Submission to the Public Accounts Committee
Government Financial Reporting

GENERAL COMMENTARY

1. The Committee has resolved to conduct an enquiry to determine whether stakeholders can readily assess the integrity, economy, efficiency and effectiveness of government financial reporting through the current financial reporting regime.

2. The financial reporting regime has been defined by the Committee to include information published in public sector annual reports (both audited and unaudited financial information), ministerial portfolio statements, consolidated whole-of-Government reports and matters reported to Parliament by the Auditor-General.

3. The following submission provides comments in relation to the terms of reference and other considerations provided by the Committee and is aimed at assisting the Committee in its deliberations.

COMMENT ON THE TERMS OF REFERENCE FOR THE INQUIRY

Clarity and utility of financial reports for decision making

4. Public sector entities in Queensland observe the requirements of the Australian Accounting Standards (AASs) with supplementary disclosures prescribed by the central agencies responsible for determining the accountability framework.

5. 'General purpose' financial reporting by governments in accordance with AASs was introduced in the late 1990s and is aligned to individual agency reporting, contains detailed disclosures of financial performance and position, and is subject to audit and independent validation by Auditors-General. The respective general purpose financial statements are required to be included in annual reports which are tabled in Parliament.

6. *Statement of Accounting Concepts SAC 2 Objective of General Purpose Financial Reporting* states that general purpose financial reports are prepared to provide users with information about the reporting entity which is useful for making and evaluating decisions about the allocation of scarce resources.

7. General purpose financial reports should be prepared when there exists, in relation to an entity, users whose information needs have common elements, and those users cannot command the preparation of information to satisfy their individual information needs. Such reports provide users with appropriate information for making decisions relating to the efficient allocation of resources. In order to achieve this, however, the information contained within general purpose financial reports can often be complex and may not be able to be easily interpreted by a non-practitioner.

8. AAS requirements applicable to the government sector are similar to those used by commercial and other non-government organisations. *AAS 31 Financial Reporting by Governments* comprises a set of rules concerned with measuring economic transactions and events and presenting those measurements in a manner that conveys financial performance, financial position, cash flows and other relevant disclosures. The stated aim of the Standard is to provide users with relevant information to enable resource allocation decisions and to report on stewardship.

9. *AAS 29 Financial Reporting by Government Departments* and *AAS 27 Financial Reporting for Local Governments* set out similar requirements for the production of general purpose financial reports (in accordance with AASs) for government departments and local governments respectively but with some specific content for each different type of entity.

10. In Queensland, there are differing legislation, administered by a number of agencies, which sets out the financial reporting requirements for different entity types.

11. Sections 40 and 46F of the *Financial Administration and Audit Act 1977* (the FA&A Act) set out the financial reporting requirements for departments and statutory bodies respectively. Those provisions require accountable officers and statutory bodies to prepare general purpose financial statements for the financial year in accordance with prescribed requirements.

12. Treasury Department produces the Financial Reporting Requirements (FRRs) to assist departments and statutory bodies in the preparation of their general purpose financial statements to ensure appropriate disclosures, although the emphasis of the FRRs is the accountability and transparency of the information contained in the statements.

13. The FRRs set out the minimum disclosures. In instances where additional disclosures are imposed through an alternative authority, or additional disclosures would enhance transparency, accountability and user relevance, financial statements may be varied to the extent necessary but still must comply with the mandatory prescriptions and general framework of the FRRs.

14. The financial reporting requirements for Government owned corporations are set out in the *Government Owned Corporations Act 1993* which is also administered by Treasury Department, the *Corporations Act 2001* and the AASs.

15. The requirements for the preparation of local government's annual financial statements are set out in the *Local Government Finance Standard 1994* which is administered by the Department of Local Government, Planning, Sport and Recreation (DLGPSR). Pro-forma local government financial statements (Tropical) are prepared by DLGPSR to assist local governments provide minimum levels of financial disclosure.

16. The *Local Government (Community Government Area) Act 2004* requires an Aboriginal Shire Council's financial statements to be prepared in the approved form relevant to either a cash accounting system format or an accrual accounting system format. Similar provisions are contained in the legislation governing the operations of Island Councils.

17. With these different agencies as financial management policy setters within the Queensland Government, there is some inconsistency in treatments of financial reporting issues across different entities and across Government which can result in confusion for the end user of the financial reports.

