Budget and, consequently, do not reflect the total revenue available to the State under current legislation.

ARE TAXES COLLECTED IN A TIMELY MANNER?

Payroll tax

4.1.10 The *Pay-roll Tax Act* 1971 provides for payroll tax to be levied on salaries, wages and other benefits paid by employers in cash or kind. In 1988-89 the tax was generally applied to employers with payrolls over \$320 000 a year at the rate of 6 per cent on wages in excess of that amount. The STO estimates that approximately 7 per cent of Victorian employers were liable for payroll tax in 1988-89.

4.1.11 Employers liable for payroll tax are in the main required to lodge a monthly return of wages, together with the payment of due tax, within 7 days of the close of each month.

4.1.12 The Commissioner of Taxation has considerable discretionary powers in the administration of the Pay-roll Tax Act.

4.1.13 The review disclosed that deficiencies in a number of practices adopted by the STO contribute to the untimely collection of payroll tax and diminish the collectability of debts. The STO adopts a somewhat flexible approach to the administration of certain provisions of the payroll tax legislation, a situation which audit considers is to the advantage of defaulting taxpayers.

Extensions for payment

4.1.14 As stated above, payroll tax is normally payable within 7 days of the close of each month. However, extensions of up to 28 days are granted by the STO in cases where it considers that employers have difficulty in compiling data and forwarding monthly returns by the due date. The latest information available within the STO at the time of the review indicated that 217 taxpayers, with total annual tax payable of over \$205 million, had been granted permanent extensions. This facility is mainly utilised by large public companies.

4.1.15 Audit questions whether extensions of this nature are warranted in this age of computerised payroll systems and has suggested to the STO that the use of such extensions should be reviewed.

4.1.16 In addition to approved extensions, an analysis of collection patterns for 1988-89 highlighted that less than 40 per cent of payroll tax was received by the seventh day of the month. While the payroll tax legislation provides that a penalty in the form of additional tax of 20 per cent a year shall be levied on any amount of tax received after the due date, the STO did not impose such a penalty if the amount was received within the month. As a consequence, all employers paying within the month are effectively granted a penalty-free extension of time for payment.

4.1.17 One must question the equity or effectiveness of this practice which favours the defaulting taxpayer while not rewarding a taxpayer for prompt payment.

4.1.18 Apart from questions of equity, audit estimates that if applicable penalty taxes had been imposed on amounts received within the month, but after the due date, additional annual revenue of over \$3 million would have accrued to the State.

Management response

Independently of audit raising the matter, the STO had reviewed the continuing need for permanent extensions and had decided that no further permanent extensions would be granted and that all existing cases would be cancelled. Up to now some 80 per cent have been cancelled and the balance will be processed by the end of September 1989.

The need to improve the percentage of tax that is collected by the 7th day of the month is acknowledged and having the ability to take follow-up action and impose penalties was seen as one of the benefits that would flow from upgrading the existing systems. It is not considered a feasible proposition under the current systems to try to enforce the imposition of additional tax on all amounts not received by the due date.

The decision to cancel all permanent extensions will result in approximately 80 per cent of revenue being received by the 10th day of the month. Given mailing delays and the like, it is not considered appropriate to impose penalties in respect of payments received between days 7 to 10. Consideration will, however, be given to the feasibility and cost-effectiveness of imposing penalties under the current system after day 10.

Penalties

4.1.19 The legislation provides for additional tax of double the amount of assessed payroll tax to be levied, where a taxpayer fails to lodge a return. Audit examination disclosed that while additional taxes at a flat rate of up to 50 per cent were initially imposed, these additional taxes were frequently reduced to around 20 per cent a year when the outstanding returns were received or on the application of the taxpayers.

4.1.20 While recognising the discretionary powers vested in the Commissioner of Taxation, it was apparent to audit that **the practice of reducing additional taxes provided little incentive for employers to promptly settle penalties. Many penalties remained outstanding for long periods of time. In addition, audit could not be assured that additional taxes raised under present practices covered all the costs of collecting outstanding amounts.**

Management response

If primary tax is paid by the due date of the assessment the additional tax component is automatically reduced from a flat rate to 20 per cent a year on the actual wages. If the primary tax is paid after the due date of the assessment the initial flat rate of additional tax is applied against the actual wages. The rate of additional tax increases for repeated defaults. This imposes a substantial additional penalty and is simple to administer. Any submissions for remission are considered on their merits and authorised by appropriate supervisors. There is no basis for the audit comment that the practice of reducing additional taxes has provided little incentive for employers to promptly settle penalties.

STO policy has been to impose "penalties" at a level which recovers for the Government the cost of money being outstanding, and which discourages defaulting employers from continuing to default. The STO will consider taking into account the cost of collection by way of imposition of penalties. However, it must be borne in mind that the imposition of penalty cannot be equated with (for example) interest on overdraft accommodation as the latter is income tax deductible and the former is not.

Follow-up of outstanding returns

4.1.21 In circumstances where employers fail to lodge a return, the STO issues a tax assessment to the employer for the payroll tax liability estimated on the basis of past wage details. **Audit found that assessments were generally not issued until 3 months after an employer defaulted. This unsatisfactory position impeded the timely follow-up and collection of outstanding debts.**

4.1.22 Based on risk considerations, the STO, since July 1988, decided not to follow-up employers with outstanding returns where the estimated liability was below a specified threshold. At the date of the review, the total estimated liability of these employers amounted to \$3.8 million.

