

ATTACHMENT: Submission by the Department of Main Roads to the Public Accounts Committee Inquiry into Government Financial Reporting.

The inquiry covers a review of whether stakeholders can readily assess the integrity, economy, efficiency and effectiveness of government financial management through the current financial reporting regime. As the Department of Main Roads is primarily a preparer and provider of information in accordance with the current financial reporting requirements, it is primarily a matter for the users of our reports to comment on the elements to be assessed. However, a number of comments and views can be contributed from the Main Roads perspective.

Annual Report Information (including Audited Financial Statements)

- Departmental annual reports contain substantial information for users and decision makers covering a number of perspectives. Information on financial management in the Main Roads Annual Report is primarily provided through the Financial and delivery performance section of the balanced scorecard, a financial summary of highlights for the year, a Management Discussion and Analysis and a set of audited financial statements.
- The non audited financial material attempts to inform the reader in non technical terms in order to assist in the assessment of departmental financial management.
- Following the implementation of accrual accounting in the Queensland government sector some years ago, the annual audited financial statements now represent a comprehensive financial compliance report in accordance with legislative requirements, the prescribed Financial Reporting Requirements and the relevant accounting standards. Given the nature of the statements, users of the statements need to have a significant understanding of technical accounting if they wish to utilise this material for decision making purposes. However, some of the information in the notes to the statements can be of assistance in better informing the users and raising their awareness.
- It is submitted that there is nothing inherently wrong in the technical nature of audited financial statements as it is critically important that governance and financial accountability requirements are effectively discharged to the satisfaction of the general community. Full continuing implementation of accrual accounting and associated accounting standards are an important element of public sector governance. Assistance to stakeholder comprehension can be a focus of financial reporting information across the range of reports provided by government.

Implementation of International Financial Reporting Standards and the GFS/GAAP Convergence Project

- The implementation of International Financial Reporting Standards (IFRS) should provide, in the public sector, limited improvements in information and more consistency in financial reporting and the perspectives being considered by the Inquiry. One particular area relates to revaluation of assets. The IFRS provides a means for consistent valuation methodologies for assets to report more useful information. However, it does represent an extra burden on tracking revaluation increments.

- IFRS also provides a means for the corporate world (non government sector) to indicate more transparency for areas such as segment reporting, business combinations and financial instruments.
- The objective of the GFS/GAAP Convergence Project is primarily to create a single reporting framework that includes:
 - measurement, recognition and disclosures relevant to the Public Sector
 - aligns Budgets and Outcome reports
 - allows the Outcome report to be audited

These are matters best addressed by Queensland Treasury at the whole-of-government level rather than at the individual departmental level.

Broad Whole-of-Government reporting (Budget Papers/MPS, Auditor-General's reports to Parliament), Performance Reporting

- State and federal budgets are brought down before the end of the financial year. The discussion paper notes that estimated actuals are provided for comparison with the budget in Ministerial Portfolio Statements and that this is unsatisfactory for performance assessment. It is suggested that a separate report be prepared for consideration by the Cabinet Budget Review Committee (CBRC) in October each year, detailing actual results (audited figures) against the budget for each output, Capital Acquisition Statement and the Corporate Services Statement. This would "close the loop" on reporting each year and help to promote a more performance oriented culture.
- Under the old Program Management regime, performance reviews were scheduled by Queensland Treasury every five years for each sub-program. This review was not incorporated in the Managing for Outcomes Model. It is suggested that a five yearly review of each output for consideration by CBRC would also be a useful performance tool.
- It is not appropriate that budgets be inserted in financial statements as these statements are financial compliance focussed rather than output or outcomes focussed. Financial statements are designed to provide comparisons with the previous year's actuals. This is a valued and very useful comparison and provides another piece of the overall performance picture.
- The Auditor-General's reports to Parliament provide a necessary independent check and balance on financial management and reporting in the government sector. The approach to cover individual issues for particular entities as well as sector-wide reviews of various aspects of financial management is considered to be appropriate. The consultative approach in developing the content of the Auditor-General's reports is a positive as it provides the opportunity to publish management responses on the various issues raised.