18. To ensure consistency of treatment, it would be preferable for overall policy responsibility for financial reporting requirements to lie with one central agency, with assistance and input provided by other central agencies on an as required basis for specific entity reporting issues. Given that Treasury Department has key responsibility for financial management and reporting requirements in Queensland, through the FA&A Act, they would be the obvious choice for this role.

Auditor-General's Reports to Parliament

19. Section 99(1) of the FA&A Act requires that the Auditor-General prepare a report to the Legislative Assembly on each audit conducted of a public sector entity by an authorised auditor. Section 99(2) sets out the requirements for this report which include reporting on -

    - whether audits of public sector entities have been completed and the statements of public sector entities audited,
    - drawing attention to cases where the functions of financial management of public sector entities were not adequately and properly performed if the matter is significant enough to require inclusion in the report, and
    - dealing with action taken (if any) to remedy significant deficiencies reported in previous reports on audits of the public sector entity.

20. The purpose of Auditor-General's Reports to Parliament is much broader than government financial reporting. These Reports form part of the State's accountability framework and provide an independent opinion on the functioning of public sector entities and bring to the attention of Parliament issues both at an individual entity level or across sectors such as the local government or university sector. These issues may or may not affect government financial reporting.

21. Under Section 80 of the FA&A Act, the Auditor-General may conduct and report on the results of performance management systems audits conducted of public sector entities. The object of these audits includes determining whether the performance management systems enable the public sector entity to assess whether its objectives are being achieved economically, efficiently and effectively (S.80(3)).

22. QAO is currently conducting a performance management systems audit associated with the reporting to Parliament of output performance measures across a number of departments. The overall objective of this audit is to determine whether there are suitable systems in place to support output performance measurement and reporting across the budget sector.

23. This particular area is one where I believe that there is a benefit for the Parliament from the Auditor-General making an assessment on whether systems and processes used by public sector agencies in relation to output performance measures are robust enough to support reliable and timely reporting to Parliament by agencies.

24. Ultimately, I envisage that this will contribute to an increase in the level of confidence gained by Parliament in using this performance information for decision making. Out of these audits, I hope to provide some improvement areas and better practice principles which can be utilised by other agencies.

25. Initially QAO is examining the budget sector and performance reporting at the output level. I am considering progressively extending the audit coverage to the output reporting by other sectors such as local governments and government owned corporations. I expect to be reporting to the Parliament on the outcome of the initial audits in September 2005.

Impact of the implementation of accrual accounting

26. Accrual accounting has been in place in the Queensland public sector for the last nine years and is a generally accepted accounting practice worldwide. The majority of Queensland public sector entities are sufficiently mature and have embraced successfully the concepts associated with accrual accounting.

27. Benefits from the introduction of accrual accounting to the Queensland public sector have been the proper identification, valuation and management of government assets, and improved reporting in areas such as debtors, creditors, employees expenses, non-current assets and inventories.

28. The impact of these benefits on the large majority of Public Sector entities has been significant and has resulted in continuing enhancements to the financial management of these entities.

29. However from my observations, sectors such as Aboriginal councils and Island councils are groups in particular which due to their relatively small size, limited resources and difficulty in attracting professional assistance in remote locations have struggled with the introduction of accrual accounting.

30. Traditionally, Island Councils have prepared their financial statements on a modified cash basis of accounting, whereby a Statement of Receipts and Disbursements and a Statement of Assets and Liabilities are prepared. A number of these Councils have elected to adopt an accrual system of financial reporting incorporating Statements of Financial Performance, Financial Position and Cash Flows.

31. Accrual reporting not only involves recognising debtors and creditors but also requires compliance with those AASs that the Director-General of DATSIP has prescribed for application and the preparation of a Statement of Cash Flows. While the accrual basis of accounting results in the full costs of a Council's operations and its financial position being reported, it may not be the most effective approach and it will not solve basic accountability issues that can only be addressed by good financial management, effective leadership and sound governance.

32. It is my view that the modified cash basis of reporting provides an acceptable level of financial reporting and accountability for aboriginal councils and island councils in the environment in which they operate at the current time. Accrual financial reporting should generally occur where this would represent a demonstrated cost-effective improvement to the quality of financial management, and where a council has the capacity to successfully implement the required changes and maintain appropriate standards on an ongoing basis.