Management response

As a consequence of computer systems enhancements specified in the past 2 annual corporate plans and implemented in May 1989, all employers who have returns outstanding for 2 periods are now issued with assessments irrespective of whether the estimated liability is above or below the specified threshold. This is the most efficient cycle having regard to major systems limitations. The cost of the delay by employers in paying the tax is recouped through charging additional tax and, as such, the revenue is protected.

It should be noted that notwithstanding the earlier delays in issuing assessments as referred to by audit, at all times the STO has issued a final notice when a return has been outstanding for one month.

Arrangements for payment by instalment

4.1.23 The Commissioner of Taxation may permit the payment of payroll tax to be made by instalments. Additional tax is payable in these cases at an annual rate of 20 per cent of the amount of tax unpaid. At the date of the audit review, the amount due from employers utilising arrangements to pay payroll tax arrears by instalment totalled \$3.7 million.

4.1.24 Audit found that:

- ♦ a substantial proportion of employers failed to comply with the terms of their arrangement;
- ♦ during the 4 months prior to the review, little follow-up action was taken by the STO where instalments were not received; and
- ♦ a number of employers who had continually defaulted on their instalment payments had been paying outstanding taxes for a period in excess of 3 years.

4.1.25 While it is recognised that the STO is not responsible for an employer defaulting on an arrangement, more stringent monitoring and follow-up may have resulted in revenue due under arrangements being collected in a more timely manner.

Management response

The essence of arrangements is the employer's liquidity problems. Our experience over many years has shown that employers default because they were either wrong in their estimate of future cash flow or because they had misrepresented it. Either way, the employer defaulted because of inadequate cash flow, not because the STO failed to monitor the arrangement. Given that the alternative to renegotiating broken arrangements is to wind-up the employer, it is not poor performance by the Office to have some arrangements re-negotiated for 3 years.

While the Office has wound-up numerous employers in these circumstances (232 wind-ups initiated in the past 2 years), it is pointless to wind-up an employer who has paid a significant proportion of the original arrears merely to keep within some nominal policy parameter for limits to arrangements. This would be an utter waste of the private infrastructure created and developed by that employer and would be detrimental to Victoria.

Companies in liquidation

4.1.26 At 30 June 1989, payroll taxes recorded by the STO as outstanding in respect of companies in liquidation totalled \$16.7 million. Apart from write-offs totalling \$1.2 million, the amount outstanding represents the total insolvency debt since 1971. As a significant proportion of the outstanding amounts related to completed liquidations which had not been written-off by the STO, audit concluded that there was little likelihood of the recovery of the outstanding amounts. **The more timely issue of assessments to taxpayers and prompt follow-up of outstanding debts, especially since 1986, may have reduced the incidences of debts from companies now in liquidation.**

Management response

Approximately two-thirds of the \$16.7 million represents completed liquidations where the amounts owing should have been written-off as uncollectable at an earlier date.

The balance represents more recent cases. A review of the major insolvency files during the past 3 years shows that there are some cases where the delay in issuing assessments has contributed to the size of the liquidation debt. This is not to say, however, that the recovery of revenue has been adversely affected other than to a minor degree. This is because, historically, liquidation debts return only 7 cents in the \$1 as other major creditors (e.g. The Australian Taxation Office) rank higher in priority than payroll tax.

Further, the late issue of the assessments has not been the catalyst to drive the employers into liquidation. They were already prima facie insolvent, and employers with liquidity problems pay suppliers of goods and services before they pay their taxes.

If wind-up action had been instigated earlier by the STO, this would have reduced the level of outstanding debt, but not increased the tax revenue to the State.

Annual adjustments

4.1.27 Although payroll tax is generally paid in monthly instalments, the actual tax liability of each employer is based on annual wage details. As a result an annual adjustment of payroll tax for each employer is required in June each year.

4.1.28 Audit found that there were significant delays in processing annual adjustments, and issuing assessments and refunds to taxpayers. **At 30 June 1989, approximately 3 000 of the 1987-88 annual adjustments (14 per cent) were still on hand awaiting finalisation.**

Management response

Audit has noted that 14 per cent of annual adjustments were still on hand awaiting processing. This figure compares favourably with the 19 per cent on hand at the same time the previous year. Additionally, because of the changes to the computer system to cater for the complex changes to the legislation during 1987-88, 20 600 transactions had to be processed in 1988-89 compared with 13 600 in 1987-88.

It should be noted, however, that a detailed analysis of the 3 000 items on hand indicates that only 29 per cent had had no action taken.

Land tax

4.1.29 Land tax is an annual tax imposed on the unimproved value of all taxable land held by the taxpayer, at the preceding 31 December, where the taxpayer's holdings reach or exceed a threshold value. For 1988 assessments, this value was \$85 000 based on 1984 unimproved values. Corporations with a substantial number of shareholders in common and related companies are deemed to be one corporation for land tax purposes. In the 1988 assessment year approximately 75 000 landholders were liable to land tax.

4.1.30 The STO has for many years issued assessments to landowners progressively throughout each assessment year. Details of 1988 assessments raised in respect of land owned at 31 December 1987 are set out in Table 4.1C.

