



**Queensland  
Government**

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Your reference I38.05.03  
Our reference BNE2005 7587

**Environmental Protection Agency**

Incorporating the  
**Queensland Parks and Wildlife Service**

27 June 2005

Ms Leanne Clare  
Research Director  
Public Accounts Committee  
Parliament House  
George Street  
BRISBANE QLD 4000

Dear Madam

### **Inquiry into Financial Reporting**

I refer to your letter dated 13 May 2005 concerning the Public Accounts Committee inquiry into government financial reporting.

Thank you for providing me with this opportunity, as I believe that the reporting requirements through the introduction of accrual accounting, implementation of the international accounting standards, etc have placed an onerous administrative burden on Government agencies over the years for little benefit to our various stakeholders.

I offer the following comments in relation to the inquiry's terms of reference:

#### **Clarity and utility of financial reports for decision making**

With the introduction of accrual accounting, Government agencies were required to comply with the Australian Accounting Standards and report uniformly with the private sector. There is a clear need for the private sector to fully disclose relevant financial information for the use of their shareholders and other stakeholders for their various decisions making deliberations.

In the public sector such stakeholder scrutiny does not exist, an example being the disclosure of assets such as property, plant and equipment. As at 30 June 2004 the Environmental Protection Agency (EPA) reported non-current assets to the value of \$2,060M, which mainly relates to land and infrastructure on National Parks and forestry areas throughout Queensland. In order to comply with accounting standards, this agency must expend an average of approximately \$190,000 per annum to have these assets revalued for disclosure in the annual financial statements. This is a cost that I consider is not value for money for the agency nor any value to our stakeholders. The fact remains

that the EPA is not in the business of selling properties, on the contrary, there is a clear mandate from Government to increase the size of the protected area estate of Queensland.

It is acknowledged that on a whole-of-Government basis the value of assets is important from an investment, borrowing and credit rating perspective, but on an agency-by-agency basis little gain is made from persisting with valuation of very low revenue or in the main non-revenue generating assets.

In essence, the reasons for disclosure for Government agencies are, in most circumstances, different to private sector companies.

In addition, the Ministerial Portfolio Statement (MPS) that is used as the predominant reference at Estimate Committee hearings is based on data accumulated some three months prior to the end of the financial year. For example, estimated actual revenues and expenses are based on extrapolated data at 31 March and adjusted for expected variations that may or may not occur eg expected carryovers. Budgeted data for the next financial year agrees with Queensland Treasury forward estimates at a point in time but will also change over the ensuing months. In effect, the estimate hearings are debating on outdated data.

#### **Impact of implementation of accrual accounting**

Anecdotal evidence indicates that some government agencies report externally on an accrual basis and internally on a cash basis. Upon the introduction of accrual accounting, the EPA made a decision to report both internally and externally on an accrual basis. This is due to the fact that, firstly, it was administratively more efficient to do so, secondly, a requirement for agency staff to conduct their financial responsibilities in a professional manner in accordance with recognised accounting standards and thirdly, for whole-of-life and total costs (not just cash expenses/revenues) to be considered for all funding proposals.

Whilst there was some early pain that required extensive training to be conducted throughout the agency, accrual accounting is now accepted within the EPA.

#### **Evolution and application of accounting standards including implementation of the international accounting standards**

The implementation of the international accounting standards has resulted in a significant amount of work to be undertaken within the Financial Management Branch of the Agency. Whilst the obvious benefit of allowing comparability between like organisations internationally can now occur, it will be unlikely to have any impact in the public sector. For example, it would be highly unlikely and certainly dangerous to compare the costs of operating the Queensland Environmental Protection Agency with that of an overseas counterpart even with identical accounting standards. The functions and responsibilities of one EPA may vary substantially from another thereby rendering financial analysis useless.

Whilst this agency is complying with all aspects of the new standards, it is felt that little benefit will be gained by their implementation.

If you require clarification on any of the above issues, please do not hesitate in contacting Mr Neil O'Sullivan on [REDACTED]

Yours sincerely

[Original Signed]

James Purtill  
**Director-General**