33. As a result of the introduction of the *Local Government (Community Government Areas) Act 2004*, which took effect from 1 January 2005, aboriginal councils are no longer differentiated from shire councils and now come under the legislative provisions of the Local Government Act 1993. This change was implemented as a part of the "Meeting Challenges, Making Choices" strategy developed in response to Justice Fitzgerald's Cape York Justice Study.

34. This transition process creates additional risks given that the requirements for Local Governments are more onerous than those previously in place for aboriginal councils. Consequently, it is essential that this transition process be appropriately resourced and effectively planned and managed.

35. There is a risk that the value of implementing generic Local Government requirements such as accrual accounting may not be justified by the cost involved for all councils, or that councils may find themselves in a more difficult situation if the time and effort devoted to implementing new requirements impacts on their ability to maintain any critical functions that are currently operating effectively.

36. In addressing these risks, the Queensland Government has introduced a Community Governance Improvement Strategy (CGIS) designed to assist aboriginal councils with the adoption of contemporary governance principles over a four stage implementation period.

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

37. In April 2002, the Australian Accounting Standards Board (AASB) set out its policy on strategies for participating in, and contributing to, the development of a single set of accounting standards for world-wide use. It also set out the AASB's strategy for the harmonisation of AASs with international standard-setting bodies.

38. Subsequently the Commonwealth Government and the Financial Reporting Council (FRC) stated that Australia would adopt international accounting standards (IAS) from 1 January 2005. Although the Commonwealth Government and FRC had assured Australia's adoption of the IAS, each representative State and Territory had to decide individually whether they would implement the IAS. Each State and Territory ultimately decided to adopt the IAS in the interests of uniformity and comparability. Australia is the only country which has adopted the IAS for the public sector.

39. Because of the States' and Territories' decision to adopt the IAS, all Australian reporting entities, which includes Queensland public sector entities, are required to apply the Australian equivalent to International Financial Reporting Standards (AeIFRS) from 1 January 2005.

40. The implementation of the AeIFRS has represented a significant change in generally accepted accounting practice, with the majority of AASs changed and a number of new standards introduced.

41. Given the large number of standards to be developed to effect convergence and harmonisation with IAS, the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) established a working group to prioritise the forward work programs of the International Accounting Standards Board (IASB), AASB, the Urgent Issues Group and the public sector committee of the International Federation of Accountants. The Australian Council of Auditors-General (ACAG) is also monitoring the convergence and harmonisation process.

42. From a whole-of Government perspective, Treasury Department and the Department of Local Government, Planning, Sport and Recreation are the central agencies who are monitoring implementation of AeIFRS in the sectors for which these departments are responsible. QAO has liaised with these central agencies on strategies to assist public sector entities in the implementation of the AeIFRS.

43. The majority of Queensland public sector entities are not-for-profit and as such are not significantly affected by the introduction of the AeIFRS, however QAO has recognised that the entities most affected by the implementation of AeIFRS will be GOCs and controlled entities of public sector entities.

44. QAO has been regularly liaising with Treasury's Office of Government Owned Corporations (OGOC) who have been monitoring the GOCs' readiness for AeIFRS implementation.

45. A review was conducted by QAO in March 2004 on entities preparedness for AeIFRS and the results were reported in Audit Report No 1 for 2004-05 tabled in Parliament on 23 July 2004. The purpose of this review was to gain a high level overview of the entities' general governance aspects in terms of establishing an overall monitoring body or workgroup to oversee the transition, and whether entities had systems in place to generate and produce accurate and reliable key financial data. The audit included government departments, statutory bodies, company and statutory government-owned corporations (GOCs), and universities and grammar schools.

46. While the review only represented a snapshot of AeIFRS readiness across public sector entities at a point in time, overall findings indicated that entities had made reasonable progress in preparation for AeIFRS implementation. Agency progress towards preparedness for the AeIFRS since that report has generally been satisfactory.

47. The adoption of AeIFRS will allow entities to choose between alternate accounting treatments in some instances. In reviewing the adoption of AeIFRS by Queensland public sector entities, QAO will be reviewing the consistency of accounting policy choices and the impact of these choices on the financial statements.

48. In Audit Report No. 2 for 2005 tabled in Parliament on 30 June 2005, the potential impact of *AASB 139 Financial Instruments: Recognition and Measurement* was highlighted. Matters identified by QAO in relation to the selection of accounting policies under AeIFRS will continue to be monitored and raised with Treasury Department as the appropriate agency for determining the accounting policy framework for public sector entities, where this is deemed necessary.