TABLE 4.1C. 1988 LAND TAX ASSESSMENTS
(\$million)

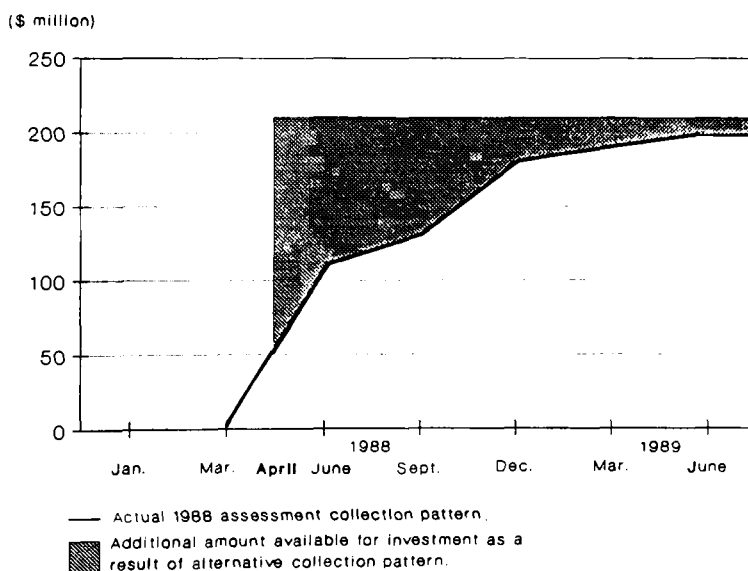
<i>Period assessment raised</i>	<i>Amount raised</i>
January '88 - March '88	4.9
April '88 - June '88	121.8
July '88 - September '88	33.4
October '88 - December '88	42.6
January '89 - June '89	8.2
Unissued at 30 June '89	2.6
Total	(a) 213.5

(a) Excludes amended assessments.

4.1.31 Table 4.1C shows that assessments amounting to \$126.7 million (only 60 per cent of 1988 assessments) were issued prior to 30 June 1988. This position was primarily due to the long standing practice adopted by the STO of issuing assessments progressively during each assessment year. The more timely issue of assessments would result in a substantial increase of revenue to the State. For example, audit estimated that if assessments relating to land owned at 31 December 1987 had been issued to all landowners within the first quarter of the 1988 assessment year and payment was received by the due date, between \$9 million and \$14 million in additional interest could have accrued to the State.

4.1.32 Chart 4.1D illustrates the impact on land tax collection patterns and the amount available for investment if this approach had been applied to the 1988 assessment process.

CHART 4.1D. 1988 LAND TAX COLLECTIONS



4.1.33 The timing of collections is also influenced by objections received from taxpayers in relation to the assessments. During the review, audit observed that:

- ◆ Numerous objections to land tax assessments were received from taxpayers. For the 1987 and 1988 assessment years 13 per cent of initial land tax assessments were subsequently amended as a result of these objections. The issue of an amended assessment effectively extended the due date of payment; and
- ◆ Unresolved objections relating to prior assessment years resulted in the processing of the 1988 assessment being deferred. In some instances objections remained unresolved for periods in excess of one year.

4.1.34 Over 70 per cent of the objections received from taxpayers related to disputes over land ownership details, which indicated that there were significant inaccuracies in the land tax system. In many cases, the lack of accurate data resulted from the fact that the STO had either not been notified of changes in land ownership or had not processed the notification. In some instances records had not been amended for several years although a notification had been received from the landowner.

4.1.35 Fines were generally not imposed on taxpayers who failed to notify the STO of a change of ownership.

4.1.36 The incidence of objections does have an impact on the timing of revenue collection. The magnitude of savings previously identified by audit if all assessments were received by the due date reinforces the need for the STO to take decisive action to improve the accuracy of ownership details in its land tax system.

Management response

The implementation of audit's suggestions dealing with the issue of assessments would have major repercussions for the Office, the community at large and would require a government decision to change an issue and payment pattern which has existed for over 40 years.

Adoption of audit's alternative to issue all assessments in the first quarter of the calendar year is not considered practical.

Assessments are based on ownership at the previous 31 December and because owners and purchasers have 30 days after settlement to notify the STO, allowing for processing time, the earliest the process could start is 1 March. It would take a further 10 - 11 weeks to complete the full production cycle.

It is anticipated that this exercise would produce:

- . *7-10 000 telephone and personal calls;*
- . *a considerable number of requests for extension of time to pay; and*
- . *a significant reduction in the current level of service to the public due to the receipt of an expected 7 000 requests for amendments that will have to be processed.*

The enforcement of fines where taxpayers do not lodge required notices in time is not considered to be the most effective means of ensuring accurate information is received in a timely manner.

The STO has taken action to improve the land tax system in the following ways:

- . The accuracy of the land and owner database has been greatly improved through the work done as part of the Community Employment Programs some years ago to reconcile our database with records held at municipalities and because all objections on hand at 30 June 1988 have now been resolved.*
- . The STO has been working in conjunction with LANDATA since April 1987 to design a combined Transfer of Land/Notice of Disposition to replace existing Notices of Disposition and Acquisition. It is proposed to introduce the more inclusive Transfer of Land into use in 1990 as well as the Land Titles Office becoming the central lodgement point for changes in ownership on behalf of the STO. This will enhance the accuracy and completeness of updating of the database.*

HOW ADEQUATE IS THE INVESTIGATION PROCESS?

4.1.37 The major areas of potential payroll tax evasion are the non-registration by employers, understatement of remuneration and non-disclosure of employer groupings.

4.1.38 As part of its objective of inducing employers to voluntarily comply with payroll tax legislation, the STO has adopted a number of strategies including the conduct of tax field audits aimed at detecting tax evasion and the provision of information to employers and various industry groups on legislative responsibilities.

