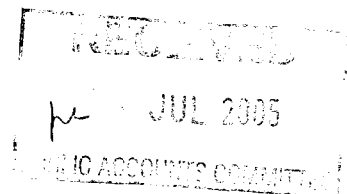




Ref. DT: PAC050711.doc

5 July 2005

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



To : Members of the Public Accounts Committee

Inquiry Into Financial Reporting

James Cook University welcomes the opportunity to provide input to the Inquiry into financial reporting.

James Cook University ("JCU") is a 'not for profit' statutory body and, accordingly, is not subject to the same reporting mechanisms as public sector bodies. JCU is, however, required to prepare financial statements that are subject to the same compliance regime that exists for public sector entities (ie the financial statements are required to comply with State legislation, comply with Accounting Guidelines issued by the Queensland Treasury and are audited by the Queensland Audit Office).

Summary

We note the Inquiry's terms of reference and are of the view that the current financial reporting regime does NOT enable stakeholders to reliably assess the integrity, economy, efficiency and effectiveness of the University's financial management.

For reasons described in the following section of this response we believe that our annual audited financial statements address Compliance as opposed to addressing Performance.

Statement of Financial Performance

Our main concern is that the Statement for Financial Performance does not provide the information required by users to enable them to assess how efficiently the resources available to the University have been managed.

JCU often receives significant amounts of Capital Income, the levels of which vary dramatically from year to year. We are required to report such Income in our Statement of Financial Performance. The expenditure that is related to this Income however, being Capital Expenditure, is included on the Statement of Financial Position and either depreciated to the Statement of Financial Performance over a number of years, or where Land is acquired, is never shown on the Statement of Financial Performance.

The result is that the Statement of Financial Performance of JCU (and most other Universities) often includes significant levels of Capital Income for which there is no associated Expenditure.

An uninformed user would be entitled to believe that the resulting net Operating Result, as reported by the Statement of Financial Performance, equates to the 'surplus revenue' that the University has generated during the year. This is clearly not the case.

As the accounting treatment included in the new Accounting Standard for Government Grants does not apply to not for profit entities, this will not change once the new Australian Equivalents to International Financial Standards become effective.

Although the Statement of Financial Performance does show how the Net Assets of the University have changed during the year (apart from increases in the value of Fixed Assets, which are accounted for on the Statement of Financial Position), the Statement of Financial Performance, due to the inclusion of Capital Income, does NOT show whether the University is operating at a profit or a loss.

JCU actually includes a Note in its Annual Financial Statements that removes items such as Capital Income. The result is a 'second' Statement of Financial Performance that DOES compare 'operating income' with 'operating expenditure'.

Statement of Financial Position

JCU is required to regularly revalue its Fixed Assets. The valuation of certain Fixed Assets (most notably Land, Buildings and Libraries) is often conducted by external parties. Experience has shown that external parties can provide significantly different values for the same Fixed Asset.

The value that is adopted by the University has a significant impact on the Statement of Financial Position and Statement of Financial Performance (via future years' Depreciation charge).

Many Universities are able to influence the level of 'net operating result' that they disclose by selecting one particular valuation recommendation over another.

Also, most Universities receive significant amounts of research income in advance of the funds being expended. These funds must either be spent on the specific research activity for which they were provided or returned to the provider of the funds.

As such, these surplus funds are effectively 'held on trust'. There is no requirement for any separate disclosure of these funds on the Statement of Financial Position.

At 31 December 2004, JCU had \$5.8million of such funding. The University's Current Ratio as per the Statement of Financial Position was 1.7. An uninformed user would be entitled to believe that the University could cover its Current Liabilities by 1.7 times as a result. However, as \$5.8m of the Current Assets relate to unrecorded commitments, a more realistic Current Ratio would be 1.4.

Statement of Cash Flows

A consequence of the inclusion of Capital Income in the Statement of Financial Performance is that such Income is often included in Cash Flows From Operating Activities in the Statement of Cash Flows. The related Expenditure is then disclosed as a Cash Flow From Investing Activities.

This obviously distorts the Net Cash Flows from both Operating and Investing activities on the Statement of Financial Cash Flows.

JCU actually removes Capital Income from its Cash Flows From Operating Activities and reports this as a Cash Flow From Investing Activities, despite there being no requirement to do so. We feel that this results in a more meaningful Statement of Cash Flows.

Other

JCU is not subject to the same Budgeting and Performance Reporting as public sector entities. As such, JCU is not actually required to publicly report its Outputs each year. For these purposes, Outputs is defined as Teaching and Research outcomes.

JCU has elected to provide these details within its Annual Report but nowhere is the financial reporting/expenditure actually 'matched' to the Outputs. JCU is not aware of how the financial reporting that it provides enables the University's *Efficiency* (using the definition included in the Committee's Discussion Paper) to be assessed. This sheds doubt on whether the current financial reporting is meeting its purpose (as also defined in the Committee's Discussion Paper).

JCU is required to disclose individual details of every occasion of its Overseas Travel in its Annual Report each year. We have been advised that this must include 'cost', despite this just being a suggestion in the legislation. The cost of this exercise is significant.

JCU recognises that the requirement for this disclosure for public sector entities is a necessary one – that overseas travel may be the result of a generous travel policy. However, we feel that the circumstances that dictate such disclosure for public sector entities do not necessarily apply to Universities. Most of our overseas travel is required for research and marketing. Such trips are funded from research and commercial revenue streams. The presence of such travel does not suggest a generous travel policy. We seriously question the usefulness of a University's Overseas Travel details. This is especially the case when viewed in light of the cost of collecting, checking and presenting the information.

Yours sincerely,

[Original Signed]

David Tombs
Manager, Accounting