



8<sup>th</sup> July, 2005

The Hon. Gary Fenlon MP  
Chair, Public Accounts Committee  
Parliament House  
George Street  
Brisbane, Queensland 4000

Dear Mr. Fenlon,

### **Re: Inquiry into Financial Reporting**

Griffith University welcomes the opportunity to make a submission to the Public Accounts Committee in relation to government financial reporting.

Griffith University is constituted under the Griffith University Act 1998 and as such is a statutory body in terms of the Financial Administration and Audit Act 1977. As a statutory body our annual report must be submitted to Parliament each year to enable the minister to assess the efficiency, effectiveness and economy of the university. In addition section 46L of the FAAA 1977 mandates compliance with the Financial Management Standard 1997.

The following comments are submitted to the Committee for consideration.

#### **1. Financial Statements in Annual Reports**

We 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.

Examples presented below indicate how information presented in the financial statements can lead to misunderstanding by non-expert users who are not aware of the relevant financial reporting standards.

##### *Statement of Financial Performance*

The Statement of Financial Performance provides an operating result and after taking into consideration valuation adjustments, a total change in equity for the year. The University may receive a significant capital contribution in a financial year. To meet accounting standard requirements this contribution must be reflected as income in our Statement of Financial Performance.

However, capital expenditure incurred in relation to this income may take place the following year and must then be depreciated over the useful life of the asset. The result of this could be a significant surplus in the current reporting period giving the impression of a satisfactory financial result when in fact this is not the case.

The capital funding could thus be used to offset a possible operating deficit, resulting in a false impression that the organisation is in good financial health when this is not.

In summary, any significant levels of capital funding in a financial year could result in a large operating surplus for the University that is perceived as a favourable financial operating result when it is merely a large injection of capital funding. An uninformed user could assume that the operating result reported in the Statement of Financial Performance equates to surplus revenue over expenditure for the year when this is not the case. This will not change when the new Australian Equivalents to International Financial Reporting Standards become effective. In addition, there are also expenditure items included in the Statement of Financial Performance, such as increased depreciation as a result of asset revaluation, which are not deemed controllable but must be included as expenditure.

#### *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 however disclosed as a cash flow from investing activities.

This obviously distorts the net cash flows from both Operating and Investing activities in the Statement of Cash Flows.

#### *Summary*

As a result of disclosure requirements mentioned above it can be seen that an uninformed user could gain the incorrect impression of the financial health of the University if only the financial statements are used for this purpose. It is therefore our opinion that the audited financial statements do not meet any performance needs and merely address compliance requirements.

At Griffith financial performance is measured against a cash budget with performance being monitored by the University Council, with assistance from the Finance and Resources Committee and senior management of the University.

In addition, annual returns are submitted to the Commonwealth Department of Education, Science and Training, which monitors University activity against a range of performance indicators. Meetings are then arranged with senior University representatives to review overall performance, highlight areas not deemed satisfactory, and discuss improvement plans and strategies.

## **2. Responses to Specific Issues included in the Discussion Paper**

*What information is available to assess the economy, efficiency and effectiveness of government operations in general?*

For the tertiary sector, where there is little, if any, financial contribution by the State Government, this could be left to the relevant University Council, and reported to the State Government in the Annual Report. The Commonwealth Department of Education, Science and Training undertakes its own monitoring of University performance and activities.

*How useful are annual reports?*

Annual reports are deemed useful to readers for reporting on the core activities undertaken and the performance against key performance indicators and the strategic plan.

The requirement in the Financial Management Standard for statutory bodies to disclose all overseas travel information is not deemed appropriate for the University. Overseas travel is an integral component of the activities of most academic staff in attending conferences and furthering research activity with colleagues around the world. This information consumes many pages in the University annual report, is not considered useful performance information, and it is not cost effective to maintain this information for each staff member. It is therefore recommended that Universities be excluded from this requirement.

*Do audited financial statements meet performance needs or do they only address compliance?*

This is covered above in item 1.

*Will the introduction of international accounting standards provide more meaningful information about the University performance?*

We believe this will not provide any meaningful performance related information and only be a compliance issue.

## **3. Contact Details**

Any queries in relation to this submission should be referred to Howard Ward, Deputy Director, Accounting and Business Services. Contact details are as follows:

Address: Office of Finance and Business Services  
Nathan Campus, Griffith University  
170 Kessels Road  
Nathan 4111

Phone: [REDACTED]

Email: [REDACTED]

Once again, I thank you for the opportunity to contribute.

Yours faithfully,

[Original Signed]

**R V SRINIVASAN**  
**Director**  
**Finance and Business Services**