4.1.39 Because of the limitations on access to records and documents within the STO, I am not in a position to draw detailed conclusions on the overall efficiency and effectiveness of the investigation operations of the STO. **However, the following observations on payroll tax investigations are made on the basis of information made available to audit:**

- ◆ Investigative strategies of the STO are based on the premise that approximately 99 per cent of the revenue due to be collected by the STO is paid voluntarily by employers, an assertion unable to be substantiated by audit. Investigation activities have therefore been primarily aimed at maintaining a high profile within the taxpayer community in addition to attempting to increase revenue as a result of specific investigations;
- ◆ During 1988-89, completed field audits of registered payroll tax employers were limited in number. Some industry categories received little or no coverage;
- ◆ Long-term goals for the coverage of various industry groups have not been developed. The determination of short-term strategies for field audits has been based on targeting industries where past coverage showed high dollar value of recovery while at the same time maintaining a presence in other industry groups on an experimental basis or where it was considered there may be a high probability of non-compliance;

-
- ◆ Staff resources available to undertake pro-active field audit investigations have been limited by the fact that 40 per cent of staff time has been involved in performing duties associated with inquiries originating in other areas of the STO; and
 - ◆ Field audits conducted during 1988-89 detected \$5 million of previously unidentified payroll tax revenue. The cost attributed to these investigations by the STO was approximately \$1 million resulting in a net return of almost \$4 million. The STO estimates that the marginal revenue return of engaging each additional field investigator would be around \$300 000.

4.1.40 The need to combine tax field audits with activities aimed at educating taxpayers on legislative responsibilities is recognised by audit. Given the level of returns which have been achieved by the STO from its investigations, **there is clearly substantial scope to further increase the revenue collection of the State if greater prominence was directed towards the detection of tax avoidance and tax evasion.**

HAS ALL TAX DUE BEEN IDENTIFIED?

4.1.41 The STO maintains 2 independent computer systems to facilitate the collection of payroll tax and land tax due to the State. These systems, which were developed during the 1970s, record details of approximately 22 500 registered employers and 2 million freehold land items together with associated ownership and valuation details. To facilitate the update of these systems, all employers liable to pay payroll tax are required to register with the STO and landowners are required to notify the STO of any change in land ownership details.

4.1.42 In previous reports to Parliament, my predecessors have commented on serious deficiencies in these systems which have adversely impacted upon the operations of the STO.

4.1.43 The current audit review highlighted that while some progress had been made in improving the accuracy of data, **weaknesses in information systems continued to restrict the ability of the STO to identify all tax due to the State.** Specific shortcomings included:

- ◆ Procedural deficiencies in the update of payroll tax and land tax information compromised the integrity of the data recorded in, or produced by, the systems;
- ◆ The absence of accurate and relevant information contributed to the untimely collection of revenue and the performance of many time consuming manual functions, both of which have added unnecessarily to the operational costs of the State;
- ◆ Attempts to address the information deficiencies of the payroll tax system through the use of personal computers resulted in the duplication of certain information at additional costs;

- ◆ Systems had not been established to ensure that all relevant land aggregations and groupings of related corporations were identified. In addition, details of certain land in country municipalities was only recorded where the land was taxable and exceeded the threshold level. Unless all ownership details are accurately linked to land holdings, a loss of revenue results as exemptions are not minimised and tax is not maximised in accordance with the incremental land tax scale; and
- ◆ Reports produced by the systems were, in audit opinion, inadequate in that they did not contain all relevant information necessary for sound decision-making by management.

4.1.44 The maintenance of appropriate information systems is essential to the identification and timely recovery of all tax due.

4.1.45 It was pleasing to note that management has recognised the need to address deficiencies in existing computerised systems and has recently developed long-term strategies in this regard. Funds totalling \$18.1 million are to be allocated over a 5 year period for the development of new systems. **The STO estimates that a gain of \$11 million a year could result from increased revenue and reduced operating costs once the systems are established.**

Management response

It is accepted that the management reporting systems currently in place are not perfect. However, given the age and nature of the computer systems for both land tax and payroll tax, management considers it neither practical nor cost-effective to introduce changes prior to the planned redevelopment of both systems taking place.

It is strongly considered by management, however, that the current systems are adequate for the purpose of ensuring revenue is collected in a timely manner in line with the policies currently in place.

The need to address weaknesses in current systems when designing and implementing the new systems is noted. In relation to the short term, management considers it neither practical nor cost-effective to make any substantial changes due to the necessary imposition of a freeze on any changes to the systems except those necessary to implement budgetary measures.

It is not possible or desirable to completely automate the process of computer matching land owners as human operators are far more able to pick up slight variations due to misspelling than a computer program. Grouping of related corporations can only be a manual process following investigation by STO staff as the database does not contain details relating to shareholders.

The cost of loading all remaining land items to the database was estimated to be \$2.87m in 1985 and at that time the STO could see no way that amount could be recouped to any significant extent through the generation of additional revenue, even over an extended period of time.

4.2

PROGRAM BUDGETING

KEY FINDINGS

- ◆ Evidence, rather than appearance, that the benefits offered by program budgeting are actually being realised is long overdue.
paras 4.2.8 - 4.2.10
- ◆ The practice of not allocating all costs to relevant programs results in the significant understatement of program costs which must impact on economic decision-making.
paras 4.2.16 - 4.2.26

WHAT IS PROGRAM BUDGETING?

4.2.1 Program budgeting is a financial management process which facilitates the allocation of resources to programs in line with government policies and the assessment of program performance against specified outcomes, namely program objectives. It contrasts with conventional line-item budgeting which focuses simply on cost inputs.