49. As AeIFRS will not be fully implemented by public sector entities until 30 June 2006, it is too early to make any meaningful comment at this stage about the outcome of AeIFRS in terms of improved financial reporting for decision-making purposes. It may take at least another 12 months for any significant financial reporting issues to emerge.

Convergence of Government Finance Statistics and Generally Accepted Accounting Principles reporting

50. Public sector reporting entities in Australia are subject to a dual reporting regime requiring compliance with AASs founded by the AASB on generally accepted accounting principles (GAAP) expressed through Statement of Accounting Concepts and also compliance with Government Finance Statistics (GFS).

51. In terms of reporting in accordance with GFS, the Australian Loan Council requires all Australian governments to present budgets and prepare outcomes reports in accordance with the Uniform Presentation Framework (UPF), which was agreed to at the 1991 Premiers' Conference, based on GFS. The primary objective of the UPF is to ensure that Commonwealth, State and Territory governments provide a common core set of financial information. The GFS is an accounting framework for the production of national and government accounts that facilitates comparison of financial performance across jurisdictions.

52. This means that all Australian governments are currently reporting outcomes based on two frameworks, the GFS and AASs. The financial reports of these two frameworks are similar in appearance, with minor measurement, labelling and presentation differences.

53. The existing duality of frameworks which provides for financial reports that are substantially similar, with the exception of minor differences in disclosure or measurement, has the potential to detract from the usefulness of the reports, because it creates uncertainty about the meaning and reliability of the respective information. Also while there is a requirement for outcome reports to be prepared, there is no requirement for GFS outcome reports to be audited as no AAS currently exists. As a consequence, users have no independent verification of the reliability of the key outcome information that is provided.

54. Further, the GFS standards do not provide a detailed set of recognition rules. In Australia, Auditors-General are required under the rules of the professional accounting bodies to conduct audits in accordance with AASs in order to certify that general purpose financial reports are presented in accordance with AASs. Consequently, without an applicable AAS, Auditors-General are not able to audit GFS based reports as general purpose financial reports.

55. Currently, in Queensland, the Report on State Finances consists of the Outcomes Report and the Consolidated Financial Statements. The Outcomes Report contains financial statements that are prepared and presented on a GFS basis and in accordance with the UPF. Queensland's annual Budget is prepared in accordance with the UPF and the Outcomes Report compares achieved financial results with budget forecasts. The Consolidated Financial Statements outline the operations of the Queensland Government on an accrual basis in accordance with *AAS 31 Financial Reporting by Governments* and other applicable standards.

56. The AASB's stated purpose of integrating the GFS and GAAP is to improve clarity and transparency of government financial statements by achieving an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.

57. If convergence does occur, it will provide the capacity for Auditors-General to issue an independent audit opinion to a public sector general purpose outcomes report which complies with the relevant AASs.

58. The AASB has progressed the GAAP/GFS convergence project independently from the IASB 2005 harmonisation project by leveraging off the work undertaken by the HOTARAC GAAP/GFS Convergence Working Group.

59. Currently, the AASB has advised that they intend to issue an exposure draft on the issue in October 2005 with a standard to follow in due course.

60. As there is no definitive statement as yet by the AASB about how GFS/GAAP harmonisation may occur, it seems too early to analyse in detail the effect this convergence process may have on financial reporting. It is highly desirable that some regime is implemented which will allow for the objectives envisaged by harmonisation, whether this is through harmonisation or via some other means.

COMMENT ON OTHER CONSIDERATIONS NOTED BY THE COMMITTEE

61. In its discussion paper, the Committee has posed a number of questions in relation to government financial reporting and performance management.

62. The majority of these questions refer to government policy decisions on which it is not appropriate for me to comment. Central agencies such as Treasury Department are the policy setters in this regard.

63. The current performance management regime in Queensland is set out in Part 4 Performance Management of the *Financial Management Standard 1997* (the FMS). The purpose of this part is to ensure departments and statutory bodies are operating efficiently, effectively and economically (s.58(1)). This is to be achieved by requiring each accountable officer and statutory body to obtain information about the agency's operations and report to the appropriate Minister about whether agency operations are achieving the goals, delivering the outputs and meeting performance output measures, and whether these goals, outputs and measures are appropriate (s.58(2)).

