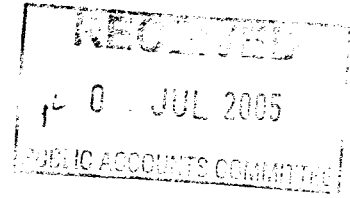




The Research Director
Public Accounts Committee
Parliament House
George Street
Brisbane Q 4000



Submission To
Public Accounts Committee
Inquiry into
Governmental Financial Reporting

Thank you for providing QUT with the opportunity to provide comment on issues relating to financial management disclosure currently being considered by the Public Accounts Committee.

As a public sector entity, QUT is subject to audit by the Auditor-General and reporting to Parliament through the Minister for Education and The Arts, with the guidelines upon which the University prepares its financial statements being provided by our key financier, the Commonwealth Department of Education, Science and Training.

The purpose of financial reporting

There is no doubt that recent public sector financial reform initiatives have resulted in increased disclosure of financial information. The Terms of Reference state "Public sector financial reports should be designed to facilitate accountability to the Parliament and to the community for budget outcomes". QUT follows reporting guidelines issued by the Commonwealth and considers the financial reporting requirements issued by Queensland Treasury. Together, these are quite comprehensive and adequately provide disclosure in this regard.

Whether the current financial reporting allows assessment of an entity in terms of their economy, efficiency and effectiveness is debateable. The definition of these terms as provided by the Australian Accounting Research Foundation is somewhat technical, especially for economy and efficiency, and would be difficult for users to assess from the current information provided in most annual reports. However, budget management and planning together with corporate governance processes in place within the individual entity do permit such an assessment to be undertaken. Within QUT there are various sub-committees of the governing body, QUT Council, that address these issues (e.g. Planning and Resources Committee, Audit and Risk Management Committee, and Learning and Teaching Committee).

Users of Financial Reports and their needs

Compliance with legislative reporting requirements can be resource intensive and complex with the output not easily understood by stakeholders not possessing an accounting background. It is accepted that the effort required to maintain a high technical quality of the financial statements is necessary given the complexity of accounting standards and the need for full disclosure.

Equal emphasis should be placed upon corporate governance and ensuring governing body members have the appropriate financial skills and knowledge to be able to interpret financial statements (Statements of Financial Performance, Financial Position and Cash Flows). This allows organisations to take timely corrective action to ensure their sustainability. This requires strategies that are not always of a purely financial nature e.g. research v teaching, local v overseas students, physical v virtual delivery etc.

Often the most informative and useful component of an annual report for stakeholders is the qualitative component, where outcomes and future directions are articulated and reported upon. This provides detailed analysis of performance which is not possible or evident through the financial disclosure section of the annual report.

Current Financial Reporting Regime

Ministerial Portfolio Statements

QUT is not required to produce a Ministerial Portfolio Statement but it does have rigorous budget and planning processes in place. These include major review stages, June and September Reforecasts for budgets and annual review of planning at various levels throughout the university. Regular review against targets is critical for the effective management of the university. The elements contained in the Ministerial Portfolio Statements are adequately addressed in these existing QUT processes. However, reporting to stakeholders, on these issues, is only performed through the annual report and this is considered adequate.

Annual reports to Parliament

QUT does prepare an annual report to Parliament presented through the Minister for Education and The Arts. This report is prepared at a functional level supported by information obtained at the faculty and divisional level.

Accrual accounting was introduced throughout QUT in 2004 and required an extensive training and education program. It has ensured that the university now reports in line with private sector (not-for-profit) entities. However, few universities or public sector entities are fully commercial and generally accepted ratios used to analyse and compare the entities' performance are seldom applicable. Appropriate ratios can be industry or sector specific, for example operating margin and current ratio are the two criteria used within the university sector.

The only significant issue raised here in relation to the financial statements prepared by QUT is that while a clear alignment between private sector and public sector reporting is applauded, a key concern for QUT relates to the current not-for-profit revenue recognition policy (SAC 4 is retained under IFRS) which requires grant revenue to be recognised when it is received.

Given QUT's increasing commercial activities, and the consequentially large sums of revenue which flow to the University for projects and/or research activities, the practice of recognising major capital grant revenue upon receipt, as opposed to accruing that revenue, can significantly distort the University's profitability. This does not, in QUT's opinion, appropriately account for the funds in question or the obligations to draw these funds down against future commitments.

Notwithstanding this, QUT is of the opinion that the financial statements it prepares add value in terms of information disclosures to key stakeholders. The only reservation being that possibly less and more focussed financial data could be a substitute for the increasingly detailed and complex disclosures currently contained in both the statements and the notes to the statements.

QUT supports the notion that reports should be technical, but also supports the imperative that internationally accepted financial reporting standards should not be detracted from. Given this, key users of financial reports need high level skills in both interpreting and using financial and non-financial data to fulfil their management or oversight obligations.

Consolidated whole-of-government financial statement

Not applicable to QUT.

Auditor-General reports to Parliament

QUT has a good working relationship with the staff of the Auditor-General. The contents of his reports to Parliament are discussed with stakeholders prior to tabling. Although QUT may not always agree with the way an issue is reported, the independence of the Auditor-General is integral to public sector accountability and should not be diminished. In addition, QUT monitors the Auditor-General's comments in respect of other entities and finds these reports useful in identifying contentious and emerging issues that may have relevance for QUT.

[Original Signed]

Professor Peter Coaldrake
Vice-Chancellor

6 July 2005