4.2.2 If effectively utilised, program budgeting offers substantial scope for achieving improved resource management within organisations and better quality external reporting of management performance.

GOVERNMENT INITIATIVE

4.2.3 Program budgeting was adopted by the Government in 1982 as a major element of its financial management policy. At the time, the planned introduction of program budgeting within departments was regarded as a key government strategy aimed at improving the financial and economic management of the State. Formal implementation, with appropriations from the Consolidated Fund based on Ministerial programs, occurred in the 1984-85 Budget.

4.2.4 Since that year, the annual financial statements of departments, tabled in the Parliament under the Annual Reporting Act, have disclosed details of receipts and payments in a program format.

PROGRESS TO DATE

4.2.5 Since the introduction of program budgeting, departmental managers have had the opportunity to develop program structures, specify program objectives and experiment with performance measures.

4.2.6 In addition, the Government has, in recent years, moved to assist the implementation of program budgeting with such initiatives as:

- ◆ upgrading financial management training within the Victorian Public Service;
- ◆ encouraging departments to adopt a more pro-active approach to corporate planning; and
- ◆ incorporating within the annual reporting legislation the need for departments to include in their operational reports summary information on the objectives of each program, details of the services provided and results of program activities.

4.2.7 As a result, managers have become more aware of the need to ensure that program goals complement government policy objectives, and that organisational systems and processes are geared towards achieving efficient program delivery.

WHAT SHOULD BE THE NEXT STEP?

4.2.8 Although budget sector managers have had a period of 5 years to adjust to a program budgeting framework, departments are not yet required to report to Parliament and the Government on levels of effectiveness and efficiency achieved in delivery of programs.

4.2.9 Without specific program information such as program goals, measurement criteria and actual program performance, **the Government is not well placed to determine the extent to which its policies and priorities are being efficiently and effectively implemented.** In addition, Parliament and the public are not in a position to readily evaluate and form judgement on the quality of the management of public resources allocated to programs within the budget sector.

4.2.10 Audit considers that the establishment of formalised performance reporting mechanisms for departmental programs would provide the impetus necessary to complete the introduction of program budgeting within Victoria. Evidence, rather than appearance, that the benefits offered by program budgeting are actually being realised is long overdue.

WHAT OTHER IMPROVEMENTS ARE NEEDED?

4.2.11 The key deficiency of program budgeting in Victoria at present is the absence of specific responsibilities for departments to report to the Parliament and the Government on program performance. In addition, the effectiveness of program budgeting has been hindered by:

- ◆ inadequate monitoring and evaluation of program performance;
- ◆ absence of full-cost data in programs; and
- ◆ inadequate and sometimes misleading expenditure descriptions.

Inadequate monitoring and evaluation

4.2.12 The Treasurer has recently described performance evaluation as an inherent part of program budgeting and pointed out that performance evaluation would be incomplete without appropriate program effectiveness measures (*1989-80 Budget Paper No. 6*).

4.2.13 Audit shares the views expressed by the Treasurer and, in recent years, has drawn Parliament's attention to deficiencies in the monitoring and evaluation of departmental programs. Matters reported by audit have included criticisms of the mechanisms in place to assess the effectiveness of the Youth Guarantee and the provision by government of financial assistance to industry.

4.2.14 The difficulty associated with development of meaningful performance measures, particularly those of a qualitative nature, is recognised. Nevertheless, audit considers that performance criteria utilised by departments should now be sufficiently developed to enable proper monitoring and evaluation of programs.

4.2.15 Central agencies need to assess the suitability of performance criteria used by departments and undertake periodic evaluations of departmental programs to provide assurances to government that the information provided for its economic decision-making is soundly based.

Absence of full-cost data

4.2.16 There are many instances within the existing program budgeting framework where costs are not allocated to relevant programs. This position results in the significant understatement of program costs.

4.2.17 Without complete cost information in respect of individual programs, decisions by management concerning the allocation of resources to programs, and the continuation or otherwise of programs, may not be reliably based.

Non-allocation of finance charges and other costs

4.2.18 The Treasurer's Program No. 726 "Transfer and Other Payments" is currently used as the recording point for numerous items involving estimated aggregate expenditure in 1989-90 of in excess of \$1 000 million.

4.2.19 Audit has previously reported that much of the expenditure charged to Program No. 726, for example, centrally-managed financing charges (estimated to be \$650 million in 1989-90), should be allocated to the relevant programs.

4.2.20 In addition, certain other centrally-managed costs paid by particular departments such as office rentals and power charges are not allocated to individual programs.

4.2.21 Audit considers that centralised strategies aimed at achieving economies in resource management should not preclude the allocation of charges to specific programs. The underlying objective of reporting centrally-managed costs should be to ensure that the level of disclosure enables users to reach meaningful conclusions on individual program performance.

Impact of non-allocation of corporate services expenditure

4.2.22 Departments are required to allocate costs to programs in all instances where a basis for allocation, other than of an arbitrary nature, is available. In meeting this requirement, most departments utilise a corporate services program for charging overhead costs which they cannot readily allocate to operating programs.

4.2.23 The aggregate 1989-90 expenditure under corporate services programs of departments, representing overheads not allocated to operating programs, is estimated to exceed \$430 million.

4.2.24 The non-allocation of overheads means that significant outlays are not disclosed under individual programs. In addition, the practice can diminish the effectiveness of control over departmental overheads as program managers are not held accountable for the costs of corporate services utilised by their programs.