64. Section 59 of the FMS requires that each accountable officer and statutory body must obtain information about the way the agency performs its operations, including for example, by developing and implementing systems to monitor the agency's financial and operational performance, and to evaluate the achievement of its goals and the delivery of its outputs. Sections 60 and 61 outlines the elements of systems for information about financial performance and operational performance respectively which should be in place.

65. I offer the following comments which may assist the Committee with its deliberations on these issues.

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

66. The key documents currently available about the operations of government operations are -

- Ministerial Portfolio Statements where entities provide an assessment of recent achievements and future developments;
- Annual Reports where entities generally report progress on the strategic directions identified in their strategic plan and contain a copy of the audited financial statements; and
- The State Finances Report, incorporating the Outcomes Report and Consolidated Financial Statements, which provides a comprehensive analysis of Government finances each financial year;
- Departmental Strategic Plans;
- Priorities in Progress Reports which report the progress being made towards the achievement of the Government's key policy priorities during the financial year using a range of social, environmental and economic indicators.

67. The involvement of QAO in the review of these documents is limited to the audits of agency and whole of Government financial statements and any performance management systems audits that may be undertaken.

68. The extent to which these documents individually or collectively allow for economy, efficiency and effectiveness of government operations to be assessed is a matter for Parliament to assess.

What information is available to assess specific public sector entity performance?

69. As stated above, Ministerial Portfolio Statements and Annual Reports would be the key documents currently available. Ministers and agencies also appear at the annual Estimates Committee Hearings and Ministers respond in Parliament to questions from Members.

How useful are annual reports and other government financial reports?

70. The usefulness to the end user of the information contained within annual reports is affected by the timeliness and consistency of the presentation of these reports to the Parliament.

71. In 2001, the statutory timeframe for the finalisation of financial statements was amended from four months to three months, however the timeframe for the presentation of annual reports was not changed to make presentation to the Parliament more timely. There is also limited standardisation of information across annual reports resulting in a lack of consistency and comparability in the information being presented.

72. A general observation that has resulted from my current series of PMS audits is that departmental annual reports generally report progress on the agency's strategic directions which have been identified in its Strategic Plan and there is usually only minimal linkage to the output performance reported in the Ministerial Portfolio Statements.

73. As a result, there is potential for agencies to incorporate in their annual reports details about the agency's actual output performance in relation to goals, strategies and outputs. Under a fully implemented Managing for Outcomes Framework, strategy level output measures would have clear linkages with the basis on which Parliament funds an agency and reporting against established targets in the annual report.

74. Transparency and consistency of overall output performance reporting could also be enhanced and the linkage to funding improved by agencies aligning performance achievements identified in the annual report with an assessment of progress against performance output measures reported in the Ministerial Portfolio Statements.

75. I am aware of the reasonable level of resources that many agencies allocate to the preparation and production of the Departmental annual report and Ministerial Portfolio Statements. While each report tends to cover similar informational areas, there are inconsistencies and variations as to the extent of coverage. In these circumstances it may be opportune for there to be a review of the continual need for two annual publications of this nature by agencies. If both publications service a continued need, some greater clarity about the purpose and content of each document may be of assistance to agencies and the readers of the publications.

Is performance information readily accessible and can it be interpreted by non-expert users?

76. As a result of my current series of audits on the reliability of the systems supporting output performance measurement and the timely and appropriate reporting of output performance measures, I will be considering recommendations on the need for greater disclosure to readers to assist their understanding of the performance information reported.

77. The areas being examined include -
    - better clarification of the context of the output performance measurement;
    - adequate disclosure of the limitations of the performance data being used; and
    - details of data sources, and methods of measurement and explanation of variances.

78. Further information on these recommendations will be included in my Report to Parliament due to be tabled in September 2005.

Is the financial information presented in annual reports linked to management reporting?

79. It has been noted from QAO's experience in conducting financial and compliance and PMS audits that financial and non-financial information presented in annual reports is not always linked to management reporting. It would be my preference that much stronger links between financial information and management reporting be established.

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

80. Under the requirements of the FA&A Act, the Auditor-General must audit financial statements for all public sector entities and prepare a report about the financial statements stating whether prescribed requirements have been materially complied with and whether the statements present a true and fair view of the transactions for the financial year and of the financial position. As mentioned previously, the financial statements are required to be included in the respective entity's annual report and tabled in Parliament by the end of October each year.

81. From an audit perspective, in providing my opinion, I am attesting only to a public sector entity's material compliance with prescribed requirements and not to the validity of any non-financial performance information.

