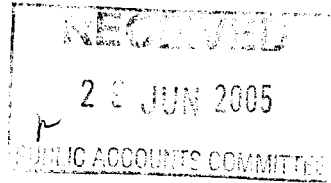




28 JUN 2005

Mr Gary Fenlon MP
Chair
Public Accounts Committee
Parliament House
George Street
BRISBANE QLD 4000



Department of
Education and the Arts

Dear Mr Fenlon

Thank you for your letter received on 17 May 2005 inviting submissions to the inquiry into financial reporting. The following comments are provided.

- Clarity and utility of financial reports for decision making:

It is considered that the current audited financial reports (AFR) prepared on an accrual basis are a good compliance measure for Parliament to see how resources provided to departments have been used. It is suggested that the inclusion of comparative budget data would more accurately reflect variances from the initial appropriation provided by Parliament than that reported in the unaudited Ministerial Portfolio Statement (MPS) document that contains only estimated actual data.

The current reporting in the MPS appears to meet the legislative requirements of Parliament as well as the information needs of Estimates Committees although in recent years there seems to be little emphasis on the overall financial results of agencies or how this changes from year to year.

The processes used to produce the AFR information also provides a relatively consistent basis for providing financial information to the Productivity Commission and other bodies to allow benchmarking of costs across jurisdictions.

It is arguable whether the general public find this information useful based on the absence of any specific questions on this reporting over the last eight years. Although the current AFR output statements provide some information on 'corporate costs' there seems to be increased public and media interest on the cost/amount of resources devoted to direct service delivery compared to those used in administration, management and support. Further review of outputs and/or better definition of 'corporate costs' may assist in this area.

- Impact of implementation of accrual accounting:

The introduction of accrual reporting for state government departments in 1996-97 has lead to improvements in the consistency and comparability of financial information. However there continues to be tension between the Budget and Treasury funding priorities and the requirement to report actual audited expenses in accordance with the accounting standards.

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This is particularly relevant in the area of depreciation expense where the accounting standards require agencies to annually re-assess the useful lives of assets and adjust depreciation expense accordingly, however Treasury approval is required to vary appropriation funding for the cost of depreciation. The requirement for appropriation funding for depreciation to be used to construct new assets, or else be returned to government as an equity withdrawal also complicates funding arrangements. Inclusion of depreciation expense in recurrent costs also has the potential to mislead users about the resources being devoted to service delivery. It may be time to review the processes relating to asset replacement funding and depreciation expense across government agencies.

Another area of contention relates to asset (particularly land and buildings) values. Even though the same general rules of valuing assets at fair value (i.e. written down current replacement cost where there is no ready market for assets such as school buildings) there are substantial variations between jurisdictions in the results obtained. This raises questions about the comparability of data. There are also significant costs associated with complying with the requirements to regularly revalue assets and, to date, it is arguable whether this information has improved the management of these assets. This can be evidenced through the continuing need to initiate specific programs to reduce backlog maintenance or the difficulties associated with disposal of surplus assets.

- Evolution and application of accounting standards including implementation of international accounting standards:

The evolution of accounting standards continues to increase the complexity and detail of reporting. It is therefore presumed that Parliament will continue to accept AFR as a prime accountability measure from agencies of what has occurred over a particular period. In the shorter term the separate reporting of shared service providers and the consolidation of shared services into parent agency reports will further complicate the reporting of host agencies.

For other general users some simplification of reporting may provide users with a better understanding of what resources the Department receives in the way of funding and what it does with those resources in terms of service delivery. The implementation of international accounting standards has only had minor impacts for this agency and in the very long term this may assist in international comparability.

I invite you to contact Mr Allan Pickering, Manager, Financial Reporting on telephone [REDACTED] should you wish to obtain further information in relation to this matter.

Yours sincerely

[Original Signed]

KEN SMITH
Director-General

Ref: 05/58342