Inadequacies of cash accounting

4.2.25 The use by departments of cash-based accounting means that all costs associated with programs are not reported. Cash-based accounting does not recognise expenses incurred, but not paid, such as employee benefits (superannuation and long service leave) and depreciation charges arising from the use of property, plant and equipment.

4.2.26 In past reports audit has stressed the benefits which would be derived from use of a commercial accounting system, in that it would lead to disclosure of all costs and enable more meaningful assessments of the performance of government programs.

Inadequate and sometimes misleading expenditure descriptions

4.2.27 Audit has previously reported instances of inadequate and sometimes misleading descriptions given to expenditure items within particular programs. Examples include:

- ◆ The annual contribution from the Consolidated Fund to the Hospitals and Charities Fund (estimated to be \$1 600 million in 1989-90) is used to meet costs of public hospitals and other health organisations. The relevant item within the Hospitals and Charities Fund Contribution Program does not disclose information on the areas to which the contribution is to be applied but is simply described as "Contribution to Hospitals and Charities Fund"; and
- ◆ Items within programs of the Ministry of Housing and Construction involving an estimated outlay in 1989-90 of \$244 million are described as "rental assistance" when, in fact, the outlays cover a range of purposes, such as the purchase and construction of houses, rental rebates, grants to community groups, repayments of borrowings and acquisition of land.

4.2.28 More precise expenditure descriptions are required if meaningful program information is to be conveyed to Parliament and other users to enable proper assessment of program effectiveness.

INQUIRY BY ECONOMIC AND BUDGET REVIEW COMMITTEE

4.2.29 In April 1987 the Economic and Budget Review Committee initiated an inquiry into the implementation of program budgeting in budget sector agencies of the Victorian public sector.

4.2.30 The Committee has sought the views of various public sector agencies on their experiences and progress to date with program budgeting. As part of this inquiry, the Committee published a *Discussion Paper on Program Budgeting* in April 1989.

4.2.31 Audit looks forward to the results of the Committee's inquiry.

Response by Department of Management and Budget

"Evidence, rather than appearance, that the benefits offered by program budgeting are actually being realised is long overdue."

The Department of Management and Budget (DMB) view is that the benefits of program budgeting have already been amply demonstrated by the continued achievement of the Government's principal program objectives (as shown partly in the output indicators cited on pages 7 and 8 of Budget Paper No. 2 and in Budget Paper No. 6) in spite of the achievement of total recurrent savings of over \$1 000 million over the 5 years to 1989-90. There is no mention of any of these matters in the report. We do agree, of course, that further steps to improve the assessment of the effectiveness and efficiency of the delivery of individual programs are required.

"The practice of not allocating all costs to relevant programs results in the significant understatement of program costs which must impact on economic decision-making."

The major issue here, well known to audit, is whether centrally-managed costs such as debt costs should be allocated to the program under which they are managed, or whether they should be allocated on a basis to be determined to the programs in respect of which they are incurred. The DMB view is that the more appropriate basis for cost allocation is the management basis, but we understand that arguments can be put for the alternative position. These views are not touched on in the report.

Similar comments apply to another aspect of this matter, namely, the allocation of corporate services expenditure within departments. The DMB view is that it is preferable to allocate these costs to a central corporate services program where they can be managed, rather to allocate them on an arbitrary basis to individual programs. This is a considered view on our part, reached after considering the arguments for the alternative position. Again, these issues are not touched on in the report.

4.3

DUTIES AND RESPONSIBILITIES OF BOARD MEMBERS/ DIRECTORS OF PUBLIC BODIES

KEY FINDINGS

- ◆ A code of conduct and guidelines covering duties, responsibilities and accountability of persons appointed to public sector boards needs to be developed. *para. 4.3.12*

- ◆ Criteria need to be established for the selection of board members/directors. *para. 4.3.12*

BACKGROUND

4.3.1 Among the findings of the *Report of Inquiry into the Victorian Economic Development Corporation*, the investigating accountant, Mr Fergus Ryan was highly critical of the Victorian Economic Development Corporation (VEDC) board for failing to:

- ◆ ensure that normal procedures appropriate for a financial institution were developed, documented and implemented;
- ◆ adequately address its strategic direction;
- ◆ adequately develop policies;
- ◆ respond decisively to consultants and the Auditor-General's reports; and
- ◆ have the balance and cohesion normally expected of a board.

4.3.2 In addition, he commented tellingly that members of the board "... were not clear on the extent of their responsibilities" and that limited "... criteria ... existed for the selection of directors".

4.3.3 It is acknowledged that the role of directors in the corporate sector is to provide leadership, direction and oversight of activities, with accountability for actions being maintained through compliance with legal requirements and the provision of annual reports to shareholders. While both private and public sector boards are expected to uphold high standards of performance and professionalism, the degree of accountability and the operational constraints differ markedly between the 2 sectors.

WHAT ARE THE DUTIES AND RESPONSIBILITIES OF PRIVATE SECTOR BOARD MEMBERS/DIRECTORS?

4.3.4 The Companies Code clearly states the duties and responsibilities of board members/directors in relation to companies and provides for severe penalties, including imprisonment, if these obligations are not met. The Code imposes both personal duties and performance expectations on members/directors which include the following:

- ◆ to act honestly in the exercise of their powers and duties;
- ◆ to exercise a reasonable degree of care and diligence;
- ◆ to act with the intent of not gaining an undue advantage for themselves or adversely affecting the company;
- ◆ to avoid conflicts of interest arising from any personal business dealings;
- ◆ to ensure that the company is capable of meeting its debts as and when they fall due; and
- ◆ to ensure that the company maintains adequate accounts and records.