82. While the financial information provided in financial statements may provide information to end users about the financial performance of the entity, it is likely that end users may require other performance information which is not financially based. Currently, some entities report on non-financial output measures in their annual reports, however this information is not audited.

83. Triple Bottom Line (TBL) reporting may allow for reporting of performance information. The TBL has been developed to enable an organisation to state the true cost of activities by allowing external costs to be factored into decision-making processes and defining the social and environmental impacts along with the economic impacts. A number of Commonwealth departments are already reporting on this basis.

How useful are budgeted figures in the government financial reporting process?

84. Departmental budget estimates are considered by Parliament through the Estimates Committee process. Since 1994, Estimates Committees have been established to scrutinise the Queensland Budget.

85. Following the second reading debate, the proposed expenditures set out in the Appropriation Bill and the Appropriation (Parliament) Bill are referred to the Estimates Committees. Each committee holds a public hearing to question the relevant Ministers with other Members being able to ask questions. Each committee reports to the Parliament stating whether it agrees to the proposed expenditure and committee members can attach dissenting reports or statements of reservation to the committee's report.

86. Scrutiny of the budget through debate in the Estimates committee process provides a measure of confidence about the robustness of the budgeted figures and whether public funds are being efficiently spent or the appropriateness of public guarantees being provided.

87. The financial accountability loop is not closed however as there is no end of financial year acquittal of budget to actual figures. The MPSs contain estimated actual figures from the financial year as the financial year has not been finalised when the MPSs must be submitted. There is no budget to actual comparison published in a timely manner for public analysis.

88. From an audit perspective, when conducting audits, a comparison of actual and budgeted figures can be a useful indicator of the health of an entity's governance. Depending on the circumstance, a comparison of actual figures to budgeted figures may indicate how well an entity is being managed and how well budgets are being monitored.

Will the introduction of international accounting standards provide more meaningful information about a public sector entity's performance?

89. As I have previously stated, AeIFRS will not be fully implemented by public sector entities until 30 June 2006, and it is too early to make any meaningful comment at this stage in terms of improved information for decision-making purposes. It is my expectation that the responsible central agencies such as Treasury Department would be monitoring this matter.

Are there any other relevant matters the Committee needs to address?

90. The Committee may wish to examine two other issues which I believe are of worthy of consideration.

91. The first is in relation to financial and non-financial reporting on joint initiatives between public sector entities. One such example is revenue from camera detected offences which has been reported upon by QAO in Audit Report No 4 for 2002-03 tabled in Parliament on 5 December 2002. This initiative is managed jointly by the Department of Police and the Department of Transport.

92. Audit Report No 4 outlined deficiencies in the procedures implemented by Department of Transport to administer these funds in their role as the administrative unit for the *Transport Operations (Road Use Management) Act 1995*. In cases such as this where more than one agency is involved in the accountability of public funds, there should be clear lead-agency responsibility assigned for accounting for these initiatives to ensure there is public financial reporting that funds collected have been used for the purposes provided.

93. At a more general level, there is an increasing tendency for Government outcomes to be achieved through the outputs of more than one agency. The current reporting framework does not explicitly cover reporting arrangements for cross-agency activities. While the Priorities in Progress report provides one avenue for this reporting, consideration could be given to the extent and adequacy of financial and performance reporting for these cross-agency activities.

94. The second issue concerns the current accountability requirements for small proprietary companies. Under the Corporations Act, small proprietary companies do not have to prepare financial statements, unless a shareholder with at least five percent of the votes or the Australian Securities and Investment Commission (ASIC) request it to do so. In the interests of accountability, however, all company public sector entities, regardless of size, should prepare financial reports, have them audited by the Auditor-General and present them to Parliament.

95. Consideration should be given to mandating that public sector entity companies meeting the definition of a small proprietary company in the Corporations Act are required to prepare general purpose financial reports for audit by the Auditor-General.

96. Where companies have not traded or have a small number of immaterial transactions, special purpose financial reports (SPFR) may be more appropriate. Consideration should be given to allowing small proprietary companies to prepare SPFR in these circumstances to more efficiently satisfy accountability requirements.

CONCLUSION

97. My forthcoming Report to Parliament on the reliability of output performance measurement and timely and appropriate reporting of output performance measures to be tabled in September 2005 will provide recommendations and better practice which the Committee may also like to consider as part of its enquiry.