4.3.5 In addition to the Companies Code, directors are subject to specific legal requirements under other legislation relating to trade practices, industrial relations, occupational health and safety, and consumer and environment protection. Over recent years heavy penalties have been imposed upon private sector directors for legislative breaches. In addition, recent trends in court decisions have emphasised that if directors do not exercise due care in decision-making, or have not undertaken to fully acquaint themselves with relevant factors affecting a company's performance, they can be held to be personally liable.

**DO THE RESPONSIBILITIES OF PUBLIC SECTOR BOARD MEMBERS/
DIRECTORS DIFFER FROM THOSE OF THE PRIVATE SECTOR?**

4.3.6 Despite the fact that the members/directors of public bodies are not subject to the provisions of the Companies Code, in my opinion, there is no valid justification for them being held less accountable than their counterparts in the private sector. There should be no difference in the duty of care expected of those entrusted with either shareholders' or taxpayers' funds.

4.3.7 I do recognise that public bodies often operate under conditions not normally encountered in the private sector such as Ministerial direction, public sector regulations and directives, limited ability to reward executive performance, budget constraints and at times entrenched work practices.

4.3.8 However, I do not accept that these limitations in any form diminish the responsibility for members/directors of public bodies to manage the resources entrusted to them in an efficient, effective and economical manner. On the contrary, because governments have the ability to levy taxes, rates and charges on the whole of the community, an option which is obviously not available to the corporate sector, it could be argued that the public has the right to demand that greater care and diligence be exercised by all board members/directors of public bodies entrusted with public moneys.

4.3.9 Other factors affecting the ability of public sector boards to operate efficiently and effectively include:

- ◆ in comparison with the private sector, members/directors are generally poorly remunerated, a factor which may affect incentive to perform and the ability to attract persons with appropriate financial and managerial skills; and
- ◆ boards being required to include members representing special interest groups, e.g. unions, employees, conservationists, consumers and central agencies.

4.3.10 On occasions, members of special interest groups may give undue emphasis to serving the needs of the people they represent to the detriment of the operational efficiency of the board to which they have been appointed.

WHAT PROBLEMS HAVE OCCURRED WITH PUBLIC SECTOR BOARD MEMBERS/DIRECTORS?

4.3.11 Apart from the VEDC, the experiences of my Office over recent years have shown that in several other cases boards have not effectively exercised their responsibilities. Matters identified by audit have included:

- ◆ Delegation of powers and responsibilities to Chief Executive Officers and other senior staff without adequate direction or monitoring of performance;
- ◆ Failure to establish internal audit functions or provide for audit committees to review matters raised by internal and external auditors;
- ◆ Failure to understand the principles of risk management in that new initiatives and programs are often introduced without adequate analysis of risk exposure and control techniques required. This aspect has been particularly apparent through the provision of grants, subsidies and loans to private sector organisations without providing proper accountability and controls as to the manner in which funds are expended;
- ◆ A misconception that it is the external auditor's responsibility to advise management of all internal control deficiencies and underlying financial problems. At the same time considerable pressures are often applied to reduce or minimise audit costs; and
- ◆ Failure to properly recognise the particular sensitivities involved in the expenditure of public funds, e.g. excessive entertainment and travelling expenses.

WHAT NEEDS TO BE DONE?

4.3.12 There is a need for a code of conduct and guidelines to be developed in relation to the duties, responsibilities and accountability of persons appointed to public sector boards responsible for the management of public moneys. Such guidelines should also cover:

- ◆ the role of representatives of special interest groups;
- ◆ the adequacy of remuneration of public sector board members/directors;
- ◆ the establishment of criteria for the selection of board members/directors;
- ◆ the development by a central agency of guidelines on risk management for provision to public sector boards; and
- ◆ the establishment of audit committees in line with the recent directives of the Treasurer to enable boards to keep abreast of emerging management issues and to provide a forum for resolution of matters of concern raised by internal and external auditors.

4.4

RETROSPECTIVE EXPENDITURE APPROVALS

KEY FINDING

- ◆ The increasing use of retrospective expenditure approvals undermines the effective and economic acquisition of goods and services by the State.

paras 4.4.2 - 4.4.4

RETROSPECTIVE EXPENDITURE APPROVALS

4.4.1 For some years *Reports of the Auditor-General on the Treasurer's Statement* have drawn attention to the increasing number of retrospective approvals required of the Treasurer. The necessity for these approvals arises from a continuing failure by departments to adhere, in all cases, to the requirements of the Treasury Regulations 1981 relating to the obtaining of approvals by the State Tender Board prior to incurring expenditure on items not covered under contract.

4.4.2 The number and value of retrospective approvals granted in 1988-89 has increased by 33 per cent and 52 per cent, respectively. Details are provided in Table 4.4A.

TABLE 4.4A. RETROSPECTIVE APPROVAL APPLICATIONS

Departments	1987-88		1988-89	
	Number of applications	Total value	Number of applications	Total value
		(\$'000)		(\$'000)
Police	4	198	13	1 445
Labour	10	1 858	5	1 145
Conservation, Forests and Lands	2	54	4	721
Housing and Construction	1	239	3	440
Property and Services	1	75	4	273
Industry, Technology and Resources	2	78	5	213
Education	2	94	7	107
Planning and Environment	-	-	2	91
Community Services	-	-	1	80
Health	4	92	1	58
Tourism	2	21	2	35
Agriculture and Rural Affairs	2	51	1	25
Water Resources	1	97	-	-
Transport	1	89	-	-
Local Government	1	64	-	-
Alpine Resorts Commission	1	25	-	-
Corrections	1	5	-	-
Premier and Cabinet	1	11	-	-
Total	36	3 051	48	4 633

4.4.3 While acknowledging that there may be rare circumstances where the necessary approval cannot be obtained before commitment, it is disturbing to note that the majority of approvals related to expenditure of a non-urgent nature, i.e. advertising, production of publications, consultancies and purchase of computer equipment.

4.4.4 The situation which has been allowed to deteriorate over a number of years indicates that there may be a lack of commitment by certain parties to government directives, ultimately undermining the effective and economic acquisition of goods and services by the State.

PART 5

STATUS OF MATTERS RAISED IN PREVIOUS REPORTS ON THE TREASURER'S STATEMENT

5.

STATUS OF MATTERS RAISED IN PREVIOUS REPORTS ON THE TREASURER'S STATEMENT

5.1 Previous Reports of the Auditor-General on the Treasurer's Statement have contained comments and recommendations on a number of issues relating to public sector resource management, and compliance with legislation and other directions. The current status of action taken to address concerns expressed by the Auditor-General is presented in Table 5A.

TABLE 5A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS ON THE
TREASURER'S STATEMENT

<i>Report</i>	<i>Issue</i>	<i>Status at date of preparation of this report</i>
ASSET SALES		
1987-88	In view of the significance of the Government initiative to sell surplus assets to fund new assets, details of how the funds were expended should be clearly disclosed in the Treasurer's Statement.	The Treasurer's Statement still does not disclose how the funds generated from the sale of surplus assets were expended. Further comment is contained in paragraphs 3.25 - 3.26 of this report.
CONSOLIDATED FUND DEFICITS		
1978-79 1979-80	A Consolidated Fund deficit of \$22 million at 30 June 1970 is still unfunded and temporarily financed from the Trust Fund.	Position unchanged.
DMB/DEPARTMENTAL RECONCILIATION PROCEDURES		
1986-87	Need for DMB, in conjunction with departments, to review existing DMB/departamental reconciliation procedures and the adequacy of existing financial information system.	Some departments still had difficulty in effecting their 30 June 1989 final reconciliation with DMB within the required timeframe.

**TABLE 5A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS ON THE
TREASURER'S STATEMENT - *continued***

<i>Report</i>	<i>Issue</i>	<i>Status at date of preparation of this report</i>
DEBT COLLECTION TECHNIQUES		
1986-87	Consideration needs to be given to providing departments with the authority to implement additional debt management techniques such as discounts for prompt payments and charging of interest for late payments to maximise the cash flow of the State.	An Accounts Receivable and Credit Management Program has been implemented by DMB incorporating the issue of Accounting Policy Statement (APS 3). However, some of the recommended debt management techniques were not incorporated in the Statement.
DEPARTMENT PHYSICAL ASSETS		
1985-86 1986-87	Improvements needed in the recording, control and reporting of departmental physical assets.	As an interim measure, departments are now required to include in their annual reports narrative information on assets.
ENGAGEMENT OF CONSULTANTS		
1987-88	Effectiveness Review Committee guidelines on the submission of post-project evaluation reports need to be adhered to by public sector bodies.	Post-project evaluation reports still not always being submitted within the timeframe required.
INTERNAL AUDIT IN THE BUDGET SECTOR		
1987-88	Government policy required the implementation of an adequate internal audit function in departments by September 1988.	Adequate internal audit functions have still not been established in several departments.
LIABILITIES OF THE STATE		
1987-88	Development of a strategic plan to identify the State's aggregate liabilities and reporting this information as part of consolidated statements is desirable.	Departments are now required to include in their 1988-89 financial statements as supplementary information an estimate of their liability for annual leave and long service leave. The State's liability for superannuation for budget sector employees is still unknown. Further comment is contained in paragraphs 3.32 - 3.36 of this report.
PUBLIC SECTOR COMPANIES, JOINT VENTURES AND TRUSTS		
1987-88	Further guidance on the methods of reporting and the duties and responsibilities of public sector-appointed company directors is needed.	Position unchanged. Further comment is contained in section 4.3 of this report.

**TABLE 5A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS ON THE
TREASURER'S STATEMENT - *continued***

<i>Report</i>	<i>Issue</i>	<i>Status at date of preparation of this report</i>
PUBLIC SECTOR INSURANCES		
1986-87	<p>A review of public sector insurances highlighted the need for a strategic approach to risk management within the State and recommended that:</p> <ul style="list-style-type: none"> ◆ central guidance on matters relating to the management of insurance be regarded as a priority issue; and ◆ early action be taken to address deficiencies in the administration of the State's 2 centrally-managed catastrophe policies, including substantial duplication of insurance cover. 	<p>Both of the State's catastrophe policies have been renegotiated. Risk management and claims administration programs have been put in place. Departments and agencies have been advised that they are not to negotiate insurance cover without approval from DMB.</p>
RESOURCE MANAGEMENT AND ACCOUNTABILITY LEGISLATION		
1985-86 1986-87	<p>Modern resource management and accountability legislation is required to replace the outmoded provisions of the Audit Act and other associated Acts.</p>	<p>Position unchanged. Further comment is contained in part 2 of this report.</p>

